



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

ESTIMATES

(Additional Budget Estimates)

FRIDAY, 16 FEBRUARY 2007

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Friday, 16 February 2007

Members: Senator Ronaldson (*Chair*), Senator Stephens (*Deputy Chair*), Senators Bernardi, Chapman, Joyce, Lundy, Murray and Webber

Senators in attendance: Senators Carr, Joyce, Kemp, Ronaldson, Stephens and Watson

Committee met at 8.32 am

INDUSTRY, TOURISM AND RESOURCES PORTFOLIO

Consideration resumed from 15 February 2007

In Attendance

Senator Minchin, Minister for Finance and Administration

Department of Industry, Tourism and Resources

Executive

Mr Mark Paterson, Secretary

Ms Patricia Kelly, Deputy Secretary

Mr Tim Mackey, Deputy Secretary

Mr John Ryan, Deputy Secretary

Outcomes and Outputs

Mr Jansson Antmann, Manager, Marketing and Communications, Strategy and Communications Branch, Corporate Division

Ms Naomi Ashurst, Manager, Alternative Fuels and Fuel Supply Section, Minerals and Fuels Branch, Resources Division

Ms Carolyn Barton, Manager, Uranium Industry Section, Resources Development Branch, Resources Division

Ms Tricia Berman, General Manager, Innovation Policy Branch, Innovation Division

Mr Chris Birch, General Manager, Research, Development and Commercialisation, AusIndustry Division

Mr Mike Balch, Deputy General Manager, Australian Building Codes Board, Manufacturing, Engineering and Construction Division

Mr Jamie Bound, Executive Officer, Manufacturing, Engineering and Construction Division

Dr Don Bruncker, General Manager, Industry Analysis Branch, Industry Policy Division

Mr Richard Byron, General Manager, Human Resource Management Branch, Corporate Division

Ms Chris Butler, General Manager, Strategy and Communications Branch, Corporate Division

Mr Wayne Calder, General Manager, Business Development Group, Tourism Division

Mr Peter Chesworth, General Manager, Office of Small Business

Ms Nancy Choy, Assistant Manager, Budget Estimates Team, Corporate Finance Branch, Corporate Division

Mr Drew Clarke, Head of Division, Energy and Environment Division
Mr Peter Clarke, General Manager, Automotive, TFC and Engineering Branch, Manufacturing, Engineering and Construction Division
Ms Sarah Clough, General Manager, Energy Futures Division, Energy and Environment Division
Mr Alan Coleman, Manager, TCF Group, Manufacturing, Engineering and Construction Division
Miss Megan Collins, Assistant Manager, Assistant Manager, Budget Estimates Team, Corporate Finance Branch, Corporate Division
Ms Jen Cooper, Assistant Manager, Business Development Branch, AusIndustry Division
Ms Debbie Costanzo, Assistant Executive Officer, Strategic Coordination and Support Section, Resources Division
Ms Helen Cox, General Manager, Market Access Group, Tourism Division
Mr John Dicer, General Manager and Chief Legal Counsel, Legal and Procurement Branch, Corporate Division
Ms Robyn Foster, General Manager, Business Development Branch, AusIndustry Division
Ms Ruth Gallagher, Manager, Trade and International Branch, Industry Policy Division
Dr Michael Green, General Manager, Advanced Manufacturing, Action Agendas and Building Branch, Manufacturing, Engineering and Construction Division
Mr Tony Greenwell, General Manager, Office of Small Business
Mr Paul Griffin, General Manager, Online eBusiness Services and VANguard Advisor, eBusiness Division
Mr John Griffiths, General Manager, International Branch, Energy and Environment Division
Ms Lisa Hind, Manager, Business Development Branch, AusIndustry Division
Ms Melissa Jonas, Executive Officer, Strategic Coordination and Support Section, Resources Division
Mr Barry Jones, Chief Executive Officer, Invest Australia
Mr John Karas, Acting General Manager Resources Development Branch, Resources Division
Mr Neil Kinsella, General Manager, ICT Services, eBusiness Division
Mr Mike Lawson, General Manager, Aerospace, Defence and Industry Participation Branch, Manufacturing, Engineering and Construction Division
Mr Terry Lowndes, Head of Division, Industry Policy Division
Ms Melissa McClusky, General Manager, Corporate Finance Branch and Chief Financial Officer, Corporate Division
Mr Darren McDonald, Corporate Finance Branch, Corporate Division
Ms Tess McDonald, Executive Manager, Biotechnology Australia, Innovation Division
Ms Mimi Mastrolembo, Manager, Business Development Branch, AusIndustry Division
Mr Brad Medland, Manager, Budget Estimates Team, Corporate Finance Branch, Corporate Division
Mr Ken Miley, General Manager, Trade and International Branch, Industry Policy Division
Mr Brendan Morling, General Manager, Industry Policy Branch, Industry Policy Division
Ms Janet Murphy, Head of Division, Corporate Division
Mr Philip Noonan, Head of Division, Tourism Division
Mr Kevin O'Brien, General Manager/Special Adviser, Industry Policy Division

Mr Bill Peel, Executive General Manager, AusIndustry Division
Mr Bob Pegler, General Manager, Safety, Taxation and Projects Branch, Resources Division
Mr Ken Pettifer, Head of Division, eBusiness Division
Mr Craig Penniford, Head of Division, Innovation Division
Ms Christine Pitt, General Manager, ICT Infrastructure, eBusiness Division
Ms Trish Porter, General Manager, VANguard, eBusiness Division
Mr Steve Payne, Head of Division, Manufacturing, Engineering and Construction Division
Ms Margaret Rule, Business Manager, Energy and Environment Division
Mr Michael Schwager, General Manager, Pharmaceuticals and Biotechnology Branch, Innovation Division
Ms Margaret Sewell, General Manager, Safety, Taxation and Projects Branch, Resources Division
Mr Paul Sexton, General Manager, Customer Services, AusIndustry Division
Mr Sam Skrzypek, General Manager, Small Business and Tourism Branch, AusIndustry Division
Mr Martin Squire, Acting General Manager, Minerals and Fuels Branch, Resources Division
Ms Marie Taylor, General Manager, Energy Reform Implementation Group, Energy and Environment Division
Dr Peter Tucker, General Manager, Industry Sustainability Group, Tourism Division
Ms Clare Walsh, General Manager, Environment Branch, Energy and Environment Division
Ms Sue Weston, Head of Division, Office of Small Business
Ms Judi Zielke, General Manager, Innovation and Collaboration Branch, AusIndustry Division

IP Australia

Dr Ian Heath, Director-General
Ms Yvonne Laird, Acting Chief Financial Officer

Tourism Australia

Mr Geoff Buckley, Managing Director
Mr John Hopwood, Director, Corporate Services
Ms Sally Lee, Government Relations Manager

CHAIR (Senator Ronaldson)—I call this meeting of the Senate Standing Committee on Economics to order. I welcome Senator Minchin, the Minister representing the Minister for Industry, Tourism and Resources and officers of the Department of Industry, Tourism and Resources. Mr Paterson, do you wish to make an opening statement?

Mr Paterson—No.

CHAIR—We are discussing today's program. We will probably play it by ear. If need be we will not have a break mid-morning if it looks as if we can dispose of business around lunchtime. In discussion with the opposition shadows we will work out what the rest of the program is going to be. The intention of the early start was to try and get through this as quickly as possible. Senator Carr, how are you going?

Senator CARR—I am going as fast as I can. I am sure you will learn over time that it would be better if you wait until we are ready.

CHAIR—We told Mr Paterson and it was an 8.30 start, so we want to get through this as quickly as possible.

Senator CARR—I was discussing with the secretary some questions that have been taken on notice, and I have found that, as a rule in this committee, the secretary is more than happy to have an understanding of what I am asking. It saves a lot of time—

CHAIR—Okay. It is not big deal.

Senator CARR—It is a big deal.

CHAIR—We are ready to go, so—

Senator CARR—I am not—

CHAIR—Let's get on with it.

Senator CARR—Mr Paterson, at the last estimates round I asked for some information to be provided on programs, expenditures and uncommitted funds. You were kind enough to provide that for me. Is it possible to have that chart updated and have it provided electronically, as well as having the hard copy?

Mr Paterson—I am happy to table an updated version of that table for you now—

Senator CARR—That is very good of you.

Mr Paterson—and I am happy to undertake to provide it electronically to the committee out of session.

Senator CARR—Thank you. That is very helpful. You see, Chair, things can be done in a civilized way.

CHAIR—It was quite civilized. The civilized starting hour was 8.30 am.

Senator CARR—The advertised starting hour was actually 9 am.

CHAIR—That shows how generous we are.

Senator CARR—On program 1.1, program management, is it possible that you could provide some advice as to the cost of the 125 per cent concession?

Mr Peel—Just bear with me while I find the relevant page. You just wanted the 125 per cent—

Senator CARR—I will be seeking other matters, but is it possible to get the cost of the 125 per cent concession at this point?

Mr Peel—These are Treasury expenditure statement figures. For the 125 per cent, starting in 2005-06, it is \$350 million for 2005-06, \$380 million for 2006-07, \$410 million for 2007-08, \$440 million for 2008-09 and \$480 million for 2009-10.

Senator CARR—Are you able to tell me the number of customers assisted by the payments for those periods?

Mr Peel—Yes, I am. For the year 2004-05, which is the year for which we have complete figures, the number of registrations was 5,971.

Senator CARR—What do you do in the out years? Do you have an estimates system?

Mr Peel—The Treasury estimates the dollar figures for the out years and we use their figures.

Senator CARR—How do they estimate those figures?

Mr Peel—You would have to ask them.

Senator CARR—You have no advice as to the method that underpins those estimates?

Mr Peel—One of my colleagues may.

Ms Berman—That estimation of costs is totally managed by the Department of the Treasury. We talk to them from time to time but we do not have access to the modelling tools that they use.

Senator CARR—When you talk to them, what do they tell you is the method of estimation?

Ms Berman—They publish their estimates about this time each year for the coming period, but short of that we do not have any details on exactly how they work on those or what modelling tools they use.

Senator CARR—How do you cost it?

Ms Berman—We do not cost it, they cost it.

Senator CARR—For the 175 per cent, can you tell me what the cost of the concession is?

Mr Peel—Yes: for 2005-06, \$115 million; 2006-07, \$125 million; 2007-08, \$140 million; 2008-09, \$155 million; and 2009-10 \$170 million.

Senator CARR—And how many customers were recorded in the actual 2005-06 figure of \$115 million?

Mr Peel—For the 175 per cent, which is a subset of the other figure I just gave you, it is 1,185.

Senator CARR—Again, you will not have any forward projections on terms of estimates there, will you?

Mr Peel—Not in terms of customer numbers, only in terms of revenue foregone.

Senator CARR—What is the cost of the offset program concession?

Mr Peel—Because the offset is a cash payment it is actually an expense estimate. For 2005-06, \$40 million; 2006-07, \$70 million; 2007-08, \$90 million; 2008-09, \$100 million; and 2009-10, also \$100 million.

Senator CARR—What would be the cost of the concession for combined claims?

Mr Peel—For combined claims, 2005-06, \$425 million; 2006-07, \$435 million; 2007-08, \$460 million; 2008-09, \$495 million; and 2009-10, \$550 million.

Senator CARR—Are you able to tell me what the number of customers in that costing would be?

Mr Peel—For the offset, or for the total?

Senator CARR—No, for the cost of the combined claims, where there are separate categories—

Mr Peel—Yes, that is the number I gave you earlier, which was 5,971 altogether.

Senator CARR—Thank you.

Senator CARR—These figures you are giving me will be in a table?

Mr Peel—They are in a table, yes.

Senator CARR—Is there any chance I could get that?

Mr Peel—I will take that on notice and provide you with it.

Senator CARR—The secretary is providing me with another table, and those figures are in this table here, are they?

Mr Paterson—No. I do not think so.

Senator CARR—Is it possible, Mr Paterson, to have a copy of the table of the figures that Mr Peel has just provided to the committee?

Mr Paterson—We are happy to provide those details to you.

Senator CARR—Thank you, that is very good of you.

Mr Paterson—I make the point again, and it has been made earlier, that the figures that we are providing to you in relation to that are predominantly figures prepared by Treasury.

Senator CARR—I do appreciate that. I appreciate the department's cooperation. It has been very helpful. Do you have the cost of the structural adjustment package for South Australia? I am sorry, I have not had a chance to read this table. Are the figures that you are able to provide me, for the structural adjustment package for South Australia, included in these tables?

Mr Paterson—They are not.

Senator CARR—It may save time, if it is possible—because there is not particularly anything secret about this—if I could have a table outlining the cost of the structural adjustment package for South Australia with the estimates and actuals for the forward estimates period and any committed funds?

Mr P Clarke—The South Australian fund will have finished by the end of this financial year, so we are happy to give you a table of the expenditure up until this year.

Senator CARR—Thank you, and could that include the departmental expenditure including the administration of that program? Does that include the Electrolux structural adjustment package as well?

Mr P Clarke—No, the two packages are separate.

Senator CARR—Could I have a similar set of figures for the Electrolux structural adjustment package?

Mr P Clarke—Yes.

Senator CARR—So that is estimates and actuals where they are known and expenditure funds committed, the number of customers and departmental expenditure?

Mr P Clarke—Yes, on the Electrolux one, obviously, there are no customers yet, but we can give you the SAFSA one.

Senator CARR—Similarly, is it possible to provide a table with the cost of programs for Invest Australia and the pharmaceutical partnerships program, if the officers are available? Again, because of the time factor, I am not seeking to go through them line by line now.

Mr Peel—I can certainly provide them.

Senator CARR—If it is possible today, it would be helpful.

Mr Peel—We can do it now.

Senator CARR—If they can just be handed up, that would be terrific. What I am looking for are the departmental programs across the chart: the strategic investment program; the TCF structural adjustment package; and the Automotive Competitiveness and Investment Scheme, the ACIS program, when they are not already included in the tables I have. I might return to the tax concession issue. I just want to clarify some matters. As I understand it, firms are required to register with the Industry Research and Development Board before they become eligible for the concession.

Mr Paterson—That is correct.

Senator CARR—And they are required to have lodged an R&D plan?

Mr Paterson—Correct.

Senator CARR—Does the plan require them to cover 12 months or two years of activity?

Mr Birch—The plan covers the period of time for which the registration is made.

Senator CARR—How long is the registration made on average?

Mr Birch—It is done annually.

Senator CARR—So they are, in fact, annual plans. Last May you provided some information to Senator Campbell in terms of what firms register for R&D tax concession. Specifically, the information went to information provided by firms to the Industry R&D Board. The figures you provided to Senator Campbell about the planned expenditure R&D by registered firms was for 2003-04. Is it possible to provide a more up-to-date set of figures?

Mr Peel—The figures that I provided to you earlier were for 2004-05. That is the latest year that we have. The way the tax concession works is that firms have until ten months after the end of their financial year to register for the concession, therefore the figures that we have are always a year or so behind the current date. I do have some incomplete figures for 2005-06, but they will not be finalised until ten months after the end of the financial year and some companies, as you would appreciate, do not necessarily finish their financial year on 30 June.

Senator CARR—Are you able to give us an indication of the difference between expected expenditure or revenue forgone and actual experience in regard to the taxation concession? How accurate are those projections that Treasury have made in your historic experience?

Ms Berman—I think it happens almost every year that they are updated, so when the new figures are put out, the TES figures from early in the year are updated from past years as well. I think it is quite unusual for there to be a reduction in the estimates; usually a higher figure is put in place than was anticipated in the previous year.

Senator CARR—Do you have any sense of the figure for the adjustments that are made due to accruals from retrospective claims?

Ms Berman—I am not in a position to comment on that. It is information I do not have.

Mr Peel—As you would appreciate, it is the Tax Office that ends up paying the benefit, based on a company's tax return, so we are not privy to that sort of information.

Senator CARR—Is there a gap between the figures that the department works on for the number of R&D tax registrants and the ATO claims for the number of actual claimants?

Mr Peel—There could well be. Companies actually register after they have done the R&D, so there should be a good deal of correlation, provided they actually put in tax returns.

Senator CARR—Historically then, that is the pattern?

Mr Peel—You would have to ask the Tax Office that question, because they get the tax returns. What we are saying is that we are registering people after the end of the financial year, therefore after they have undertaken the R&D, so provided they are claiming what they register for with the Tax Office there should be a reasonable correlation between the numbers.

Senator CARR—The last time the scheme was updated or amended—that is the 175 per cent change and the tax offset that was introduced in 2001—did the department estimate the take-up rates for the premium offset at that time?

Ms Berman—They did.

Senator CARR—And what did you—

Ms Berman—I would have to take on notice the figures, but we do have them. They were put out when the large Backing Australia's Ability package was put out. There were estimates put out for five years, so we can provide those.

Senator CARR—Can you also provide to me the basis on which those estimates were made?

Ms Berman—I am not sure that I can, because that was basically developed in conjunction with Treasury, and they provided the estimates at the time. So I do not think I can do that but I certainly can provide the figures.

Senator CARR—In answer to a question from Senator George Campbell in May of last year, the department noted that the number of companies claiming the concession as an offset had increased from 39 per cent to 42 per cent during the period 2002-03 and 2004-05. Did the department predict this increase?

Ms Berman—No.

Senator CARR—You didn't?

Ms Berman—What we do is we keep a close eye on the number of firms who are registering and the claimed expenditure, and we monitor that from year to year. As Mr Peel

said, that is 12 months behind. We have seen a pattern of gradual increase since about 2001-02; it has been going like so. So we have no reason to suspect that there would be a drop.

CHAIR—That hand movement does not go in *Hansard*. So there was an increase, I take it?

Ms Berman—There was an increase, yes. We have regular meetings with the clientele through the Australian Taxation Office and we go out twice a year and talk to people, and we are getting very positive feedback about the take-up of the offset—and also about the premium but particularly the offset.

Senator CARR—It has been put to me that the number of tax offset registrations has almost doubled the initial forecast. Is that a fair observation?

Ms Berman—Using my memory, I think we estimated about 115 additional registrants back in 2001 and it is far in excess of that.

Senator CARR—How many did you have?

Mr Peel—The figures that I gave you for 2004-05, Senator, indicated that there were 2,192 offset registrants for that year.

Senator CARR—You do not have any figures for 2005-06?

Mr Peel—As I said, the financial year has not closed for all companies yet, but to date, in complete figures, we have 907 registrations for the offset.

Senator CARR—Are you anticipating you will get to the 2,197 of the previous year?

Mr Peel—On current indications it looks like it will probably be more than that.

Senator CARR—What is your best estimate of how much more?

Mr Peel—Last year 37 per cent of all registrants were for the offset. So far this year 40 per cent of all registrants are for the offset. They are about the best figures I can give you at the moment. I guess we will just have to wait and see what the outcome is.

Senator CARR—What percentage of the firms claiming the offset choose to cash it out as a rebate rather than use it as an offset against tax liabilities?

Mr Peel—I think you would have to ask the tax office that question.

Senator CARR—Has there been a shift between the concession and the offset, affecting the cost of the program as a whole?

Mr Peel—The cost of the program as a whole has increased year on year in recent years.

Senator CARR—But is that down to the shift between the concession and the offset, or is it down to other factors?

Ms Berman—I think there are a number of factors. There has been some shift, but there has also been an overall increase in the number of firms registering in all of the components, with the exception of the straight 125, because the 125 can be received by somebody at the same time as they are getting the premium or the offset. It is the base. When you get the premium you get the 125 for below the average, which is above the previous three years.

Senator CARR—I might talk about the eligibility criteria for the offset. I am just wondering if you could assist me in understanding this. It is available to firms with a turnover of less than \$5 million; is that the case?

Ms Berman—Yes.

Senator CARR—And they can claim up to \$1 million of R&D expenditure; is that right?

Ms Berman—That is correct.

Mr Peel—That is correct.

Senator CARR—And there are cases of firms who spend more than \$1 million on R&D who are not actually eligible for the offset; is that also correct?

Ms Berman—That is correct.

Senator CARR—How does that work? Can they claim the first \$1 million because they have actually lost eligibility altogether, or how does that work?

Ms Berman—They can choose not to have the offset and put a normal claim in as they would have before, which means when they become profitable, if they are not profitable, they can receive the tax concession in the future. But if they choose to use the offset they cannot claim more than \$1 million, so if they have expended more than \$1 million they do not have the option of claiming the offset.

Senator CARR—Can you explain to me why that is?

Ms Berman—That was the way it was developed in 2001. It was based on information available and decision making at that time.

Senator CARR—When you say ‘information available’, was it your view that there would not be many firms in that situation?

Ms Berman—I think it is true to say that, at that time, when you looked at the population, the \$1 million was an appropriate cap on those that would need assistance in a no-profit situation—correct.

Senator CARR—That was your best guess at the time? That is why you set the ceiling at \$1 million?

Ms Berman—It was not a guess. I think it was about six months work between us and Treasury in developing the elements of the changes to the tax concession. It was quite a serious discussion about what limitation there might be on claimants. So that is the figure that was put up.

Senator CARR—I know we are always clever after the event, but how many firms do you think have been affected by this particular eligibility requirement?

Ms Berman—It is something that we could take on notice, in terms of having a look at the registration data. All we could give you is an approximate number because other issues, such as grouping, come into play. That means somebody might appear to be eligible as a single firm, but, because they are grouped with a number of other firms, they are well over the \$5 million turnover and therefore they would not get in. So it is quite difficult for me to be able

to say that there is this number of firms who claim who might be able get it if the limit were changed.

Senator CARR—Have there been changes to the eligibility requirement in recent times?

Ms Berman—No.

Senator CARR—It has been put to me that there has been a progressive tightening of activities that are eligible for support, that there are explicit exclusions. Is that true?

Ms Berman—I will pass to my colleagues.

Mr Birch—Yes, Senator, the legislation does have some specifically excluded activities; however, they have not changed recently.

Senator CARR—Can you tell me what those lists of explicit exclusions are and when they were introduced?

Mr Birch—That may be better for me to take on notice. There is quite an extensive list.

Senator CARR—Do you have that in a form that can be handed up, or do we have to—

Mr Birch—Yes, I am sure we can provide that today.

Mr Peel—Could I just clarify an answer I gave you earlier. I think I gave you a progressive figure for registrations for the offset for 2005-06 and I said it was 907, which it is just for the offset, but there are some companies that claim the offset as well as the 175, so when you add that in the actual figure is 1,097 rather than 907.

Senator CARR—Thank you. In terms of these eligibility criteria for activities, how many of them actually related to changes in the program which directly affected, or had some bearing on, R&D costs that firms can claim for the concession?

Mr Birch—I am not sure I quite understand the question.

Senator CARR—Well, I would have to see the list. It would probably help me if I did that.

Mr Peel—There have not been any recent changes to the program in that respect. You may be getting some feedback from people who have been audited and their claims have been questioned by people in AusIndustry. Our people might have told them that certain things are not eligible that they may have thought were eligible, but I do not believe there have been any real changes to the program in recent times in terms of—

Senator CARR—So as far as you are concerned there have been no changes that are, for instance, driven by the savings that you—

Mr Peel—No, not at all. The legislation specifies what people are entitled to claim. AusIndustry, as part of our role, undertake compliance activities and look at what companies are claiming to ensure that that is legitimate R&D. It could be that you are getting some feedback from companies that we visited and told that what they have claimed is not necessarily eligible. There has not been a deliberate change in the rules to make certain things ineligible in recent times.

Senator CARR—So the eligibility criteria were set down—what was the year in which the legislation was carried?

Ms Berman—There were changes in 2001 but we did not change the eligibility in terms of exclusions at that point in time, so it goes back into the 1990s.

Senator CARR—So it has been here for 10 years?

Ms Berman—The concession has been in place even longer.

Senator CARR—I understand that the concession has, but these criteria that we are speaking of have been in place for at least 10 years?

Ms Berman—I think the last change was in the mid-90s for eligibility.

Senator CARR—There was a question on notice, number B1-16 of May last year. The department referred to an evaluation of the new elements of the taxation concession—that is the offset in 175 per cent premium—and you said in May that the evaluation was in its last stages. Can I presume that the evaluation has now been concluded?

Ms Berman—It has not been concluded. Most of the work has been done. We are still deliberating with the other members of the steering committee overseeing the evaluation on the final report.

Senator CARR—Who is on the steering committee?

Ms Berman—We are, and AusIndustry, the Australian Taxation Office, Treasury and Finance.

Senator CARR—I did not quite catch why there is a delay on a project that was supposed to be in its last stages last May.

Ms Berman—Yes.

Senator CARR—Why is it that in February of the following year it has not been completed?

Ms Berman—There are a number of outstanding areas for agreement in terms of some of the costings associated with the tax concession. It is those two elements.

Senator CARR—Can you explain to me what the outstanding issues are regarding the costing?

Ms Berman—I cannot at this point because there is no agreed position and I think it is appropriate that the group decides.

Senator CARR—I can appreciate your line of argument there, but you could at least identify what the issue is rather than what the final position is. What is the problem?

Ms Berman—The issue concerns what the cost is to government of the two new elements, the offset and the premium. The figures that come in, which we get in terms of tax registration numbers, give us an indication of what is claimed. Of course, those claims are not all supported by government. In the case of the premium, the 175 per cent, you get 50 per cent above the normal 125 for the additional. So, you have a base and what is above the base you get the extra money for. If over time that increases—so, instead of being, say, \$100 million one year it might be \$200 million the next year—the issue we are talking about is: should that extra \$100 million that is claimed be claimed totally due to the tax concession, or is it also the

100 per cent that all businesses are entitled to in terms of their business expenses? So it is the inducement effect that we are talking about.

Senator CARR—It is the additionality?

Ms Berman—That is right.

Senator CARR—I suppose this highlights how difficult it is to cost these things? Is that the problem?

Ms Berman—Exactly. That is correct. It is very difficult to estimate the future costs.

Senator CARR—Also in regard to the department's and Treasury's estimates in the past, is it fair to say that they have always been accurate on these costings issues?

CHAIR—I do not think that this witness can answer that.

Senator CARR—She can. This is historic. I just want to know—

CHAIR—You are asking her for an opinion, and she is not obliged to—

Senator CARR—In terms of the projections, were they met?

Ms Berman—I think I answered previously that almost every year they are slightly upgraded because they might have got it a little bit wrong. That of course is to be expected, because they are assuming on the basis of—

Senator CARR—I understand. That is essentially the difficulty. You are trying to predict behaviour.

Ms Berman—That is right.

Senator CARR—Therefore, it is reasonable that you will not get that right. It would be fair to say that every year it could also be said that you have got it wrong?

Ms Berman—This department, or I, have not got it wrong; I think the best estimate has been put in place.

Senator CARR—I am not trying to score a point here; I am trying to highlight why it is that it has taken you a year to complete a project that you said would be completed a year ago. I am trying to understand what the reasons are. And from what you are saying to me it is that every year you have to readjust the estimates because the estimates were in error.

Ms Berman—Yes. It is difficult to predict what the future costs will be. Correct.

Senator CARR—Yes. And that would equally apply to all of these programs, would it not—the 125, the 175? Are you able to be accurate?

Ms Berman—I beg your pardon; in terms of the tax concession, yes. I was thinking more widely to other programs which are appropriation based.

Senator CARR—Appropriations are a separate matter. I am talking about revenue forgone—

Ms Berman—You are correct with the tax concession.

Senator CARR—where you are trying to deal with the question of behaviour.

Ms Berman—Correct.

Mr Peel—I note, at least from my perspective, that one of the difficulties for us is the pejorative terms ‘error’ and ‘wrong’. These are estimates based on behaviour. So that is the discomfort—

Senator CARR—Believe me, when we run into an election year these pejorative terms get thrown around quite a lot. I know they obviously affect a lot of debate.

Mr Peel—These are estimates based on anticipated behaviour.

Senator CARR—That is right. That is all they are. They are just projections. They are the best projections that you can provide at the time, and what we can say is that on every occasion in recent years they have had to be altered.

Ms Berman—Updated.

Senator CARR—Updated. Similarly, there was an evaluation conducted in 2003, and there is a reference to that on your website?

Ms Berman—Yes.

Senator CARR—Was that evaluation made public?

Ms Berman—Anybody who requests it gets a hard copy of that evaluation.

Senator CARR—I am requesting it.

Ms Berman—Certainly.

Senator CARR—Did that evaluation look only at the 125?

Ms Berman—That is correct, because the other two had only been in place a very short time.

Senator CARR—The tax offset scheme was introduced in 2001. How many of the registrants have gone out of business or have been acquired by other firms? Do you have that information?

Mr Peel—No. We do not keep that sort of information.

Senator CARR—Are you able to tell me historically what the changes have been in the registration base? Has the number of firms increased or decreased?

Mr Peel—For the offsets?

Senator CARR—Yes.

Mr Peel—The only figures I have are for 2004-05, which I have provided to you—2,192—and the progressive figure for 2005-06. We will have the other figures, though.

Senator CARR—Could you take that on notice?

Mr Paterson—In the table that I placed before you earlier, we indicated that the number of customers for the offset for actual 2002-03 was 1,835 and 2003-04 was 2,163.

Senator CARR—Last December, Minister Macfarlane made the point that the government was seeking to boost:

the level of business R&D by introducing the Premium and Offset elements to the Tax Concession ...

Has there been any modelling work done to support that statement?

Ms Berman—Could you clarify where that was said?

Senator CARR—That was a media release on 7 December.

Ms Berman—Was it talking in terms of these two elements having boosted the tax concession?

Senator CARR—The words were ‘boosting the level of business R&D by introducing the Premium and Offset elements to the Tax Concession’.

Ms Berman—I think it is meaning that that introduction has boosted the uptake of the tax concession. I don’t have the words—

Senator CARR—This is 7 December 2006. Are you saying that is retrospective?

Ms Berman—I believe so, because there have not been additional premium and offset changes, but certainly he has been witnessing the larger uptake each year of those two elements.

Senator CARR—Are you able to tell me, given that the minister has made this statement and it is retrospectively—

Mr Peel—We do not have the statement in front of us.

Senator CARR—It is a ministerial press release of 7 December 2006, headed ‘Australian business innovation at an all time high’.

Mr Paterson—We do not have that in front of us. We are happy to have a look at it and come back to you.

Senator CARR—Is that easily available? Do you have it at hand?

Mr Paterson—Not immediately.

Ms Berman—No, not in front of us.

Mr Peel—It is a fact that the R&D expenditure has increased progressively since 2001 when those new elements were introduced, and it could well be that the minister is referring to that increased expenditure.

Senator CARR—I am interested to know what the assumptions were about the level of R&D in the absence of the premium and in the offset schemes, given that the minister has made a specific reference to the significance of those particular elements of the government’s program.

Mr Paterson—Given the nature of the question, we will take that on notice.

Senator CARR—In your department’s response to the Productivity Commission’s draft report on science and innovation, you state that the tax offset has led to an additional 1,000 firms using this concession. How did you arrive at that particular figure?

Ms Berman—We have looked at the AusIndustry data of the uptake of the tax concession and observed the group that picked up the offset. We noticed that the three years before and the three years afterwards the uptake was increasing, and that figure has been derived from looking at that data.

Senator CARR—Do you have any firm evidence that these firms would not have undertaken this activity in the absence of the tax offset?

Ms Berman—We do not. We have used data only. We have not spoken to firms and confirmed with them that they did not do it or that they did it and they did not apply for it before the offset was introduced.

Senator CARR—In your evaluations, have you been able to establish what the key drivers of the increased R&D spending are and where the premium and offset fit within that list?

Ms Berman—In commencing the evaluation we undertook some consultations across the country and the offset scored highly in those. Firms were telling us that it was encouraging them to do more R&D because they put the cash they got from their tax return straight back into R&D the next year. We have that qualitative comment from firms but we have not gone out and surveyed in large number exactly the extent to which that has happened. We get a very strong view that having cash in hand means that more money goes back in the next year, and that continues.

Senator CARR—The Australian National Audit Office report on R&D tax concession in 2002-03 highlighted the proposition that three per cent of the companies registering represented 51 per cent of expected research and development expenditure. Are you aware of that?

Mr Peel—Yes, we have seen the audit report.

Senator CARR—Do you agree with that?

Mr Peel—They would have derived those figures from talking to us and looking at our numbers.

Senator CARR—Do you think it is still the case?

Mr Peel—I suspect it would be fairly close to still being the case.

Senator CARR—Do you have any information about the characteristics of those particular companies? For instance, are they particularly R&D intensive or are they just very big?

Mr Peel—I do not have that information here. I would have to take that on notice.

Senator CARR—What is your understanding?

Mr Peel—I will take that on notice.

Senator CARR—Your own level of expertise in this area would not give you a view as to whether or not these—

Mr Peel—If you want an accurate answer then it would be best if I took it on notice.

Senator CARR—In doing that, I presume you could also tell me figures on the R&D intensity of the firms receiving the concession. How many firms have an R&D intensity of, say, less than one per cent, what proportion of the firms do they account for and how much is that in dollar terms?

Ms Berman—We will take that on notice. We can give you intensity averages but we cannot give them per firm. We would have to do it in terms of, say, the offset users versus the premium or the size of the group.

Senator CARR—What is your sense of the intensity? What is the figure?

Ms Berman—We have done it in the past. I cannot recall exactly what it is, but it does vary according to sector and it varies according to size of firm, so there is a lot of variation in intensity.

Senator CARR—Could you provide me with those figures on intensity across industries as distinct from firms as well.

Ms Berman—Sectors.

Senator CARR—Yes, sectors. How many have R&D intensity between one and two per cent and what is the proportion of the cost that they account for?

Ms Berman—Certainly.

Senator CARR—Can you provide that in dollar terms as well?

Ms Berman—In terms of expenditure?

Senator CARR—Yes.

Ms Berman—I will take that on notice. I am not sure that we can provide it all but we can certainly provide you with intensities per sector.

Senator CARR—And you would be able to indicate to me the sectors where the largest spending companies are located?

Ms Berman—We will divide it up according to the sector definitions we have and I will give you the sector intensities.

Senator CARR—Australia has only 43 Australian based companies that spend more than \$10 million per annum on R&D—would that be true?

Ms Berman—Again, I do not have that information with me today but we do have access to those numbers.

Senator CARR—It was also put to me that the areas in which these firms are located are automotive, pharmaceuticals, biotech, mining and related engineering, agriculture—particular rural R&D corps will be prominent there—and gaming. Would that be right: gaming?

Ms Berman—I could not comment on gaming. Certainly I would expect pharmaceuticals and some manufacturing to be in that higher category.

Senator CARR—It has been put to me that there are in fact two poker machine companies in the top 50 in Australia. Would that be right?

Ms Berman—I have no comment. I am totally unaware of that.

CHAIR—I do not think that you have formally said that you are going to take these questions on notice, but I am assuming that is what you are going to do?

Ms Berman—Not for poker machines.

CHAIR—No, before that.

Ms Berman—I have taken on notice that I will look at intensity for specific sectors.

Senator CARR—And firms. There were two sets of questions.

Ms Berman—Size of firm and sector.

Senator CARR—Also, the intensity less than one per cent, the proportion of cost they account for and how much that is in dollar terms.

Ms Berman—I said I would see what I could do on that one. I cannot be sure that I can be exact in that case because, as I said before, grouping means that it is very difficult to give correct data. When people put their data in they do not say, 'I am grouped with these three other companies.' That information is given to the ATO; it is not given to us. Anything we give you has to have a caveat on it because it might not be totally accurate.

Senator CARR—Let us have a look at your answer. I think the department has been extremely helpful. I am not trying to argue the toss here. I am trying to establish what it is that we do know about the operation of this scheme and what the department knows about it. We will obviously come back and talk again when we have had a look at those. I am sure there is plenty of opportunity to pursue it.

In the automotive sector during the last estimates it was indicated to me that Mitsubishi might have access to the R&D tax concession, but the officers were not certain. Can you clarify for me the extent to which automotive companies can access the taxation concession, given that they also have specific sectoral support through ACIS?

Mr Peel—Automotive companies are eligible to register for the tax concession as long as they meet the eligibility requirements. Any benefits that they receive through another program such as ACIS for R&D would be clawed back.

Senator CARR—They cannot claim twice for the same activity?

Mr Peel—No, they cannot be paid twice for the same activity. That is correct.

Senator CARR—Have there been any occasions in recent times when there has been a need to reassess a claim from any of the automotive companies?

Mr Peel—That is a question you will have to put to the tax office. We do not assess their tax claims.

Senator CARR—You do the compliance, though, do you not?

Mr Peel—Yes, we do compliance activities.

Senator CARR—In those compliance tests have you discovered that any of the automotive firms have made an error and have had to make an adjustment in their calculations for claims?

Mr Peel—I am not aware of any.

Senator CARR—It has been put to me that automotive component companies cannot get the full duty credit and retention on their eligible R&D because of the modulation. They are also unable to claim the taxation concession in relation to that proportion of their R&D for which they miss out on the duty credit. What is the situation for the components sector?

Mr Peel—We are straddling ACIS and the tax concession, but I think—

Senator CARR—That is why we have asked. Are you eligible for both? How do you get both?

Mr Peel—What we might be getting into here is that the component producers often carry out R&D on behalf of the automotive companies, and the automotive companies pay them for that R&D that they undertake. Therefore, it would not be the component manufacturers that would claim the tax concession for that particular R&D.

Senator CARR—So you have to be certain that they have paid for their R&D work. Is that the first threshold issue?

Mr Peel—That is correct. They have to incur the expenditure to claim the tax concession.

Senator CARR—Have you had any representations from component companies claiming that they have made this payment but not been given that?

Mr Peel—For the tax concession?

Senator CARR—Yes, the taxation concession.

Mr Peel—Not that I am aware of, no.

Senator CARR—With regard to ACIS money, have there been any complaints that because of the modulation they are not eligible for assistance?

Mr Peel—We do have some cases where component manufacturers have challenged our ruling that they are not eligible for payments under ACIS because they are undertaking work directly for the automotive companies, yes.

Senator CARR—Which companies are those?

Mr Peel—I do not have that information here. I will have to take that on notice.

Senator CARR—Can you indicate where the complaints have got to? For instance, are any of them before the courts?

Mr Peel—Typically they go to the Administrative Appeals Tribunal.

Senator CARR—Are there any currently before the tribunal?

Mr Peel—Yes. There are a number of cases on foot at the present time with the Administrative Appeals Tribunal.

Senator CARR—Can you indicate to me what they are?

Mr Peel—Yes. There is a case before the Administrative Appeals Tribunal for a company called Spicer Axle. It has appealed to the AAT against a decision by AusIndustry to reject some of its plant and equipment claims.

Senator CARR—Isn't there legislation before the house on that matter?

Mr Peel—Yes.

Senator CARR—Will that have the effect of rendering that retrospective?

Mr Peel—In relation to the case that is the subject of the legislation, the Administrative Appeals Tribunal ruled in favour of the department's finding in that case but also determined that the department did not have the power to get the benefits back from the company, as it determined that ACIS was not a self-assessment scheme. The scheme has always been managed as a self-assessment scheme because by doing it in that way we were able to pay the companies their benefits quickly. The ruling of the tribunal indicating that it was not a self-

assessment scheme went to the fact that we were therefore unable to take back the benefits that we had paid. So the purpose of the legislation is to correct that situation.

Senator CARR—But that is for future action, not retrospective?

Mr Peel—That is correct.

Mr Paterson—As I recall, we have in fact appealed the decision with respect to Spicer Axle. So that matter is not finally determined with respect to that particular case because we have taken an appeal to the Federal Court. But the AAT determined that the expenditure was not eligible expenditure.

Senator CARR—I understand.

Mr Paterson—The company had been paid but we could not get the money back.

Senator CARR—I understand the principle that you are putting to us. What other cases are there?

Mr Peel—Before the Administrative Appeals Tribunal, there is a case for Specific Fasteners. The company underwent a corporate restructure and did not tell AusIndustry about the effects of that restructure, so we denied their claim. The Administrative Appeals Tribunal heard that case on 21 August and has reserved its decision in relation to that case. There was another case in relation to ION Automotive that was trading subject to a deed of company arrangement. We sought to recover credits from that company. They have been to the Administrative Appeals Tribunal, which adjourned the case until February 2007, so that should be heard soon. With Robert Bosch, we rejected certain investment claims from that company. They lodged an AAT appeal against our decision, and that matter is likely to be heard in May 2007. If I could just clarify an answer that I gave earlier, we do not actually have any AAT cases on foot in relation to the R&D issue that you raised earlier.

CHAIR—When you are finished with the automotive area, Senator Joyce has some questions.

Senator CARR—I am nearly finished. I have another five questions on this whole area which will conclude it.

CHAIR—Do those questions and then we will go to Senator Joyce.

Senator CARR—I would like to ask about the audit arrangements. How frequently are claims for the tax concession audited? Is it done as part of a normal tax auditing process or is there a special arrangement with the industry R&D board? Is it the case that the ATO takes a risk based approach to auditing?

Mr Peel—AusIndustry has a compliance program in place for the tax concession. We undertake a risk based approach to that, so we have a sampling approach and audit a number of companies each year. As well as that, the tax office from time to time refers specific cases to us that it has concerns about flowing from its activities.

Senator CARR—Essentially, is it a two-streamed approach; one is a specific complaint and the other is risk based?

Mr Peel—Correct.

Senator CARR—How many firms did you audit last year?

Mr Birch—We might take that on notice. It was around 40. I can check the number.

Senator CARR—Do you have a percentage target for each of the years?

Mr Peel—We have a rolling program auditing the top 30 customers in the concession by value. We also have a program that targets the larger claims, in excess of \$5 million, and then we have a series of company visits where new registrants for the tax concession are visited by officers from AusIndustry and we explain to them how the tax concession works and what their responsibilities are under that arrangement. What we will take on notice are the actual numbers and which category we did in the last year.

Senator CARR—I turn to the Productivity Commission's draft report. I have read your draft submission and you appear to be fairly critical of the Productivity Commission's approach. What is your view?

Mr Peel—As to how the Productivity Commission has got it wrong?

Ms Berman—The terms of reference for the study are in relation to public support for science and innovation. Innovation is a very large area. R&D is a component of innovation but it is not equal to innovation. I think that may be where we have some concerns. We feel that the report is very much focused on R&D, and that is as it should be, but there is also a need to look at the other surrounding areas in innovation which are equally important for consideration for government assistance, should it be required. That is the essence of some of our criticism.

Senator CARR—The Productivity Commission draft finds that the 175 premium 'poses administrative challenges'. I would have thought in this town, with public servants speaking to one another, that would be stern criticism indeed. I have heard this from a number of people now. Do you think there is merit in the suggestion of moving towards the intensity base model as the commission suggests?

Ms Berman—You will recall that an intensity based premium was proposed in 2001, which was that you would be rewarded with 175 where your average, measured as your R&D over turnover, increased over time.

CHAIR—You are not required to comment on policy, which I am sure you are aware of.

Senator CARR—I am asking about a departmental response.

CHAIR—I know that. I was just indicating again to Ms Berman.

Ms Berman—The intensity model was used then. There was considerable concern from industry over the use of an intensity model. The government based its 175 on a volume based three-year rolling average. That has worked extremely well because it has rewarded the firms who continue to do additional R&D. One of the proposals put by the PC draft report was that you move to an intensity model and also perhaps a fixed point instead of a rolling average. The government thinks that the rolling average is an appropriate mechanism and it has been effective, as Mr Peel has reported, in giving quite a large number of firms the ability to get three times the support that they would have got under the 125.

Senator CARR—Obviously I can take that further. I just want to be clear as to why the department was making those claims and its response. The Productivity Commission also recommends removing the beneficial ownership rules for the 175 premium concession. I understand that the department supports that position, although you have some concerns about the terminology; is that right?

Mr Paterson—I do not want to be pedantic, but we are talking about a draft report from the PC, so suggesting that the PC recommends—

Senator CARR—In the draft recommendations about their draft opinion, what I would like to know is if your draft response—

Mr Paterson—They can change quite significantly as part of the process.

Senator CARR—I would like to know the position of the department in regard to your submission responding to the draft report. Are you supporting the removal of the beneficial ownership test? Is that right?

Ms Berman—The words on page 6 are:

- DITR sees merit in the Productivity Commission's recommendations to enable firms that hold their IP offshore to receive support only for incremental R&D.

Senator CARR—What would the cost of that be?

Ms Berman—I am not in a position to provide that information. I do not know what that is.

Senator CARR—You do not know?

Ms Berman—No.

Senator CARR—Has the department had any modelling work done on that proposition?

Senator Minchin—That goes to internal policy work. I am not sure that we are necessarily in a position to answer that.

Mr Paterson—Like many of the other calculations in relation to this area, they are administered by the tax office, so those calculations would be undertaken by the tax office if that calculation was to be undertaken.

CHAIR—You are not obligated to provide information that might form the basis of policy from the minister.

Senator CARR—That is understood, but in your draft response was there any consideration given to the cost of the Productivity Commission's proposals, as outlined in their draft report?

Ms Berman—We did not cost the draft report proposals.

Senator CARR—Does that go for all of their proposals?

Ms Berman—I am talking in terms of the ones that you have just mentioned.

Senator CARR—Has the minister sought advice on the draft report and its implications?

Senator Minchin—That goes to advice.

Senator CARR—No, not the nature of the advice. I am asking has the minister sought advice.

Senator Minchin—That is not appropriate, either. That is communications between the department and the minister, which are not matters that get aired in these committees.

Senator CARR—The minister was quoted recently in the *Australian Financial Review* as saying:

... the department has been looking at the value in adjusting the beneficial ownership requirements for multinationals.

Is that correct?

Senator Minchin—Are you asking if he said that in the newspaper report?

Senator CARR—Did he say that?

Senator Minchin—Show us the newspaper. It is not possible for officials of the department to be in a position to verify whether a minister is accurately quoted in a newspaper. That is not a reasonable question.

Senator CARR—You have no reason to dispute that it was accurately quoted? Mr Paterson, I take it you would have seen that?

Senator Minchin—I do not think that is a fair question to officials. If I could verify it as the minister at the table, I would, but I cannot tell you now. I am happy to get an inquiry of his office.

CHAIR—Take it on notice.

Senator Minchin—I am happy to get his office to verify the quote. But I do not think that it is proper for the officials to do that.

Senator CARR—Do you have any estimates of the R&D that is currently undertaken in Australia that is made ineligible for concession because of the beneficial ownership test?

Mr Peel—We could see whether we have denied any registrations for that purpose. We can take that on notice and check the numbers.

Senator CARR—Have you had any estimates of the activity levels that might be generated by removing such restrictions?

Ms Berman—It is almost impossible to do that, because we do not have data of that nature. We collect the tax concession data from eligible firms.

Senator CARR—This is an item that has come up in three separate parliamentary reports. For a Productivity Commission report, I would have thought there would have been some assessments undertaken at some point by now, but you are saying no?

Mr Paterson—I answered the question earlier to indicate that, if any calculations were undertaken in this area, they would be estimations made by Treasury and not by us.

Senator CARR—Thank you very much, Mr Chairman.

Senator JOYCE—My questions are regarding resources and coal exports. There has been a lot of speculation lately about coal exports. Can you give me your view of how much of our

export income comes from farm, non-farm, tourism and manufacturing as a percentage of our exports?

Mr Paterson—Could you just clarify the question?

Senator JOYCE—Can you tell me how much of Australia's export income, if you have it available there, comes from farm, non-farm—which is obviously mining—tourism and manufacturing?

Mr Paterson—Do you want farm and non-farm?

Senator JOYCE—Non-farm resources. I will make it easier: farm, mining, tourism and manufacturing?

Mr Paterson—We can provide a table to you that shows the export performance from pre June 1980 to date and then the projections going forward for mining exports, agricultural exports, manufacturing exports and service exports, if that would be of assistance.

Senator JOYCE—How much comes from mining as a percentage?

Mr Paterson—As a percentage of exports, mining is currently 31.8 per cent for 2005-06, manufacturing is 41.5 per cent, agriculture is 5.6 per cent and the whole of the services sector exports is 21.1 per cent, but you asked explicitly in relation to tourism, so we would need to go and break that up.

Senator JOYCE—No, that does not matter. So 31.8 per cent comes from mining?

Mr Paterson—That is correct.

Senator JOYCE—How much of those mining exports are coal? Do you have that there?

Mr Paterson—No, I do not have the proportion of it in relation to coal. If you looked at the total numbers, coal, oil and gas is \$35.735 billion of a total of \$57.567 billion.

Senator JOYCE—What was the amount?

Mr Paterson—\$35.735 billion, but that is coal, oil and gas.

Senator Minchin—Coal is \$24 billion a year in export.

Senator JOYCE—I think it is \$25.5 billion. It is basically two-thirds of our mining exports. Who are our major markets for coal?

Mr Paterson—Our resources and energy people were here last night. They were excused from appearance today, having concluded the questions last night, so I do not have those people here.

Senator JOYCE—Did they give any inference last night about what the effects of signing the Kyoto protocol would be on our major export markets for coal?

Mr Paterson—Those questions were not put to us.

Senator JOYCE—Can I put them on notice.

Mr Paterson—You can.

Senator JOYCE—In terms of development of the nation—the resources portfolio, tourism and so on—does your department take into account any policies that are currently available

for any incentives to get people to move out? We have a problem at the moment obviously in getting people to move out to mining areas. Does your department take into account any government policies or give any advice on any government policies that may be an incentive to encourage people into the more remote corners of our nation?

CHAIR—It has been brought to my attention by the senators that these are really more relevant questions for the resources sector, which we finished last night. I am reluctant to intervene, but we are pushed for time today and we have finished on resources.

Senator JOYCE—Are we just on tourism?

CHAIR—Tourism is coming up after industry.

Senator JOYCE—Are we on industry?

CHAIR—We finished resources last night. This is—

Senator JOYCE—We are on industry now?

CHAIR—We are on industry at the moment.

Senator JOYCE—I will go on with my industry questions. In terms of our industry overheads, what was the effect of the previous oil hike?

Mr Paterson—I do not know the context in which you want us to respond to that question. It is too complex a question to give an off-the-cuff response to.

Senator JOYCE—Do we have a risk matrix for oil price economic shock movements? Oil being a major industry overhead, have we a form of price matrix or risk matrix that gives us some sort of modelling for what the effect on industry will be of an escalation of oil prices?

Mr Paterson—No.

Senator JOYCE—Why not?

Mr Paterson—We do not have a detailed modelling capacity within the industry portfolio. That modelling capacity, to the extent that it may exist, would exist within Treasury. It would not exist within our portfolio. We do not have an independent modelling capability within the department. If we are required on occasions to undertake particular modelling exercises, we need to commission expertise in key areas to undertake that modelling.

Senator JOYCE—I imagine I will get an answer to my next question from this: have we done an analysis of the competing demand by China and India on fuel, what their cost tolerance is and what the effect will be on our economy if we have to accept a China-India cost tolerance price on our oil?

Mr Paterson—No.

Senator JOYCE—Which department does deal with the cost risk of the oil overhead?

Mr Paterson—I am not saying that any particular department does precisely what you are asking. The modelling of macro effects on the Australian economy is undertaken within the Treasury portfolio.

Senator JOYCE—Do you touch on the free trade agreement with China at all?

Mr Paterson—We are involved in the negotiations.

Senator JOYCE—What are the key areas of benefit to Australia from the current free trade agreement with China negotiations?

Mr Paterson—You are asking for a benefit from something that is not concluded. We are in the middle of negotiations. We are part of the way down a path. It would be premature and risky in the extreme to assess what the outcome might be.

Senator JOYCE—I am not for one moment making an assertion that there are not benefits. I imagine there are. I am just trying to put some flesh on the bones. How long have these negotiations been in place for now?

Mr Paterson—Off the top of my head, the negotiations have been in the ballpark of going for about 12 months and it is anticipated that they will go for some time to come. There are many issues—both tariff barriers and behind the border issues—in relation to China that are of particular relevance to Australia.

Senator JOYCE—I will try to be more specific. What impediments are currently in place for Australian agricultural products going to China?

Mr Paterson—Agriculture is not something that we provide policy advice on.

Senator JOYCE—What impediments are in place for any manufacturing goods going to China?

Mr Paterson—That is a very broad question. I am happy to take it on notice. There are both tariff barriers in relation to some goods classes and there are some behind the border issues in relation to investment and intellectual property, which are all matters that are being considered as part of those negotiations. To ask what are the barriers is a very broad question.

Senator JOYCE—As a broad question, what are the major impediments that we have in dealing with China? What are the major impediments that we have in dealing with China now?

CHAIR—This is really cross-portfolio information that I do not think Mr Paterson can provide. He can probably provide some answers. Some of this is foreign affairs and some is agriculture. Perhaps Mr Paterson can take on notice what his department can answer.

Mr Paterson—The primary carriage for the negotiations in relation to free trade agreements rests with the Department of Foreign Affairs and Trade. The Australian government's position in relation to those negotiations is articulated within that portfolio. We are obviously consulted and engaged in that process, but you are asking very broad questions and I do not think we can easily comprehend an answer, either in these hearings or even being sensible in terms of responding more broadly if we were to take it on notice.

Senator JOYCE—What are the major areas of tourism growth in Australia?

Mr Paterson—We are coming back to tourism a little later.

CHAIR—The tourism people will be on shortly.

Senator CARR—I would like to return to the issue that was raised before about the department's submission to the draft Productivity Commission report. Did the minister sign off on that submission?

Mr Pennifold—We coordinated our input to the Productivity Commission on behalf of the department. The submission was from the department. It was not signed off by the minister, but of course a copy was passed to his office.

Senator CARR—That is the departmental view?

Mr Pennifold—That is correct.

Senator CARR—It is signed off by the secretary? Is that right?

Mr Paterson—I take responsibility for the submission that was submitted on the department's behalf.

Senator CARR—I would like to turn now to the ACIS program. Mr Clarke, are you the lead officer here?

Mr P Clarke—Yes, if you are talking about policy.

Senator CARR—I am talking about the Mitsubishi issue. Last time we were discussing Mitsubishi and whether or not they had received funding under ACIS. We had a discussion about whether information about funding for individual firms could be released. The department's view in relation to Mitsubishi was that such information could be released from ACIS under stage II but not stage I. Is that correct? Have I summarised our discussion accurately?

Mr P Clarke—More or less. The minister may release information on funding under ACIS stage II. There is a provision in the ACIS Act that allows that.

Senator CARR—On this basis, will information be made available for stage II recipients?

Mr P Clarke—The section says that the minister may do it. It is really up to the minister how he chooses to do that.

Senator CARR—Has the minister expressed a view on how he intends to implement that section of the act?

Mr P Clarke—I am not sure that we have asked him that question.

Senator CARR—You will have to now because I am going to ask for a list of participants in ACIS stage II and how much they have received. Can you provide that information for the first year of ACIS stage II—that is, for 2005?

Mr P Clarke—2005 was ACIS stage I.

Senator CARR—Were no funds made available for the 2005 period?

Mr P Clarke—ACIS stage I is not subject to the amendment that enables the minister to make a statement. It would be for ACIS stage II, starting 1 January 2006.

Senator CARR—In regard to modulation under ACIS, how much eligible expenditure is claimed in total by each of the vehicle and components sectors?

Mr P Clarke—There is a general split in ACIS between the motor vehicle producers and the component producers in the ratio of 1,100 to 900. That is for the capped portion of ACIS, the \$2 billion. That is what it will be over the five-year period.

Senator CARR—In terms of modulation, do those proportions apply as well?

Mr P Clarke—Yes. The modulation formula is quite complex, but it is intended to achieve, amongst other things, that result.

Senator CARR—What is the average level of modulation as a percentage? Are you able to tell me that?

Mr P Clarke—From memory, it is about 61 or 62.

Senator CARR—Is it the case that these percentages are now quite predictable or do they vary from quarter to quarter?

Mr Peel—I could give you the last three quarters. There are two modulation rates: one is for the motor vehicle manufacturers and one is for the other customers of the program. For the production rate or the manufacturer's rate, quarter one 2006 was 0.7; quarter two was 0.69; quarter three was 0.68; and quarter four was 0.62. For the other customers in the program, quarter one was 0.71; quarter two was 0.64; quarter three was 0.63, and quarter four was 0.64.

Senator CARR—With the amount of money that is not capped, how do you determine the distribution of the remainder of the funds?

Mr P Clarke—The uncapped portion of ACIS is 15 per cent times the prevailing tariff rate of 10 per cent times the production value of the eligible vehicles.

Senator CARR—That would be very simply calculated.

Mr P Clarke—It is not hard.

Senator CARR—I will put that in a press release. That will go down particularly well. Are companies required to pay an interest charge in relation to the benefits they receive and subsequently found entitled to when there is an audit process and unearned credit liabilities are established? Is there a repayment schedule?

Mr P Clarke—Not in its straight form, but if they defaulted on a notice and continued not to pay then, yes, there is a penalty.

Senator CARR—How often are these companies audited?

Mr Sexton—There is an audit program, which is based around managing risk in the program. There are two levels of audit. There is the most rigorous audit, which is to normal audit accounting standards. In the current year, 2006-07, we have identified 18 companies for that sort of audit. Last year the figure was 31. A lower level of audit, but still a substantial type of audit, has a target for this year of 140. Last year the target was 144.

Senator CARR—How many firms participate in ACIS now?

Mr Peel—It is 238.

Senator CARR—That is quite a high percentage of audits.

Mr Sexton—It is indeed.

Mr Peel—As you would appreciate, it is a self-assessment scheme so there is a higher requirement for us to go back and check that people have claimed what they are entitled to. We do not assess the claims up front.

Senator CARR—Is it a resource intensive process?

Mr Sexton—Yes. Much of the staff activity in the ACIS program area is based around compliance activities, given that it is a self-assessment scheme where benefits are applied up front, and then audit activity and compliance activity follows.

Senator CARR—How many officers do you have working on audits?

Mr Sexton—As I said, in the compliance area there are two levels of compliance activity and there are about 18 staff.

Mr Peel—There are 25 that work on ACIS altogether.

Senator CARR—In regard to the unclaimed credit liabilities, how do you calculate the effects of modulation?

Mr P Clarke—The modulation guidelines and the act provide that if an unearned credit liability is issued and the credits are recovered, they are then put back into the pool to be redistributed out. It is part of the point of ACIS that the money goes out to the industry and, if there are improper claims, we try to recover that and make sure that it does get out.

Senator CARR—So others benefit?

Mr P Clarke—It is one of the reasons that we fight the court cases, because if somebody has got money they are not eligible for, then we want that to go out to the firms that are eligible.

Senator CARR—There would be an incentive there for other firms to let you know if they think there is a problem?

Mr P Clarke—You would hope so.

Senator CARR—Is that what happens?

Mr Sexton—In the main, yes.

Senator CARR—You rely upon industry intelligence?

Mr Sexton—To some degree, yes. It is a very close network.

Senator CARR—I am sure that it is with 230 firms. In response to a question I asked in the last round, the department indicated that Mitsubishi is required to submit a review by the secretary in calendar year 2007 to retain its national interest registration. Have I understood that correctly?

Mr P Clarke—That was correct.

Mr Paterson—The response said that Mitsubishi is required to provide a report to me some time in the year commencing 1 January 2007.

Senator CARR—Do you have a time frame now for the review?

Mr Paterson—No. It is merely this calendar year.

Senator CARR—Given that FAMP projections have now indicated that Mitsubishi is likely to continue producing vehicles in the range of 12,000 to 15,000 vehicles, what else is taken into account in such reviews?

Mr P Clarke—The minister's direction is that the secretary conducts the review and Mitsubishi submits to that review. We need to work out with the secretary a methodology for that review.

Senator CARR—Has that been done yet?

Mr P Clarke—We have not put it to the secretary, no.

Senator CARR—Has the automotive action agenda been evaluated since it was established in 2000?

Mr P Clarke—No. The action agenda ran for a short period, and it was quite a few years ago now.

Senator CARR—Has there been no further work done on that action since 2000?

Mr P Clarke—Not as such. That is not to say that there is no other action within the industry. There is the minister's automotive industry strategic group; there has been work done in other areas in terms of working with the component sector on particular points of things; and there is the supply and development program that the minister announced towards the end of last year. So there are a range of actions but, under the heading of the action agenda, no, I do not think there has been any action since around the time you mentioned.

Senator CARR—Given that it was a short document put together in 2000, what can you tell the committee, seven years later, are the key achievements of this agenda?

Mr P Clarke—I would have to re-read the action agenda. It predates me.

Senator CARR—It is not at the forefront of your—

Mr P Clarke—I have been around for six years and it is before my time.

Senator CARR—We do not have anything readily available within the divisions?

Mr P Clarke—I would not have thought so, no. There has also been a major review since then; there was the whole Productivity Commission review in 2002.

Senator CARR—It is just that the action agenda obviously, as you say, is a very dated document. It preceded some major initiatives, as you have just indicated.

Mr P Clarke—It came out of the 1997 Industry Commission review.

Senator CARR—It refers to elements that no longer exist in terms of—

Mr P Clarke—That would be right, yes.

Senator CARR—Do you remember the Automotive Market Access Development Strategy?

Mr P Clarke—Yes.

Senator CARR—What happened to that?

Mr P Clarke—It ran for the four years that it was set up for and expired.

Senator CARR—Once the action agenda are prepared, are they reviewed at any stage, are sectors revisited after a period of time or will we have to wait—as in this case, for instance—until 2008 for ACIS to perform a similar role?

Dr Green—Action agendas generally are reviewed after the three years of implementation. That particular commitment to review action agendas was more fully fleshed out following a review of action agendas in 2003, so current action agendas are all reviewed.

Senator CARR—When do you expect to come back to the automotive action agenda?

Dr Green—We could revisit particular industry sectors, but we have no current plans to revisit that through the action agenda process.

Senator CARR—What is a forward schedule of revisiting action agendas? Do you have one of those?

Dr Green—There is no forward schedule to revisit action agendas. Action agendas are undertaken following an application from industry, which would then need the support of the relevant portfolio minister and the approval of the Minister for Industry, Tourism and Resources.

Senator CARR—With regard to automotive, you would have to say it is pretty well defunct, wouldn't you?

Dr Green—It is a completed action agenda.

Senator CARR—The officers here obviously do not see it as the centre of their work. It has not been reviewed since 2000, did you say?

Mr Paterson—I think Mr Clarke has already indicated that there are other processes that have overtaken that event and that there is ongoing activity in the automotive sector—

Senator CARR—You would have to say that, in fact, there is not much action associated with this action agenda, is there?

Mr Paterson—The action agenda concluded at that time, but other developments have overtaken the focus of attention in relation to the automotive sector. There was a major Productivity Commission review in 2002, and there is ongoing detailed activity in the automotive sector.

Senator CARR—The minister announced a new initiative in December—the supplier capability development program. I understand this is funded from the Motor Vehicle Producer Research and Development Scheme. Is that the case?

Mr P Clarke—What was your question?

Senator CARR—First of all, you are familiar with the announcement in December?

Mr P Clarke—Yes.

Senator CARR—How will this program be funded?

Mr P Clarke—The program is funded from unspent moneys from the \$150 million Motor Vehicle Producer Research and Development Scheme. There was a sum of \$7.2 million unspent there. The minister approached the motor vehicle producers and, with their agreement, that \$7.2 million will be used to fund supply development. That was announced and it commenced on 1 January of this year. I believe applications will close on 27 February.

Senator CARR—Is it fair to say that the full pool of the Motor Vehicle Producer Research and Development Scheme is now committed, or will be committed?

Mr P Clarke—The R&D scheme—yes, I believe so.

Senator CARR—With regard to the December 2006 report by the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, entitled *Shifting Gears: employment in the automotive components manufacturing industry*, is the department able to indicate when there will be a response to that report?

Mr P Clarke—A response is being developed. I cannot give you a date as to when it will come out.

Senator CARR—You would have to remind me here because there are requirements of the House of Representatives standing orders in regard to responses to parliamentary reports, aren't there?

Mr P Clarke—I do not know.

Senator CARR—What is your timeline; that is what I am thinking?

Mr P Clarke—We are developing a response.

Senator CARR—You do not know when you are required to have that response prepared by?

Mr P Clarke—No, I do not know.

Senator CARR—Will you take that on notice?

Mr P Clarke—Certainly.

Senator CARR—I want to ask about the Structural Adjustment Fund for South Australia. You have already indicated to me that you are providing information with regard to unexpended program funds for both Electrolux and Mitsubishi. That is the centre of both these structural adjustment packages—

Mr P Clarke—I would not call them the centre. I think you might call them the causal factor. In actual fact Mitsubishi was excluded from one and Electrolux was excluded from the other, so to call them the—

Senator CARR—So they cannot dip into both of those funds?

Mr P Clarke—Each of them cannot dip into the other fund, no.

Senator CARR—It has been put to me—and I would ask you to respond to this proposition—that there was an expectation in Adelaide's southern suburbs, where the 1,100 jobs were lost from Mitsubishi, that the vast majority of the funding would be directed back into that region. Was that expectation expressed to you?

Mr P Clarke—The SAFSA guidelines have a preference for proposals in the south of Adelaide. But you also have a situation where, while SAFSA was running, Holden ceased its third shift, which obviously is located in Elizabeth, so you might also take a view that SAFSA would look at the whole of Adelaide. But there was certainly a preference in the guidelines, and the south of Adelaide got a fair bit of work.

Senator CARR—What has been put to me is that only half of the funds went to the south of Adelaide; you say that that can be accounted for because of Elizabeth?

Mr P Clarke—The committee looked at the proposals that were before it and decided them on merit. They applied it around various parts of Adelaide.

Senator CARR—The original announcement, if I recall the Prime Minister's press release, spoke of Invest Australia working with the South Australian government and Mitsubishi to find new business opportunities for the Lonsdale site. How much funding eventually was allocated to that particular project, or projects associated with that objective?

Mr Jones—I would have to take on notice the precise amount of money that was allocated to that objective. It was small in that the bulk of money for SAFSA was expended on the actual assessment of the applications for the fund and therefore the grants to the successful applicants under the fund rather than that particular objective. So we spent a small amount of money, of the order tens of thousands of dollars.

Senator CARR—Were there any new business opportunities found for the plant?

Mr Jones—We worked with Mitsubishi and with the South Australian government to look at some overseas interests in the plant and introduced some of those overseas companies to Mitsubishi. We certainly identified some opportunities and introduced those to Mitsubishi.

Senator CARR—And what happened to them?

Mr Jones—I am not aware of what happened because it was actually Mitsubishi who then pursued those opportunities rather than us.

Senator CARR—But they were not successful, or they were successful?

Mr Jones—I am not aware. It is a commercial matter for Mitsubishi as to whether they took up the opportunities that we identified or not.

Mr P Clarke—I think two or three of the SAFSA proposals are based at the Lonsdale plant.

Senator CARR—What were the employment opportunities that were created through those, do you know?

Mr P Clarke—I can identify the particular ones.

Senator CARR—Thank you.

Mr P Clarke—I believe Resourceco was 121 jobs; PBR was 40 jobs; and I think Redarc, certainly in Lonsdale, was 35 jobs.

Senator CARR—Are these are permanent positions?

Mr P Clarke—That is the intention, full-time equivalents, yes.

Senator CARR—Are they all in the automotive area?

Mr P Clarke—No, they vary. PBR is. It is doing brake machining, that sort of thing. Redarc is electronic power conversion products, so I would have to chase up exactly what they are doing there.

Senator CARR—They are all manufacturing then?

Mr P Clarke—Resourceco is the expansion of a waste processing facility. The idea of SAFSA was actually to encourage the diversification of South Australia and in actual fact in

accordance with the South Australian government's development plan, so being an automotive component company was not necessarily an advantage.

Senator CARR—No, no. Manufacturing services such as waste disposal and the like I would have thought would have been quite useful.

Mr P Clarke—The committee thought it had merit.

Senator CARR—Invest Australia was also going to fund efforts to identify viable commercial opportunities in South Australia more broadly. What particular projects were identified through that process?

Mr Jones—Again, we have worked with the South Australian government on that particular aspect of the scheme. That took the form of producing promotional literature which featured the benefits of investing into and conducting business South Australia. We did some advertising on, again, the benefits of South Australia and put increased efforts into our overseas marketing and targeting activities to highlight the benefits of going into South Australia. Again I would have to take on notice what particular results came from that, but to some extent it was increasing the general promotional efforts that South Australia already does in terms of highlighting the state as a business destination.

Senator CARR—How much money was put into that?

Mr Jones—Again, of \$40 million, it would have been a small proportion of the fund. I will take on notice exactly how much it was.

Senator CARR—The whole package of \$50 million, wasn't it?

Mr Jones—That is correct.

Senator CARR—What do you think is the result of the expenditure of that \$50 million? You have indicated a number of firms on the site, which I think is valuable.

Mr P Clarke—On the totality of SAFSA in terms of full-time equivalent jobs, there is about 1,300 jobs.

Senator CARR—How did you calculate that?

Mr P Clarke—That is the position between us and the grant recipients. They are agreeing that that is what they believe they will have.

Senator CARR—Can you show me how that figure was calculated?

Mr P Clarke—I can give you the figure. I cannot show you how it is calculated. It is part of the application.

Senator CARR—That is the claim you have made, 1,300. I just want to know the basis for that claim.

Mr P Clarke—They will come over time. The company is required, as part of its funding and reporting requirement, to report on the number of jobs it has, and that adds up to 1,300.

Mr Jones—It is simply adding up the number of jobs that each grantee expects to employ.

Senator CARR—You mentioned a report. How does that process work?

Mr P Clarke—It is a contractual requirement. Like most contracts, there is a status report.

Senator CARR—Over what period of time?

Mr P Clarke—It goes out into the future.

Senator CARR—How far into the future?

Mr P Clarke—It varies. Some are quite long and some of them are rather shorter.

Senator CARR—Can you give me an average?

Mr P Clarke—Call it three years.

Senator CARR—So you would expect that over three years on the basis of what the companies have told you they will be able to say that there were 1,300 effective full-time positions?

Mr P Clarke—That is the intention, yes.

Senator CARR—Thank you. Will the focus of those jobs be in the southern regions of Adelaide?

Mr P Clarke—They vary. You have Lonsdale, Salisbury, Winfield and Lonsdale, Lonsdale, Winfield, Winfield, Lonsdale, Elizabeth Park. They vary. Quite a number are in the south.

Senator CARR—That 1,300 includes the Electrolux money as well, does it?

Mr P Clarke—No, it does not.

Senator CARR—That is just out of the Mitsubishi money?

Mr P Clarke—Yes.

Mr Paterson—There were two components to that. There was a Commonwealth contribution and a South Australian contribution making up that \$50 million.

Senator CARR—What is the South Australian contribution?

Mr P Clarke—Five million.

Mr Jones—Just to clarify, of the \$50 million, \$10 million was allocated for workforce programs allocated to the Department of Employment and Workplace Relations. The remaining \$40 million was allocated to this department.

Senator CARR—I want to turn now to the global integration industry statement?

Mr Paterson—Before Senator Carr starts to raise questions, Senator Joyce earlier asked a question in relation to coal exports. Coal exports represent 42 per cent of all mining export values and about 12 per cent of total export values.

Senator CARR—In relation to the global integration industry statement that I spoke of last time, I asked about union representation in the consultations because in a question on notice you referred to 180 invitations for consultation. How many of those were to unions?

Mr Dean—There were no invitations to unions.

Senator CARR—Why was that?

Mr Dean—The invitations were decided by the minister. I cannot tell you why he chose particular individuals or groups.

Senator CARR—Is that the standard form of consultation from the department these days, that unions do not get invited?

Mr Dean—I am not aware of the full range of consultations in the department.

Senator CARR—Mr Paterson, perhaps you could assist me here.

Mr Paterson—There was a specific question in relation to this, that the minister decided the invitation list. I think that there was earlier evidence given before this Senate estimates committee of the involvement of unions in relation to mine safety last night, which was one of the issues, so there is no blanket inclusion or exclusion.

Senator CARR—I thought that that would be the case, that the unions would have something to contribute across the great work of this department. But, given that the future of innovation and future manufacturing is to be canvassed in this statement, I would have thought there would be at least one union in this country that the minister would like to speak to.

CHAIR—I think Mr Paterson said this was a matter for a decision by the minister and therefore I do not see how Mr Paterson can comment further.

Senator CARR—Was there even any attempt to inform the unions that this process was under way? Was there any correspondence at all with any trade union with regard to the global integration industry statement?

Mr Dean—The minister released a press release on 10 July 2006 in which he extended an invitation generally for interested parties to make submissions to the process.

Senator CARR—Apart from that public announcement there were no other forms of communication to representatives of the Australian workforce in this country?

Mr Dean—Not that I am aware of.

Senator CARR—The response to question on notice number SI-61 notes that the minister wrote to his state and territory counterparts inviting their contributions. Can you provide me with a copy of the summaries of the consultations to the committee from state governments?

Mr Dean—Yes, I can.

Senator CARR—Could I take this opportunity to clarify the scope of the industry statement. In response to question on notice SI-62, you stated:

The Department's role in the Industry Statement is to provide advice to the Minister across all sectors for which he has responsibility.

Is it the case that the industry statement is, in fact, not just an industry statement but an Industry, Tourism and Resources statement?

Mr Paterson—It is a matter yet to be determined by the government.

Senator CARR—But you can tell me that you provided advice across all sectors of the department's activities?

Mr Paterson—We do not comment on the advice that we do or do not provide or the nature of that advice. But we have responded formally—

Senator CARR—I suggest you have. But you have—

Mr Paterson—We have responded formally to a question on notice—

Senator CARR—Yes, you have.

Mr Paterson—We have said that our role is to provide advice to the minister across all sectors for which he has responsibility. You are then taking that to the next stage and saying, 'Have you?' I am saying we do not respond to questions of policy advice that we have provided or have not provided.

Senator CARR—Last time we discussed this matter you were unable to tell me whether or not there were going to be any consultants engaged in the preparation of this statement. Are you able to tell me now whether or not any consultants have been engaged?

Mr Dean—The department has a strategic research program which involves a number of consultancies and the statement process has drawn on some of those consultancies. In addition we have paid a small amount of money to five or six consultants to do a day or two's work for us so that we are aware of particular areas that we want to look at in detail.

Senator CARR—Are these consultants earning commission for this particular work, or is it work already that has been commissioned?

Mr Dean—The strategic research plan is work that the department already had decided to do; the small consultancies that I referred to is work that we have commissioned specifically.

Senator CARR—Can you give me a list of those consultants?

Mr Dean—I can: Dr John Howard of Howard Partners we engaged for a day; Don Scott-Kemmis for a day from ANU innovation program; Professor Andre Morkel from the University of Western Australia; Strategic and Organisational Research and Consulting—

Senator CARR—How long were they engaged for?

Mr Dean—Most of these were a day or two. Others were the Australian Business Foundation; Day and Hodge; and Rodney Bourke and Rod McEwan.

Senator CARR—And when were they engaged?

Mr Dean—I will get back to you on that.

Senator CARR—Was it over December?

Mr Dean—I do not know exactly when they were engaged.

Senator CARR—It was recent though, presumably since last November? It was last November I asked this question and you were not able to tell me, so I take it that it is since November.

Mr Dean—I will get back to you.

Senator CARR—Today?

Mr Dean—Yes.

Senator CARR—How long does it take to look at your file?

Mr Dean—I do not have the information in front of me. I would just like to be correct—

Senator CARR—I thought it would be a reasonable conclusion to draw given I asked similar questions in November and you were not able to tell me then.

Mr Dean—I would like to give you a correct answer.

Senator CARR—Thank you very much. I understand that it is expected that there will be a statement in March—is that correct?

Mr Dean—The government has not said when the statement is going to be announced. They have said it will be during the first half of this year.

Senator CARR—In answer to question on notice BI-16, the department provided me with a list of research projects that are being undertaken. One of these was looking at the structural change in Australian industry. Are you aware of that particular research project?

Mr Dean—Yes.

Senator CARR—Can you tell me whether the project has been completed?

Mr Dean—It has not been completed.

Senator CARR—Is it being done in-house, or is there a consultant?

Mr Dean—There is a consultant.

Senator CARR—Who is that consultant?

Mr Dean—It is the Centre for International Economics.

Senator CARR—How much is involved in that consultancy?

Mr Dean—I am not aware of that. There are two consultancies that total \$117,000. One is the Centre for International Economics; the other is BIS Shrapnel. I do not know what the breakdown between those is.

Senator CARR—You take that on notice, please?

Mr Dean—Yes.

Senator CARR—Will a copy of the project report be provided to the committee when it is completed?

Mr Dean—For these—

Senator CARR—For that particular project; this is the structural change in Australian industry project.

Mr Paterson—No decision has been taken on the fate of those reports at this stage.

Senator CARR—Will you take that on notice as a request to have that report?

Mr Paterson—Yes. I would note that, given the nature of the consultancies, they may well provide input to the policy advice that we provide the government, so that is why I am—

Senator CARR—But they are not completed yet?

Mr Paterson—Correct.

Senator CARR—What is the project cost for that particular project? You indicated the price of the consultancy. What is the project cost in total?

Mr Dean—Do you mean the cost—

Senator CARR—Were there other costs other than the price of the two consultants for this particular project?

Mr Dean—There would be a cost in the department of administering the contract.

Senator CARR—But, that is all?

Mr Dean—Yes, there is no other cost.

Senator CARR—I am just trying to get the size of the project. That is the purpose of the question. When was the contract issued for CIE and Shrapnel?

Mr Dean—I am not able to—

Mr Lowndes—I have not got the precise date when we issued the contracts but it would have been around the middle of last year.

Senator CARR—Are you able to tell me what the date for completion is?

Mr Lowndes—We had one from BIS Shrapnel which has been completed. The one from the CIE is very close to completion. They essentially completed what they were initially asked to do, but we have issued some additional things that we want and that is in the process of being done at the moment.

Senator CARR—Does the contract go to the purpose of the research?

Mr Lowndes—Purpose in terms of—

Senator CARR—Why you commissioned the research?

Mr Lowndes—We just spell out to them what we are interested in them doing. We do not give them much idea of precisely what we are going to do with it.

Senator CARR—I take it that it was commissioned as part of the development of the industry statement?

Mr Lowndes—It was certainly commissioned with that in mind. The material is quite useful for us generally, so—

Senator CARR—Yes, that is why we are keen to have a look at the report.

CHAIR—It informs internal workings on policy.

Senator CARR—The statement is about to be made, Chair, so I do not think you will find that it will be working advice within a very short period of time. I asked you at the last round, Mr Paterson, in terms of my reading of the papers that had been issued by the minister at the time, about the limited detail that had been provided concerning questions relating to the future shape of Australian industry in Australia. I take it that the commissioned research will deal with that issue?

Mr Paterson—No final decisions have been taken by government in relation to either the shape or the final content of the industry statement.

Senator CARR—I understand that. That is a separate issue. I have made a point about the fact that the discussion documents do not seem to regard industry as particularly important. What I am going to now is the issue of these particular contracts. Will they go to the issue of the future shape of Australian industry?

Mr Paterson—I have already indicated to you that those reports may form input to the policy advice that we provide to government.

Senator CARR—But in terms of the contract, did the contract brief refer to a request for information regarding the future shape of Australian industry, particularly given that this is a project entitled ‘The Structural Change of Australian Industry’.

Mr Paterson—The research was to undertake qualitative and statistical analysis of major trends in economic and industry development: how has the nature and structure of Australian industry evolved over the past five years, including the impact of the resources boom; and how is the trend towards globalisation and greater trade and investment liberalisation affecting Australian business?

Senator CARR—Thank you very much. That answers my question. There is a current inquiry under way by the House of Representatives looking at Australia’s manufacturing exports and the import competing sectors. Will this material be made available to that House of Representatives committee?

Mr Paterson—No decision has been taken on that at this stage.

Senator CARR—I would ask if you could take that on notice. Will this information be made available to the committee given that you are spending \$117,000 on an area directly relating to a parliamentary committee’s terms of reference? There is also an inquiry into the services sector. Will a similar approach be taken in regard to that committee?

Mr Paterson—I will take it on notice.

CHAIR—This appears to be a good time for a break.

Proceedings suspended from 10.37 am to 10.50 am

Senator CARR—During the break I raised with you the question of the provision of the tables on forward expenditure in an Excel format. I understand there is a concern that such documents can be cut and pasted. I am wondering if I can have that provided now in the Excel

format, obviously on the basis I am giving a public assurance that the document will not be cut and pasted as you are indicating. Does that satisfy you?

Mr Paterson—I am happy to accept that assurance.

Senator CARR—Thank you very much. Perhaps we will go on with another matter while—

Mr Paterson—I think we have just handed back to your question. If you can give us a couple of minutes?

Senator CARR—That is all right. I will come back to that issue. Is that all right?

Mr Paterson—Yes.

Senator CARR—I will come back to the electronic authorisation validation and notary services development. While we are waiting for that, do we have some officers here who can help me with the TCF structural adjustment package? Mr Paterson, I will be seeking to close the industry component of these proceedings at 11.45 am, so the officers have some indication of when it is they are able to go, and we may need to move this through fairly smartly. Mr Payne, are you responsible for this?

Mr Payne—I am the head of the Manufacturing, Engineering and Construction Division. Mr Clarke and I have the policy handling of TCF issues.

Senator CARR—Can I ask in regard to Blundstone and Godfrey Hirst-Feltex redundancies that have been announced recently: when did you find out about the closures of those plants?

Mr P Clarke—I think the Blundstone matter became public in January.

Senator CARR—Yes, it did. What I would like to know is: were you given any forewarning of the closures?

Mr P Clarke—No, we heard that through the media.

Senator CARR—In both cases?

Mr P Clarke—Yes.

Senator CARR—How many other redundancies involving at least 15 workers have been notified to the TCF sector so far in 2006-07?

Mr P Clarke—We do not get formal notification of any sort. Are you asking how many are we aware of or are you asking—

Senator CARR—I am asking two things: how many were you aware of, and how many have you now subsequently found out—how many closures, redundancies, layoffs—involving more than 15 people have occurred in the period 2006, last year and this part of this year?

Mr P Clarke—Can I answer on two levels. As I said, there is no mechanism or there is no requirement that the TCF participant with 15 people notify the department, so we will tend to only know those matters that we see in the media. So far as information from DEWR goes, our advice is that since 1 January 2006 there is something of the order of 29 companies, with redundancies of up to 1,027. It is an estimate. But that is not notifications to us.

Senator CARR—My question goes to the level of market intelligence the department has at its disposal. Are there any plans to improve the department's capacity in regard to market intelligence? In the case of Blundstone, that was a matter being canvassed prior to the announcement. I am surprised you did not know about it.

Mr P Clarke—If the company does not tell us. I do not know how many people one would have to have to keep ringing up and saying: 'Have you changed your mind?'

Senator CARR—No, it is not a question of ringing up. It is a question of having knowledge of what is going on in the trade.

Mr P Clarke—I think in terms of the sectors that we do we are reasonably in touch with the macro figures that are there, the ABS statistics—that sort of thing. But as far as individual firms go, there are a lot of TCF firms and there are a lot of automotive firms. We cannot tell you the health of any particular one at any particular point in time.

Senator CARR—How much money did Blundstone receive—

Mr Paterson—There are a lot of listed companies that also have continuous disclosure obligations to other regulatory agencies, where declaring something to us and not to the market would be contrary to their obligations.

Senator CARR—I see.

Mr Paterson—Blundstone I think went on the record making it clear that they had not sought to inform the government at the time of their intentions, nor did they seek any support, and nor did they indicate that any action taken by government would have changed the decision that they took.

Senator CARR—How much money did Blundstone get from the government in the last five years?

Mr P Clarke—We are unable to tell you that. The minister has said millions of dollars.

Senator CARR—That is the reason I asked the question. I noticed in the press that the minister announced that they had received millions of dollars, but you are not able to tell me how much they received?

Mr Peel—This information is usually confidential. However, in anticipation that you might ask—

Senator CARR—I thought you would.

Mr Peel—we did approach Blundstone, and they have agreed that we make the figures available.

Senator CARR—Thank you.

Mr Peel—From 2001-02 to 2005-06, they received \$3,494,306 under the TCF SIPs scheme. In 2006-07 they have received \$344,438. Prior to that, the last figures I have go from 1997-98 to 1999-2000. They received \$216,840 under the TCF Best Practice Program, and from 1991-92 to 1999-2000 they received the equivalent of \$5,526,003 as revenue foregone under the TCF import credit scheme.

Senator CARR—So it is fair to say in the last 10 years they have received close on \$4 million?

Mr Peel—That is correct.

Senator CARR—And in the previous five years an additional five million?

Mr Peel—Since 1991-92 they have received around \$9 million to \$10 million.

Senator CARR—In that period were there ever any obligations on the company to make any commitments to their future investments?

Mr Peel—The TCF program is paid in arrears, so the companies are paid after they undertake the activity rather than being paid in advance for activities they undertake to pursue—

Senator CARR—And there was no commitment in terms of their future obligations?

Mr Peel—Not that I am aware of.

Senator CARR—When did the company indicate to you that they were reconsidering their commitment to manufacture in Australia? The closure is a separate question. They have been on the public record throughout most of last year as saying that they had a commitment to stay in Australia, but there was no point at which the department was advised that the company had changed its position?

Mr Payne—No.

Senator CARR—The TCFUA has made in its report on the operation of TCF SAP a number of recommendations. Who has primary carriage of TCF SAP? Is it this department or DEWR?

Mr P Clarke—It has three elements to it. There is a restructuring initiative grant scheme that is administered by us. There is a workforce labour adjustment program administered by DEWR, and there is provision for the effect on regions of particular closures that would be delivered through the regional partnership program, which would be administered by DOTARS.

Senator CARR—Is it the case that the department is examining the recommendations of the TCFUA's report into the operations of the TCF SAP program?

Mr P Clarke—Yes, we are doing it with DEWR.

Senator CARR—When will you be able to make public your response to that report?

Mr P Clarke—We understand shortly.

Senator CARR—But you are saying to me that it will be made public?

Mr P Clarke—I believe we will also be making a response, yes.

Senator CARR—Have you already provided advice to the minister on this issue? Is it with the minister?

Mr P Clarke—No, I think the matter is still with DEWR to comment, because a lot of the recommendations affected its delivery. They are not ones that we can change. They are

criticisms of the JobSearch and the knowledge of the workers, and they are matters still being worked through by DEWR.

Senator CARR—Will your recommendation go to the question of the eligibility criteria for workers, noting that people employed under the TCF award are not eligible for TCF SAP if their employer is not eligible for the TCF SIP program. Will you be addressing that issue?

Mr P Clarke—I am not sure that we will. You are talking about eligibility. The scheme is for people who work in that industry, not for people who work for companies who have other activities. So there have been issues with that obviously.

Senator CARR—So you do not think that that claim is correct; is that what you are saying?

Mr P Clarke—If you are asking are the union saying that people who work in other industries are not getting access to this, yes, that is correct.

Senator CARR—No, I am saying that the union is asserting that the eligibility criteria for people who work in this industry excludes people that work for companies that do not get TCF SIP.

Mr P Clarke—I think that is correct, yes.

Senator CARR—The claim is correct?

Mr P Clarke—I think so, yes.

Senator CARR—I have interpreted the claim correctly and the claim that they are making is in fact right?

Mr P Clarke—So far as I understand it, yes.

Senator CARR—Can you tell me how many redundancies that you are aware of fall within that category, that people have been ruled out of getting assistance because the companies they work for were not part of the SIP scheme?

Mr P Clarke—I do not think I can. I know that there are some specific instances that have come up where that issue has arisen, but I do not think I could say to you all the companies that have perhaps some part of work in the TCF industry who have other workers in other areas who have been knocked back. I do not think that would come before us.

Senator CARR—Let us take, for instance, car seat manufacturers. I was speaking the other day to one of the manufacturers, whose products included car seat fabrics. It was noted that the cutting and sewing operators are now routinely being moved offshore. Would they have access to support under the SAP program?

Mr P Clarke—The issue is really whether they are engaged in undertaking textile production. Our understanding is that there are possibly two companies in this, one of which does engage in textile production, in which case the workers would, on face value, be eligible, and the other one does not because it is in the automotive sector.

Senator CARR—How many people are affected there?

Mr P Clarke—I do not think we know.

Senator CARR—If I might look to the question of assistance to firms, your response to my question on notice SI-70 indicates that expenditure and support to firms under the SAP program has not been publicly released. However, in response to Senator Marshall's question through the chamber, advice was given that \$2.8 million has been sent through this element of the program. Can you now give me an updated figure?

Mr P Clarke—I will see if we have one. We can get one for you, yes.

Senator CARR—Do you have it there now?

Mr P Clarke—The figure we have for the TCF RIG program is \$4 million and the structural adjustment program, \$1,061,021.

Senator CARR—How many companies applied for support?

Mr P Clarke—I think that is confidential, is it not? It is something that—

Senator CARR—Why would that be confidential, the number of the companies?

Mr P Clarke—Are you talking about RIGs or are you talking about the structural adjustment program?

Senator CARR—We are talking here about the SAP program.

Mr P Clarke—Yes, but that has some elements to it.

Senator CARR—Yes, assistance to firms specifically. How many companies sought assistance under the SAP program?

Mr P Clarke—Under SAP, it was 29 firms as at 26 January.

Senator CARR—Is there a standard application process?

Mr P Clarke—That is administered by DEWR. I imagine there is.

Senator CARR—Are you able to provide me with a list of firms that receive support under this program?

Mr P Clarke—I think you would have to go to DEWR for that.

Senator CARR—It is a DEWR matter, is it?

Mr P Clarke—Yes.

Senator CARR—What is the purpose of the payments? What are they supposed to achieve by making this money available?

Mr P Clarke—It is to provide enhanced training and adjustment for the workers who are affected. It is an enhanced JobSearch.

Senator CARR—Is any money made available prior to redundancy or is only after the redundancies have actually taken place?

Mr P Clarke—No, it is not there to stop redundancies occurring.

Senator CARR—Have there been occasions when funding has been available or sought and been denied?

Mr P Clarke—This is under the Structural Adjustment Program?

Senator CARR—Yes.

Mr Clarke—I do not think we would know that. I think they would have to meet the criteria that DEWR apply.

Senator CARR—In terms of the figure you gave before of the \$4 million available for assistance to firms under the SAP, how does that relate to the \$2.8 million figure that you provided to Senator Marshall in the past?

Mr P Clarke—I think that might be an updated figure.

Senator CARR—That is all it is, an updated figure?

Mr P Clarke—It is an updated figure.

Senator CARR—Thank you. That is very helpful. Can I come back to Blundstone. Have they sought support under the TCF SAP program?

Mr P Clarke—For the SAP part, I think the answer is, yes.

Senator CARR—How much have they sought?

Mr P Clarke—We understand Centrelink and DEWR will be meeting with them on the 22nd and 23rd to discuss the matter.

Senator CARR—So it is not finalised yet?

Mr P Clarke—No.

Senator CARR—In terms of the payments that have been made to Blundstone, did you mention a figure in 2006 of \$340,000?

Mr Peel—2006-07 TCFs post-2005, \$344,438.

Senator CARR—What date was that payment made?

Mr Peel—I do not have that precise information.

Senator CARR—But it was definitely after June of last year?

Mr Peel—Yes, it was in 2006-07.

Senator CARR—Some time in the last six months they got \$344,000—is that right?

Mr Peel—It was paid in financial year 2006-07. I do not have the exact date.

Senator CARR—Can you take on notice the date on which it was paid?

Mr Peel—Yes.

Mr Paterson—These payments are made after the investment has been made by the company.

Senator CARR—Yes, I understand the point you are making.

Mr Peel—Although in that particular case, that particular amount, was an advance payment. Under the program, companies are able to get an advance payment that is then offset against the full entitlement.

Senator CARR—What was it an advance on?

Mr Peel—Companies are entitled to an advance payment under the scheme if they apply for it, and it allows them an advance of up to 20 per cent on their type 1 grants and up to 40 per cent on their type 2 grants—type 1 grants being plant and equipment and type 2 innovation. Blundstone obviously applied for an advance of its grant for the year and was given a portion of that. This will eventually be reconciled when the year ends.

Senator CARR—And they might have to pay it back?

Mr Peel—They may do if they do not undertake the activities that they indicated they would.

Senator CARR—They got some money to move some equipment from Melbourne last year—is that right?

Mr Peel—I am not aware of that.

Senator CARR—That was not through this department?

Mr Peel—I am not aware of it.

Senator CARR—It was some machinery out of Melbourne.

Mr Peel—The program provides money to invest in new plant and equipment. I do not think it would cover the transportation.

Senator CARR—I heard they got some money to move equipment from Melbourne to Hobart.

Mr Peel—I am not aware of it.

Senator CARR—I am wondering what the source of that money was. It may well be that you did not provide it and that some other government department did.

Mr Peel—I am not aware of that.

Senator CARR—That is all I need to know, that this department has not provided any money—

Mr Peel—I am personally not aware of it.

Senator CARR—Mr Peel, I am not trying to be cute here. It has been put to me that a significant sum of money was paid to Blundstone last year to move equipment from Melbourne to Hobart.

Mr P Clarke—You are asking whether this is new equipment that was bought new and moved to Hobart, because—

Senator CARR—I will come to that. It is the nature of this industry that people tell you things that are true. Given the minister has indicated on the public record that millions have been paid and we have established that to be fact, I would like to try to identify the source of that funding. I have seen statements from Blundstone to confirm they received money from government, but I am not certain whether it is this department or another one. Are you telling me that, if it is old equipment, they would be ineligible?

Mr P Clarke—Yes, whereas there would be some for moving new purchased equipment.

Senator CARR—For new purchases?

Mr P Clarke—Yes, there is a commissioning amount.

Senator CARR—So transportation costs are part of the program?

Mr P Clarke—It would be a cost, yes.

Senator CARR—You are not aware of any other government departments within the Commonwealth that would assist move old equipment?

CHAIR—I think this officer is indicating no—

Senator CARR—They are being very helpful. I cannot complain that they have withheld information about how much money the company has got. I am not making any accusation. I am trying to establish whether the Commonwealth provided assistance. It could be that the state government provided assistance for relocation expenses.

Mr Paterson—Mr Peel has indicated that he is not aware of any payment that we have made in that way.

Senator CARR—Thank you. What I was worried about—

Mr Paterson—If we become aware on a further search of our records we will let you know.

Senator CARR—Mr Paterson, the reason I asked the question was that Mr Peel said he personally was not aware, and I am always anxious about whether or not that means that someone else in the department might be aware.

Mr Peel—Nobody jumped up.

Senator CARR—To correct the record.

Mr Peel—What we can do is determine whether any of the money that I mentioned we paid to them was for that purpose.

Senator CARR—Yes, thank you very much.

Mr Peel—If it was, we will provide that information.

Senator CARR—In regard to the Godfrey Hirst acquisition of Feltex in Melbourne, has Godfrey Hirst sought any money under TCF SAP in relation to its buyout of the Feltex operation, the Tottenham plant and the Brookland warehouse?

CHAIR—I do not know whether the officers are required to provide details of people who may have made an application and whether it was rejected. We had a discussion about this the other day.

Senator CARR—No, this is a closure. This is a closure that has already been canvassed, and I would like to know whether they got access to the money they sought—

Mr P Clarke—On the Structural Adjustment Program, DEWR and Centrelink are meeting with them today and next week.

Senator CARR—Thank you. So we do not know yet—is that right?

Mr P Clarke—They are meeting to discuss this.

Senator CARR—Turning to assistance to the regions under TCF SAP, have there been any applications received by DOTARS that you are aware of under this particular program?

Mr P Clarke—There has been nothing funded under it.

Senator CARR—There is no advice from area consultative committees for this stream of funding?

Mr P Clarke—No.

Senator CARR—Has the department undertaken any steps to advise ACCs in particular regions of the availability of program moneys?

Mr Clarke—I doubt it. It is administered by DOTARS. We do not cover what they cover.

Senator CARR—In regard to the SAP, do discretionary responsibilities lie with the DEWR minister or your minister?

Mr Clarke—It is our minister.

Senator CARR—I saw recent press coverage in regard to the Greater Hume Shire Council in relation to their concerns that the industry adjustment funds could not be made available for the Holbrook area. Are you aware of that?

Mr P Clarke—I am not personally aware of it, no.

Senator CARR—When Michell Leather was sold to Geelong Leather in October 2004, was there any access to funds for that particular factory closure?

Mr P Clarke—Under the regional—

Senator CARR—Yes, the regional component of SAP.

Mr P Clarke—You are talking about an earlier scheme. You are talking about prior to 1 January 2006.

Senator CARR—Has there been any advice to the Greater Hume Shire Council in regard to assistance under this scheme?

Mr P Clarke—I would not have thought it was within the time frame.

Senator CARR—Is there any capacity in the post-2005 scheme to provide specific assistance to workers who were made redundant even if it occurred late in 2004?

Mr P Clarke—It is out of the post-2005 scheme.

Senator CARR—Do you have to have the factory closure after the commencement of the scheme?

Mr P Clarke—Yes.

Senator CARR—Is it convenient to ask Mr Paterson to deal with the electronic authentication process?

Mr Paterson—I am happy to go to that, as the officers are next door. If I could just clarify an issue that was raised earlier, there was an interchange on some question concerning consultancies in the industry statement. I do not have today's *Hansard* in front of us but I think you essentially put a proposition to us that we had said on the last occasion—that was

when we were before supplementary estimates on 1 November—that there were no consultancies undertaken. I would refer you to page E29 of the record, which is the interchange between you and me on that day:

Senator CARR—What is the total budget for the project?

Mr Paterson—The staffing costs associated with the individuals.

Senator CARR—No other costs associated with the project?

Mr Paterson—Not directly attributed to the project.

Senator CARR—No research?

Mr Paterson—We have a variety of inputs to the process in preparing that advice.

Senator CARR—No consultancies are planned?

Mr Paterson—It is still very much a work in progress.

Senator CARR—It is to be published in less than a year—10 months—

Mr Paterson—Correct.

Senator CARR—and you cannot tell me whether or not you plan to employ any consultants?

Mr Paterson—I have indicated to you that no decisions have been taken yet as to what will be incorporated into the statement.

That was the nature of the interchange between us. I did not give you an emphatic assurance that as at 1 November there was no work that may have at some point in time—

Senator CARR—I see the point you make. I was not suggesting I have been misled. My concern did not go to that. It went to what the research base was to the statement, not whether or not you were playing fast and loose with the truth.

Mr Paterson—And I only clarify it for the purposes that we have taken some questions on notice that relate to the context in which you asked it and I wanted you to be conscious that we will be responding to the questions on notice having regard to that statement, not any others.

Senator CARR—You have a copy of the question, I understand?

Mr Pettifer—We have. We were presented with that. Thank you very much.

Senator CARR—Are you able to help me with an answer?

Mr Pettifer—Your question was: what is the current expenditure against the 2006-07 budget for the electronic authentication validation and notary services? The answer is that we have spent \$1.8 million of expense funding so far this year and \$1.5 million of capital funding, so that gives a total expenditure of \$3.3 million this financial year on this particular initiative.

Senator CARR—Are there uncommitted funds for the forward estimates for capital and non-capital?

Mr Pettifer—Yes. There is still some uncommitted moneys this year, but we expect to spend it all. I presume you are talking there about 2007-08 and 2008-09?

Senator CARR—The forward estimates, yes.

Mr Pettifer—None of that money is so far committed. The figure there for capital for 2007-08 is \$3 million and for 2008-09 it is \$1.5 million. For expense it is \$7.2 million in 2007-08 and \$6.1 million in 2008-09. There is also a depreciation component of the funding that relates to the capital expending we are doing this financial year, and that is \$1.3 million in 2007-08 and \$2.3 million in 2008-09.

Senator CARR—Thank you very much. That is very helpful.

Mr Pettifer—Thank you.

Senator CARR—COMET is the other matter I would like to canvass with you briefly if I could, Mr Paterson. Mr Peel, do you handle COMET as well?

Mr Peel—Yes.

Senator CARR—Do you have figures for the demand for COMET over the last few years?

Mr Peel—Since the program commenced, we have had 1,259 grantees under the program.

Senator CARR—Has the expenditure varied much?

Mr Peel—The expenditure has varied a little. When the program initially began in 2001-02 we had \$12 million for the program. We had \$11.6 million in 2002-03, \$8.6 million in 2003-04, \$9.09 million in 2004-05, \$8.4 million in 2005-06, and \$10.3 million this year.

Senator CARR—So it is demand driven, is it?

Mr Peel—No, the government appropriates particular amounts each year, but the program is a very vibrant program and we do get a good deal of demand for it. We do not have any real difficulty in spending the money each year.

Senator CARR—Has the number of participants increased or decreased throughout that period since 2001? Has it stayed around the 1,200 mark?

Mr Peel—It has varied. If I got back to, say, 1999-2000, we had 136 in that year, and in 2005-06 we had 168. And if I plumb somewhere in the middle, say, 2002-03, it is 150. It is sort of 140 to 170—something like that.

Senator CARR—Have there been any detailed studies into the effects and the outcomes for this program—an evaluation study?

Ms Berman—There was an evaluation done, I think it was 2002-03. It was an interim evaluation. It found that the program was effective but it was possibly too early to make very strong statements. It commenced in about November 1999 and another evaluation will commence shortly.

Senator CARR—When do you expect that?

Ms Berman—We are looking at terms of reference at the moment, so sometime in the next few months.

Senator CARR—Will that evaluation go to the issue of effect of the COMET program on the venture capital industry?

Ms Berman—Possibly not. It will focus on the objectives and whether they are being met and whether those objectives continue to be appropriate, and the efficiency of delivery of the program. Appropriateness, effectiveness and efficiency are the three areas that the evaluation normally focuses on.

Senator CARR—I am told that one of the issues that relates to this program is the failure of the program to connect participants with the venture capital industry. How would you respond to that criticism?

Mr Peel—If I could respond. We have taken out some figures on the amount of capital raised through the program for companies that participate in the program. As at 31 December 2006, \$372.28 million in capital was raised through the program for participants in the program. How much of that was venture capital I do not know but certainly quite a good degree of capital has been raised through the program.

Senator CARR—Where do I go for details on the reporting and analysis of the process and outcomes for this program? Where will I find that information?

Ms Berman—We collect performance information and that is regularly reported to the IR&D board. There is a subcommittee that oversees the program. Performance indicators were set up at the very beginning of the program. We get information such as the number of applications that are successful, the employment growth in the firms, finance raised and partnerships entered into. We collect that every year.

Senator CARR—Is that reported anywhere?

Mr Peel—If you allow me to take it on notice, I will be able to provide you with a table which indicates capital raising, licence agreements entered into and that sort of thing.

Senator CARR—So it is publicly available or will be after you have provided it?

Mr Peel—I can provide it to you.

Senator CARR—I am told that business—

Mr Paterson—There is material published in our annual report in relation to COMET—pages 73 and 74 of the annual report and the financial information report.

Senator CARR—Thank you very much, Mr Paterson.

Mr Peel—There is also the IR&D board annual report.

Senator CARR—Do the business advisers earn a retainer of \$100,000 from the department?

Mr Peel—\$150,000.

Senator CARR—How many do you have?

Mr Peel—We have 13 or 14.

Senator CARR—Is there a list? I suppose the annual report would provide that, too, would it?

Mr Paterson—It does not. The department's annual report does not list the COMET advisers.

Mr Peel—We have 12 full time and two part time, so 13 full-time equivalents.

Senator CARR—Where would I get a list of those people? Can you provide that?

Mr Peel—We could provide that to you.

Senator CARR—How do you assess performance for those business advisers?

Mr Peel—There is also a national manager of the COMET program whose job it is to oversee the network. He prepares regular performance reports on the business advisers.

Senator CARR—He reports to whom?

Mr Peel—He reports to AusIndustry.

Senator CARR—To you?

Mr Peel—To Mr Birch, actually, but, yes, ultimately.

Senator CARR—What accountability measures are there for the work of these advisers?

Mr Peel—They have their performance criteria in terms of target number of customers and outcomes, and they are measured against those.

Senator CARR—So it is a ratio?

Mr Birch—The program has a number of plans associated with it to target particular levels of activity for a given year. For example, we will develop a strategic plan for the program, which will have a number of targets for particular sorts of activities. It might be the number of public sector research organisation spin-outs that might be desirable to have enter into the program. Flowing from that is developed an operational plan, and that plan cascades down to the individual business adviser in terms of their own personal targets for new customers and so forth. They are carefully monitored against those plans by the national manager in particular, and he reports to us regularly on all of the activities that they do and he does also.

Senator CARR—These advisers are paid a retainer, are they not? Are they on any other fee for service?

Mr Peel—They receive \$150,000 per annum and they are also able to negotiate a success fee with individual customers of up to 2 per cent of the capital they raise but capped at \$100,000 per customer.

Senator CARR—Do we have any figures on their performance in that aspect of their work?

Mr Birch—No, we do not keep track of those particular—

Senator CARR—Would it not be reasonable to provide that information?

Mr Peel—I think it is really a matter between them and the customer. It is a private arrangement.

Senator CARR—How do you deal with conflicts of interest under this program? What are the conflict of interest provisions?

Mr Peel—In relation to what sorts of things?

Senator CARR—For instance, COMET’s participants who provide specific services or sources of capital. This is a government funded advisory service. You are paying them \$150,000 a year, plus they get commission. That is what you are telling me, is it not?

Mr Peel—That is correct.

Senator CARR—How do you ensure that the advice given is in fact objective?

Mr Birch—One of the key criteria for the program is that the services are provided by independent non-related third parties. AusIndustry undertakes very stringent checks on the invoices and payment requests to ensure that none of the parties providing services are related. That is certainly a very clear way of ensuring that.

Senator CARR—Are you satisfied that people using these services can be assured that their advice is objective?

Mr Birch—Yes, I believe so.

Mr Peel—We also of course go back to the businesses that actually accessed the program and seek their views about the advice and the service they received from the business advisers through a customer survey that we undertake regularly. The last one we undertook was in July 2006, and 89 per cent of the customers that we surveyed were satisfied with the quality of service they received from the business advisers.

Senator CARR—I see.

Mr Peel—So we actually go back to the customers as well.

Senator CARR—This is your satisfaction survey. Could I ask you about other forms of complaint? Have you received any other complaints about the operations of the COMET business advisers?

Mr Peel—From time to time we do receive allegations that business advisers have acted improperly. We do have a small number of cases on foot at the moment that are being investigated by our fraud unit, but they are allegations; we take them very seriously and we investigate them thoroughly.

Senator CARR—So the process is that if a client of AusIndustry or of the COMET program has a concern about improper activities by a business adviser, they have an opportunity to make their concerns known to the department?

Mr Peel—That is correct.

Senator CARR—And those concerns will be investigated?

Mr Peel—That is correct.

Senator CARR—Is that the process?

Mr Peel—That is entirely correct.

Senator CARR—Given that fraud is a difficult issue to prove, have you had any matters that you have taken beyond merely inquiry or investigation?

Mr Peel—We have some matters that are in the hands of the police.

Senator CARR—How many matters are currently in the hands of the police?

Mr Peel—I would have to take that on notice.

Senator CARR—Is it just a handful?

Mr Peel—One or two.

Senator CARR—How long have they been in the hands of the police?

Mr Peel—It varies. Sometimes the police take a while to get around to it.

Senator CARR—Particularly on fraud matters, they take a considerable length of time.

Mr Peel—They have to prioritise their resources and they look at the magnitude of the alleged fraud and so on. It does vary and sometimes can take quite some time for the police to deal with issues.

Senator CARR—Have you got an indication of the size of the moneys involved in such matters before the police?

Mr Peel—I would have to take that on notice.

Senator CARR—The complaints go to fraud—

Mr Paterson—One word of caution in relation to taking those questions on notice: there may be matters before the police that they have not yet taken action on and—

Senator CARR—No, I am not asking for the details of cases, just the number and the size of the problem. I am not asking you to identify any complaints.

Mr Paterson—But I raise the question in relation to the size, because it has the capacity within a small community to indicate—

Senator CARR—To tell you who it is.

Mr Paterson—Yes. So I am very cautious about the extent to which we could take that question on notice.

Senator CARR—I obviously have information here concerning complaints and I would like to know what the process is, because I will have to provide advice back to others.

Mr Peel—Obviously, not all of the complaints are fraud. Very few fraud matters are raised with us. The normal process, if someone is dissatisfied with the service, is to raise it with AusIndustry. We will then take that up with the national manager and the business adviser concerned and respond to the customer's complaint.

Senator CARR—As you have specified, fraud is a very serious matter; and that is at the extreme end of the complaints system?

Mr Peel—Indeed, and there are only a few of those—and they are allegations.

Senator CARR—Yes—complaints. That does not mean it is proven.

Mr Peel—No.

Senator CARR—They are allegations, as you say. However, we have questions about the quality and suitability of business advisers and the expenses incurred. Have you had many complaints in that regard?

Mr Peel—I do not think so. I cannot actually recall anything of significance. If there have been, there have been very few.

Senator CARR—What is the selection process for these advisers? How do you get yourself on this list?

Mr Peel—We advertise nationally in the press. I think the last time we used an outsourced recruitment agency to assist us to short-list applicants. We then formed a selection committee which included the chairman of the IR&D Board's COMET committee. They undertook interviews, assessed people against the criteria—just the normal way that you would select an employee for a job. It is all open to competition.

Senator CARR—Is there much turnover on this list? How long do people stay on the list?

Mr Peel—I think the contracts go for two to three years.

Mr Birch—That is right. We have not had very much turnover. We did have recently one business adviser resign from a part-time position in Newcastle, but the network has been reasonably stable.

Senator CARR—Is it a tender process?

Mr Peel—It is like an ad in the paper for a job, and people respond.

Senator CARR—At the end of the contract period are all positions declared vacant?

Mr Peel—I think we would make a judgement at the time. We do get performance reports on the business advisers, as I mentioned, and we would need to make a judgement at that time whether we wanted to offer new contracts to the business advisers that we already have or whether we wanted to throw all or some of the jobs open to competition. I think that is a judgement that we would make at the time and we would retain that sort of flexibility.

Senator CARR—However, I think you said there has been some stability since 2001. Is that right?

Mr Peel—No, I think the last time that we recruited business advisers was two to three years ago. There has been some turnover since the original advisers were appointed.

Mr Birch—2004 was the last round. Their contracts will be coming up later this year, I think.

Senator CARR—It is not an automatic presumption of—

Mr Peel—No, certainly not.

Senator CARR—either renewal or termination?

Mr Peel—No.

Senator CARR—It is a case-by-case—

Mr Peel—The contract provides for termination but we may choose to extend.

Senator CARR—Renew. Those would occur where there have been no complaints, or the performance indicators—

Mr Peel—Obviously, if we had had a fair few complaints about a business adviser we would be thinking very hard about reappointing.

Senator CARR—You would have a look at it. Given the time, I will put the rest of my questions on notice and I thank you very much for your assistance. Thank you, Minister.

Mr Peel—Senator, before you go, you did ask a question earlier about the tax concession and the list of activities that were excluded. I have a list so I could table it now if that is—

Senator CARR—Thank you. I take it that any other answers to questions that the department is able to provide today will be provided to the secretary; is that how it would work?

Senator Minchin—We will do that.

Mr Peel—You also asked a question about R&D plans for the tax concession, and I think we said that they are prepared annually. Just a slight adjustment to the answer: they are prepared for the life of the project but they would normally be reviewed annually.

Senator CARR—Thank you very much.

Senator STEPHENS—I have questions on tourism. We will go to tourism now.

[11.45 am]

Tourism Australia

Senator STEPHENS—Thank you very much, gentlemen. We might just start, if we can, by thinking about the current health of the tourism sector. I notice that the last ABS report released this month on overseas arrivals and departures showed an increase in short-term visitors to Australia. Basically, the Ashes are seen as one of the real reasons for this. We had the barmy army, so the British numbers were up, but Japanese numbers were down. Could you comment, first of all, on your view of the industry's current health?

Mr Noonan—You are quite correct that, at the end of the year, the arrivals for the year 2006 were up by 0.6 of one per cent—about 33,300 overall—to a record 5.5 million visitors. There was good growth from China, 8.2 per cent, and Korea, 4.2 per cent, and the United Kingdom, 3.6 per cent—yes, we seemed to win on the Ashes in every conceivable respect!—and the United States, 2.2 per cent. Conversely, New Zealand, which had been our leading tourism market in numbers, fell by 2.1 per cent to 1.1 million. Japan was down by five per cent, as you indicated. India is another one that is worthy of mention, although a smaller base. It increased by 23 per cent during the year to 83,700.

If I were to talk about the overall health of the inbound sector—I will come back to talk about the yield, which is the most positive result, because those are the high-spending tourists who come in. The New Zealand numbers, we think, are down from a natural high. There have been rapid increases in aviation access across the Tasman, so we feel that that was probably unlikely to be sustained indefinitely, so the mild drop there is not a huge surprise. In the case of Japan, there are a number of factors. That is quite a complicated analysis. I might ask Mr Buckley to provide some detail on that. Then in South-East Asia we have a number of other markets that are down, and we think that is the influence of low-cost carriers, which are growing very rapidly in that region but have not up to now been reaching Australia. All of that is happening in a setting of a high Australian dollar and high fuel costs, at least during the year under report. But the yield is up impressively. Inbound yield is up 1.4 billion to 18.9 billion—again, a record figure. Other good news is that the average length of stay is up,

which is another indicator that we are getting the bigger-spending tourists who are staying longer. And the very rapid growth of India is a great sign for the future. That is what I would say generally on the inbound market, and I might ask Mr Buckley to talk a bit more about Japan, if he wishes.

Mr Buckley—As Philip pointed out, it has been a tough year for the Japan market. We see that it has a fairly unique set of challenges at the moment. It does remain a key market for the Australian tourism industry. Again, while arrival numbers have remained in decline for Australia, we have in fact increased the economic value from the Japanese market. Also, it is actually holding share in the long-haul sector despite some fundamental downturns in the total outbound out of Japan. Australia, in terms of that share, is in fact performing better than other holiday destinations such as Hawaii and New Zealand, which are both down nine per cent and 12 per cent respectively. It is a tough market for us, but in tough outbound conditions for the Japanese market. Our view is that it is due to a range of fairly complex and challenging issues, for example, things like the external environment that Philip talked about, and high exchange rates. For example, the exchange rate has grown by about 50 per cent over the last five years. We are seeing even an appreciating dollar in the time in which the major packages went into the marketplace some eight or nine months ago. It is a difficult time in a competitive sense.

The other issue for Japan is equally true of Asia. Generally there has been a rapid growth in short-haul travel particularly into China, and also into Korea, out of Japan. There have been some very competitive fares and alternative competitive destinations there. Those are the sorts of challenges that the market faces, and we are very focused on trying to meet those challenges.

Senator STEPHENS—Mr Buckley, have you done a formal analysis of those industry sectors, particularly if we look at Japan, which is the significant drop? Does Tourism Australia have some kind of a report that could be provided to the committee that highlights those trends?

Mr Buckley—We do.

Senator STEPHENS—And perhaps how the trend relates to other countries, as you suggested? That would be helpful.

Mr Buckley—Yes. We have two things, and Philip will perhaps talk about the Japan Action Plan.

Mr Noonan—In January last year Minister Bailey launched a Japan Action Plan which resulted from an analysis by industry and other stakeholders of what needed to be done to try to address the situation in Japan. There are some longer term trends, though, so I do not think anybody is saying that we can turn Japan into the booming market that it was in the 1980s. I can certainly provide a copy of the Japan Action Plan to indicate the kinds of things that were being contemplated then and are being implemented at this time.

Mr Buckley—I might add that Tourism Australia does a regular market briefing and analysis of all of our key markets, and that is available on the website for the industry. Clearly what we are looking to do is work with the industry in terms of how we respond. Again, we could make that available to you.

Senator STEPHENS—In terms of that Japan Action Plan, can you tell us what kinds of resources have been put into that, how that is being implemented and the time frame?

Mr Noonan—What the plan found was that there were things that needed to be done by TA, by other industry stakeholders, such as the state and territories which operate in Japan, and by the airlines. It listed a number of actions that each should perform. The minister then appointed a monitoring group to oversight this consisting of a couple of private sector people and representatives of the states. That monitoring group has a 12-month terms of reference up till May of this year to report back to the minister on progress. It is not as if the monitoring group is actually implementing things. Rather they are assessing whether the things that were recommended for other stakeholders to do are being implemented. The longer term question is whether it is succeeding in addressing some of these issues.

Senator STEPHENS—Is the monitoring group being resourced?

Mr Noonan—Yes, a secretariat is provided by Tourism Australia and a senior Tourism Australia representative and I are observers to the monitoring group.

Senator STEPHENS—Is there a dollar allocation for resourcing the plan?

Mr Buckley—Project by project there are allocations. Obviously, a number of the actions recommended are for Tourism Australia to take forward, and we have dollars allocated to those individual programs. Our marketing campaign and other things have specific dollars.

Senator STEPHENS—Are you able to provide that detail to the committee?

Mr Buckley—Certainly we can pull out the broad numbers in terms of campaign allocations and those sorts of things. That could be provided.

Senator STEPHENS—Is the action plan resourced totally out of Tourism Australia or are there partnership arrangements with or contributions from other agencies or organisations?

Mr Noonan—The private sector parties have given their time, and a state representative is also released to work on this project. There is not a specific allocation for the monitoring group to go and do work other than perhaps travel expenses. The monitoring group has been once to Japan and will go again next month.

Senator STEPHENS—Will you provide details of all that to the committee?

Mr Noonan—Yes, certainly. The process for reporting back has been from the monitoring group to the minister, and there have also been progress reports that the monitoring group has made available to industry stakeholders. Perhaps we could send you the latest of those documents when they are available.

Senator STEPHENS—Thank you. What is the life of the monitoring group?

Mr Noonan—Twelve months, ending in May this year. At that stage an assessment is made as to whether that has addressed issues or whether something more needs to be done.

Senator STEPHENS—That is the traditional market of Japan. What about efforts around inbound tourism from the USA and the UK? Do we have a similar kind of action plan for those two markets?

Mr Buckley—No. The approach is quite specific for the Japan market, given the unique circumstances. For our other key markets we allocate resources around the potential yield from those markets and then identify an action plan for the year as part of our annual operating plan. Those projects are then undertaken in each of the markets. Invariably they are cooperative marketing programs.

Senator STEPHENS—I know this is a really fundamental question. I am sorry if it seems a bit trite, but can you explain to us how Tourism Australia approaches the issue of the varying markets? We have those traditional markets and we have some new and emerging markets. How do you go about organising the tactics of attracting tourism?

Mr Buckley—It is one of the challenges we face each year in allocating resources. You have established markets that are high yielding and are delivering a very large part of the inbound market and then you also have emerging or growth markets. In fact, we tier the markets in those sorts of categories. We have established markets, if you like. There are seven major markets, which deliver about two-thirds of inbound tourism for Australia currently. About two-thirds of our resources go into trying to realise those growth opportunities. They are both good growth markets, but they are fairly established—the UK and New Zealand. China is in fact in that market because it is so large now and is delivering quite strong growth. We look at and analyse the growth potential and opportunities and some of the challenges of the other markets, and again categorise them into growth or emerging markets and allocate resources, more around the challenge of the market rather than necessarily they are this size therefore they get that amount of dollars. It is very much about saying what can we do to ensure that that growth occurs and what role can Tourism Australia play? We allocate resources around that challenge.

Senator STEPHENS—It sounds to me like a bit of strategic planning is going on. Is it possible for the committee to get that kind of documentation just to understand the thinking?

Mr Buckley—Our corporate plan actually—

Senator STEPHENS—Outlines those seven markets?

Mr Buckley—Outlines, yes, and outlines the resources process. It also indicates the tiering.

Senator STEPHENS—That is on the website?

Mr Buckley—That is on the website and there are copies available. We update that annually.

Senator STEPHENS—Organisationally, do you break your staff up into teams? Is that also in the corporate plan, to be able to find the information?

Mr Buckley—It is. It is in the annual report as well. That provides detail of the organisation structure and the way in which we operate. We are broadly segmented into teams around the international marketing and the domestic marketing and we have 14 offices around the world and within Australia that drive that resourcing.

Senator STEPHENS—Can we go to the issue of the China market particularly. There was a report in the *Sydney Morning Herald* earlier this month about tourism from China. It indicated that it is Asia's largest outbound tourism market, with 34.5 million Chinese people

travelling abroad in 2006. The latest figures show about 27,500 Chinese tourists came to Australia. Can you briefly outline what we are doing to engage the Chinese outbound tourism market.

Mr Buckley—I might just indicate that that was probably a monthly figure that you were picking up in the report. About 308,000 for the year ended 2006 were inbound, so it is a very significant inbound market for Australia.

Senator STEPHENS—Yes.

Mr Buckley—And it had an eight per cent growth for 2006 versus 2005. It is a very important market for us. We work very closely with the China National Tourist Office in terms of the regulatory processes that we need to go through. Also, it is a market where we are doing a lot of cooperative marketing with wholesalers and tour operators.

Senator STEPHENS—In terms of the Chinese tourism market, they are not traditionally high-yield tourists, are they?

Mr Buckley—Certainly they are not our highest yielding market, that is true, but in fact that yield is developing progressively. It is a relatively early market for us. It is a young market in growth terms for Australia. Their whole outbound travel has boomed over the last few years as the regulations on travelling outbound have been relaxed. We are starting to see now a different sort of Chinese visitor starting to explore the world, and certainly part of our strategy is to work with the industry to provide experiences that will attract that high-yielding market and give us more spend.

Senator STEPHENS—I am sure you have profiled Chinese visitors.

Mr Buckley—We have.

Senator STEPHENS—Tell us a bit about that.

Mr Noonan—I will mention some of the work that we have done with China at a government level. The Chinese market is characterised by the fact that we need to deal with it at a government level in order to facilitate the market. Australia and China, Minister Bailey and her counterpart in the Chinese national tourism administration signed a memorandum of understanding in August 2006 about facilitating tourism flows between the two countries. An Australia-China tourism business forum was held at that time also. I think Mr Buckley mentioned the opening up of China. Package Chinese tourists come to Australia under the approved destination scheme arrangements. Australia was one of the first Western countries to have access to those arrangements, in 1999. That has been progressively extended and as at last year now covers all the provinces of China. We are able to tap into the full breadth of the Chinese market now.

Senator STEPHENS—What do you see are the major barriers to actually attracting more Chinese tourists?

Mr Buckley—The barriers, interestingly enough, are starting to become the same barriers we are finding around the world. It is increased competition. They are a very strong source market for not only Australia but also a number of other destinations. There is a process called approved destination status, which countries need to apply for and get granted from the Chinese government. In the initial phases of market growth for China, Australia was one of a

very few countries; now there are over 100 world destinations that have what we call ADS. The competition has expanded very dramatically in the last couple of years. That is one of the big challenges. I think beyond that it is a communication challenge. Again, what we do know is when we market in China in any one province there are at least 50 television channels, so you start to see the level of challenge in getting your messages through to that market. So they are the two key challenges which we face in the China market. Just on your question about the profile, I have a quite detailed profile. Perhaps it might be better to make it available for you.

Senator STEPHENS—That would be great. Mr Noonan, is it possible for the committee to have the memorandum of understanding that was signed between Australia and China?

Mr Noonan—I could provide a summary of it. The Chinese government has not consented to make the instrument itself available, but I can certainly provide the committee with a description of the main elements of it.

Senator STEPHENS—Is it likely that the Chinese government will agree to releasing it?

Mr Noonan—I am not sure. They said that it was the first of a kind that they had entered into and that they would use it as a template for other MOUs, so there may be a sensitivity there.

Senator STEPHENS—Thank you very much. Just on the issue of China, if I can just keep rolling along here, you have an office in Shanghai, I understand.

Mr Buckley—That is correct.

Senator STEPHENS—But no office in Beijing. Can you explain the rationale for that?

Mr Buckley—There is a combination of issues. It was finding the right location from both an operator perspective and also from the Chinese perspective. We negotiated that process. Shanghai is one of the boom markets, so it was logical to place it there. It was cost issues as well. We looked at cost options, but either Beijing or Shanghai would have worked. Shanghai was chosen mainly because of the trade connections in Shanghai and its close linkage with Hong Kong.

Senator STEPHENS—Is it in your mind to perhaps open other offices in China given the huge market potential?

Mr Buckley—That is not in our plans in the short term.

Senator STEPHENS—How many international offices are there now?

Mr Buckley—We have 14.

Senator STEPHENS—Is it possible for us to have a breakdown of the operating costs of those offices in terms of admin expenses, recurrent expenses and staffing? If you could take that on notice?

Mr Hopwood—Yes, we have that information so we can supply it to you on notice.

Senator STEPHENS—If you could provide that, that would be great. You have an office in India, too, I understand.

Mr Buckley—The minister has announced that we will put an actual office in India. We currently have a representative office in India, that is correct, and we will take it as a full office in the near future.

Senator STEPHENS—When is that going to happen?

Mr Buckley—We are working it through now.

Senator STEPHENS—I understand that Queensland opened an office in India as well?

Mr Buckley—Again, I think they have a representative office, not a physical one.

Senator STEPHENS—I see.

Mr Buckley—We work very closely with Tourism Queensland, and in fact the Gold Coast have also talked about putting or have put a representative in there. There is a lot of interest in what was a 23 per cent growth market in 2006.

Senator STEPHENS—Are you planning to open any more international offices?

Mr Buckley—There are no plans.

Senator STEPHENS—Given the interest in growing the Chinese market and perhaps the South Korean market, can we go to the issue of rogue operators and the concerns that they are causing in the industry, particularly exploiting visitors through Rentou. I understand that Queensland brought in an accreditation scheme to eliminate Rentou operations, because they perceived it to be such a threat to the tourism industry. Do you have concerns about rogue operators in Australia?

Mr Noonan—We have taken a number of steps in relation to that. In the case of the Chinese market, in last year's budget the government committed \$3.9 million over four years to strengthen the approved destination status scheme that we referred to earlier with a particular emphasis on business integrity, competition and fair trading among inbound tour operators. We have been implementing those steps, which involves a more rigorous licensing regime at the Australian end than took place in the past, and also some ongoing compliance monitoring, including some random inspections. At the Chinese end, we hope the MOU will help us to work with the China national tourism administration to make sure that fair practices are the rule at both ends of the Chinese market.

In the case of the Korean market, the Korean Inbound Tour Operators Council of Australia has been developing, with our assistance, a code of conduct, which will be a voluntarily industry code that will address some of the similar fair trading issues that have manifested themselves in the Chinese market. As well as that, we have been working with the Australian Tourism Export Council, which is the body that represents inbound tour operators in all markets, to help them develop a code of conduct which they have put in place over the last year. They have been the main Commonwealth initiatives.

Senator STEPHENS—I understand that the issue was actually taken to the Ministerial Council on Consumer Affairs and that ministerial council was supportive of the notion of a national scheme. Is that something that is being considered at this stage?

Mr Noonan—I think that relates to the possibility of introducing legislation rather than industry based codes, and the Commonwealth has taken a position that it does not favour

introducing legislation at this stage but would rather work through industry codes and so forth.

Senator STEPHENS—Let us scoot along to the ‘Where the bloody hell are you?’ campaign. I know this is perhaps a foolish question, but can you tell me when that campaign was officially launched?

Mr Buckley—I will tell you the exact date.

Senator STEPHENS—There have been different media reports about different dates, and it relates to the evaluation time frame.

Mr Buckley—I will come to that as well. The launch to the trade was on 23 February in Sydney, and then we took it to our key markets for trade launches through primarily March and then rolled out the campaigns to the consumer across a range of periods which were different from one region to another. For example, in the United States it was mid-March. Our first burst, if you like, was mid-March to mid-May 2006. In Germany it was April to mid-June. In the United Kingdom it was mid-March to the end of May. In Hong Kong it was May to mid-June. In China it was June. In Japan it was April through to the end of June. And then in Korea it was June. So for each market, as it was appropriate to introduce it to the consumer, it was then rolled out. That was the first burst and in some markets we have had a second burst of the campaign.

Senator STEPHENS—If we take the start date as basically the end of February, how long is this campaign going to be running?

Mr Buckley—We have funding to take us through to basically the middle of 2008. The intention was always that it would be at least a three-year campaign, but clearly we have white paper funding that closes at that point so we will need to reassess how it would go forward after that point. Our intention was to take that through for at least three years.

Senator STEPHENS—Do you have any indication of how successful it has been? How is the campaign travelling? What do you think?

Mr Buckley—We have. It is actually very positive from Tourism Australia’s perspective. While it is still early days for a brand campaign like this—traditionally they are long-term campaigns—we are seeing some very good early indicators. The initial indication in things like website hits in the digital space has been particularly encouraging. There has been something like a 30 per cent increase in visits to Australia.com—that is, Tourism Australia’s website—since before the campaign.

CHAIR—Did you say 13 per cent or 30 per cent? I did not hear you.

Mr Buckley—Thirty per cent. In addition, we put in place a tracking process to track the success of the campaign against its objectives. We are just starting to get some numbers out of that tracking process across our seven key markets. What we are seeing across all markets is an increase in consumer knowledge of Australia when they have seen the campaign. We are seeing an increase in positive response to Australia, but probably more importantly we are seeing an increase in action taken by the consumer in sourcing further information. It is the first step in that consumer purchase cycle. All of those are very strong positive indicators that it is starting to have the effect that we were looking for.

Senator STEPHENS—Are we able to see some statistics on that, please?

Mr Buckley—We could put something together for you. There is a whole range of numbers that we can put out. We are happy to provide that summary for you.

Senator STEPHENS—On 12 February the *Daily Telegraph* reported on the modification of the advertisement replacing Lara Bingle with an Indigenous actress to emphasise Indigenous tourism. I understand that the ad was also modified for the Japanese market to be more sensitive to cultural issues. In how many countries has the advertisement been edited?

Mr Buckley—This is a complicated response. All of those different endings were filmed at the time the advertisement was created. We always intended that we would continue to refresh and evolve the campaign with different endings. Lara Bingle has not been dropped from the campaign and has not been dropped from the advertisement. She is still within the footage. We have just changed some of the people doing the end line, and it is not just the Indigenous lady. We are going to use some of the other talent as well saying that end line market by market. The market chooses which one they think is going to be the most motivating in the market to freshen it up.

Senator STEPHENS—How many endings did you film?

Mr Buckley—Five. We will roll out that progressively over time. But we also adjusted—

Senator STEPHENS—Are we going to see all of them in Australia?

Mr Buckley—No. We tested the advertisement in Australia. While people liked it and it cut through, it did not get the message that the Australians needed. One of the critical things about the campaign, and in fact what it is trying to do, is to provide a unique Australian invitation to get people starting to think about Australia and starting to take action to source more information about Australia, and ultimately then to book and actually visit. When we talked to Australians, they were not looking for that invitation. They already felt they had the invitation, so the campaign was not one that would have motivated the travel here.

Senator STEPHENS—It would probably be helpful if we—

Mr Paterson—It is fair to say that the campaign was never intended to—

Senator STEPHENS—No, for domestic.

Mr Paterson—It was an international campaign from day one and not a domestic campaign.

Senator STEPHENS—Yes, I understand that. I was just going to ask whether or not it would be possible for the committee to actually get a DVD of all of the endings.

Mr Buckley—Absolutely.

Senator STEPHENS—If we are not going to see them in Australia we do not even know what we are talking about. That is good. I appreciate that.

Mr Buckley—We have that freely available.

Senator STEPHENS—You were commenting about your indicators, some of which related to hits on the website, and the tracking—

Mr Buckley—The brand tracking?

Senator STEPHENS—Yes. When you set up this campaign, did you have a target for the number of website hits?

Mr Buckley—We did not in terms of website hits. What we were looking for in terms of the brand tracking was a very specific shift in consumer intention to travel, and that is the measurement of success. We were looking to move that in a positive direction. Again, I have to say this is not done anywhere else in the world by any other national tourism organisation, so we did not have benchmarks on which to be able to ask, ‘How much will it move?’ What we wanted to do was see that positive movement through the consumer purchase cycle. That is what the brand tracking actually measures. We can understand the success or the shift by our target market through that brand tracking.

Senator STEPHENS—In the agency budget statement it tells me that you are going to be making improvements to your Australia.com website. Can you tell me about what they are?

Mr Buckley—Yes. What we are doing is re-engineering the site to provide greater connection to the state tourism sites. What you are aiming to do is provide a lot more depth of experience to the consumer. We are trying to adjust the site so that in fact it will be easier for the consumer to move through the site either into more depth of information or into a booking type phase.

Senator STEPHENS—That raises a very important issue. I have been looking at your site and I find www.australia.com, www.tourism.australia.com and www.sowherethebloodyhellareyou.com. So you have at least three separate domain names. I have to say that I did not actually see that there were good connections once people got—

Mr Buckley—Connecting those three?

Senator STEPHENS—Yes. If you look at seeamerica.org, for example, or with the New Zealand one, those websites act as an actual tourism portal and there is a lot of connectivity and inroads once you get into the sites. Is this part of what you are redeveloping?

Mr Buckley—And that is part of where we are going.

Senator STEPHENS—When does that work begin?

Mr Buckley—We anticipate releasing that new site at what we call the Australian Tourism Exchange. It is a major trade fair in late May 2007—late May this year.

Senator STEPHENS—So you are hoping to have your new-look website for that?

Mr Buckley—That is correct.

Senator STEPHENS—What appropriation did you get for that improvement? What is the cost of that improvement to the website?

Mr Hopwood—The benefits will go over a three-year period. The cost of the development of that site over that three-year period will be in the vicinity of \$1.5 million to \$2 million. I can be more specific if you like, with the details.

Senator STEPHENS—If you could provide that on notice, that would be helpful. As part of the re-jigging of the website, where you are providing links already to places like Accor and other accommodation and other services, hire cars and things, do you charge those organisations for the linkages?

Mr Buckley—No, it is not a commercial site. We are trying to facilitate a portal. Trade engagement, if you like, is off our site.

Senator STEPHENS—We are churning our way through this. We are doing well.

CHAIR—We are going through it very well.

Senator STEPHENS—In terms of the global tourism market, how do you think Australia is placed to compete in the global tourism market?

Mr Buckley—That is a challenging question. It might take an hour to respond to.

Mr Paterson—No, it will not.

Senator STEPHENS—It is a hugely competitive business.

Mr Buckley—We generate less than one per cent of world inbound tourism. What we follow very closely is Australia's market share in our key target markets. In those markets we are doing well in terms of long-haul travel. I think the challenge we are finding is that there is a very strong push fuelled by low-cost carriers for short-haul travel. I think that is the challenge. I do not have the numbers, but intuitively what we are starting to see is a drop in the total long-haul travel globally as a percentage of the total travel, if that makes some sense.

Senator STEPHENS—Yes.

Mr Buckley—That is a challenge for Australia and for a lot of other tourism destinations. At this stage we are reasonably confident that we are retaining our market share and we are working really hard to make sure we stay ahead of that competition, but it is definitely a long-term challenge for the Australian tourism industry.

Senator STEPHENS—Are there any aspects of that international competition that you believe that Tourism Australia is not adequately resourced to pursue? I suppose you must have a wish list of things that you would like to do if you could. In terms of the global competition that you have already identified, are there things that you have actually had to put on the backburner?

Mr Buckley—We work within the government allocation. That is a question for the broader government. It will come up again in the white paper review process, I am sure, and that will be tested in that process.

CHAIR—Senator, I think it is probably almost getting to the stage of commenting on policy as well.

Senator STEPHENS—We have been talking about this huge competition that is emerging now particularly out of China.

Mr Buckley—I think it will be a part of the white paper review process.

Mr Noonan—And of course the white paper itself represents a very significant increase on the resources that were allocated up to three years ago.

Senator STEPHENS—Yes, I appreciate that. I have a quick question about your annual report, which we did not actually see until 7 December 2006. Was there a reason for the delay in tabling the annual report?

Mr Buckley—Yes. We sought an extension from the minister. We had some significant senior staffing changes over that late period and we needed an extension to be able to pull in the information when those changes were occurring.

Senator STEPHENS—Can you just elaborate on that for me?

Mr Buckley—In the first half of 2005 the board and senior management reviewed the operations of Tourism Australia, looked at some of the market challenges and put forward a change in the structure of some of our inbound markets. We set up a regional headquarters in continental Europe, and we split north and south Asia into two separate regions. Quite significant changes to our key markets occurred in the lead-up to that May-June period. Those were the challenges. We restructured those two markets.

Senator STEPHENS—Just going now to domestic tourism, if I could, how much has Tourism Australia allocated to domestic tourism in the current financial year—the forward estimates?

Mr Hopwood—In a marketing sense we have allocated \$5 million to the domestic marketing.

Senator STEPHENS—Over what period?

Mr Hopwood—Sorry, in this current financial year.

Senator STEPHENS—Last year?

Mr Hopwood—The previous year? That equivalent figure was \$8.2 million.

Senator STEPHENS—\$8.2 million last year, \$5 million this year, and next year?

Mr Hopwood—We have not done our appropriation.

Senator STEPHENS—How do you relate to the states in terms of the State Tourist—

Mr Buckley—Authorities?

Senator STEPHENS—You mentioned working closely with Queensland Tourism. What about the other states?

Mr Buckley—We have regular chief executive meetings with the states. We have strong interaction at a number of project levels. We work jointly on visiting journalist programs, for example, Across the World, which is a combined program between the states and Tourism Australia. We cooperatively market with those states in several markets, and each state chooses where they wish to market with us based on their priorities. It is a strong relationship, with regular dialogue particularly at senior levels about some of the broader issues. The most connection is at cooperative marketing levels.

Senator STEPHENS—So not competitive marketing as suggested by Christian Downie's paper 'No sum game'? Are you aware of that paper?

Mr Buckley—I am sorry, I wasn't—

Senator STEPHENS—Christian Downie from the Australian Institute produced a paper in July last year called 'State and territory tourism assistance: a zero sum game', which makes the claim that most of the assistance that states and territories provide merely provides for the tourism industry in one state over that of another, so that one state gains and another loses.

Mr Noonan—I think that has the fatal flaw that it looks at Australia as a closed system, and in fact every prospective tourist has a fundamental choice about where they go for their holiday overseas or domestic. That is certainly something where we need to promote ourselves.

Senator STEPHENS—In the latest agency budget statement, on page 188, it lists a range of consumer marketing activities, including the visitor journalist, Aussie specialist travel agent and the Aussie enthusiast trade support programs. Can you provide a complete list of all the marketing programs that Tourism Australia is involved in? Can you take that on notice?

Mr Buckley—We can do that.

Mr Hopwood—Sorry, can you repeat that, please?

Senator STEPHENS—Can you provide a list of all the marketing programs that Tourism Australia is involved in and include a breakdown of the costings—staffing, recurrent and administrative costs? If you could take that on—

Mr Hopwood—There is obviously a fair bit of detail in that, so we will give it a go at an appropriate level hopefully to your satisfaction.

Senator STEPHENS—I appreciate that. What about the issue of cost recovery? In the agency budget statement on page 192 it says that Tourism Australia acquired approximately \$0.3 million—\$300,000—in 2005-06 through cost recovery arrangements. Can you tell me where you recovered costs?

Mr Hopwood—There is a very small level of activity where we generate fees for, say, the sale of research or very small advertising programs globally.

Senator STEPHENS—Is that something that Tourism Australia has considered has the potential for being ramped up?

Mr Buckley—Not at the expense of delivering our key outcomes. We have just relooked at our whole area of cost recovery and ensured that we are within the government rules and regulations for that process.

Senator STEPHENS—You said, Mr Hopwood, that one of the issue was the sale of research?

Mr Hopwood—Sale of some aspects of our tourism research, yes.

Senator STEPHENS—Who are the purchasers of that kind of research?

Mr Hopwood—Sorry, I do not have the details. There will be various industry bodies within Australia who are interested in that information.

Senator STEPHENS—Perhaps you could provide some details to the committee about cost recovery activities and what programs deliver those. That would be great.

Mr Hopwood—Yes.

Senator STEPHENS—In terms of your programs, can you provide, also on notice, a list of the programs and the current expense revenue and cash forward estimates for the coming few years? If we could get out to 2009 and 2010 that would be a miracle; perhaps you might have done that much thinking?

Mr Buckley—We do not—

Senator STEPHENS—How far ahead do you do your expense and revenue projections?

Mr Hopwood—We follow the Department of Finance reporting framework of several years, but that is at a very high level. The programs themselves, for instance, are just in terms of total marketing or total remuneration expectations. The programs we would like to work within in the forward years are a lot more detailed by market, by type of activity, and we are just in the process now of reviewing those for the next financial year.

Senator STEPHENS—So when might we see those? Will we see them at the budget estimates? Would they be done for that?

Mr Hopwood—No, the detail for the forward year normally gets submitted to our minister in the month of May—April-May.

Senator STEPHENS—Thank you. We will ask for them at the budget estimates. In the appropriations information in the budget statements, I notice that Tourism Australia's appropriations have decreased this year from last year. Why was that?

Mr Noonan—I think that was mainly due to an injection of extra funds at the time of September 11, and it had a finite duration. Obviously, that predated the creation of Tourism Australia. What has happened is that that period had run out.

Senator STEPHENS—So that was after September 11 to actually promote—

Mr Buckley—Stimulate the market.

Senator STEPHENS—Yes, stimulate, thank you. That is exactly the word. What proportion of your funding allocation has actually been spent on establishing Tourism Australia as a new tourism agency? Because you have re-branded, have you not?

Mr Hopwood—Yes. Do you mean the technical costs of stationery and legal costs of establishment or our marketing?

Senator STEPHENS—I would be interested in the broader picture, not just those administrative costs but some marketing. What has gone into the marketing campaign of your re-branding? That would be helpful.

Mr Hopwood—Technically that marketing is something we go through every, say, five years for the branding, and that was the normal five-year cycle that we went through. It is an ongoing thing depending on how the markets move. We are constantly reviewing, changing and adapting our marketing.

Senator STEPHENS—In terms of establishing Tourism Events Australia, can you provide some details to the committee about what that exercise has cost. Also, in terms of the Australian Experience Unit, can you tell how many people it has and how that is resourced?

Mr Hopwood—Yes, certainly.

Senator STEPHENS—That would be helpful too. You may not be able to quantify this but perhaps you might be able to tell me what resources have gone into, for want of a better word, the conceptualisation around the international campaign? Did you engage consultants to do that?

Mr Buckley—It was part of a tender process to actually—

Senator STEPHENS—If you could provide some details of that tender process that would be useful.

Mr Buckley—Yes, we can.

Senator STEPHENS—And also perhaps some information around the establishment of the Industry Implementation Advisory Group; are you able to tell me—

Mr Buckley—The industry advisory—

Senator STEPHENS—Implementation, yes, advisory group. The costs of establishing—

Mr Buckley—Can I be clear about which group you might be referring to?

Senator STEPHENS—You mean you have more than one?

Mr Noonan—Tourism Australia has industry advisory panels in a number of areas. It is perhaps that area that you are looking at, which advise the board on various matters.

Senator STEPHENS—I have it here as the industry implementation advisory group.

Mr Noonan—No, that sounds more like the minister's advisory panel on the implementation of the white paper, which is nowadays known as the Tourism Minister's Advisory Council. We can certainly give you some detail about the cost of running that council.

Senator STEPHENS—Perhaps you could provide some detail, too, on how much is being spent on rolling out the revitalised Brand Australia campaign and also the costs that have been incurred for the first two rounds of the Australian Tourism Development Program, the first two rounds of the Tourism and Conservation Partnerships Initiative and the Business Ready Program for Indigenous Tourism. If you could take all of that on notice that would be helpful.

Mr Noonan—Yes. I will provide you with the allocations to each of those programs.

Senator STEPHENS—Thank you. My last issue concerns the tourist refund shopping scheme. This is a scheme to allow travellers abroad and overseas tourists to claim GST refunds, I understand. The concerns that have been raised have been really about risks associated with the new approach of outsourcing this to the private sector. Is this something that has been raised with Tourism Australia directly?

Mr Noonan—It is more a matter for the department. The tourist refund scheme has been under review. Submissions were sought. One of the issues is whether the refund function that is currently carried out by Customs should be outsourced. There were submissions both for and against that. The government has been considering those issues. Before it can go forward, it needs to consult the states because amendments to the GST legislation would be necessary and would have to be agreed by the states. At this stage the government has not announced a decision about which way it is going to go on that issue or how it would address the concerns that were raised in submissions if the function were to be outsourced. We are still waiting to hear from the states.

Senator STEPHENS—Has Tourism Australia been participating in the discussions about the implementation of this new approach?

Mr Noonan—The implementation would be rather technical issues, so that is where departments and other agencies, such as Customs and the Tax Office, have the main running.

Senator STEPHENS—The implementation, as I understand it, involves things like participating through an EFTPOS-type arrangement, an automatic funds transfer arrangement for retailers; also, if the scheme is opened up to a number of refund companies, those companies themselves will be able to charge a service commission of up to 20 per cent of the GST refund?

Mr Noonan—I cannot talk to you about the details of the implementation. The government has not made a formal decision on that. The reason for that is that there is this threshold issue: are the states prepared to amend the GST legislation? If not, then the decision would have to go against outsourcing.

Senator STEPHENS—Has the impact on rural, regional and smaller retailers been part of the discussion and consideration of the review?

Mr Noonan—That has certainly been considered.

Senator STEPHENS—I suppose the compliance issues and issues around rogue operators, too, would have been raised?

Mr Noonan—Yes.

Senator STEPHENS—Thank you very much.

CHAIR—I thank you, Senator Stephens, Minister, Mr Paterson, Tourism Australia officers, Hansard, the secretary and his staff, and other Parliament House staff, most sincerely. The time for answers to be returned has been fixed for Thursday, 5 April this year. I thank everyone for their attendance.

Committee adjourned at 12.45 pm