



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

**(Budget Estimates)**

MONDAY, 29 MAY 2006

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**  
**ECONOMICS LEGISLATION COMMITTEE**  
**Monday, 29 May 2006**

**Members:** Senator Brandis (*Chair*), Senator Stephens (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

**Senators in attendance:** Senators Allison, Brandis, George Campbell, Chapman, Ferris, Mason, McLucas, Minchin, Moore, O'Brien, Parry, Stephens, Watson and Webber

**Committee met at 9.01 am**

**INDUSTRY, TOURISM AND RESOURCES PORTFOLIO**

**In Attendance**

Senator Minchin, Minister for Finance and Administration

Senator Colbeck, Parliamentary Secretary to the Minister for Finance and Administration

**Department of Industry, Tourism and Resources**

**Executive**

Mr Mark Paterson, Secretary

Mr John Ryan, Deputy Secretary

Ms Patricia Kelly, Deputy Secretary

Mr Tim Mackey, Deputy Secretary

**Outcomes and Outputs**

Mr Drew Baker, General Manager, ICT Services, eBusiness Division

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

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

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, Business Development, AusIndustry

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

Mr Drew Clarke, Head of Division, Energy and Environment Division

Mr Peter Clarke, General Manager, Automotive, Textiles, Clothing, Footwear and Engineering Branch, Manufacturing, Engineering and Construction Division

Ms Sarah Clough, General Manager, Industry Sustainability Group, Tourism Division

Ms Tania Constable, General Manager, Resources Development Branch, Resources Division

Ms Helen Cox, General Manager, Tourism Market Access Group, Tourism Division

Mr John Dicer, Chief Legal Counsel, Corporate Division

Mr Ivan Donaldson, Executive Director, Australian Building Codes Board

- Ms Robyn Foster, General Manager, Business and Ministerial Services Branch, Corporate Division
- Mr David Gallagher, General Manager, Biotechnology Australia
- Mr Tony Greenwell, General Manager, Office of Small Business
- Mr Paul Griffin, General Manager, Online eBusiness Services, eBusiness Division
- Mr John Griffiths, General Manager, International Energy Branch, Energy and Environment Division
- Ms Kerri Hartland, Head of Division, eBusiness Division
- Mr John Hartwell, Head of Division, Resources Division
- Dr Barry Inglis, Chief Executive, National Measurement Institute
- Mr Barry Jones, Executive General Manager, Invest Australia
- Mr Mike Lawson, General Manager, Aerospace, Defence and Industry Participation Branch, Manufacturing, Engineering and Construction Division
- Mr Peter Livingston, Acting General Manager, Ministerial Council on Energy Secretariat
- Mr Terry Lowndes, Head of Division, Industry Policy Division
- Ms Melissa McClusky, Chief Financial Officer, Corporate Division
- Mr Brendan Morling, General Manager, Industry Policy Branch, Industry Policy Division
- Mr Tom Motherwell, General Manager, National Energy Market Branch, Energy and Environment Division
- Ms Janet Murphy, Head of Division, Corporate Division
- Mr Philip Noonan, Head of Division, Tourism Division
- Mr Kevin O'Brien, General Manager, Industry Policy Division
- Mr Steve Payne, General Manager, Minerals and Fuels Branch, Resources Division
- Mr Bill Peel, Executive General Manager, AusIndustry
- Mr Craig Penniford, Head of Division, Innovation Division
- Mr Ken Pettifer, Head of Division, Manufacturing, Engineering and Construction 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
- Mr Sam Skrzypek, General Manager, Small Business and Tourism, AusIndustry
- Dr Peter Tucker, General Manager, Office of Small Business
- Mr Garry Wall, General Manager, Energy Futures Branch, Energy and Environment Division
- Ms Sue Weston, Head of Division, Office of Small Business
- Mr Bruce Wilson, General Manager, Environment Branch, Energy and Environment Division
- Ms Judi Zielke, General Manager, Innovation and Collaboration, AusIndustry
- IP Australia**
- Dr Ian Heath, Director-General, IP Australia
- Mr Doug Pereira, Director, Finance, IP Australia
- Geoscience Australia**
- Mr Stephen Blackburn, Chief Financial Officer, Geoscience Australia

Dr Barry Drummond, Group Leader, Geospatial and Earth Monitoring Division, Geoscience Australia

Dr Clinton Foster, Chief, Petroleum and Marine Division, Geoscience Australia

Dr James Johnson, Chief, Minerals Division, Geoscience Australia

Dr Chris Pigram, Acting Chief Executive Officer, Geoscience Australia

Mr Tony Robinson, General Manager, Corporate Branch, Geoscience Australia

**Tourism Australia**

Mr Sasha Grebe, General Manager, Corporate Affairs, Tourism Australia

Mr John Hopwood, Director, Corporate Services, Tourism Australia

Mr Scott Morrison, Managing Director, Tourism Australia

**CHAIR (Senator Brandis)**—I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2006-07 and certain other documents for the portfolios of Industry, Tourism and Resources and the Treasury. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee is due to report to the Senate on 20 June 2006 and has fixed Friday, 28 July 2006 as the date for the return of answers to questions taken on notice. The committee's proceedings today will begin with its examination of the Department of Industry, Tourism and Resources and continue through the printed agenda that has been circulated in the hearing room.

Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as contempt. It is also contempt to give false or misleading evidence to a committee.

The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

The Senate has resolved also that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy; it does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted, so long as such questions do not in substance constitute a request for the expression of an opinion on a matter of policy.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an

answer, having regard to the procedural resolution passed by the Senate on 25 February 1988 and, in particular, resolution 10, which provides:

Where a witness objects to answering any question put to the witness on any ground, including the ground that the question is not relevant or that the answer may incriminate the witness, the witness shall be invited to state the ground upon which objection to answering the question is taken. Unless the committee determines immediately that the question should not be pressed, the committee shall then consider in private session whether it will insist upon an answer to the question, having regard to the relevance of the question to the committee's inquiry and the importance to the inquiry of the information sought by the question. If the committee determines that it requires an answer to the question, the witness shall be informed of that determination and the reasons for the determination, and shall be required to answer the question only in private session unless the committee determines that it is essential to the committee's inquiry that the question be answered in public session. Where a witness declines to answer a question to which a committee has required an answer, the committee shall report the facts to the Senate.

I should also draw to the attention of witnesses procedural resolution 9, which governs the exercise of the chairman's discretion in relation to the matter of relevance. It reads:

A chairman of a committee shall take care to ensure that all questions put to witnesses are relevant to the committee's inquiry and that the information sought by those questions is necessary for the purpose of that inquiry. Where a member of a committee requests discussion of a ruling of the chairman on this matter, the committee shall deliberate in private session and determine whether any question which is the subject of the ruling is to be permitted.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken. The committee will determine whether it will assist on an answer having regard to the foregoing criteria. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis of the claim. An officer called to answer a question for the first time should state their full name and the capacity in which they appear, and witnesses should speak clearly and into the microphones to assist Hansard to record the proceedings.

I welcome the parliamentary secretary, Senator Colbeck, representing the Minister for Industry, Tourism and Resources, and officers of the department. Mr Paterson, do you wish to make an opening statement?

**Mr Paterson**—No, Chairman.

**CHAIR**—Thank you. We will go to questions.

**Senator GEORGE CAMPBELL**—Mr Paterson, I have a range of questions relating to the costings of various programs. I presume I should direct them to Ms McClusky, but I wonder whether or not it is possible to short-circuit the exercise. I know we are not going to get answers to all or most of them this morning, that most of them are going to be taken on notice. I wonder whether or not it is possible for me to outline three or four key points in respect of each of the programs that we are interested in and ask you take them on notice. Could you prepare a spreadsheet like I think you did for Senator Carr 12 months ago—or it may be a bit beyond that now—on each of the programs? That might facilitate the process. If need be I can go through and identify the programs that I would like treated as priorities. That



might be a more expedient way of doing it than trying to go through each of the programs listed in the portfolio budget statement.

**Mr Paterson**—I am happy to explore it. It may be that we have the answers to your questions with us. Let us see how we go.

[9.08 am]

**Senator GEORGE CAMPBELL**—I really want to deal with the programs, the priority ones, and I want the costs to include the departmental costs associated with the programs as well as the issues. In outcome 1, going to the R&D tax concession, can you tell me how much money in this program is actually committed and how much money is uncommitted by forward estimate year? In other words, how much of the outlays that are there are actually committed—that is, have been spent, have been guaranteed to applicants—and how much is based on an expectation that there will be a take-up?

**Mr Peel**—The tax concession program is actually a revenue forgone program rather than a program where we provide cash to applicants. We have figures on the Treasury estimates of the cost of the tax concession over the next few years, which I could provide to you.

**Senator GEORGE CAMPBELL**—Can you provide that, Mr Peel?

**Mr Peel**—Yes. For 2005-06, \$540 million; 2006-07, \$555 million; 2007-08, \$570 million; and 2008-09, \$590 million.

**Senator GEORGE CAMPBELL**—Is the \$540 million for the year to June this year a firm figure?

**Mr Peel**—That is an estimate. The way the tax concession works is that companies have from 10 months from the end of the financial year to make a claim, and they claim it after the financial year has finished. So the last year on which we have complete figures is 2003-04, which is \$560 million. For the other years, they are our estimates. For most companies the financial year ends on 30 June, but there are a number that have end-of-calendar-year closes for their financial year, so those figures are incomplete; they are our estimates.

**Senator GEORGE CAMPBELL**—So the last full year, in which it was \$560 million, was 2003-04. These are figures of estimates based on—

**Mr Peel**—The year 2003-04 is a finalised figure. They are all Treasury estimates.

**Senator GEORGE CAMPBELL**—What was the original estimate for 2003-04?

**Mr Peel**—They are the only estimates I have. You would have to ask the Treasury that question. They actually do those estimates rather than us.

**Senator GEORGE CAMPBELL**—So you do not know in 2003-04 how the actual revenue forgone stacked up against what the estimate of revenue forgone was?

**Mr Peel**—No, I do not. That is something you would have to ask the Treasury.

**Senator GEORGE CAMPBELL**—So this is one of these programs where you have nothing to do—it is purely an administration role.

**Mr Peel**—Yes. Our role in the tax concession is really to look at the R&D that companies are undertaking. We register companies for the concession, and we have a compliance role in

checking that the R&D that they are claiming is allowable under the act. The actual processing of the claims is done by the tax office through companies' individual tax returns. We do not get involved in processing the actual claims. That is why, I guess, the estimates come from the Treasury portfolio.

**Senator GEORGE CAMPBELL**—Are these estimates of the revenue forgone in the out years simply there for budget purposes? This is an uncapped program, isn't it?

**Mr Peel**—Yes, they are there for budget purposes. They are found in the Treasury tax expenditure statements which are published each year.

**Senator GEORGE CAMPBELL**—Yes, but, for example, it could be twice that.

**Mr Peel**—There is no limit.

**Senator GEORGE CAMPBELL**—There is no limit, so they are uncapped programs.

**Mr Peel**—Yes. It is not as if there is \$200 million a year and that is it. It has been increasing over the years.

**Senator GEORGE CAMPBELL**—Has it been increasing? It was \$560 million for 2003-04. The estimates are less for the outgoing years, with the exception of 2008-09.

**Mr Peel**—It has been increasing for the last few years. In 2004-05 it was \$535 million, then it went to \$540 million, \$555 million, \$570 million and \$590 million, the estimate for 2008-09.

**Senator GEORGE CAMPBELL**—So it went down in 2004-05?

**Mr Peel**—The Treasury estimate for 2004-05 was less than the Treasury estimate for 2003-04 but more than the estimate for 2002-03.

**Senator GEORGE CAMPBELL**—Can we move on to the labour market and the South Australian structural adjustment assistance package. Before you go, Mr Peel, could I ask you about those figures you provided for the tax concession. Do you have a split of the figures across the 125 and the 175 for the tax offset?

**Mr Peel**—Perhaps I do not, for all of those years. So perhaps I could take that on notice.

**Senator GEORGE CAMPBELL**—Do you have it for the completed year 2003-04?

**Mr Peel**—Yes. In 2003-04, on the 125 concession—I have the reported expenditure on R&D, rather than a breakdown of the estimate. You would have to get that from the Treasury. I can give you a breakdown on what companies are telling us they are going to claim on their tax returns. You would have to get Treasury to break down the estimate.

**Senator GEORGE CAMPBELL**—What do you mean by the estimate? Can you give us the actuals?

**Mr Peel**—I can give you what companies are saying they are going to claim in 2003-04 on their tax return.

**Senator GEORGE CAMPBELL**—But the actual claim?

**Mr Peel**—For the actual claim, you would have to go to the Tax Office. But I can give you what they are telling us they were going to claim.

**Senator GEORGE CAMPBELL**—That is fine.

**Mr Peel**—Would you like those figures?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peel**—For 2003-04, 125 per cent was \$3,767.8 million. The offset is \$565.5 million. The 175 is \$2,490.1 million and there were some companies that were going to claim both the offset and the 175. The total of those was \$98 million and the overall total is \$6,921.4 million. So that is the total expenditure they are going to claim on their tax returns, recognising they only pay tax of 30 cents in the dollar on that. That is why that figure would be much higher than the estimates. The estimate is the cost to revenue. This is the actual claims that they will make for R&D.

**Senator GEORGE CAMPBELL**—So the 560 would be a percentage of that?

**Mr Peel**—That is right. They pay 30 cents in the dollar tax, so that is all they can claim. They can claim that plus the 125, 175 and so on, and the Treasury estimate is how much it will actually cost the budget. So this is the value of the R&D that they are claiming on their tax return and the Treasury estimate is how much the government will actually lose in revenue as a result of those claims that they put on their returns.

**Senator GEORGE CAMPBELL**—If the amount they claim is almost \$7 billion—

**Mr Peel**—They are going to claim \$6,921.4 million on their tax returns.

**Senator GEORGE CAMPBELL**—Which is almost \$7 billion, and the eligible amount of that is one-third—is that what you are saying?

**Mr Peel**—They are claiming it on the tax that they have paid. They pay 30 cents in the dollar tax, and they can claim the 125 per cent tax concession, which is a quarter of that, which is 7.5c.

**Senator GEORGE CAMPBELL**—But I understood you to say that they claimed \$7 billion or \$6.9 million.

**Mr Peel**—Capital expenditure is also included in that figure as well.

**Senator GEORGE CAMPBELL**—What you are telling, Mr Peel, is I would be better asking Treasury about these figures.

**Mr Peel**—If you want to know the estimate of what it is going to ask the budget, you should really be asking the Treasury.

**Senator GEORGE CAMPBELL**—Can we move on to the labour market and structural adjustment assistance package. It is the same question, Mr Pettifer, or weren't you listening? On the labour market and structural adjustment assistance package, can you tell us how much money is committed for 2005-06 and what are the bond committed amounts on this program by forward estimate year?

**Mr Pettifer**—What I can say is that to date the government has approved 16 projects under this particular fund and the commitment of Australian government moneys for those 16 projects is \$26.4 million. There is a component also for those projects for the state government. I do not have that information before me but it is a relatively small component.

You will recall this fund was a \$40 million fund from the Commonwealth, and the South Australia government was going to put in \$5 million.

**Senator GEORGE CAMPBELL**—When you say there is \$26.4 million committed, what has been spent to date, to the end of this financial year?

**Mr Pettifer**—They are projects which have been approved by the minister for funding. We then go through a process of contract negotiations on each of those projects. That process is still ongoing. Five contracts have been signed and 11 contract negotiations are ongoing. The amount of money that has been actually spent to date is \$1.84 million. What the government has indicated, though, is that all the money will be spent by the end of next financial year, 2006-07, and we are on track to do that.

**Senator GEORGE CAMPBELL**—So that would be \$38 million?

**Mr Pettifer**—Yes.

**Senator GEORGE CAMPBELL**—And only \$26.4 million of that has been committed so far?

**Mr Pettifer**—There were some other projects which were considered by the task force that recommends to ministers what projects should be funded. I think the last meeting of that was last week. There are some other projects in the pipeline. What I can say is that all that money will be spent. Mr Jones is just reminding me that there is some administrative funding attached to this program as well, so when I say all the money will be spent, it will be spent on funding those projects and on running the actual program.

**Senator GEORGE CAMPBELL**—How much of the \$40 million will go in admin expenses?

**Mr Jones**—There was \$3.6 million of the fund reserved for administration. The bulk of that will be spent by the end of this financial year.

**Senator GEORGE CAMPBELL**—You say \$1.84 million so far.

**Mr Jones**—The figure that has been spent on the actual programs, the grants to the companies, is \$1.84 million.

**Senator GEORGE CAMPBELL**—You have spent more to administer it than you have actually spent on the program.

**Mr Jones**—At this stage, yes, but that is because a large part of the administration was in setting up the program and assessing all of the applications. Now the workload will switch into actually getting the money out the door to those successful projects.

**Senator GEORGE CAMPBELL**—There are 16 projects. Will they take up the bulk of the fund or will there be additional projects? You said there were additional projects that have not yet been approved.

**Mr Pettifer**—There are three other projects that were approved by the task force at its last meeting which have still to go to ministers for approval. That will account for the entirety of the fund, assuming ministers agree to move forward with those projects. In the portfolio budget statement there is an item that involves rolling in \$400,000 of what was originally

administered funding, I think, into grant moneys because we did not need to use that money to administer the program.

**Senator GEORGE CAMPBELL**—Whereabouts is that Mr Pettifer; can you identify it for me?

**Mr Pettifer**—Page 30.

**Senator GEORGE CAMPBELL**—Can we move onto the strategic investment coordination programs? Same question Mr Jones: what money has been spent to date?

**Mr Jones**—On each of the strategic investment coordination projects?

**Senator GEORGE CAMPBELL**—Yes. What I want to know is what moneys have been committed to date on this program, what moneys allocated the forward years are committed and what moneys are not committed at this stage?

**Mr Jones**—I do not have an overall summary of that with me. We would have to look at the individual projects and get back to you with that information.

**Mr Paterson**—It is a process rather than a program. So there isn't money committed in the forward estimates for potential new programs, and the ones that have been considered to date are considered on a case-by-case basis and specific provision is then made for those projects.

**Senator GEORGE CAMPBELL**—For those, yes, but there are also departmental costs associated with running this program.

**Mr Jones**—There is no specific provision of departmental moneys for administration of the process because it is essentially an unpredictable process and very lumpy in the nature of the applications that are made to us. We deal with applications for funding as they arrive.

**Senator GEORGE CAMPBELL**—Do you have a figure for the cost to the department to administer this program for the last financial year—that is current 2004-05 and 2006?

**Mr Jones**—No.

**Senator GEORGE CAMPBELL**—What was the actual cost to the department to administer this program?

**Mr Jones**—It would be very difficult to isolate that figure because there is no staff specifically assigned to strategic investment coordination issues. They deal with it as part of a wide range of other duties.

**Senator GEORGE CAMPBELL**—What is the cost of managing the program allocated against?

**Mr Jones**—In terms of the administration costs within the department, it is part of Invest Australia in terms of assessing the applications. The management of the individual projects would then be part of other divisions within the department.

**Senator GEORGE CAMPBELL**—Where would that money be identified in the PBS?

**Mr Jones**—In Invest Australia's case, it would be part of the overall funding that goes to Invest Australia.

**Senator GEORGE CAMPBELL**—Which is where?

**Mr Jones**—In the most recent PBS, there was an announcement of funding for Invest Australia for the next four years.

**Mr Paterson**—It should be noted that that is part of the funding that is allocated to Invest Australia. That is in addition to base funding, which is part of the general appropriation for the department, which also funds Invest Australia.

**Senator GEORGE CAMPBELL**—Let us take 2006-07. There is an allocation there of \$6 million for departmental outputs. What does that consist of, Mr Jones?

**Mr Jones**—As Mr Paterson has just said, the funding for Invest Australia is essentially in several parts. There is a part of Invest Australia's funding that is part of the department's ongoing core appropriation. There was around \$11 million a year that was provisional funding already in the forward estimates and there is this \$6.7 million which is additional moneys granted in this budget.

**Senator GEORGE CAMPBELL**—What do you mean when you say there is \$11 million already in core estimates? What are core estimates?

**Mr Jones**—I said there was \$11 million a year in provisional funding already included in the forward estimates.

**Senator GEORGE CAMPBELL**—I thought you said core estimates.

**Mr Jones**—No. So the totality of those groups of money makes up Invest Australia's overall budget of something in excess of \$20 million a year. That budget is allocated for the full range of Invest Australia's activities, which primarily involve maintaining a network of overseas posts to attract foreign direct investment into Australia, to market Australia as a destination for investment and to work with investors to help attract investment projects here and facilitate investment projects there.

**Senator GEORGE CAMPBELL**—Does this include any outstanding grants that might have been made on the program previously?

**Mr Jones**—There are no grant moneys in Invest Australia's appropriation.

**Senator GEORGE CAMPBELL**—So it is purely administrative?

**Mr Jones**—Yes, and only a very small part of that appropriation would go towards the strategic investment coordination process—certainly less than \$1 million a year on strategic investment coordination.

**Senator GEORGE CAMPBELL**—Where does the \$6 million go and where is the \$11 million in the forward estimate years? Where is that identified?

**Mr Jones**—The \$11 million was identified in some budget papers several years ago and essentially has formed part of the forward estimates ever since on a provisional basis.

**Senator GEORGE CAMPBELL**—But it is not in these tables.

**Mr Jones**—Because it was already included, I guess, in the department's core appropriation, so this is additional money to what was already identified.

**Senator GEORGE CAMPBELL**—So what you are saying to me is that the expenditure on Invest Australia is \$17 million, not \$16 million in 2006-07, 2008-09? You have to add another additional \$11 million to each of those figures?

**Mr Jones**—And then add on an additional component, which is also part of the department's ongoing expenditure.

**Senator GEORGE CAMPBELL**—Which is what?

**Mr Jones**—In an answer to a question on notice from Mr Tanner, we identified that overall expenditure for Invest Australia in 2005-06 would be around \$22 million. In the next year, 2006-07, total expenditure for Invest Australia will be of the same order, around \$23 million a year.

**Senator GEORGE CAMPBELL**—I am not denying that what you are saying is factual; I am trying to grasp why it is not identified in the PBS.

**Mr Paterson**—Because the PBS reports variations, and this was additional new money reflected here. We can prepare you a table which shows you the three component pieces that make up the \$22 million that Mr Jones is talking about in the current financial year and in the forward estimates years.

**Senator GEORGE CAMPBELL**—Is that the same for all programs, Mr Paterson?

**Mr Paterson**—If there are variations on base funding—each of these is different, as you know, Senator. But in terms of Invest Australia, there was core funding which was part of the departmental appropriation prior to the creation of Invest Australia as a division within the department, and we brought resources in from Austrade and from the Department of Communications, Information, Technology and the Arts. That occurred, as I recall it, in 2002-03 when they were combined together.

**Senator GEORGE CAMPBELL**—I have to go back to the PBS?

**Mr Paterson**—There are steps along the way. We can do that for you, and we will just show you the component pieces for the current financial year and for the forward estimates years.

**Senator GEORGE CAMPBELL**—Can you do that?

**Mr Paterson**—We can.

**Senator GEORGE CAMPBELL**—I cannot take that any further. The P3 scheme—

**Mr Peel**—Senator, just refresh my memory, is it the 2005-06 figures that you are after?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peel**—The expected end of year expenditure for the Pharmaceuticals Partnerships Program in 2005-06 is \$10.2 million.

**Senator GEORGE CAMPBELL**—What was the allocation for it?

**Mr Peel**—The original budget was \$23.2 million.

**Senator GEORGE CAMPBELL**—Why such a significant underspend?

**Mr Peel**—The PBS shows the rephasing of \$13 million to future years. The reason for the underspend was that the companies that have received grants under the program proceeded with their projects more slowly than they originally estimated, so to line up with their revised R&D plans we needed to move that \$13 million to future years.

**Senator GEORGE CAMPBELL**—So apart from the money that was originally allocated to the future years for the program, how much of that \$13 million is committed funding—in other words, you have approved the projects?

**Mr Peel**—It is all committed.

**Senator GEORGE CAMPBELL**—It is all committed funding.

**Mr Peel**—The \$13 million is all committed.

**Senator GEORGE CAMPBELL**—What is the figure for the additional forward estimate years?

**Mr Peel**—For 2006-07 the budget is \$31.62 million, for 2007-08 the budget is \$37.24 million and for 2008-09 the budget is \$41.04 million.

**Senator GEORGE CAMPBELL**—Do you have a figure for how much of that money is actually committed?

**Mr Peel**—Yes, for 2006-07 there is \$27.91 million in commitments, for 2007-08 there is \$33.92 million in commitments and for 2008-09 there is \$30.32 million in commitments.

**Senator GEORGE CAMPBELL**—Which means there is \$20 million uncommitted?

**Mr Peel**—Uncommitted is approximately \$25 million.

**Senator GEORGE CAMPBELL**—What about the TCF SIP program?

**Mr Peel**—For TCF SIP, this is as at 30 April, as were the other figures. The budget for 2005-06 is \$209.3 million. Expenditure to date is \$45.6 million. The uncommitted funds are \$154.7 million.

**Senator GEORGE CAMPBELL**—Why is there such a large underspend?

**Mr Peel**—The way the program is designed, claims for TCF SIP come in late in the financial year. Our people are currently processing most of the claims for this year. That will come in May-June.

**Senator GEORGE CAMPBELL**—What is your expectation of what the final figure will be?

**Mr Peel**—It will be about \$126 million.

**Senator GEORGE CAMPBELL**—That still leaves \$160 million underspent. Is that right?

**Mr Peel**—About \$74 million will be underspent.

**Senator GEORGE CAMPBELL**—Sorry, that is on top of the \$45 million.

**Mr Peel**—The original budget was \$200.3 million. I think at previous estimates we mentioned that underspends in TCF SIP are carried over year to year. 2005-06 is the final year of the pre-2005 TCF program, so any excess that is not claimed will be returned to



consolidated revenue. The difference between the \$200 million and the \$126 million, which is about \$74 million, will be returned.

**Senator GEORGE CAMPBELL**—Have you received any claims or applications against the forward programs yet?

**Mr Peel**—No claims yet. We have over 500 companies registered, though, for the post-2005 program.

**Senator GEORGE CAMPBELL**—At this stage is there any indication of what the likely take-up rate is going to be?

**Mr Peel**—As I have mentioned, 523 companies have registered for the program and the claims for the post-2005 program need to be in by 28 February 2007. We will not have a good indication until closer to then just how many claims we are likely to receive.

**Senator GEORGE CAMPBELL**—What is the allocation in the out years for that program?

**Mr Peel**—It is \$97.5 million in 2006-07, 2007-08, 2008-09 and 2010-11. Then it goes to \$17.5 million from 2011-12 out to 2015-2016, giving a total of \$575 million.

**Senator GEORGE CAMPBELL**—Against 523 companies, that is an average of \$1 million each.

**Mr Peel**—If you divide it that way, yes.

**Senator GEORGE CAMPBELL**—I know it will not finish up being divided that way. When you divide it that way it is pretty small bikkies. I presume that all these assumptions have been tested with DOFA and meet with their approval?

**Mr Peel**—The expenditure for the final year of the pre-2005 scheme has certainly been discussed with the department of finance and the estimates developed in conjunction with those. The forward numbers that I mentioned for the next number of years are in the forward estimates, so to that extent they have been signed off by the department of finance.

**Senator GEORGE CAMPBELL**—Let us move onto the Automotive Competitiveness and Investment Scheme.

**Mr Peel**—ACIS 2005-06—

**Mr Sexton**—To date 2005-06 expenditure is \$349.09 million. The expected budget for 2005-06 is \$518.52 million.

**Senator GEORGE CAMPBELL**—Do you expect to meet that budget or is there going to be an under spend?

**Mr Sexton**—We expect to meet that budget. For future years: 2006-07, \$577.4 million; 2007-08, \$570 million; 2008-09, \$570 million; and 2009-10, \$570 million. Do you want to go any further, Senator?

**Senator GEORGE CAMPBELL**—No, I think that is far enough at this stage. That seems to be a consistent figure. How much of those moneys or those estimates is committed, if any? How much are the programs going to cost? Do you have any idea?

**Mr Peel**—They are not actually committed, because the claimants under the program claim in arrears after they have undertaken the activity. Each quarter they will submit a claim to us for the previous quarter, so we are working quarter by quarter. We do not actually have any commitments yet, but we expect to spend the full amount.

**Senator GEORGE CAMPBELL**—Those figures, I understand from previous discussions, are capped.

**Mr Peel**—They were capped and uncapped figures, I think, that we gave you.

**Senator GEORGE CAMPBELL**—A portion of it is uncapped, I think, isn't it?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Your expectation is that all the moneys will be expended?

**Mr Peel**—Yes, we expect that to be the case.

**Senator GEORGE CAMPBELL**—What about the Tradex scheme?

**Mr Peel**—Tradex is again a revenue forgone scheme rather than an actual grants scheme, so again we have estimates provided by others—that is, Treasury. The Tradex program allows companies to import goods which they would subsequently re-export and therefore claim exemptions from import duty and GST on those. That is the revenue that the government is forgoing. The figures I have from 2005-06 right out to 2008-09 are \$85 million in duty forgone—that is, import duty that they would not have to pay—and \$140 million in GST exempted. That is just a consistent figure for all of those years.

**Senator GEORGE CAMPBELL**—That is in total \$220 to \$225 million?

**Mr Peel**—Yes, if you add those two together.

**Senator GEORGE CAMPBELL**—What about 2005-06? How much of that has actually been forgone? Do you have those figures?

**Mr Peel**—Our estimate as at 31 March is \$10.8 million—no. Perhaps I could take that on notice. I think there is something wrong with the figures here that I have got in front of me. Yes, I will have to take that on notice. Sorry.

**Senator GEORGE CAMPBELL**—There would have to be a huge under spend or a huge saving.

**Mr Peel**—Yes. There is something wrong with those figures.

**Senator GEORGE CAMPBELL**—Could you take that on notice?

**Mr Paterson**—Shall do.

**Senator GEORGE CAMPBELL**—Again, is this a program where the grants or the moneys are claimed in arrears?

**Mr Peel**—No, it is upfront exemption from import duty and GST.

**Senator GEORGE CAMPBELL**—So they have to apply for the exemption before they bring the goods into the country.

**Mr Peel**—That is correct. They register for the program and then that applies to their imports.

**Senator GEORGE CAMPBELL**—What identification process goes through to identify the goods that are being imported and then exported?

**Mr Peel**—We have a form that they fill out, called a Tradex registration form, and they have to put various details as to their identity and what their intention is in terms of imports and exports. We manage that in conjunction with the Customs Service, so they are able to check whether the goods were imported and whether they were re-exported. If they do not export the goods within 12 months, we can claim the benefit back from them plus add a penalty on to that.

**Senator GEORGE CAMPBELL**—What range of goods are encompassed in this process? For example, if I were building a ship and imported the engines, would they qualify?

**Mr Peel**—I would have to check the actual details of that. It is something that the Customs Service specifies under its rules and regulations. There will be some goods that it does not apply to, but I do not have that information here.

**Senator GEORGE CAMPBELL**—Can you take that on notice?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Can you also, when you are getting these figures, ask them for the percentage in various groupings?

**Mr Peel**—Percentages that the goods represent?

**Senator GEORGE CAMPBELL**—Yes, whether it is manufacturing imports, service imports or whatever.

**Mr Peel**—Okay.

**Senator GEORGE CAMPBELL**—Can we turn to the Commercial Ready Program.

**Mr Peel**—I will start with the budget for 2005-06. The budget was \$199.5 million. Our commitments to date are \$64.53 million plus expenditure of \$112.82 million. As at 30 April, our uncommitted funds were \$22.15 million. So we expect to spend \$152.5 million this year out of the \$199.5 million. In the portfolio budget statements you will notice that we have got approval from the government to rephase that underspend of \$47 million to future years. The budget for 2006-07 is \$199 million, commitments to date for 2006-07 are \$128.69 million and uncommitted funds, therefore, are \$70.31 million. For 2007-08 the budget is \$176.93 million, commitments to date are \$42.12 million and uncommitted funds are \$134.81 million. For 2008-09 the budget is \$212.37 million, commitments are \$8.36 million and uncommitted funds are \$204.01 million.

**Senator GEORGE CAMPBELL**—Why has there been an underspend in this program?

**Mr Peel**—There are a couple of reasons for Commercial Ready underspending this year. The main reason is similar to the one that we spoke about in relation to the pharmaceuticals program. We are funding projects that span a number of years. To a large degree the budget or the expenditure of the grant funds is out of our control. It is spent in accordance with company plans for their particular projects. What we find is that they are often overly

optimistic about the time it is going to take them to complete their projects. As well, R&D, for instance, is inherently unpredictable. So we are continually juggling the money to meet customers' expectations, and that is essentially the reason why the \$47 million was not spent.

In addition to that, Commercial Ready is still a relatively new program. When R&D Start finished we had a big ramp up of applications for the last round of Start, which resulted in a slower take-up for Commercial Ready, so there was a bit of a slow take-up at the beginning. Commercial Ready has now reached levels that we had under R&D Start, so we are quite satisfied now with the level of demand for the program, but we are still to some degree getting over that initial slow start. Overwhelmingly the reason is the underexpenditure by the companies that have got the grants.

**Senator GEORGE CAMPBELL**—I will come to some specific questions about Commercial Ready later on, but are you able to identify the amount of money that has been committed to each segment of the Commercial Ready Program?

**Mr Peel**—No, we do not have it, but we can take it on notice and let you know.

**Senator GEORGE CAMPBELL**—You can take it on notice. On your experience of this program, you do not expect at the end of the day that there will be any underspend in the program?

**Mr Peel**—We expect to fully expend the money that is available. We have got a challenge with annual budgets, but we will spend the overall budget for the program; it is just a matter of how much you are going to spend each year, because of the unpredictability of the projects. But we have got approval to carry over the funding, so there is no loss of money. The underspend has not resulted in a loss of funds available to companies, it has just shifted it to future years.

**Senator GEORGE CAMPBELL**—I understand that, but at the end of the day, come 2010-11, there may be a pot of money sitting there that is not expended, for a variety of reasons. I wonder to what extent the department is looking at these issues. There is the statement by the Secretary of the Treasury about the impact of the resources boom on manufacturing. I presume the bulk of your R&D or Commercial Ready applications are coming from the manufacturing sector. It might be too much of an assumption to make, but I would have thought that would be the case.

**Mr Peel**—I think that probably would be a brave assumption. I think the approvals that we are giving at the moment are spread across a number of sectors. Biotechnology, for example, is pretty strong at the moment, but there is a fair bit of activity in the manufacturing area as well.

**Senator GEORGE CAMPBELL**—I still define that as manufacturing, Mr Peel.

**Mr Peel**—If you do, then you are probably right.

**Senator GEORGE CAMPBELL**—It is essentially the same process as making flour; it just has different purposes. It is the definition that you use to define primarily manufacturing type activities as opposed to services or resources.

**Mr Peel**—That is true; making products is essentially the main focus.

**Senator GEORGE CAMPBELL**—The AiG in their recent publication were bemoaning the fact that they were not getting enough encouragement, or manufacturing companies were not getting enough encouragement, to get into R&D type activities. Maybe I can come to this later on, but are those two factors impacting upon the underspend in this area?

**Mr Peel**—We are happy with the level of demand for the program at the moment. If the current level of demand continues, we do not think we will have any difficulty in spending the money. Really the only issue for us now is whether companies are spending the money in accordance with their plans—and it is juggling the cash across the years—but at the moment we are happy that the level of demand that we have got now, if it continues, will result in the program being fully expended.

**Senator GEORGE CAMPBELL**—Can we move on to the COMET program.

**Mr Peel**—These figures are as at 30 April 2006. The budget for 2005-06 for COMET is \$9.4 million. Our commitments are \$2.74 million; expenditure, \$6.42 million; and uncommitted funds, \$240,000. You will see in the PBS that we have rolled over \$1 million to future years in COMET, for essentially the same reasons that we have just discussed with Commercial Ready about companies not spending at the rate they predicted they would.

**Senator GEORGE CAMPBELL**—When you say you have committed funds of \$2.4 million, you have expended \$6.42 million—

**Mr Peel**—Yes, we have already spent \$6.42 million and we have got further commitments of \$2.7 million. For 2006-07, the budget is \$9.8 million. We currently have commitments in that year of \$2.65 million and uncommitted funds of \$7.15 million. For 2007-08, the budget is \$14 million and we have got commitments of \$0.03 million—which I think is \$30,000—and uncommitted funds of \$13.97 million. For 2008-09 the budget is \$12.8 million, and all of that at this stage is uncommitted.

**Senator GEORGE CAMPBELL**—So there over half the funds in this program are uncommitted?

**Mr Peel**—Out into the future, yes.

**Senator GEORGE CAMPBELL**—I turn to the ICIP program.

**Mr Peel**—That is the Industry Cooperative Innovation Program. This is at 30 April again. The budget for 2005-06 is \$4.65 million, commitments are \$0.79 million, expenditure is \$0.72 million, uncommitted funds are \$2.21 million and expected end of year expenditure is \$1.95 million. Again, in the PBS we have carried over \$2½ million of that program into future years. We have only had one round of the program to date. We are a bit disappointed of the outcome of that round; we did not have enough quality applications to expend all of the funds, so we have carried that forward into future years.

**Senator GEORGE CAMPBELL**—When you say that you have not had quality applications, Mr Peel, in what way are they deficient?

**Mr Peel**—There are a variety of reasons. They are all assessed against the merit criteria for the program. The committee that was doing that felt that it could only recommend grants up to \$2.5 million less than we had available.

**Senator GEORGE CAMPBELL**—Have the people who have applied been given the opportunity to reapply?

**Mr Peel**—They get an opportunity to be told about why their applications were unsuccessful and they can look at that feedback and, if they wish, prepare another application for the next round of the program.

**Senator GEORGE CAMPBELL**—Do they have to go through the same procedure again as though they were a new applicant?

**Mr Peel**—They would be considered to be a new applicant, but obviously they would have already provided us with a wide range of information so there would be no need for them to do work on that. They would just need to focus on the deficiencies that were found with the original application.

**Senator GEORGE CAMPBELL**—If they have already done part of the work, do they get fast tracked?

**Mr Peel**—No, they are considered in competition with the other applicants for the round. For 2006-07 the budget is \$4.71 million, commitments are \$2.27 million and uncommitted funds are \$2.44 million. For 2007-08 the budget is \$5.72 million, commitments are \$0.78 million and uncommitted is \$4.94 million. For 2008-09 the budget is \$4.85 million, commitments are \$0.32 million and uncommitted is \$4.35 million.

**Senator GEORGE CAMPBELL**—The IIF fund?

**Mr Peel**—For 2005-06 the total funding available is \$16.502 million, commitments are \$5.492 million and expenditure to date is \$11.01 million.

**Senator GEORGE CAMPBELL**—So the whole program is committed?

**Mr Peel**—Yes, it looks like that will be totally expended. In 2006-07 the budget is \$18.413 million. This is a capital program so it is a little bit different to the others. The Commonwealth is committed to making all of that money available should the fund managers want to make investments up to that level. In that sense all of the money in every year is committed, because if they want it it is there and they can have it. Really what we need to look at in that program is the end of the year outcome. It is hard to predict during the year just when the money will be called and when it will be drawn down because these people are out there looking for investments and they do not find those in accordance with a plan, they come up from time to time. With this program, technically speaking all of the money is committed from 1 July because it is available. It is difficult for me to give you a similar breakdown, as I can for the others. I can give you the budget for each year, the assumption being that all of the budget is committed from the start of the year.

**Senator GEORGE CAMPBELL**—I understand what you are saying, that those funds are committed provided there is an appropriate take-up.

**Mr Peel**—That is right. It was \$18.413 million for 2006-07, it is \$51.186 million for 2007-08 and \$15.210 million for 2008-09.

**Senator GEORGE CAMPBELL**—What has been the return to the Commonwealth from the IIF fund so far?

**Mr Peel**—As at 30 April, the net return to the Commonwealth has been \$5 million overall.

**Senator GEORGE CAMPBELL**—I thought the LookSmart investment returned \$29 million.

**Mr Peel**—Perhaps I could go through the sums for you. As at 30 April \$234 million had been invested in the program, total funds available are \$359 million, so it is not yet fully invested. Of that \$234 million that has been invested, \$147 million is Commonwealth money and \$87 million is private sector money. The total current value of that \$234 million is \$490 million, and that comprises \$209 million valuation of current assets, plus financial returns of \$281 million. Part of that \$281 million is LookSmart, which was \$245 million; but we also have 19 other investments that have returned \$36 million, so the total return is \$490 million. Out of that \$490 million, the Commonwealth's share is \$191 million and the private sector's share is \$299 million. The private sector net return is \$188 million and the Commonwealth's is \$5 million. If you add them both together I guess you get the total return on the funds, remembering that the Commonwealth simply seeks a return of its funds plus 10 per cent of the profits, the bulk of the money going to the private sector.

**Senator GEORGE CAMPBELL**—Are you able to tell us what the losses are?

**Mr Peel**—That was the net return. The total return from the \$234 million invested is \$190 million, so we are running at 82.5 per cent as at 30 April. But you have to remember that there is a lot of money still invested that has still got to come home to roost, but as at that date it was \$193 million over \$234 million, so it is worth about 82.5 per cent of the original investment.

**Senator GEORGE CAMPBELL**—The Venture Capital Limited Partnerships Program.

**Mr Peel**—Again, this is a revenue foregone program, so I simply have the Treasury's tax expenditure statement estimates for that program, cost to revenue. The figures that I have are: 2003-04, \$21 million; 2004-05, \$31 million; 2005-06, \$39 million and 2006-07, \$42 million.

**Senator GEORGE CAMPBELL**—There has just been additional funding provided to this program, hasn't there?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Which will take it out to where?

**Mr Peel**—There are additional departmental costs in the PBS for the Venture Capital Limited, the new Venture Capital Limited Partnerships Program and the extension of the IIF Program.

**Senator GEORGE CAMPBELL**—Which takes them out to when?

**Mr Peel**—The IIFs go out to 2018-19—I think that is right.

**Senator GEORGE CAMPBELL**—Where is that?

**Mr Peel**—The IIFs do not actually kick in until next financial year, so the \$200 million capital to be invested does not actually start to kick in until the financial year 2008-09. So all that appears in here is the departmental funding to run the programs, but the \$200 million will not show up until you get the PBS for the next budget.

**Senator GEORGE CAMPBELL**—All those figures that you have given me for all those programs, do they include the departmental funding?

**Mr Peel**—No, that was just the funding available to give out in grants and so on.

**Senator GEORGE CAMPBELL**—Can you take on notice, Mr Paterson, and provide us with the departmental funding that sits alongside those figures that have been provided by Mr Peel on each of those programs we have gone through?

**Mr Peel**—I can give you the AusIndustry costs to deliver the program. I cannot give you the total departmental costs.

**Senator GEORGE CAMPBELL**—The AusIndustry costs?

**Mr Peel**—I can give you the AusIndustry costs, or our estimate of what it is going to cost us this year.

**Senator GEORGE CAMPBELL**—Which is what?

**Mr Peel**—I will have to try and remember all of the programs you asked me about. COMET is about \$4.5 million, Commercial Ready is about \$14.3 million, the ICIP Program is roughly \$730,000, P3 is \$612,000, the tax concession is \$6.6 million, Tradex is \$2.16 million, ACIS is \$2.7 million, TCF post 2005 is \$3.13 million and the IIF is just over \$1 million. I think that is the extent of the ones we have been through.

**Senator GEORGE CAMPBELL**—P3?

**Mr Peel**—I think I did say that, \$612,000—that is for this year.

**Senator GEORGE CAMPBELL**—And the pre-seed fund program?

**Mr Peel**—Which one?

**Senator GEORGE CAMPBELL**—Pre-seed fund.

**Mr Peel**—Approximately \$467,101.

**Senator GEORGE CAMPBELL**—You may as well move on and deal with that. These are annual figures, I presume.

**Mr Peel**—That is our estimate for 2005-06.

**Senator GEORGE CAMPBELL**—The pre-seed fund itself?

**Mr Peel**—The pre-seed fund budget for 2005-06, \$13.351 million: commitments, \$3.178 million; expenditure, \$9.565 million; uncommitted, \$.6 million. The same for the AIF. I will give you the budgets for the out years, but realising all of that money is technically committed: 2006-07, \$12 million; 2007-08, \$12.473 million and 2008-09, \$7.875 million.

**Senator GEORGE CAMPBELL**—When did the pre-seed fund actually start? Was it 2002-03?

**Mr Peel**—They became operational in 2002-03, yes—starting in October 2002 through to December 2002.

**Senator GEORGE CAMPBELL**—So that performance in 2005-06 is consistent with previous years?



**Mr Peel**—There was a bit of a ramp up. In 2002-03 it was \$4.184 million; in 2003-04 it was \$6.398 million and in 2004-05 it was \$6.729. As I said, this year is \$9.565 million, so it has been ramping up.

**Senator GEORGE CAMPBELL**—Yes, and according to those figures it has pretty much all been committed or spent.

**Mr Peel**—Yes. As with the explanation for IIF, it is capital that is available for the fund managers to invest so in that sense it is all committed.

**Senator GEORGE CAMPBELL**—Yes, but I would just ask you on the allocations for the previous years. Was that the same type of result?

**Mr Peel**—You are looking at the expenditure for those years?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peel**—Well the figures that I have got here say the expenditure is the same as the budget, but I suspect that is not the actual outcome. So if I could take that on notice I will get you those figures.

**Senator GEORGE CAMPBELL**—Because it was being consistent over the period you would expect it to be consistent for the rest of the period. The pool development fund program?

**Mr Peel**—Again, this is a revenue forgone program. The figures again are from the Treasury expenditure statements 2005: for 2005-06, \$8 million; 2006-07, \$8 million; 2007-08, \$8 million; 2008-09, \$9 million.

**Senator GEORGE CAMPBELL**—What was the performance of the fund in the current financial year?

**Mr Peel**—You will have to ask the tax office and the Treasury. I do have some figures for 2004-05 that might go to the heart of what you are asking.

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peel**—They show me that in 2004-05 capital gains made by PDFs on the sale of investments was \$42 million, income earned by PDFs by way of dividends et cetera was \$14.5 million and payments made by PDFs to their shareholders was \$43 million. They are the outcomes for that year in a monetary sense.

**Senator GEORGE CAMPBELL**—Do you have the cost to the Commonwealth for that year in revenue foregone?

**Mr Peel**—Yes, they were the figures I read out—the \$8 million and the \$9 million were the revenue forgone figures.

**Senator GEORGE CAMPBELL**—Was that the actual figure in 2004-05?

**Mr Peel**—No, that is the estimate; I do not have the actual.

**Senator GEORGE CAMPBELL**—You do not have the actual for that year?

**Mr Peel**—No. That would have to come again from Treasury.

**Senator GEORGE CAMPBELL**—Can I just take you to the table on page 38 of the PBS. Can you identify for us, Ms McClusky or Mr Paterson, the principal factors underlying the decline in outcome 1, Administrative Appropriations in 2006-07?

**Ms McClusky**—Are you referring to figure 7?

**Senator GEORGE CAMPBELL**—Yes.

**Ms McClusky**—The principal reason for the decline from the 2005-06 year to the 2006-07 year is that the 2005-06 financial year includes an estimate of the payments that the department will make associated with the Cyclone Larry Business Assistance Fund. The estimated actual expenditure is \$260 million. That program is expected to cease on 30 June, so there is no expenditure in the 2006-07 financial year for that payment. That, I guess, is the principal reason for the large drop off. There are other variations in other programs as well.

**Senator GEORGE CAMPBELL**—Can you identify what they are?

**Ms McClusky**—I can. The timing of some of the payments that the department makes associated with various programs also impacts. There is \$10 million being made in the 2005-06 financial year for the World Youth Day program that will not be made in the 2006-07 financial year. There is the \$32.5 million payment being made to Ford Australia. There is a \$50 million payment for Hismelt. The phasing of the payments impacts on the drop-off.

**Senator GEORGE CAMPBELL**—How much of this amount is allocated against one-off type payments that you have just identified and how much of it is a drop-off in ongoing programs?

**Ms McClusky**—The largest activity is the Cyclone Larry payments, and that is a one-off. The others are associated with the phasings of the various programs.

**Senator GEORGE CAMPBELL**—Can you identify for me those programs and the amounts of rephasing that has occurred, other than the ones that we have already gone through; I do not want to repeat that exercise again.

**Ms McClusky**—If I can come back to you on that shortly. I will just need to break them into outcome 1 and outcome 2; I have them across the board.

**Mr Paterson**—The PBS on the next page actually identifies those variations. Page 39 includes all of the measures that Mr McClusky has just referred to and you can see the variations measure by measure in the difference between the estimated actuals for 2005-06 and the budget estimate for 2006-07. The largest of those is the one-off for Cyclone Larry about a third of the way down that list. Each of the other variations—for example, the World Youth Day, \$10 million, the last one on that list—is actually explained.

**Senator GEORGE CAMPBELL**—How is it explained, Mr Patterson?

**Mr Paterson**—You asked for the ones that had changed between the two years. The explanation for the variations in figure 7 is then provided in those tables on page 39 and 40.

**Senator GEORGE CAMPBELL**—I am assuming that some of those figures in the budget estimate 2006-07 could be new moneys.

**Ms McClusky**—In terms of new moneys, the measures that have come through for 2006-07 are detailed in table 2.2 on page 24. There is \$5 million associated with the Asia Pacific

Partnership on Clean Development and Climate. That first column, the administered items, are associated with new measures in the 2006-07 budget.

**Senator GEORGE CAMPBELL**—What is the \$47 million decline on the Snowy Hydro? That is the cost of the sale, is it?

**Ms McClusky**—No, that is primarily associated with the reduction of the tax equivalent payments to the states, which was included in the Department of Industry, Tourism and Resources estimates. That asset has now been transferred to the Department of Finance and Administration's books.

**Senator GEORGE CAMPBELL**—Does it tell you that in the PBS?

**Ms McClusky**—It does tell you in budget paper No. 2, I understand.

**Senator GEORGE CAMPBELL**—The total of all the measures, the \$42 million, that is mainly attributed to Snowy Hydro?

**Ms McClusky**—That is correct.

**Senator GEORGE CAMPBELL**—But that is simply because of the transfer across to DOFA.

**Ms McClusky**—That is correct.

**Senator GEORGE CAMPBELL**—Mr Paterson, at the last estimates or the one before I asked you a range of questions in relation to staff numbers et cetera, which you provided. I note that on page 60 of the PBS it states that employee expenses are expected to increase by \$10.9 million, or an increase of 6.8 per cent from the actual, for 2005-06 and that employee provisions are expected to increase by \$3.4 million, from \$53 million actual in 2005-06 to \$56.3 million in 2006-07. Can you explain to me what this is likely to mean for staff numbers?

**Ms McClusky**—As disclosed in the PBS, the department is expecting an increase of ASL from 1,817 for the 2005-06 financial year to 1,852 for the 2006-07 financial year. That is an increase of 35 ASL. With an increase in ASL there will be also an increase in employee expenses associated with that ASL.

**Senator GEORGE CAMPBELL**—It is 35 ASL. I have great difficulty coping with this ASL figure—how it is defined and how you measure it. What does that mean in actual bodies?

**Ms McClusky**—In actual bodies it will presumably amount to an increase of 35 bodies.

**Senator GEORGE CAMPBELL**—Thirty-five.

**Ms McClusky**—On average.

**Senator GEORGE CAMPBELL**—It will not be 70 divided by two to make the average of 35?

**Ms McClusky**—Across the 2006-07 financial year.

**Senator GEORGE CAMPBELL**—Can you explain to me a bit more what that actually means? Does that mean that people could be employed for two hours a day or an hour a day?

**Ms Murphy**—Average staffing levels are derived from full-time equivalent staffing, so it includes the totality for full-time equivalent of people who are part time as well as those who are engaged on a full-time basis. It is a different figure from head count, which is actually the number of bodies, as it were.

**Senator GEORGE CAMPBELL**—Can you give me the head count for staff that have been employed by the department at the end of the last calendar year and at the end of this financial year.

**Ms Murphy**—I can actually give you the head count virtually as of today, which is 1,986.

**Senator GEORGE CAMPBELL**—How many of those are people who are employed full time?

**Ms Murphy**—Full-time equivalents as at—

**Senator GEORGE CAMPBELL**—No, how many are employed full time?

**Mr Byron**—Of the figure of 1,986 bodies that Ms Murphy quoted, 1,852 are full-time employees.

**Senator GEORGE CAMPBELL**—Of the 134, how many of those are part time?

**Mr Byron**—The 134 are part time.

**Senator GEORGE CAMPBELL**—Are they all part time?

**Mr Byron**—Yes.

**Senator GEORGE CAMPBELL**—No casuals?

**Mr Byron**—No. I beg your pardon, that does include non-ongoing employees, who are generally employed for a contract period.

**Senator GEORGE CAMPBELL**—So they would be employed on a contract basis.

**Mr Byron**—That is right.

**Senator GEORGE CAMPBELL**—How many of those are there, or are they all in that category?

**Ms Murphy**—I will give you a breakdown. I am not sure that is quite the question you asked, but I will give you a breakdown and then you might let me know whether we have answered your question or not. I will give you a couple of sets of figures: 93.2 per cent of the department's staff work full time.

**Senator GEORGE CAMPBELL**—I am sorry, can you give me them in actual numbers?

**Ms Murphy**—The actual numbers—

**Senator GEORGE CAMPBELL**—It is 1,852.

**Ms Murphy**—They have already been given to you. Of our total employees, 134 are part time, 105 of those are female and 29 of those are males.

**Senator GEORGE CAMPBELL**—How many of those 134 are short-term contract?

**Ms Murphy**—We will have to come back to you on that one.

**Senator GEORGE CAMPBELL**—Why does the department employ people on short-term contracts? Is it to cover maternity leave, for example?

**Ms Murphy**—It is for a range of reasons. Sometimes it is to bring somebody in for a special project that is not an ongoing duration. Sometimes it is to bring in special skills that we cannot get more quickly otherwise. It is to give us flexibility in meeting our workforce needs at special times.

**Senator GEORGE CAMPBELL**—Of the 134 that are currently part time, can you give us a breakdown of the reasons they are employed. I am not asking for detail in the sense of what specific work they are doing, but whether or not they were engaged to cover staff leave, or whether they were engaged to carry out a special project?

**Ms Murphy**—Usually if people are engaged on a part-time basis it is because they have asked us if they can become engaged on a part-time basis. Sometimes it is people who have come back from maternity leave and only want to work three days a week as opposed to five days a week.

**Senator GEORGE CAMPBELL**—But they would be ongoing?

**Ms Murphy**—Often those people are ongoing, yes. It is usually to meet the personal needs of the staff member concerned, and we try to accommodate those. It is more at their request than at our request that a certain position is occupied on a part-time basis.

**Senator GEORGE CAMPBELL**—Are you able to give me the turnover for the year to date that we are talking about?

**Ms Murphy**—I am able to give you the separations.

**Senator GEORGE CAMPBELL**—Yes.

**Ms Murphy**—The separation rate to date, as at 30 April, is 9.7 per cent.

**Senator GEORGE CAMPBELL**—How many of those positions have been filled?

**Ms Murphy**—I would have to come back separately on that. We try and engage people back into positions as they are vacated, but there is always a lag, of course.

**Senator GEORGE CAMPBELL**—Yes, sure. I understand that. Can you also tell me how many positions remain vacant—that is, are not filled—in the department?

**Ms Murphy**—I will come back on that as well.

**Senator GEORGE CAMPBELL**—Are you currently advertising for staff?

**Ms Murphy**—Yes, we are advertising for staff virtually on a continuing basis, as are most other departments.

**Senator GEORGE CAMPBELL**—Does that 1,986 represent an understaffing of the department?

**Ms Murphy**—No.

**Senator GEORGE CAMPBELL**—It doesn't?

**Mr Paterson**—Not if you are recruiting full-time equivalent positions at average staffing levels. The average staffing level identifies the variations from month to month in terms of

vacancies and the like. The average staffing level is a point over the year and will reflect the vacancies that may exist from time to time.

**Senator GEORGE CAMPBELL**—Yes, I understand that.

**Mr Paterson**—That is why there is a significant difference between that 1,986 and the ASL numbers that Ms McClusky gave you earlier—which showed an increase in the next financial year from 1,817 to 1,852.

**Senator GEORGE CAMPBELL**—Yes, I understand that. I am really trying to ask—and I do not care which measure you use—whether or not the department is operating at 100 per cent staffing level or at something less.

**Mr Paterson**—I do not know any organisation that operates at 100 per cent staffing level.

**Senator GEORGE CAMPBELL**—I do.

**Mr Paterson**—Do you?

**Senator GEORGE CAMPBELL**—Yes, there are quite a few that would operate at 100 per cent.

**Mr Paterson**—We do not.

**Senator GEORGE CAMPBELL**—There are quite a few out there at the moment that are operating at 100 per cent and cannot reach their 100 per cent.

**Mr Paterson**—That is the point I am making.

**Senator GEORGE CAMPBELL**—Yes, but that is because of shortages of skilled labour.

**Mr Paterson**—With five per cent unemployment, that is not surprising.

**Senator GEORGE CAMPBELL**—What I am trying to establish is not the reason why but whether or not there is a gap between what you say is your optimum staffing level and your current staffing level.

**Mr Paterson**—We have identified the turnover rate so that you are conscious that the turnover rate within the portfolio is 9.7 per cent.

**Senator GEORGE CAMPBELL**—It is around 10 per cent.

**Mr Paterson**—Our average staffing levels are lower than the full-time equivalents. There will be on an ongoing basis some turnover of staff, which means that there will be some vacancies at any point in time when you look at the portfolio.

**Senator GEORGE CAMPBELL**—I assume that, because you are continuously advertising, you have not reached your optimum staffing levels.

**Mr Paterson**—We are unlikely to because many of the separations will be promotions, where people have taken roles in other organisations or elsewhere in government. It is a constantly changing thing. We do not determine the departures of the vast majority of people who separate from the department.

**Senator GEORGE CAMPBELL**—But you have to look at each individual case to determine whether it is for good, bad or indifferent reasons.

**Ms Murphy**—Just to give you an indication, to convert this into another set of figures, we had budgeted for average staffing levels of 1,817 for the 2005-06 year. Our projected ASL for 2005-06—that is to the end of June—is 1,809. So we are running very slightly under what our original budget estimate would be for 2005-06. That is on an average staffing level basis.

**Senator GEORGE CAMPBELL**—As I recall, the department took on additional responsibilities over that period also, didn't you?

**Ms Murphy**—Additional responsibilities are taken into account in the budget each year and are factored into our forward estimates of the budget.

**Senator GEORGE CAMPBELL**—I appreciate that, but I am just making the point that, if you take on additional responsibilities, obviously your numbers are going to increase. I think you took in a tourism department somewhere.

**Mr Paterson**—We actually transferred staff from the department to Tourism Australia. The Tourism Forecasting Council and the Bureau of Tourism Research were transferred from the department to Tourism Australia.

**Senator GEORGE CAMPBELL**—Wasn't there another section transferred back into the department?

**Mr Paterson**—It moves around from time to time.

**Senator GEORGE CAMPBELL**—I understand that.

**Mr Paterson**—When we take on new program responsibilities, there is a period of time between when you accept the responsibility and when you can actually recruit the staff to start to undertake the new activity.

**Senator GEORGE CAMPBELL**—True. When you advertise, Ms Murphy, what is the level of interest from external applicants for jobs that are available in the department?

**Ms Murphy**—Applicants outside the Public Service or outside the department?

**Senator GEORGE CAMPBELL**—Outside the Public Service.

**Ms Murphy**—It varies. It is probably fair to say that on average there is a higher level of interest in the more senior positions from outside the Public Service, but it varies very much from position to position and level to level.

**Senator GEORGE CAMPBELL**—So it relates very much to the positions that are being advertised.

**Ms Murphy**—Yes, it does.

**Mr Paterson**—We do a very broad recruiting exercise for graduates each year. I think the applicants were in the vicinity of 2,000.

**Mr Byron**—It was 1,200 last year.

**Senator GEORGE CAMPBELL**—You took on 40.

**Ms Murphy**—That is correct.

**Senator GEORGE CAMPBELL**—I think you said those applicants came from all around the country, Mr Paterson.

**Mr Paterson**—Yes.

**Senator GEORGE CAMPBELL**—Is that the same for external applicants for other positions in the department? Do you get applications from far and wide?

**Ms Murphy**—Typically. Particularly for the very senior positions we will get applications from across the country.

**Mr Byron**—The senior positions are advertised in the national press, so generally we would attract interest from around the country.

**Senator GEORGE CAMPBELL**—Ms Murphy, can you also provide the staff turnover figures for the year to June 2003 and the year to June 2004? Do you have those available?

**Ms Murphy**—I can give you numbers for 2004, numbers for 2005 and numbers to date for 2006. In 2004 the numbers were 138.

**Mr Paterson**—We will do percentages.

**Ms Murphy**—I will have to come back with percentages.

**Mr Paterson**—We will work some percentages up over the break and we will give them to you after that.

**Senator GEORGE CAMPBELL**—That way it will be consistent. Do you track the morale of your staff?

**Ms Murphy**—We do not have a formal staff survey, as it were, but we certainly do on a division-by-division basis monitor morale.

**Senator GEORGE CAMPBELL**—How has it been going?

**Ms Murphy**—Generally good. It varies a little bit from time to time but it is generally very good. I think we stack up very well compared to other APS agencies. I should also point out that the Public Service Commissioner does a State of the Service survey each year, and we contribute to that. We stack up pretty well compared to other APS agencies on most factors.

**Senator GEORGE CAMPBELL**—Does that survey look at the comparison between departments?

**Ms Murphy**—Yes, it does.

**Senator GEORGE CAMPBELL**—I must admit I have never actually looked at it.

**Mr Byron**—In the survey conducted by the commission they select a random number of staff from each agency, and you will be able to compare the results from your agency to an APS-wide comparison. Generally that comes out in November-December each year.

**Senator GEORGE CAMPBELL**—Do they have a rating?

**Mr Byron**—They give you percentages. The APS average for something, for example, might be 17 per cent; within our department it might be 14 per cent. So you can start to make some comparisons, and that helps you identify areas you might need to address within your own agency.



**Senator GEORGE CAMPBELL**—In that survey done by the Public Service Commissioner how does the department rate overall against other departments? Where do you sit? In the top half or the bottom half?

**Mr Byron**—You do not get a comparison that is that accurate but, as Ms Murphy said, the department believes it stacks up pretty well when it makes its comparison to those results.

**Senator GEORGE CAMPBELL**—So you do not think your staff is any more enthusiastic or less enthusiastic in general than any of the other departments?

**Mr Byron**—In general I would say no.

**Proceedings suspended from 10.47 am to 11.05 am**

**CHAIR**—The hearing is resumed. Welcome, Minister.

**Senator Minchin**—Mr Chairman, nice to see you.

**CHAIR**—Mr Paterson, perhaps you might care to say something.

**Mr Paterson**—Mr Pettifer has some clarification on an issue that was raised prior to the break. He might run through that to start with.

**Mr Pettifer**—Senator Campbell, you were asking earlier about the structural adjustment fund for South Australia and the amount of money that had been committed. I got some updated figures from the department this morning on that, which, if I may, I will pass across to you. It is a bit of a moving feast as contracts are negotiated and that sort of thing.

**Senator GEORGE CAMPBELL**—Sure.

**Mr Pettifer**—The total funding that has been approved under that program is \$35.2 million, and that is as at today. The Australian government component of that is \$30.9 million. As I mentioned earlier on, the South Australian government also makes a contribution to these projects. The amount of money that is actually being spent to date is \$8.25 million. As I mentioned earlier, we expect to expend all the money on this program.

**Senator GEORGE CAMPBELL**—Thank you.

**Ms Murphy**—Senator, if I may, too. I undertook to come back to you with some percentages of separations for previous financial years. The separation figure for 2003-04 was 8.6 per cent and for 2004-05 it was 14 per cent.

**Senator GEORGE CAMPBELL**—And then 9.7 per cent for—

**Ms Murphy**—And 9.7 per cent year to date.

**Senator GEORGE CAMPBELL**—Ms Murphy, can you tell us what proportion of your expenses are salary and associated on-costs, such as superannuation and so forth?

**Ms McClusky**—Could I just come back to you on that in a moment?

**Senator GEORGE CAMPBELL**—I do not know whether it is Ms Murphy or Ms McClusky, but can you tell me how many staff in the department are covered by AWAs and how many are on a collective agreement?

**Ms Murphy**—Yes I can. As at the end of March this year, there were 218 staff in the department on AWAs.

**Senator GEORGE CAMPBELL**—And the rest are on a collective agreement?

**Ms Murphy**—Yes.

**Senator GEORGE CAMPBELL**—Of the 218, can you give us a breakdown by classification and by gender?

**Ms Murphy**—Yes, I can. At the APS level 4 there were four and they are four females and no males; at APS level 5 there are two, both females; at APS level 6, there are 11—four males and seven females; at executive level 1 there are 48—33 males and 15 females; at executive level 2 there are 79—53 males and 26 females; at senior executive band 1 there are 56—40 males and 16 females; at senior executive band 2 there are 13—10 males, 3 females; and at senior executive band 3 there are 5—four males and one female.

**Senator GEORGE CAMPBELL**—So the bulk of the 218 are all in this senior executive level?

**Ms Murphy**—That is correct.

**Senator GEORGE CAMPBELL**—In APS levels 4 to 6, there are 17 in total. How many of those are part-time?

**Ms Murphy**—Senator, I suspect they are all full-time, but I would have to get back to you on that.

**Senator GEORGE CAMPBELL**—You suspect they are all full-time?

**Ms Murphy**—Yes, I suspect they are. I am told there is at least one part-timer, but we will come back with the figures.

**Senator GEORGE CAMPBELL**—Are the part-timers mainly in the lower levels or are they spread across the levels?

**Ms Murphy**—I will have to come back to you on that, but they are spread throughout different levels in the organisation.

**Senator GEORGE CAMPBELL**—Perhaps you can tell us where the part-timers are located in those various groups and which ones are on AWAs. Are any of the staff on AWAs paid more than the pay band for their classification under the certified agreement?

**Ms Murphy**—Yes, they are, and the AWA for the non-SES in the department is in addition to the certified agreement, so it is a recognition above.

**Senator GEORGE CAMPBELL**—Can you tell me what the difference in the pay band is for persons on AWAs as opposed to those on certified agreements?

**Mr Byron**—Could I put a caveat on us responding to that request, and that is so as to not identify any individual? It may well be that the numbers are so thin in some of those pay bands that the request that you are making may well identify individual arrangements.

**Senator GEORGE CAMPBELL**—Yes, I accept your caveat. I am not seeking to put any individual on the spot. I just want to know whether or not there is a difference in what is being paid.

**Ms Murphy**—We will have to come back to you with those details.

**Senator GEORGE CAMPBELL**—If they are on a higher level, would they not have been able to be promoted through the certified agreement, or were these individuals who sought AWAs?

**Ms Murphy**—There is a combination. AWAs are offered where a particular employee is undertaking a particularly demanding task or a task that is particularly complex or where that employee has a high market value and our wish is to recognise that market value within the department. There are a range of different reasons. Some employees choose not to go for promotions, but they are very valued at the level they are at and, in those cases, they may be on an AWA as well. An AWA does not necessarily substitute for a promotion.

**Senator GEORGE CAMPBELL**—I was just wondering whether they would have been able to have been taken up through promotion to another classification within the certified agreement.

**Ms Murphy**—Certainly for employees below the SES level, the certified agreement provides for promotion to the next level. Yes, they can still seek promotions.

**Senator GEORGE CAMPBELL**—For example, are there any person under APS classifications 4, 5 and 6, receiving remuneration higher than those on the SES levels?

**Ms Murphy**—Than those on the SES level—highly unlikely.

**Senator GEORGE CAMPBELL**—Could you take that on notice and check for me? Is performance based pay available under the certified agreement?

**Ms Murphy**—No, it is not.

**Senator GEORGE CAMPBELL**—Is it available under the AWAs?

**Ms Murphy**—Yes, it is, on some, depending on the conditions of the individual AWA.

**Senator GEORGE CAMPBELL**—Can you provide us with a breakdown of the aggregate performance based pay outcomes by classification and by gender?

**Ms Murphy**—I would have to take that on notice.

**Mr Paterson**—With the same caveat that I raised earlier in relation to identifying individuals.

**Senator GEORGE CAMPBELL**—I am asking for aggregates, I am not asking for individuals. Finally, Ms Murphy, can you provide us with a table showing total staff for the department by group and if possible by branch broken down by level and location?

**Ms Murphy**—I can take that on notice as well.

**Senator GEORGE CAMPBELL**—Can you do it for the start of the financial year and for now when you finally put the figures together. Mr Paterson, I just want to briefly run through the performance indicators for outcome 1, which are outlined in table 3.2 on pages 44 and 45 of the PBS. I go first to output 1.1:

#### **Output group 1.1 Program Management Services**

##### **Quality**

\* Customer Satisfaction [Target: 75% of customers are satisfied]

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\* Results of program evaluations

**Quantity**

\* Number of programs managed

\* Number of customers assisted / Number of payments administered

**Price**

\* Estimated dollar value of concessions delivered

\* Value of administered payments

A number of KPIs are listed with respect to quality, quantity and price. There are slightly different KPIs for output 1.2, Policy advice and for output 1.3, Business services. How has the department performed against these measures over the past financial year and how do you measure your performance against those KPIs?

**Mr Paterson**—If we firstly deal with output 1.1, Program management services, Mr Peel will answer that.

**Mr Peel**—In relation to AusIndustry performance, we regularly measure what our customers, the businesses that receive assistance from the government, think about AusIndustry and the processes that they have to follow to apply.

**Senator GEORGE CAMPBELL**—How you do that, Mr Peel?

**Mr Peel**—We have formal customer surveys that we do through a company called ORIMA Research. They are undertaken including both successful and unsuccessful applicants. For each of our programs, we regularly undertake customer satisfaction surveys. They can be aggregated for a headline rate for AusIndustry as a whole. The latest figures I have are for 2004-05, and we had an overall satisfaction rating for our staff—that is, what the businesses think of their interaction with our staff—of 86.7 per cent. For the overall service they received from AusIndustry, which includes the forms that we ask them to fill out, our responses and so on, we had an overall satisfaction rate of 85.1 per cent.

We also have our service charter, which you may have seen on our website, where we monitor how long it takes us to do things, such as how long it takes us to process an application and that sort of thing. We publish our target figures for those, and we measure those each year. We have 36 different time lines that we measure. The outcome there for 2004-05 was that 16 of those were achieved 100 per cent of the time; seven, 90 to 99 per cent; four, 80 to 89 per cent; and nine, less than 80 per cent.

**Senator GEORGE CAMPBELL**—So, the specific KPIs that are listed here—

**Mr Peel**—The KPI is 75 per cent, and we are currently tracking at 85 or 86 per cent.

**Senator GEORGE CAMPBELL**—That is one KPI: customer satisfaction. There are a number of others here. There are quality, quantity and price.

**Mr Peel**—Quantity is simply the number of programs that we manage. We manage around 30 programs at the present time. The number of customers assisted was 10,300 in 2004-05. The value of assistance that we provided overall was—

**Senator GEORGE CAMPBELL**—Sorry, Mr Peel, I do not want to cut across you, but how do you measure that in terms of your performance? Do you measure that against the number of programs managed and the number of customers assisted in 2003-04, the previous year?

**Mr Peel**—Yes, we track year to year.

**Senator GEORGE CAMPBELL**—So that is how you evaluate your performance against the KPI?

**Mr Peel**—That is right—

**Senator GEORGE CAMPBELL**—I am trying to understand how you actually—

**Mr Peel**—for the quantity and price indicators.

**Senator GEORGE CAMPBELL**—And how do you do it for price?

**Mr Peel**—For AusIndustry we look at how much it costs to deliver each program each year. Some of those costs I provided to you earlier in answer to some other questions that you raised.

**Senator GEORGE CAMPBELL**—So you have a dollar value on the cost—

**Mr Peel**—How much it costs to deliver each program—

**Senator GEORGE CAMPBELL**—of delivering the programs. I can understand that.

**Mr Peel**—compared to the administered funding—compared to the amount of money that is available.

**Senator GEORGE CAMPBELL**—On quantity, what do you measure it against? The number of employees required?

**Mr Peel**—The number of customers, the number of businesses that we assist, and the number of programs that we deliver.

**Senator GEORGE CAMPBELL**—But do you measure that back against the number of employees required to deliver it—the cost of delivery? Do you measure it in productivity terms?

**Mr Peel**—We measure it against the cost per customer assisted. From the amount that it costs to deliver a program as a factor of the number of businesses that are assisted out of that program, we work out how much it costs to assist the average customer.

**Senator GEORGE CAMPBELL**—That is in relation to price?

**Mr Peel**—That is right.

**Senator GEORGE CAMPBELL**—That is easily understandable; there is an all-up dollar value on how much it costs you to deliver the programs.

**Mr Paterson**—The customer and stakeholder satisfaction measures are reported in our annual report each year, as are the quantity and price issues. We report it division by division. We have, I think, a spare copy of last year's annual report with us which we could place in front of you if that would be helpful.

**Senator GEORGE CAMPBELL**—But it does not go to how you do the evaluation of it. Essentially I am asking what factors you take in to evaluate whether or not you have met those performance indicators.

**Mr Paterson**—Quality measures are the important things in relation to evaluation because the price and quantity issues flow out from the facts. The evaluation is the customer satisfaction survey undertaken by AusIndustry in relation to the programs it administers and the general satisfaction surveys that are undertaken by the department across the board.

**Senator GEORGE CAMPBELL**—How does the department compare with AusIndustry?

**Mr Paterson**—When we looked at program management services, for example, the overall satisfaction of stakeholders was 92 per cent in the department-wide survey and 91.8 per cent in the AusIndustry-specific survey. So they track in almost perfect alignment, but the surveys are undertaken quite independently. AusIndustry deals with all of its customer base and the department deals with key stakeholders across the board. We report that in the annual report and will do so again later this year when we publish the final numbers.

**Senator GEORGE CAMPBELL**—What do you believe has contributed to your achieving this high rate of satisfaction?

**Mr Peel**—That we go to the trouble of getting feedback from the businesses that we assist, listen to what they have to say to us, identify those deficiencies that they mention to us and put in place improvement plans should be reflected in subsequent satisfaction surveys. The satisfaction with those elements of our operation should increase. We have been tracking fairly highly on customer satisfaction for some years now.

We listen to what people say, we have high-quality staff delivering the programs, and we regularly review the procedures and forms et cetera that people need to complete and simplify those as best we can. So it is a combination of listening, taking corrective action, ensuring that we have high-quality staff to deal with the programs and revising our procedures on a regular basis to ensure that businesses are not put to undue procedure in applying for our programs.

**Senator GEORGE CAMPBELL**—Did your customer satisfaction rating increase when you located the officers out in the regions?

**Mr Peel**—Do you mean the regional managers?

**Senator GEORGE CAMPBELL**—You put 14 regional—

**Mr Peel**—Our customer satisfaction has tracked within standard statistical deviation; it has remained around the high 80s-90 per cent. But certainly the feedback that we have got on the regional managers and how they are perceived in the communities in which they are working has been very supportive. From those businesses out there in regional Australia that now have someone to contact in that location, there is strong support for the regional manager network that we have put in place.

**Senator GEORGE CAMPBELL**—Why do you think your overall rating is lower than the department's?

**Mr Peel**—I do not have the answer to that. I do not think it is—

**Mr Paterson**—There is no meaningful variation—91.8 to 92 is not a relevant difference.

**Senator GEORGE CAMPBELL**—Sorry, I misunderstood the figure. I thought you said 88.

**Mr Paterson**—No, 91.8 overall to 92 on the department-wide survey, so there is no relevance.

**Senator GEORGE CAMPBELL**—So it is it is pretty standard across all of the department. Mr Paterson or Ms McClusky, has the department engaged any external consultants during the course of the financial year?

**Ms Murphy**—Yes, the department has engaged a number of external consultants during the course of the financial year.

**Senator GEORGE CAMPBELL**—In what area and for what purpose were the consultants engaged?

**Ms Murphy**—They have been engaged right across the department, I would suggest, in all divisions, for a number of different reasons. We report in our annual report each year on the consultants engaged, and that will probably give you a good indication of the range of areas that are addressed. We also report regularly on the consultancies and contracts worth more than \$100,000, which are also spread right across the department.

**Senator GEORGE CAMPBELL**—I think, Ms Murphy, the department provided me with a breakdown of the consultancies—I am just trying to think when it was; it was back to this period last year—for all consultancies over \$10,000. I think that was the benchmark. Is it possible to update that information or that running sheet? Call it what you like.

**Ms Murphy**—We can, yes. That is the information that is published in the annual report each year.

**Senator GEORGE CAMPBELL**—We will not see the annual report until late in the year.

**Ms Murphy**—You will not, no. But we can certainly give you a list of consultancies worth more than \$10,000.

**Senator GEORGE CAMPBELL**—Can you do that?

**Ms Murphy**—Yes.

**Senator GEORGE CAMPBELL**—And in what areas of the department they were engaged and the purposes they were engaged for—I presume most of that is on the documentation you keep—and whether or not the staff levels in the relevant departments where the engagements were undertaken remained the same.

**Ms Murphy**—Sorry, I missed the last bit.

**Senator GEORGE CAMPBELL**—Whether or not the staffing levels in the departments or subagencies that engaged the consultants remained the same during the period of the consultancy—and the financials associated with those consultancies.

**Mr Paterson**—That is a pretty complex set of questions that you are raising. Not all of these consultancies are replacements of staff or other activities. Any consultancy or contract over \$10,000 will be for a variety of activities. You are trying to almost postulate a proposition before the material is there. We publish significant detail about the number of

consultancies, the variations from year to year, the divisions in which the consultancies are undertaken and the value of the consultancies. We publish that in the annual report now, and we publish it with respect to the agencies—IP Australia, Geoscience et cetera. But I am not sure that you can necessarily correlate those contracts or consultancies over \$10,000 with staffing levels.

**Senator GEORGE CAMPBELL**—You may or you may not. I suppose the only valuation that I am interested in making in terms of that issue is whether or not the consultants were engaged to carry out work that was not within the capability of the department or within your staffing levels as a consequence of the staffing levels being down—which is a legitimate use of consultants. I am not putting any higher value on it.

**Mr Paterson**—We can take it on notice. The number that reflects the proposition you are putting is going to be small by comparison with the overall exercise.

**Senator GEORGE CAMPBELL**—That is fine, if that is the case.

**Ms Murphy**—And I think you will find that, in virtually every case, the reason for engaging the consultant is because of the need for specialised or professional skills in that particular area. That is the most common reason why we go out and engage consultants.

**Senator GEORGE CAMPBELL**—That is my recollection from the last estimate that was provided to me. In the main, that would be the case. If it can be provided without much difficulty, please do so. If it is going to create substantial difficulty for the department, just say so.

**Ms Murphy**—We can certainly give you a list of consultants and the reasons why we have engaged those consultants. I think it would be very difficult to then try and equate that to staff numbers.

**Senator GEORGE CAMPBELL**—Will that include the divisions within the department?

**Ms Murphy**—We can certainly give it by division, yes.

**Senator GEORGE CAMPBELL**—Can you tell me, Mr Paterson, what are the current major research projects that are being undertaken by the department, or by consultants on behalf of the department?

**Mr Paterson**—That is a very detailed question. We will take that on notice.

**Senator GEORGE CAMPBELL**—If you are going to take that on notice can you also take on notice what stage those projects are up to, when they are expected to be completed and any preliminary findings that the research may have made. You may be able to do the following now. Can you elaborate on the progress of the following evaluations: the R&D tax offset, which I understand was to be completed in this financial year; the pre-seed fund program; and the innovation investment fund, which has been completed. Can you also say whether it is the intention for any of these to be publicly released.

**Mr Paterson**—When you referred to research projects, you blended the question into the evaluations in relation to those three projects. What do you envisage by ‘research projects’?

**Senator GEORGE CAMPBELL**—I do not know what research projects you are undertaking. For example, are you undertaking research, or do you intend to undertake



research, into the issue raised by the secretary of the Treasury, the impact of the resources boom on future employment in manufacturing? I would have thought that was a pretty significant issue that he raised and something that this department, given your responsibility for both areas, would have wanted to test or evaluate. I am not necessarily searching here for any material that may be being prepared for cabinet. I am just looking in general to see what type of research has been undertaken by the department. There is a range of other issues. There are some problems, which we will get to later on, with the auto industry—what is being done in that area, for example, if anything has been done in that area.

**Mr Paterson**—We will come back to you on that.

**Senator GEORGE CAMPBELL**—There is also the FTA with China. But I am not limiting it to that.

**Mr Paterson**—We can provide you with part of the answer on the research projects in terms of our broad strategic research plan now, if that would be helpful, and then we can add to that the research that is being undertaken independent of that major project.

**Senator GEORGE CAMPBELL**—That would be helpful.

**Ms Kelly**—I do not have details of the strategic research plan with me. But we do have a strategic research committee and a strategic research plan that looks our larger research projects, often those that have cross-divisional impacts or broader impacts. If that is the kind of research you are interested in—rather than smaller operational research jobs, which we do a lot of—we could provide you with details of the projects that are included under our strategic research plan, what their status is, expenditure et cetera.

**Senator GEORGE CAMPBELL**—I am looking much more at the macro level than any specific thing you are doing about R&D, Start grant funding or those sorts of areas. I am more interested in the macro type research that has been undertaken.

**Mr Paterson**—We will come back to you with the detail.

**Senator GEORGE CAMPBELL**—Can you also provide us with a list of the interdepartmental committees that the department is involved in?

**Mr Paterson**—At a particular point in time? It would vary from week to week.

**Senator GEORGE CAMPBELL**—I presume that you can only tell me what they are at the moment.

**Mr Paterson**—Can I take that on notice, both in terms of detail and the nature of the response?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Paterson**—There will be lots.

**Senator GEORGE CAMPBELL**—I am not questioning the detail of what those committees might be doing. I am just asking where you are involved with other departments in particular research projects or other areas.

**Senator PARRY**—Do you want to nominate a particular date, Senator Campbell?

**Senator GEORGE CAMPBELL**—They can only give me what is current. I am not asking them to predict what might happen in 12 months.

**Mr Paterson**—As of today?

**Senator GEORGE CAMPBELL**—As of today, yes. Are the three that I have mentioned specifically capable of being answered? They are the three evaluations that we know you have been doing—the tax offset, the APSC and the innovation investment fund.

**Mr Kilby**—The evaluation of the ‘I’ has been completed.

**Senator GEORGE CAMPBELL**—Pardon?

**Mr Kilby**—The evaluation of the ‘I’ of the innovation investment fund has been completed.

**Senator GEORGE CAMPBELL**—Will that report be released publicly?

**Mr Kilby**—As yet, it has not been released publicly. It is our practice normally to put a summary of the evaluation outcomes on our website.

**Senator GEORGE CAMPBELL**—When is that likely to occur?

**Mr Kilby**—We will need to consult with the minister’s office on the outcomes of that evaluation.

**Senator GEORGE CAMPBELL**—So you do not know if it will be released publicly; and, if it will be, you do not know when. Is that how I should sum up your answer?

**Mr Kilby**—Our normal practice is to release a summary of those.

**Senator GEORGE CAMPBELL**—There has been some form of a summary with most of the previous ones you have done—

**Mr Kilby**—Yes.

**Senator GEORGE CAMPBELL**—an outline of generalities.

**Mr Kilby**—I expect that will happen with this one as well.

**Senator GEORGE CAMPBELL**—If the minister for communications can undertake to release the KPMG evaluation of the ABC—which was important in budget considerations—or a summary thereof, I presume that you will be able to give us something in respect of the innovation investment fund.

**Mr Kilby**—I understand that the other two evaluations that you have referred to are still in progress; they have not been completed yet.

**Senator GEORGE CAMPBELL**—They were to have been completed by the end of this year. Do you have any indication of when they will be completed?

**Mr Pennifold**—There is an evaluation of the new elements of the R&D tax concession; that is the offset and the 175 per cent. Our plan is for that evaluation, which is an internal evaluation to government, to be completed by the end of this financial year, which is in the next month or so.

**Senator GEORGE CAMPBELL**—So your expectation is that it will make the time line?

**Mr Pennifold**—Yes, that is our expectation. Evaluation on the pre-seed fund is also under way and we expect that to be completed quite soon. Again, that evaluation is expected to be completed by the end of the current financial year, which is in the next month or so.

**Senator GEORGE CAMPBELL**—And, again, when that will be released publicly is not in your hands.

**Mr Pennifold**—No. We will complete the evaluations in the timetable that I have mentioned and then advice will be prepared for the minister.

**Senator GEORGE CAMPBELL**—Mr Pennifold, are you dealing with the P3 program?

**Mr Pennifold**—Yes.

**Senator GEORGE CAMPBELL**—Have you seen the article headed ‘Drug research program falls short of target’ in the *Weekend Australian* of 20 May?

**Mr Pennifold**—Yes, I am aware of that article.

**Senator GEORGE CAMPBELL**—Are you aware that they produced an executive summary, which I presume was of the report?

**Mr Pennifold**—I beg your pardon?

**Senator GEORGE CAMPBELL**—Are you aware that they produced an executive summary of the report?

**Mr Pennifold**—The entire report by the consultant, the Centre for International Economics, was released and is available publicly.

**Senator GEORGE CAMPBELL**—The review undertaken by that group stated that the \$150 million program had been underspent by 50 per cent, had delivered only a \$300,000 return to the public and had failed to achieve the \$500 million increase in investment that had been forecast when the program was launched three years ago. It went on to say, ‘There is no evidence to support the notion that P3 would accelerate access to drugs in Australia.’ Why did the program fail so badly?

**Mr Pennifold**—I am not sure whether we are at an appropriate point in the program to draw the conclusion that is made in the article. The reason I say that is that the report done by the Centre for International Economics looked at the first year only of a five-year program, so it is probably a little early in the program’s life to start drawing those conclusions. Therefore, we think also the assumptions that are in that report are quite conservative. That report goes on to say that, even taking into account the conservative estimates put into the econometric modelling, the program would result in new R&D investment of \$86 million over what industry would otherwise have done, public benefits of around \$80 million and a net private benefit to the industry of \$113 million. To give you an example of the conservative estimates that were in there, the consultant assumed that companies would complete only 50 per cent of the amount of R&D they had contracted to do. Our belief is that that is probably a bit on the low side.

**Senator GEORGE CAMPBELL**—Why would the consultants have assumed that?

**Mr Pennifold**—I think they were looking at the first-year results out of the five-year program rather than looking at what would happen at the end of that program. In fact, the

executive summary of the report makes the point that, with even tighter targeting of the program—because any unspent or unallocated moneys out of rounds 1 and 2 would be available for round 3 of the program—it is quite possible that the total spend of the program would be significantly higher than that achieved in the first year and, therefore, their 50 per cent estimate spend by companies in the out years is arguably conservative. That is in the second to last paragraph on page viii of the executive summary. Again, this was an evaluation of only year 1 of a five-year program. Given the unpredictable nature of pharmaceutical and biotechnology R&D, the program looks at results over the full five years and allows companies some flexibility to move some of the activity from year to year.

**Senator GEORGE CAMPBELL**—How do you think the P3 program is going?

**Mr Pennifold**—Based on the evaluation—the government commissioned the evaluation to look at how this new program was tracking—it is certainly the case, as I think Mr Peel mentioned earlier, that companies are performing at a lower level than they indicated they would perform at under their contracts. I suppose it is a reflection of the difficulty there is in doing additional pharmaceuticals R&D, particularly on the partnership side. I think our expectation is that, by having a strong partnership element to it, it would probably be difficult for these sorts of activities to get going. So we are hopeful that that element of the program will pick up over time.

**Senator GEORGE CAMPBELL**—Is the current debate on the PBS reform measures and the uncertainty felt by these companies and the companies in the pharmaceutical industry as to whether they will be affected by that debate contributing to the fact that the program is not operating as effectively as it was first envisaged?

**Mr Pennifold**—It is not apparent in the sense that pharmaceutical R&D, by its nature, is very much a long-term investment and the R&D that is going on now relates to products that will be global in nature and, therefore, not just targeted at the Australian market. But we may not see them as products available to patients for up to another 10 or 12 years, depending on at what stage exactly the R&D takes place.

**Senator GEORGE CAMPBELL**—But surely, if there is uncertainty about the PBS and its future operation, that has to weigh on the minds of some of these companies in terms of whether or not they undertake the R&D. For example, have any of the companies that have been assisted by P3, PIIP or Factor F raised with the department concerns about the PBS proposals?

**Mr Pennifold**—I think from time to time, when we talk to companies, they talk about the environment in Australia, and the PBS is a large measure of that. So there is a regular dialogue between government and business about those things.

**Senator GEORGE CAMPBELL**—The uncertainty of what is going to happen in that area obviously is weighing on their minds. At the end of the day, it may not factor into their final decision, but obviously, if they are raising it with you, it is a matter of concern to them.

**Mr Pennifold**—It certainly is a factor in the investment environment in Australia. When we recently completed a benchmarking study for the pharmaceuticals industry, I suppose the other side of the PBS equation came into that as well—that is, that the PBS does provide a

certain degree of quite significant market access for new medicines coming into the Australian market.

**Senator GEORGE CAMPBELL**—Page 18 of the PBS states:

During 2006-07, the Department will work to achieve increased pharmaceuticals and biotechnology industry growth through implementation of existing programs and development of new policy initiatives, including implementation of agreed industry development initiatives flowing from the Pharmaceuticals Industry Action Agenda and initiatives to develop the complementary medicines sector. The Department will also undertake work to contribute to the development of a more sustainable Pharmaceutical Benefits Scheme.

Can you outline to us the exact work being undertaken by the department on PBS reforms?

**Mr Pennifold**—Are you just interested in the last sentence there?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Pennifold**—The work that the department has been doing in that area has been part of the government's general approach to discussions around potential changes to the Pharmaceutical Benefits Scheme.

**Senator GEORGE CAMPBELL**—Is there an IDC that you sit on?

**Mr Pennifold**—There was an IDC that existed, which has concluded its work.

**Senator GEORGE CAMPBELL**—What is the time line for the completion of the work being done by the department, or is that part of the IDC?

**Mr Pennifold**—I think we went to this point in the last estimates. The time line would be that relating to the policy development process and the provision of advice to ministers.

**Senator GEORGE CAMPBELL**—I am asking you merely whether the reference here in the PBS refers to additional work being done by the department, or does it refer to the work that you have been involved in through the IDC?

**Mr Pennifold**—It is not additional work being done by the department outside of work that flowed on from the earlier work relating to the IDC.

**Senator GEORGE CAMPBELL**—So this refers to the work being done through the IDC or with the IDC, whatever way you want to define it.

**Mr Pennifold**—Yes, work that had been done and work that subsequently flows from that.

**Senator GEORGE CAMPBELL**—The IDC has completed its task. Has its report gone to the ministers yet?

**Mr Pennifold**—The IDC has reported to ministers.

**Senator GEORGE CAMPBELL**—The report is currently under consideration by cabinet, I presume.

**Mr Pennifold**—It is under consideration by the government, yes.

**Senator GEORGE CAMPBELL**—Is there any indication when that consideration may be completed and some decisions made in this area?

**Mr Pennifold**—Not to my knowledge.

**Senator GEORGE CAMPBELL**—To your knowledge, Minister?

**Senator Minchin**—I cannot add to the excellent answers being given by officials.

**Senator GEORGE CAMPBELL**—I expected that. I just thought I would find out if you were listening or not.

**Senator Minchin**—I am listening very intently—do not worry.

**Senator GEORGE CAMPBELL**—Can you explain what the small-scale mammalian cell production facility is and what it does.

**Mr Pennifold**—I will certainly do my best to explain it. In the development of the Pharmaceuticals Industry Action Agenda, one of the ideas that came forward from the industry was that there was a lack of this sort of facility in Australia, which is the ability to use mammalian cells to grow some of the new high-tech drugs, more complex molecules and proteins for treatment of rheumatoid arthritis or cancer type drugs. We do not have those facilities in Australia to what is called GMP—good manufacturing practice—standard, which is the gold mark for getting such drugs accepted by the TGA or the FDA. What we are looking at is a small-scale facility in Australia which would enable these drugs to be grown. It would be small scale in that it would be primarily targeted at producing quantities for phase 1, 2 and 3 clinical trials. Over time it may also be possible, we hope, to scale that up and to produce small, short runs of highly specialised drugs for conditions of the sorts I mentioned earlier.

**Senator GEORGE CAMPBELL**—Would this involve using live animals?

**Mr Pennifold**—My understanding is no; it would be developing mammalian cell lines. It would be using those to grow these drugs, as I mentioned. There is also the potential to be able to test particular drugs, but it would be at the cellular level, not on animals.

**Senator GEORGE CAMPBELL**—Is the money that has been allocated for this going to the private sector, or is the government going to build the facility itself?

**Mr Pennifold**—The intent is that it would be a private sector owned and operated facility. The government allocation of \$10 million would be for an establishment grant.

**Senator GEORGE CAMPBELL**—Non-repayable?

**Mr Pennifold**—Non-repayable.

**Senator GEORGE CAMPBELL**—Are there any caveats on who can get the grants?

**Mr Pennifold**—We are still developing the guidelines. We are in discussion with state governments, a number of whom are interested in establishing such a facility. We will also be going back to industry, through the Pharmaceuticals Industry Action Agenda, what is now called the pharmaceuticals industry council, to establish the parameters for this.

**Senator GEORGE CAMPBELL**—Potentially could this grant be available to the multinationals?

**Mr Pennifold**—At this stage they would not be excluded. Our assessment is that you would certainly need to have some international involvement for such a facility to be a commercial proposition in Australia.

**Senator GEORGE CAMPBELL**—Where are the state governments looking at locating it? In our universities?

**Mr Pennifold**—No, this would be a commercial facility, a GMP facility.

**Senator GEORGE CAMPBELL**—But there are commercial facilities located with and attached to our universities?

**Mr Pennifold**—It may well be attached to a university, but that would not be a condition.

**Senator GEORGE CAMPBELL**—But it is possible for state governments to compete for the grant.

**Mr Pennifold**—We would see it as a competitive process. We would invite applications and interest. We would expect that some of those applicants would have been talking with state governments. So their application may well involve an element of state government support.

**Senator GEORGE CAMPBELL**—What is the time line for the establishment of this facility?

**Mr Pennifold**—We are looking at, of the \$10 million we have allocated, \$2.5 million being expensed in 2006-07 and the other \$7.5 million being expensed in 2007-08.

**Senator GEORGE CAMPBELL**—So you expect the facility to be up and running by 2009?

**Mr Pennifold**—That would be the sort of time line that we would be looking at, yes.

**Senator GEORGE CAMPBELL**—You said it is an initiative coming out of the pharmaceutical industry action agenda. What other initiatives have come out of that agenda?

**Mr Pennifold**—The one we were just discussing, the P3 program, was an initiative that came from that particular agenda.

**Senator GEORGE CAMPBELL**—But it was a flow-on from factor F?

**Mr Pennifold**—It was a follow-on to an extent. But the emphasis on the partnerships was clearly a result of the action agenda itself.

**Senator GEORGE CAMPBELL**—Are there any other projects like this type of project being thrown up by the action agenda?

**Mr Pennifold**—Nothing of a project nature. Certainly industry is working together a lot more. In the investment area there is company-sponsorship of a national flagship event. Different elements of the industry are working with AusBiotech to turn that into the national event promoting the industry. We also see that level of collaboration when the industry goes offshore to events such as Bio 2006.

**Senator GEORGE CAMPBELL**—The minister's press release of 9 May said this was a \$10 million grant, which you have confirmed. This is not new money, is it?

**Mr Pennifold**—The funding from this has been taken from the P3 program.

**Senator GEORGE CAMPBELL**—Does that mean that the P3 program is now a \$140 million program, not a \$150 million program?

**Mr Pennifold**—The P3 will have two elements to it. One is \$140 million in R&D grants for new additional pharmaceuticals R&D in Australia, and the other element will be the \$10 million that has been allocated to the small scale mammalian cell facility.

**Senator GEORGE CAMPBELL**—Is that \$10 million reflected in the PBS, Ms McClusky?

**Ms McClusky**—Yes, it is reflected in the PBS. If I refer you to table 3.1 on page 39, you will see about six lines up from the bottom ‘small scale mammalian cell production facility establishment’ and the budget estimate for 2006-07, the \$2.5 million, included there.

**Senator GEORGE CAMPBELL**—Where does it show the reduction in pharmaceuticals, the P3 program?

**Ms McClusky**—The reduction in the pharmaceuticals partnership program? You don’t actually see that amount coming out as a minus of the program. Your totals are adjusted to reflect that adjustment.

**Mr Paterson**—If you go to page 27, note 1, down the bottom of that table is the \$10.3 million from within the existing pharmaceuticals partnerships program funding. On page 24 in that table 2.2 it identifies the measure and then there are no dollars attached to it. That is why the note on page 27 appears, and it declares that it does come out of the P3.

**Ms McClusky**—I will just correct what I said before. I refer you to page 30, to table 2.4(A). You will see, on the second line down, at ‘Pharmaceutical Partnerships Program—to fund small scale mammalian cell production facility’, the \$2.679 million coming off in the 2006-07 year, the \$7.5 million coming off in 2007-08 and the \$63,000 coming off in 2008-09.

**Senator GEORGE CAMPBELL**—Thank you for that. So, Mr Pennifold, in fact it is wrong to characterise this, as the minister’s press release did, by saying that it actually builds on P3? It is part of P3?

**Mr Pennifold**—I think it builds on the objective of P3, which was to generate additional R&D activity in Australia. The rationale for going this route, the mammalian cell route, is explained by industry. It is that, without this—

**Senator GEORGE CAMPBELL**—Sorry, the press release said it builds on the P3 program. It does not; it is actually part of the P3 program. It is being funded out of the program.

**Mr Pennifold**—It is certainly being funded out of the \$150 million envelope. I was trying to explain the rationale of the ‘build on’ comment.

**Senator GEORGE CAMPBELL**—I just want to make it clear that it is not a new initiative; it is part of P3. It is part of that funding. No-one could draw the conclusion—which might have been intended by the press release—to say that P3 had been extended.

**Mr Pennifold**—I do not think that is what the press release said.

**Senator GEORGE CAMPBELL**—It was the inference of the press release.

**Mr Pennifold**—I think ‘build on’ refers to building on what the P3 program was intended to do, which was to generate new, additional pharmaceuticals R&D. As had been identified by industry, the absence of a facility like this in Australia was leading to some biotechnology



R&D being developed to a certain stage and then having to go offshore to have these sorts of scale-up activities undertaken. So the idea was to try and keep that R&D onshore.

**Senator GEORGE CAMPBELL**—What are the likely flow-on effects for Australian industry and jobs, Mr Pennifold, of the establishment of this facility?

**Mr Pennifold**—The flow-on effects I think really come at that early stage prior to a product entering the market—that is, in the preclinical and clinical trials phase. Australian based biotechs and others will be able to get these complex drugs made here in Australia for that sort of clinical trialling activity, rather than having to go offshore. So we are trying to embed that R&D and knowledge here in Australia for that much longer.

**Senator GEORGE CAMPBELL**—What are the likely employment impacts of the establishment of this facility?

**Mr Pennifold**—I will take that on notice. I can try and answer it. My recollection is that, in some scoping work we had done, the size of the facility that we were initially looking at—which was a facility of about 1,000 litres plus or minus 500 litres—might be in the order of 40 people, but I would need to check that. The other caveat is that the idea was to establish this as a commercial operation and then for the commercial operators to be able to grow it over time.

**Senator GEORGE CAMPBELL**—Given that we are talking about 40 people, give or take a few here and there, presumably people with substantial qualifications, what consideration has been given to ensuring that there are Australians with the skills here capable of manning this facility when it is established?

**Mr Pennifold**—In the selection process we would be identifying what the facility is intended to do, and then the applicants for that establishment grant would have to identify how they intended to meet that. We would expect that some of the expertise in this area, which is highly specialised, may well have to be imported. But at this stage we have not identified any quotas or caps relating to employment.

**Senator GEORGE CAMPBELL**—Would one of your criteria be the extent to which the establishment of this facility will contribute to developing Australian skills in this area?

**Mr Pennifold**—We have not finalised those, but the whole purpose of the facility is to try and maximise the national benefit here in Australia. So I am sure we will be looking at the skills element as part of that.

**Senator GEORGE CAMPBELL**—Presumably we would not be throwing \$10 million at some multinational to come in and set up a facility and bring the workers from offshore to operate it.

**Mr Pennifold**—The purpose of this facility is primarily to assist the rest of the industry that is located here, which is largely Australian biotechs plus some others, to have such a facility onshore. That is where the main benefit would come from.

**Senator GEORGE CAMPBELL**—Yes. And presumably, in that context, we would want to ensure that we maximised the benefit to Australians and Australian industry as a result of its establishment—which would be, I presume, in part, a transfer of technology and a transfer of skills.

**Mr Pennifold**—We will certainly be looking at that as part of the selection process. We will also be very keen to ensure that the successful applicant is in a position to be able to run this as a commercial facility. This is something that does not exist in Australia at this level already, so it will require the introduction of expertise.

**Senator GEORGE CAMPBELL**—Has the department done any analysis of what the impact on the pharmaceutical industry will be of the \$10 million being reallocated out of P3?

**Mr Pennifold**—We have not done any specific analysis. The \$10 million being allocated out of P3 would mean that that \$10 million would not be available for the provision of R&D grants as would otherwise have been the case.

**Senator GEORGE CAMPBELL**—Is that likely to have an impact on any Australian companies who are reliant on that program for getting their R&D up and running?

**Mr Pennifold**—It would relate to how much money was actually available for the third and final round of the Pharmaceutical Partnerships Program. So there would be \$10 million less available in that third and final round.

**Senator GEORGE CAMPBELL**—Surely that must have an impact upon the recipients?

**Mr Pennifold**—It would mean that there would be \$10 million less available to distribute as R&D grants.

**Senator GEORGE CAMPBELL**—Which would mean that potentially there would be \$10 million less R&D done as a result of it.

**Mr Pennifold**—That is true. There would be \$10 million less available in what the government was paying out for R&D grants.

**Senator GEORGE CAMPBELL**—Are there any particular R&D projects of any significance under way that could be affected by this?

**Mr Pennifold**—The third round would relate to new applicants to the scheme, plus existing applicants that have not reached the \$10 million cap that exists under the current scheme. But we have not seen those applications; the round has not been called; so we are not aware of any projects that have not been applied for yet.

**Senator GEORGE CAMPBELL**—But is there a potential for projects that have been under way or are part-completed to be ditched as a result of a lack of funding?

**Mr Pennifold**—For the existing participants in the scheme in rounds 1 and 2, we have contracts signed and funds available to meet all of those commitments. So this would have no impact on those companies already in the scheme or their research.

**Senator GEORGE CAMPBELL**—So the impact would be on anyone who wanted to get a new project up and running?

**Mr Pennifold**—Potentially, it would mean that round 3 of the program would have \$10 million less available to it than would otherwise have been the case—that is, assuming that we have sufficient applications to meet the full funds available for round 3.

**Senator GEORGE CAMPBELL**—So potentially—and it is only potentially—we could be robbing Australian pharmaceutical companies of the ability to conduct R&D and

transferring that capability into the hands of multinationals. It may not be, but it may be a multinational that will establish this other facility.

**Mr Paterson**—That is just a hypothesis. There is no foundation upon which you can make any of those conclusions, other than what Mr Pennifold said, which is to say that there is \$10 million less for other—

**Senator GEORGE CAMPBELL**—It is a potential outcome.

**Mr Paterson**—You can put forward any number of speculative propositions and then say that that derives a potential outcome.

**Senator GEORGE CAMPBELL**—But Mr Pennifold has already said there could be Australian companies who are disadvantaged as a result of there being \$10 million less in the P3 scheme.

**Mr Paterson**—He has made it quite clear that there is \$10 million—

**Senator GEORGE CAMPBELL**—The reason the \$10 million is not in the scheme is that it is going elsewhere, which may well be going to a multinational.

**Mr Paterson**—Which is entirely consistent with the objectives of P3, is supported by the industry and was a decision taken by government.

**Senator GEORGE CAMPBELL**—I do not know that the industry actually argued for the \$10 million to come out of the \$150 million, did it? Is that what you are saying?

**Mr Paterson**—No, that is not what I am saying. What I said was that this is consistent with the objectives of P3, the desire for the establishment of mammalian cell is supported by the industry—

**Senator GEORGE CAMPBELL**—Yes, they want the facility.

**Mr Paterson**—And government has taken a decision as to where the source of funding will be.

**Senator GEORGE CAMPBELL**—I have no argument with that. It was part of the industry action agenda. But I am not aware that they argued for it to be funded out of the P3 funding.

**Mr Paterson**—I am not suggesting they did.

**Senator GEORGE CAMPBELL**—So potentially there will be a transfer of money out of one section to another and it is going to have an impact on the program from which the money was transferred. That is a logical conclusion.

**Mr Pennifold**—One of the key reasons the industry put forward the mammalian cell proposition—and government accepted that proposition—was that it would be of benefit to the Australian industry, particularly the biotechnology industry, as users of such a facility, as such a facility does not exist at the moment. The applications for round 3 of P3 will be open to a wide range of industries—biotechnology companies, large pharmaceutical companies, generics companies and the research area as well.

**Senator GEORGE CAMPBELL**—I understood what you said the first time. I turn to the Asia Pacific Space Centre. The *Australian*, in an article printed on 26 April—which followed, I understand, an FOI request for documents—stated:

Industry Department documents reveal the Asia Pacific Space Centre has lost a promised \$100 million in government support after failing to meet every key condition and milestone, including the first launch by the end of 2003.

It goes on to talk about some of the other documents. It states:

An Industry Department minute from November 1 last year states that the \$100 million “strategic investment incentive” to APSC was offered in June 2001 and signed in October that year. Under the “strategic investment incentive” agreement, APSC would have received \$31.4 million as cash grants with another \$68.6 million for common-use infrastructure on Christmas Island.

It then goes on to say it is part of the government’s strategic investment coordination program and sets out a set of criteria—I think there are seven of them. How much of the work was actually done on Christmas Island?

**Mr Lawson**—APSC did some earthmoving activity, in terms of physical activity, on the island. They did a lot of planning and contractual sort of work. The government provided no incentive payments to APSC, because they were unable to meet the milestones required.

**Senator GEORGE CAMPBELL**—So APSC has received no government funding whatsoever?

**Mr Lawson**—Correct.

**Senator GEORGE CAMPBELL**—At any time during this project?

**Mr Lawson**—Correct.

**Senator GEORGE CAMPBELL**—Why did the enterprise fall over?

**Mr Lawson**—The enterprise has not fallen over. Mr Kwon still wants to pursue the project. But the government signed a contract with him about milestones and deadlines that were required to be met. He has not met those, so the deed then terminated.

**Senator GEORGE CAMPBELL**—What is the status of this particular enterprise? Is it terminated? Can it be resurrected?

**Mr Lawson**—It is a commercial enterprise by Mr Kwon. It is for Mr Kwon to determine whether he can get financial investors. It would not be up to the government to make a determination on his behalf for that. The main precondition for the strategic investment incentive was that there would be financial investors found to make the investment that was required to get a project up and running.

**Senator GEORGE CAMPBELL**—Is this opportunity only available to Mr Kwon or is it available to others to put together a proposal?

**Mr Lawson**—People make applications for a strategic investment incentive. He made that application. But the money is not available to go to somebody else.

**Senator GEORGE CAMPBELL**—The question I am asking is this: is there a capability for another group to pick up this project if they meet the milestones?

**Mr Lawson**—Mr Kwon would consider that it is his project, in the sense that he is the one who developed the relationships with the Russian technology suppliers and so on. There are other people who have made proposals about space projects. It would be entirely up to them, if they saw there was a market, to approach Invest Australia to seek support.

**Senator GEORGE CAMPBELL**—Does Mr Kwon have an exclusivity on this project? Is that what you are saying to us?

**Mr Paterson**—Senator, I think there may be a bit of confusion here. Mr Kwon, acting as the Asia Pacific Space Centre, made application to government for support. That support was granted by way of a deed, with milestones. Those milestones were not met. The deed has been cancelled and the money has been returned, and the \$31.4 million is reflected on page 30 of the PBS. That means there is no project. There is no government support available for any project in that area at the present time. If somebody else came up with a new project, that would be a matter for them at that point in time. No-one else can meet the milestones, because the milestones have passed.

**Senator GEORGE CAMPBELL**—That is not quite what Mr Lawson said.

**Mr Paterson**—That is what Mr Lawson said.

**Senator GEORGE CAMPBELL**—I understood Mr Lawson to say that, if Mr Kwon came back with a program to meet the milestones, it could be resurrected.

**Mr Paterson**—No. He cannot meet the milestones.

**Senator GEORGE CAMPBELL**—Are you saying the project is dead?

**Mr Paterson**—No. He is still pursuing commercial support to develop that space centre. The only thing that is no longer available is the grant that he entered into by way of deed with the Australian government.

**Senator GEORGE CAMPBELL**—So this project is dead.

**Mr Paterson**—No. Please listen. It is not dead. It is a commercial proposal seeking financial backers. It has not yet achieved financial closure, but Mr Kwon has indicated that he will continue to seek financial support for that project.

**Senator GEORGE CAMPBELL**—What I am trying to establish is this. Mr Paterson, I thought you said two minutes ago that Mr Kwon had failed to meet the milestones. Therefore, they cannot be met, and therefore there is no funding available. I presume, as far as this project is concerned, it is dead. If someone wants to come along with another proposition—

**Mr Paterson**—I think it is important, given that it is a commercial operation, that we do not misclassify the project. The project is not dead. The proponent for that project is continuing to seek financial support in the marketplace for that project. It is still on foot for him.

**Senator GEORGE CAMPBELL**—Yes, but you said he has not met the milestones.

**Mr Paterson**—He has not met the milestones of the deed with the Commonwealth, and the Commonwealth is not continuing with that deed. That does not prevent Mr Kwon from continuing to seek financial support in a commercial marketplace.

**Senator GEORGE CAMPBELL**—And it does not prevent any other consortium from seeking to—

**Mr Paterson**—Correct, if that was their wish.

**Senator Minchin**—I was the action minister at the time, as you may recall.

**Senator GEORGE CAMPBELL**—I know.

**Senator Minchin**—You may misunderstand the nature of this project. It was never a government project. It was not that the government decided ab initio that it would have a space port on Christmas Island. It was not a matter of government policy per se or government initiation. Mr Kwon came to the government with this project. It was his vision to have a space launching facility on Christmas Island, and he sought government support for his project through the strategic investment incentive program. After due discussion and negotiation, the government decided to provide support for his project in the terms of the deed that was ultimately signed. But it was always his initiative and his project, not the government's per se. What has occurred is in that intervening five years he has not been able to meet the agreed performance indicators, so to speak, that we entered into, and so from the government's point of view the support that was offered has lapsed. But it is his project and he is continuing with it. Your line of questioning seems to suggest you think that the government decided it wanted a space port and we put out tenders or something and along came Mr Kwon. That is not how it worked.

**Senator GEORGE CAMPBELL**—I understand fully that you as a government decided to provide some funding for a project under the strategic investment program—the same as if it were an iron ore mine or a Gorgon gas field or whatever you want to identify—and that it has no status other than that. I am trying to establish what it means in terms of the ongoing operation. I understand what has been said. Mr Kwon is free to go out and seek funding wherever he seeks it to develop a project. As I understand what Mr Paterson said, the time lines in respect of what had been agreed to on this space port had not been met.

I am trying to establish whether Mr Kwon would be required to come back and reapply under Invest Australia, or whatever program he seeks to apply to, for government assistance to build the facility, having identified he is able to meet the criteria, or whether it just a matter of his coming along and saying, 'I have now been able to meet the criteria, so can we resurrect the agreement we have for the joint funding from the government?' There is a significant difference in that. It is the difference between him having his hand half in the honey jar and not in the honey jar at all. Can someone else come along and get access to the honey jar if they are able to demonstrate that they have the resources and the backing and the technology to meet such a development?

**Mr Lawson**—In the portfolio budget statements, page 30, the top item on that table, 'Strategic Investment Incentive, Asia Pacific Centre—Cessation of program', negative \$31.4 million. I think the vernacular is that the money is back in consolidated revenue. There is no availability of funds other than that anybody can make an application to the strategic investment program.

**Senator GEORGE CAMPBELL**—All I am seeking to establish is whether that is still sitting there, able to be resurrected, or whether there would have to be a fresh application.

**Mr Paterson**—It would need to be a fresh consideration by government.

**Senator GEORGE CAMPBELL**—A totally fresh reassessment by government?

**Mr Paterson**—Yes.

**Ms McClusky**—Senator Campbell, I have some information you were after—the break-up of our employee expenses into wages and salaries and ‘other’. The break-up is about 69 per cent for salaries and wages, and the balance is on-costs and other employee expenses.

**Senator GEORGE CAMPBELL**—I think I wanted the salaries and wages and the on-costs such as super.

**Ms McClusky**—So is there a specific item you would like identified in terms of the on-costs?

**Senator GEORGE CAMPBELL**—Wages, salaries and the on-costs such as superannuation, annual leave, sick leave et cetera.

**Ms McClusky**—The superannuation and the leave account for about 30 per cent of the balance, so it is the most substantial balance out of the residual. So 69 per cent is wages and salaries.

**Senator GEORGE CAMPBELL**—So, plus on-costs it is 99 per cent.

**Ms McClusky**—That is right. Sick leave is not a specific item you will see included. It is just part of our normal wages and salaries.

**Senator GEORGE CAMPBELL**—But is accounted for—

**Ms McClusky**—It is included as a wages and salaries expense.

**CHAIR**—Thanks, Ms McClusky.

**Proceedings suspended from 12.30 pm to 1.28 pm**

**Senator GEORGE CAMPBELL**—Mr Paterson, on the APSC, I think you said that the \$31.4 million has been brought back.

**Mr Paterson**—Was that the APSC?

**Senator GEORGE CAMPBELL**—Yes. The other \$68.6 million which was allocated for infrastructure—

**Mr Paterson**—In the Transport and Regional Services portfolio?

**Senator GEORGE CAMPBELL**—Yes. So you do not know whether any of that has been spent?

**Mr Paterson**—It is common user infrastructure, and some of it was to be used for port and other facilities in relation to the immigration centre on Christmas Island. But the detail of that is not something that we have access to.

**Senator GEORGE CAMPBELL**—Transport and Regional Services—that is okay. Did any construction take place on Christmas Island?

**Mr Paterson**—Under the common user infrastructure activity, yes, but we do not have the detail. As Mr Lawson indicated before the break, there were some earthworks undertaken by the Asia Pacific Space Centre but no construction activity.

**Senator GEORGE CAMPBELL**—Do you know what the value of those earthworks was?

**Mr Lawson**—No.

**Senator GEORGE CAMPBELL**—But nothing had been constructed on that site—

**Mr Lawson**—Correct.

**Senator GEORGE CAMPBELL**—Did the APSC have any involvement with the detention centre or the casino on Christmas Island?

**Mr Lawson**—No. Hang on; in relation to the casino, yes. We should clarify that.

**Mr Pettifer**—I think Mr Kwon may have owned the casino, or certainly he had an interest in the casino.

**Mr Lawson**—He has a different company called Soft Star, which owns the casino resort facility, and I understand that at some stage at least the kitchen facilities and perhaps other facilities were hired out for an aspect of the construction phase of the immigration centre. But that is nothing to do with APSC.

**Senator GEORGE CAMPBELL**—Are you able to say—you may not be able to answer this—whether APSC's activities revolved more around the casino than they did around the spaceport?

**Mr Lawson**—Asia Pacific Space Centre's activities revolved around the potential spaceport. Mr Kwon has separate interests in a company, Soft Star, which was about trying to get a sort of tourism facility going. So he has certainly been running two objectives. And he had hoped, I think, that if there was a space centre then that would provide some appeal for tourists to go to Christmas Island.

**Senator GEORGE CAMPBELL**—Did the APSC have any dealings with any other ministerial office, or was it all done through the Strategic Investment Coordinator?

**Mr Lawson**—They did brief the Department of Transport and Regional Services because it is responsible for the administration of Christmas Island, and it was responsible for the common user infrastructure aspects of the project, so we kept in strong communication with the Department of Transport and Regional Services.

**Senator GEORGE CAMPBELL**—Was that done through your department?

**Mr Lawson**—No. Mr Kwon would deal directly with that portfolio. A number of aspects, such as the lease of the land, were a responsibility of that portfolio, not our responsibility.

**Senator GEORGE CAMPBELL**—Is Mr Jones here? He might be able to answer this question better than Mr Lawson. Mr Jones, you were with the Office of the Strategic Investment Coordinator?

**Mr Jones**—Yes.



**Senator GEORGE CAMPBELL**—At the time the decision was made to fund this project, what other projects were under consideration?

**Mr Jones**—I could not answer that specifically without referring to notes, but, with respect, I am not sure it is relevant. At any one time there can be a number of projects under consideration, but each project is considered as a separate project on a case-by-case basis. So, if there were multiple projects, that would not affect the chances of any one project getting funded.

**Senator GEORGE CAMPBELL**—So there was no cap on the funding?

**Mr Jones**—No. Each project is considered on an individual basis. There is no pot of money available for strategic investment coordination projects, and therefore there is no cap on the funding for any one project or group of projects.

**Senator GEORGE CAMPBELL**—There may not be a specific cap determined by government, but there has to be some cap on it, hasn't there?

**Mr Jones**—No. Each project is considered on its merits, and the amount of funding requested for any individual project is considered separately by government, purely in the context of that project.

**Senator GEORGE CAMPBELL**—Are you saying that the allocation of funding against this project would not have affected any application for funding under any other project?

**Mr Jones**—That is correct.

**Senator GEORGE CAMPBELL**—Thank you.

**Mr Jones**—Can I take you back to an issue this morning where we talked about Invest Australia funding. I might give you the answer to the question now. We were going to give you a list of the components of Invest Australia funding. Invest Australia is a component of output 1.3 within the department. Our funding forms a component of the business services output. In the PBS it is in table 3.1 on page 40. About halfway down the page you will see the heading 'Departmental appropriations'. Output 1.3, Business services, with a funding component of \$82 million in 2005-06 and \$86 million in 2006-07, includes Invest Australia. So for 2006-07 the total allocation to Invest Australia will be \$23.3 million out of that \$86.9 million total for that departmental output. That \$23.3 million for Invest Australia includes, if you like, the new money of \$6.7 million, which is separately identified in table 2.2 of the PBS, as well as funding of \$16.6 million, which was already included in the forward estimates and therefore simply forms a separate part of that total for the business services appropriation.

**Senator GEORGE CAMPBELL**—Okay. But the total amount available to you is \$23.3 million?

**Mr Jones**—That is correct.

**Senator GEORGE CAMPBELL**—Thank you for that. I now have questions on the special assistance package to Ford Australia. Mr Pettifer, why was it deemed necessary for the special assistance grants to be made to Ford Australia?

**Mr Pettifer**—Ford applied for a strategic investment incentive for two projects. One was to establish a new R&D centre of excellence in the Asia-Pacific region, to do the design

engineering work for a new pick-up truck and also for work associated with the next generation of the Falcon and Territory. The government considered that application under the SIC process and decided at the end of the day to make money available to Ford.

**Senator GEORGE CAMPBELL**—Why wasn't funding capable of being provided under ACIS?

**Mr Pettifer**—Funding is available under ACIS to Ford. ACIS provides support for both investment in production activities and for certain research and development activities by Ford. Ford certainly benefits from the program and will continue to do so.

**Senator GEORGE CAMPBELL**—But was ACIS not capable of dealing with this application?

**Mr Pettifer**—No, ACIS is structured in such a way that there is a certain amount of money available to support various activities. The various car companies and component companies, by undertaking those activities, become eligible for benefits under ACIS. The sorts of activities that we are talking about here were over and above that. Some of ACIS would support some of the activity that Ford had in mind, that is true.

**Senator GEORGE CAMPBELL**—What elements of the objectives would have supported this?

**Mr Pettifer**—The production of a new Falcon and a new Territory would receive some benefits from ACIS, for example.

**Senator GEORGE CAMPBELL**—If it were capable of being dealt with under ACIS, why was it dealt with as a separate one-off?

**Mr Pettifer**—ACIS provides benefits at a certain rate. Obviously, Ford considered that the benefits available under ACIS were not sufficient to justify the investments that needed to be made.

**Senator GEORGE CAMPBELL**—What benefits would have been available under ACIS if the application had been made under that program? There is \$8 billion in it.

**Mr Pettifer**—As these projects go forward, they will get benefits under ACIS in the normal way. I do not have in my head a calculation of the amount of money they might get. It would depend on the numbers of vehicles that were produced and the investments that were made.

**Senator GEORGE CAMPBELL**—Can you take that question on notice?

**Mr Pettifer**—I cannot provide that information in a definitive way, because it depends on how many vehicles are produced at the end of the day.

**Senator GEORGE CAMPBELL**—If Ford had applied under ACIS for funding for these projects, what would have been available to them up-front?

**Mr Pettifer**—There would not have been anything available up-front under ACIS. ACIS is paid in arrears, after the companies have produced the vehicles or made the investments. This was funding provided now to enable those investment decisions to be made for production in the future.

**Mr P. Clarke**—ACIS primarily pays production credits to automotive companies; they get a certain amount of assistance per vehicle they produce. So if you look at it in terms of having to justify a case of putting up a capital investment early on and then amortising it over a period, ACIS provides assistance but it does not provide an up-front payment. So you do not apply as such; you just produce the vehicle and get assistance.

**Senator GEORGE CAMPBELL**—The point I am driving at is that there is a provision under ACIS to fund this type of activity. In the normal course of events, you put a considerable amount of time and effort into putting ACIS together, based on consultations with the industry, and presumably every other parent industry has to follow that format. What was so different about Ford's position in respect of these two particular vehicles that warranted a special consideration?

**Mr Pettifer**—They were major investment decisions in what is a very difficult environment for the automotive industry, and Ford's parent company is in a difficult financial situation. So those factors need to be borne in mind as well, in terms of influencing their decision-making processes.

**Senator GEORGE CAMPBELL**—But every other player in the industry is also in difficult circumstances.

**Mr Pettifer**—It is true that all of the car companies are operating in a very difficult environment currently.

**Senator GEORGE CAMPBELL**—Does that mean that anyone who is eligible for ACIS funding should have an expectation that they could make a special plea to the government and get special treatment if their circumstances were similar to Ford's?

**Mr Pettifer**—I would not put it in those terms, but it is open to any company to apply for a strategic investment grant, as we spoke about earlier today. But the government would have to consider that on its merits.

**Senator GEORGE CAMPBELL**—But if you have a set of guidelines which set out rules and conditions for the industry as to how or under what circumstances the government is prepared to fund or provide assistance to the industry, if you start to make one-off decisions then what is the point of having a set of objectives or a set of rules?

**Mr Pettifer**—I think the industry would acknowledge that the ACIS program is a very important program in underpinning its competitive position and helping it to make the investments and adjustments it needs to make to operate in the global marketplace in which it operates. So I do not discount the value of ACIS in the light of the decision in relation to Ford.

**Senator GEORGE CAMPBELL**—But, if players in the industry are able to get special consideration in particular circumstances, what is the point in having a set of rules? They could just have a plea bargain system and come along and plead their case.

**Mr Pettifer**—I think that what the government has said in the past about this industry is that decisions need to be made with a long lead time. It is important for the industry to have some policy certainty. ACIS provides that certainty over a considerable period of time. It has been a very important program for the industry in terms of supporting its investment

decisions, and it is in the context of the program of structural adjustment that the government has in place for the industry. I do not see any reason to think that the value of ACIS is diminished in the light of decisions that have been made in relation to—

**Senator GEORGE CAMPBELL**—I am not suggesting that it is, and I am not suggesting that it should not be supported. I am querying why you go the trouble of setting out a substantive set of guidelines for industry support for this industry early on in the piece—because it is relatively early on in the piece. Companies are able to circumvent those guidelines by special pleading. There are 273 new jobs at Ford. Are they new jobs?

**Mr Pettifer**—Yes, my understanding is that they are new jobs.

**Senator GEORGE CAMPBELL**—And they would be over and above what is currently employed by Ford?

**Mr Pettifer**—Yes.

**Senator GEORGE CAMPBELL**—Can you tell me what exactly the statement ‘assistance is conditional on Ford undertaking to provide the Australian automotive component sector with every fair and reasonable opportunity to supply the necessary components for these projects’ means. Does that mean that they do not intend to treat it fairly?

**Mr Pettifer**—That means that there would be an expectation by the government—and this applies to the ACIS program as well as to the grant to Ford—that they would provide full, fair and reasonable opportunity to competitive Australian suppliers to supply into those projects. It is a firm expectation of the government that that is what would happen.

**Senator GEORGE CAMPBELL**—I think I understand what you are saying. There is an article in the *Financial Review* of 19 April entitled, ‘Unions drive Ford to sidestep new laws’. The article states:

Car industry unions are pushing for Ford Australia to defy the federal government by entrenching limits on the use of contractors under a side deal accompanying a new enterprise bargaining agreement.

... ..

Workplace Relations Minister Kevin Andrews warned last year that the government expected workplace reforms in return for \$4.2 billion in public funding to the car industry over the next decade to compensate for tariff cuts.

A spokeswoman for Industry Minister Ian Macfarlane said a report on the Automotive Competitiveness and Investment Scheme would be made to federal cabinet by July or August.

The funding was “set in concrete”, she said, adding the report would cover the overall scheme and state of the industry rather than only dealing with workplace reforms.

Can I take it from that that there is no commitment from or expectation of Ford that they will take a particular view of industrial relations in exchange for the \$50 million?

**Mr Pettifer**—There is no link between the Ford grant and industrial relations issues.

**Senator GEORGE CAMPBELL**—Can you clarify for us what the role of ‘independent contractor’ of Ford is?

**Mr Pettifer**—I am not able to comment on that. It may be an issue that is better addressed to the Department of Employment and Workplace Relations, who may have a better handle on that. I am just not in a position to comment.

**Senator GEORGE CAMPBELL**—Has your department been involved in any discussions with Ford about industrial relations aspects of it operations?

**Mr Pettifer**—That is a very general question. I think in the past we have said—and we have provided material to the Senate estimates committee—that the company has had discussions with us about its new enterprise agreements. That happened some months ago now and I think you have that information on the record.

**Senator GEORGE CAMPBELL**—But they have provided information to you; you have not been actively involved in steering the ship, so to speak.

**Mr Pettifer**—Yes, that is correct.

**Senator GEORGE CAMPBELL**—Is the report on the ACIS program to cabinet in July and August a program position, or has that arisen recently? Was it part of the overall program that you would report to cabinet at this point in time? Is it correct to say that ACIS commenced only last July?

**Mr Pettifer**—The new ACIS program?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Clarke**—It started at the beginning of this year.

**Senator GEORGE CAMPBELL**—What is the cabinet report for in July and August?

**Mr Pettifer**—I do not want to comment on what may or may not be going to cabinet. I do not think that is appropriate for me to do.

**Senator GEORGE CAMPBELL**—I am not asking you to do that. I am asking whether this was a program thing.

**Mr Pettifer**—I cannot answer that either.

**Senator GEORGE CAMPBELL**—You cannot answer whether the report to cabinet in July and August was part of the overall ACIS program. When these programs are put in place, it is normally an expectation that there are certain periods when reports are made back to government about the programs' functions. Obviously, there are some problems, because they could not deal with the Ford situation.

**Mr Pettifer**—My difficulty in responding is that you are asking me a question, I think, about what may or may not be going to cabinet.

**Senator GEORGE CAMPBELL**—No, I am not. I am asking you about the process. I am not asking you about what you might put or recommend to cabinet; I am asking you about the process. Was this report to cabinet part of the program, when the program was established?

**Mr Pettifer**—But, by responding to that question, I would be commenting on what may or may not be going to cabinet. That is my problem.

**Senator GEORGE CAMPBELL**—How would you be commenting on that?

**Mr Pettifer**—Because I would be confirming either that was part of what might be going to cabinet or that it was not.

**Senator GEORGE CAMPBELL**—We all know that it is going to cabinet. All I am asking is: is this part of the original program, when the program was introduced?

**Mr Ryan**—This might help. When the ACIS program was announced, there was no public announcement about any reviews or anything going to cabinet.

**Senator GEORGE CAMPBELL**—That is all I am asking. So this has originated or occurred since the program has been implemented?

**Mr Ryan**—At the time the program was announced, there was no public announcement about that.

**Senator GEORGE CAMPBELL**—That is right. And the program was announced for a five-year period. I know that for most of your programs you have a review after a period of time. It is usually—

**Mr Ryan**—ACIS is 10 years, not five.

**Senator GEORGE CAMPBELL**—It is five and five. It changes in 2010 to a different format. It is normal for you to conduct reviews of your programs, is it not, but usually past the mid-term?

**Mr Ryan**—Yes, but with the ACIS program there will be a review, which has been publicly announced, which will take place in 2008.

**Senator GEORGE CAMPBELL**—That is right.

**Mr Ryan**—Yes.

**Senator GEORGE CAMPBELL**—So I can draw my own conclusions about what is going to cabinet in July or August, without asking you specifically.

**Mr Pettifer**—You will have to, because we are not going to say anything more about it, I am afraid!

**Senator GEORGE CAMPBELL**—When the department considers eligibility for funding under the ACIS program, is workplace change a factor that is considered by the department?

**Mr Pettifer**—It is not one of the criteria under the ACIS program. As I mentioned earlier on, ACIS supports production activity, investment activity and certain R&D activity by the car industry. Provided that those activities are taking place, then there is a formula supplied and the benefits flow to the companies. There are certain thresholds that the companies need to meet to participate in the program and those sorts of things as well.

**Senator GEORGE CAMPBELL**—And those criteria are provided for by an act of parliament?

**Mr P Clarke**—It is the ACIS Administration Act 1999, under which there are regulations, guidelines, determinations and material like that. But the fundamental criteria are set out in the ACIS Administration Act.

**Senator GEORGE CAMPBELL**—If there were a view by the government that the criteria should change, it would require legislation to do so?

**Mr P Clarke**—The short answer is, yes, it would.

**Senator GEORGE CAMPBELL**—Some of it may be covered by regulations as well.

**Mr P Clarke**—Yes, it is a complex question, but the short answer would be that somewhere down the line there would be legislation or a disallowable instrument or something.

**Senator GEORGE CAMPBELL**—Has the department had any involvement with the Department of Employment and Workplace Relations in making assessments as to whether or not companies receiving assistance under the scheme are operating consistently with the Work Choices act?

**Mr P Clarke**—I think the answer to that is no.

**Senator GEORGE CAMPBELL**—You think the answer is no?

**Mr Pettifer**—We certainly have not had discussions—in recent times, anyway—about how well various companies might be performing in relation to the Work Choices program. I will just check that with my colleague and confirm that.

**Senator GEORGE CAMPBELL**—Are any interdepartmental committees operating with respect to the auto industry?

**Mr Pettifer**—I think the answer is no. We certainly engage with a whole range of other departments on automotive industry issues, but I would not describe that as an interdepartmental committee.

**Senator GEORGE CAMPBELL**—Have any proposals for change to the ACIS scheme been discussed with the industry?

**Mr Pettifer**—We are always looking at whether or not the scheme is achieving its policy intent. Just recently, for example, the minister announced that some of the money that had been set aside for the R&D program under ACIS would now be used for a supplier development program, and we are currently working on that. We are constantly reviewing whether or not the scheme is achieving its objectives. The minister has made it very clear that policy certainty for this industry is very important and that he would not contemplate any wholesale changes to the scheme. That is the best I can answer that question.

**Senator GEORGE CAMPBELL**—There have been no specific proposals for change to the current scheme put on the table for discussion with the industry—is that what you said? There may be a floating of ideas around specific areas, but there are no specific proposals for alteration or change.

**Mr Pettifer**—Apart from the one that I just mentioned, which is a specific example of that, where there was a bit of finetuning, I suppose you would say, designed to achieve some new directions in relation to providing some perhaps better opportunities for the component industry to engage in some global supply chain opportunities.

**Senator GEORGE CAMPBELL**—The *Financial Review* on 3 February, under the headline ‘Flying the flag for beleaguered industries’, quoted the minister—I think this was in discussions with GM—as saying:

They offered a road-mapping exercise which my department will work on to identify component builders in Australia who are in a position to be globally competitive and who could supply into those chains.

Is that what you are referring to?

**Mr Pettifer**—Certainly that is part of the overall strategy that we are thinking about here. General Motors has offered some of our component suppliers the opportunity to be road mapped, and we are following through with that.

**Senator GEORGE CAMPBELL**—What is the involvement of the department in that and who else is involved?

**Mr Pettifer**—It is an issue that gets discussed in the Automotive Industry Strategic Action Group, which you have asked about previously. Certainly the component suppliers are very aware of that particular opportunity, and my understanding is they want to capitalise on it.

**Senator GEORGE CAMPBELL**—Can you tell us the sorts of time lines that you have in mind for this exercise.

**Mr Peter Clarke**—The time lines are essentially between the particular car companies and the components sector. They are on different time frames, depending on where they are in their model cycles. We are certainly aware from the Federation of Automotive Products Manufacturers that they are engaged in discussions with the car manufacturers on trying to improve supply chain capabilities. As Mr Pettifer mentioned, they are now also engaged in trying to come up with a package that will deal with the unspent motor vehicle producers R&D scheme.

**Senator GEORGE CAMPBELL**—In terms of what has been said here about taking the opportunity to get into global supply chains, with what degree of urgency is this exercise being treated? Surely you are not just leaving it to the component suppliers and the auto companies to determine that by themselves.

**Mr Pettifer**—The minister, as has been reported publicly, is being very active in prosecuting this. He was in Japan late last year, I think in September, and in Detroit in January. On both occasions he took representatives from the components industry with him, and that has opened up some new opportunities for them that we are talking about now. As well as that, the minister has indicated his intention to set up a new supplier development program, which will be focused on lifting the capability of suppliers and making sure that they can plug into some of those global opportunities. All of this is happening now. My understanding is that we hope to have the supplier development program pretty well fleshed out in the next month or six weeks or so. There is an urgency about this. At the end of the day, these are commercial decisions that the car companies and the component companies are going to have to make to take advantage of these opportunities.

**Senator GEORGE CAMPBELL**—There is a degree of urgency in getting something in place.

**Mr Pettifer**—Yes.

**Senator GEORGE CAMPBELL**—At the last estimates, you said that the next meeting of the strategic group was due in April 2006. Has that meeting occurred?



**Mr Pettifer**—It has. There was a meeting on 16 May.

**Senator GEORGE CAMPBELL**—Can you elaborate on what the agenda was for the meeting and what the outcomes of the meeting were?

**Mr Ryan**—It would be best if I answer that, because I was there. Essentially there was discussion between both parts of the industry, the motor vehicle manufacturers and the component suppliers, and it focused largely on this idea of using this residual amount of funds to develop the supplier enhancement program. Essentially, what we have been able to determine is that, at this point in time, a degree of work is done between the motor vehicle manufacturers and certain component suppliers to lift their performance, and this program is going to extend that activity further.

**Senator GEORGE CAMPBELL**—What is the forward agenda timetable of the group? When are you due to meet again?

**Mr Ryan**—We have indicated that there would be another meeting towards the end of the year, around November.

**Senator GEORGE CAMPBELL**—There is a working group, isn't there?

**Mr Ryan**—Underneath it, yes.

**Senator GEORGE CAMPBELL**—What is that specifically examining?

**Mr Ryan**—The working group was trying to get the connection between the motor vehicle producers and the component suppliers. They were trying to address what was seen as some of the weaknesses where component suppliers felt that they did not have enough communication with the vehicle producers. Through that working group we developed much better linkages between the two sectors of the industry, such that now the role of the working group has been overtaken by the two industry sectors. That is the federal chamber of automotive industries and the federation of parts manufacturers.

**Senator GEORGE CAMPBELL**—Does that mean the working group has been effectively wound up?

**Mr Ryan**—Yes.

**Senator GEORGE CAMPBELL**—On 18 May there was an AAP report which stated that the South Australian government had established a high-level advisory group to try to ensure the continued viability of the state's car industry. The Treasurer, Kevin Foley, said that the group would bring together key stakeholders in the automotive sector, including car producers Holden and Mitsubishi, auto unions and parts producers. This group will examine issues such as skills shortages, workforce development, how to increase their export performance, how to expand the state's involvement in global research development and how to foster their innovation. Are you aware of that initiative?

**Mr Ryan**—The South Australians have certainly made mention of who are some of the players that they have got in that group.

**Senator GEORGE CAMPBELL**—Will the department be involved in this process?

**Mr Ryan**—It sort of works the other way around. The South Australians are involved in this strategic group, which is run by Minister McFarlane.

**Senator GEORGE CAMPBELL**—What is the relationship between the group set up by Kevin Foley and the strategic group? Why does the South Australian government feel it is necessary to set up a group specifically focused on South Australia?

**Mr Ryan**—That question is probably best directed to the South Australians as to why they set the group up. There are certain collaborative efforts between the Commonwealth and South Australia. We did that through the structural adjustment program for South Australia. South Australia was one of those activities. They are certainly involved in our joint group, and I suspect that they are focusing on some local issues that they feel they can deal with, which might be to deal with skills training and so forth. But I cannot say for sure. You would have to ask them.

**Senator GEORGE CAMPBELL**—Did they express any view at the strategic group as to why they were setting this up independently? Did they express any dissatisfaction with what was going on in the strategic group?

**Mr Ryan**—No.

**Senator GEORGE CAMPBELL**—So how did you hear about it?

**Mr Ryan**—Because we were looking for some eminent industry experts to work on a project that we are going to do between Victoria, South Australia and ourselves, and they suggested a couple of names of people who are involved in that particular activity that they have going in South Australia.

**Senator GEORGE CAMPBELL**—So there was really no consultation at all?

**Mr Ryan**—By the South Australians?

**Senator GEORGE CAMPBELL**—By them with you, with your department, about what route they might follow.

**Mr Ryan**—No.

**Senator GEORGE CAMPBELL**—On the question of involvement of the component sector in global supply chains, are we looking at first-, second- and third-tier suppliers or are we just looking at the first-tier suppliers? To what extent are we looking at the involvement of the component industry in the global supply chain?

**Mr Ryan**—I think it depends on which exercise you are talking about. If you are talking about the opportunity that General Motors is offering through its road-mapping exercise, I think the only players who would really be capable of participating in that would be first-tier suppliers. If you are talking about some of the other initiatives we have going to lift supplier enhancements, then they can move to other tiers.

**Senator GEORGE CAMPBELL**—I presume, at that level, you would be looking right down the chain?

**Mr Ryan**—Yes. It is a matter of who is going to pull whom through. If we think an improvement for one tier 1 would pull through some tier 2s and tier 3s, then we might focus on that tier 1 to get performance up, and then they will drive the performance change that they need from the other suppliers.

**Senator GEORGE CAMPBELL**—But also the potential is that you might get some tier 1s into the process that could be pulled back by the performance of tier 2 and 3 suppliers.

**Mr Ryan**—Exactly.

**Senator GEORGE CAMPBELL**—What is the view of the industry on this initiative, the component sector in particular, and what do they see as being their future?

**Mr Ryan**—The big change that has taken place over the 12 months or so that this strategic group has been formed is that it has moved from an atmosphere of—

**Senator GEORGE CAMPBELL**—They have always seen themselves as second-division and third-division.

**Mr Ryan**—There may be a lack of communication between the two groups. The last meeting was so positive and focused—together—saying, ‘How are we going to address the issues of the industry?’ That is my observation of the change that has taken place.

**Senator GEORGE CAMPBELL**—But do they see real prospects in this exercise for involvement in global supply chains or are they still as cynical as ever about the potential opportunity?

**Mr Pettifer**—A number of them have commented that, as a result of these activities, they have had opportunities that would never have been available to them before. Whether that actually converts itself into business at the end of the day is something that they are going to have to work on themselves, to prove themselves as competitive suppliers. I think it has really opened a door. The parts association and the automotive manufacturers association are jointly involved in developing the supplier development program. As far as I am aware, they have a very positive view of it. Early on in this process the industry was quite clear that what it wanted to focus on initially was capability development. We had discussions about whether we should be more active in marketing the current industry’s abilities or whether we ought to focus initially on capability development. The path we have tended to go down now is that of capability development. The minister has been doing some general promoting of the industry’s capabilities, of course, while he has been overseas and has opened some doors. This program has focused on the capability development.

**Senator GEORGE CAMPBELL**—Does this also involve the integration of first-tier suppliers into the car companies’ production processes and location on-site adjacent to the production facilities?

**Mr Pettifer**—It will not force any of that. Of course, a number of the car companies do that now, where it makes sense. They like their suppliers located close to them.

**Senator GEORGE CAMPBELL**—I thought GM at Elizabeth was telling them they had to.

**Mr Pettifer**—What it would reveal, I think, is that, as we go forward with this, if that is a necessary condition to be competitive, it would flush out that kind of conversation between the component suppliers and the car companies. But it is not designed to actually physically make that happen, if you know what I mean.

**Senator GEORGE CAMPBELL**—Are the consequences of these procedures likely to lead to consolidation or rationalisation in the components sector?

**Mr Pettifer**—That is a difficult question to answer. Really I think that will be driven by the business economics. It is probably true to say that our component sector is a bit fragmented, if you were to compare it with international standards. They probably need to be a bit bigger to be able to play into some of those global opportunities, I suspect, but I think that is something that probably needs to be worked out by the suppliers.

**Mr Ryan**—Realistically, some of them will grow and become larger and some will not.

**Senator GEORGE CAMPBELL**—They are a mixed bag at the moment, aren't they, really?

**Mr Pettifer**—There are over 200 component suppliers, and some of them are pretty small.

**Senator GEORGE CAMPBELL**—Can we move on to the textile, clothing and footwear industry. Are you aware of the *Financial Review* article of 20 April headed 'Designers to leg it offshore'?

**Mr Pettifer**—I do not think I have seen that article.

**Senator GEORGE CAMPBELL**—It talks about a survey by DHL of designers, manufacturers and buyers at Mercedes Australian Fashion Week, which found that 90 per cent of respondents believe more garment manufacturing will be moved offshore, particularly to China. Are you aware of the survey?

**Mr Pettifer**—I have not seen the survey.

**Senator GEORGE CAMPBELL**—Is anyone in the department aware of the survey?

**Mr Pettifer**—Mr Coleman, who is here, who is our TCF person, is not, so I think the answer is no.

**Senator GEORGE CAMPBELL**—Now that you are aware of it, will you seek copies of the survey?

**Mr Ryan**—Not now.

**Mr Pettifer**—We do not automatically go to articles in relation to Fashion Week.

**Senator GEORGE CAMPBELL**—But you do buy newspapers in the department? Does nobody read the *Financial Review*?

**Mr Pettifer**—Amongst other things.

**Senator GEORGE CAMPBELL**—It stated:

Just under half of respondents ... believe that such a move will have a negative effect on the industry with fashion players calling for better business training and export assistance if the sector is to remain competitive in a global market.

Are there any provisions in SIPs that would apply and that would meet these two issues of business training and export assistance?

**Mr Pettifer**—I will have to get my colleague to respond on this, I think. As a general comment, the SIP program overall is basically about supporting investment and research and

development spending. There are various components to the SIP program. There is a small business component, where we have just got the first round of applications, and it is possible that some of that may go to this particular issue. I will ask Mr Clarke to comment on that.

**Mr Peter Clarke**—What Mr Pettifer said is correct. Are you talking about designers going offshore or are you talking about production being at risk of going offshore?

**Senator GEORGE CAMPBELL**—I think they are talking about production. It says that more garment manufacturing will be moved offshore.

**Mr Peter Clarke**—It is a competitive environment, and there is probably an apprehension to that effect. The industry is adjusting to that, and these programs assist in those directions. There are a number of responses to that particular perception.

**Senator GEORGE CAMPBELL**—What they are also saying, Mr Clarke—at least half of them—is that it will have a negative effect on the industry. They are saying that there are two areas of support that would help them to counteract that, I presume, and that is in better business training and export assistance. I am not aware that export assistance is capable of being dealt with under SIPs.

**Mr Pettifer**—It is not, but there are other programs that provide export assistance.

**Senator GEORGE CAMPBELL**—There is the EMCG, which is a capped program, so there is limitation in terms of its usage. If you have been flexible about looking at ACIS and reshaping ACIS to meet the contingencies of the auto industry, is there the same flexibility there in terms of the TCF industries?

**Mr Pettifer**—There are various dimensions to the program. There is the SIP. There is a structural adjustment fund. There is a small business program.

**Mr Peter Clarke**—Product diversification.

**Mr Pettifer**—And product diversification. I think the bit of all of that that is probably most relevant to skills in business development type issues is probably the small business program, because that is a very flexible program and can deal with those sorts of issues.

**Senator GEORGE CAMPBELL**—And deal with these two issues specifically here?

**Mr Ryan**—I am not sure about the second one. If they are talking about export assistance in terms of marketing support or something, you are on reasonably safe ground. If you start to talk about export assistance in terms of output assistance, we would be in all sorts of trouble there.

**Mr Pettifer**—In terms of skill in business development and those sorts of things, that is what I am talking about.

**Senator GEORGE CAMPBELL**—It is not clear from this what dimension of export assistance they are talking about. Also, the article goes on to state:

However, Council of Textile Fashion Industries of Australia executive director Ashley Van Krieken called on the government to put more resources into marketing its export assistance programs to the fashion sector.

Has that organisation had any discussions with the department or with the minister?

**Mr Peter Clarke**—The department meets with that association not infrequently.

**Senator GEORGE CAMPBELL**—But have they raised those issues with you?

**Mr Peter Clarke**—This is greater promotion of programs?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peter Clarke**—I will check.

**Senator GEORGE CAMPBELL**—They have called on the government to put more resources in the marketing.

**Mr Peter Clarke**—Not specifically, but I imagine it is a comment that could be generally made about programs.

**Senator GEORGE CAMPBELL**—Why would she make that statement to the newspaper?

**Mr Peter Clarke**—It is a man.

**Senator GEORGE CAMPBELL**—Is it? You should never assume anything. Why would he make that statement to the newspaper and not pick up the phone and ring the department?

**Mr Peter Clarke**—I do not know. It does not surprise me that they would call for that.

**Mr Pettifer**—He may have raised it with Austrade.

**Senator GEORGE CAMPBELL**—With Austrade?

**Mr Pettifer**—I am not sure.

**Senator GEORGE CAMPBELL**—Then it stated:

High-end fashion makers would nevertheless continue to manufacture in Australia for quality control reasons, he said.

Do you have a list of the high-end fashion manufacturers who will continue to operate in Australia? Are they identifiable?

**Mr Peter Clarke**—I do not think there is a central list of them. I think you will find that there are participants who are registered under various programs. Mr Peel could talk about that, but I do not think there is a definitive list of all of them, whether or not they are registered.

**Senator GEORGE CAMPBELL**—You would not have a list of all of them?

**Mr Peter Clarke**—I would not expect so. There would be a whole lot that we have never heard of.

**Mr Pettifer**—We would not be able to speculate on whether they were continuing to operate in Australia, either.

**Senator GEORGE CAMPBELL**—How long has the TCF program or a variant of it been in place? Since the mid-eighties?

**Mr Pettifer**—The most recent is 2000, and the post-2005 package is the most recent iteration of the programs.

**Senator GEORGE CAMPBELL**—They go back to the mid-eighties.

**Mr Peter Clarke**—Mr Peel earlier today said there were 500-odd participants registered under TCF SIP. That will include a percentage of people who will also be pure designers who may not be eligible for TCF SIP but who may be eligible under, for instance, the small business program who will now come to attention.

**Senator GEORGE CAMPBELL**—These programs have been in place for so long, and maybe that is part of the problem rather than part of the solution. You still read articles like this with people questioning why governments are providing support for certain areas. You say the program is capable of dealing with both of the issues I raised there, maybe in a different form from the way it is expressed here but in some form, yet they do not seem to be aware of it—or, if they are aware of it, they are not connecting with you to explore how these things can be promoted. After 20 years we still get a situation where they are wary of dealing with the department, where they do not understand what is in the programs covering their industry or where there is a Chinese wall somewhere that people are unable to cross.

**Mr Pettifer**—I doubt that the TCF association does not understand the programs. They are being integrally involved in the processes of considering what the program should look like and in disseminating information on them and those sorts of things. The industry always thinks you can do more. It is probably not a surprise that the industry thinks we could do more to help them to export. A number of different industry sectors make those sorts of noises. Again, that is not to say that the current program has not been effective in helping the industry to make the adjustments to improve its competitive position, but it is a tough and dynamic environment in which they are operating. I could quote you a number of companies that would speak in very glowing terms about the importance of the TCF SIP scheme and how it has facilitated their business activities.

**Senator GEORGE CAMPBELL**—I am sure you can, and I am sure they are out there, but it is of some concern. This is a program that has never—and even this morning going through the figures—performed to its expectations. It has always just never quite got there for some reason or other. Either the expectation of the take-up from the industry by the department has been overoptimistic or the information from the industry has been overoptimistic in terms of those that want to hang around. It does concern me, Mr Pettifer, that there is an article like this in the *Financial Review* about a survey of the industry and the department is not aware of the survey. I assume you keep a reasonably close eye on every industry sector, but particularly those ones you provide substantial funding to in terms of what is happening across the sector. Given the nature of this industry, I assume there is a reasonably close relationship with the people who represent the industry more broadly—the industry association. They are always tramping around this place. I presume they knock on your door as well as mine when they are in Canberra. It is surprising that you were not aware of this survey. Here they are raising a couple of specific issues that you say, again, can be in one form or another accommodated, but they have not come to you and knocked on your door to say, ‘We want to talk to you about these two particular issues and how we might be able to advance it within the industry.’

**Mr Pettifer**—Our door is always open. For one reason or another we have not picked up on that particular piece of work. All I can say is that we are in constant discussion with the industry. In terms of the issues that they have raised, I am not sure that we can help on the

export front, but certainly in terms of some of the skills issues and things like that, they seem to me to be the sorts of things that would be picked up under the small business program, which is only a very new program. Maybe that explains why the industry association perhaps has not fully appreciated what might be able to be done. I am not sure.

**Senator GEORGE CAMPBELL**—I would have thought the industry associations were pretty close to the wheel when it comes to knowing what might be available through government. I assume from what Mr Ryan said earlier on that you will not be shy in picking up the phone, either, and asking for a copy of the survey.

On the auto industry and the component suppliers, do you have a list of the first-, second- and third-tier suppliers and the number of companies in each tier and the number of employees?

**Mr P Clarke**—No, we do not, and I do not know easily how one would get it, because the motor vehicle producers would know who their first-tier suppliers are.

**Senator GEORGE CAMPBELL**—Wouldn't the FAPM have it?

**Mr P Clarke**—FAPM would know who its members are, but I do not think it has any registration that says this is a second- or third-tier supplier. Somebody might be a first-tier supplier for some purposes and a second-tier supplier for other purposes and a third tier may be totally unknown. There are a whole lot of issue there. I think you are asking for certainty that does not exist.

**Senator GEORGE CAMPBELL**—Do you know the number of companies that are in the automatic component sector?

**Mr P Clarke**—That would be a definition thing. AusIndustry has a number—I think it is in the high 200s—of component sectors registered under ACIS, but are they the totality of the component sector as you would define it? I do not know, because there are people who may fall under the minimum requirement for registration under ACIS. There may be people whose primary business is totally unrelated to automotive but who do a little bit of automotive work. They do produce and they are in the sector, but they are not in ACIS. So I do not think that we can give you a definitive answer. I can give you employment figures and that sort of thing that are global, but they are based on statistical answers that may require the producer to produce a majority of automotive components, whereas someone who produces a minority is not in the automotive components sector, even though they are producing automotive components.

**Senator GEORGE CAMPBELL**—Can you make available to the committee the number of auto component companies that you are aware of and the number of employees that you are aware of that are employed by the sector?

**Mr P Clarke**—I can give you—

**Senator GEORGE CAMPBELL**—You cannot give me anymore than you have got.

**Mr P Clarke**—That is right. I am just trying to understand the question. Is the question: how many people are registered under ACIS?

**Senator GEORGE CAMPBELL**—No, I asked: how many companies are you aware of that are operating in the components sector—if you can qualify them by tier, that would be



more effective; if you can't, then you can't—and the number of employees employed by that sector?

**Mr P Clarke**—The only answer I think we can give is the number of companies registered as component producers under ACIS, because I do not think we have a way of knowing necessarily who else does things. If you want employment numbers, we have given an estimate of employment figures in relation to the House of Representatives standing committee inquiry into the automotive components sector. There are some figures there.

**Senator GEORGE CAMPBELL**—Unfortunately, we are not allowed to sit on House of Representatives committees.

**Mr P Clarke**—No, but the answers are in the submission.

**Mr Pettifer**—We will give you what we have got there.

**Senator GEORGE CAMPBELL**—Thank you. We will move on to the speech by Ken Henry. Is the department concerned about the issue raised by Mr Henry in that speech that the resources boom might simply strip our manufacturing industries bare?

**Mr Paterson**—That is probably an extravagant summation of the speech. He did indicate that it was a boom that would not last forever and that there needed to be consideration of the rest of the economy and some adjustment processes along the way, but I do not think that he suggested that it might strip it bare, as I recall the speech.

**Senator GEORGE CAMPBELL**—I thought he did argue that, if the resources boom continued, there would be a shift and that there was a shift taking place. We know that there is a shift taking place.

**Mr Paterson**—There is a shift in place, but stripping it bare is another proposition.

**Senator GEORGE CAMPBELL**—There are concerns that have been raised in a number of areas, including by AiG, that in fact many of our traditional engineering companies may not be able to continue to operate if the boom continues and if labour continues to shift into servicing the resources sector and they are unable to replace them.

**Mr Paterson**—I am not taking issue with you about the shift. I am just saying that I do not recall, in my recollection of the speech, his using language in relation to stripping it bare. That is your language, not his, as I recall.

**Senator GEORGE CAMPBELL**—He did not use the precise term 'stripping bare'; that is my interpretation of what he was seeking to say. I am not raising it to have a debate or argument with you about whether you agree with it or not. Given that the Secretary of Treasury has raised this as an issue, what research or analysis is the department engaging in to examine the issues raised in Ken Henry's speech and to look at potential policy solutions to what might be a more serious problem than what we give it credit for?

**Mr Lowndes**—The proposition that Ken has raised is not something that is new to us. The terms of trade increase has been occurring for a little while. In terms of what have we commissioned since he made his speech, he is drawing attention to a particular driver of structural change in the economy, and that is something we look at—

**Senator GEORGE CAMPBELL**—I thought he was trying to switch on the lights.

**Mr Lowndes**—And that is what we do generally. In terms of particular research that we are doing, we obviously do monitor changing structures in the economy. We are in the process of commissioning some modelling on structural change through consultancies. That was mentioned earlier. We will be having a bit of an examination of some of the resource flows that he referred to. Ken's speech was very high level. If you read what he has said, he has simplified the world quite significantly. He has split the economy up essentially into two sectors.

**Senator GEORGE CAMPBELL**—Yes, he did qualify that.

**Mr Lowndes**—He used the terms a bit loosely all the way through. But there will be some issues. One thing that is of particular significance is the mining sector. The mining sector itself is quite a small sector and its capacity to suck in huge amounts of resources—as an extreme interpretation of what he was saying—is not necessarily all that substantial. Some of these complications, I guess, from a simple model are things that we will have to look at. There are, of course, policy issues with this and the two sectors are not completely independent of each other. Some of the construction activity and some of the input into mining projects is sourced domestically and we do have programs that deal with supplier access to major programs and Australian industry participation. His speech serves to highlight the importance of those linkage programs so both sectors can benefit. Another fairly significant policy that we did deal with—this was last year's budget—and that is part of the overall notion of trying to do what we can to ease a bit of pressure on the manufacturing sector was to remove the three per cent duty on business inputs. That is about \$300 million a year, most of which would be paid by the manufacturing businesses. We are aware of these resource issues and we do keep our eye on it.

But, as was said earlier, Ken's speech is making sort of a macro point. Overall it is a fairly standard notion that if one sector is booming, it will have an impact on drawing resources out of other sectors. The main point of his speech was more of a macro thing, which was also just worth noting, to do with fiscal policy, that we are not spending all the income that is being earned from the resource boom, that there is a budget surplus Future Fund. That is what people who refer to where this problem has been encountered before call the 'Dutch disease.' That is where that emanates from. The main point of his speech is macro but, as you say, when the Secretary of Treasury makes comments essentially related to industry policy, obviously we take them seriously.

**Senator GEORGE CAMPBELL**—You said that the department was undertaking modelling to look at the effect of the resources boom on manufacturing. Has that been commissioned?

**Mr Lowndes**—What we are commissioning is an examination of the drivers of structural change, one part of which will be this. There are other things happening in the economy as well as this. We are not specifically focusing on this particular issue but more generally structural change.

**Senator GEORGE CAMPBELL**—When will that modelling be completed?

**Mr Lowndes**—As I said, we are commissioning it. We have not signed a contract yet, but it should be finished some time this year.

**Senator GEORGE CAMPBELL**—What do you hope to achieve out of that modelling? Will that lay the foundation for some examination of policies?

**Mr Lowndes**—What we hope to achieve is, I guess together, to have a bit of a look at how some of these drivers of change might shape the economy looking forward. That is the point of having the modelling, to have a bit of a forward looking aspect to it. I cannot say what we are going to do with it once we have got the information. But to the extent that you get a relevant consultancy examining these sorts of issues, it has obviously got some significance for policy.

**Senator GEORGE CAMPBELL**—You would have an expectation that you would sit down and look at some policy issues arising out of it?

**Mr Lowndes**—It would certainly raise some interesting questions, yes.

**Senator GEORGE CAMPBELL**—Does the department's strategic outlook have some accord with Henry's view that we may as well leave it to the market to handle industry plans and, if the industries fall over, they fall over?

**Mr Ryan**—The simple answer is, no.

**Senator GEORGE CAMPBELL**—I was hoping the simple answer was no. What does the department say about the Stolper effect, which was outlined by Henry in his paper?

**Mr Lowndes**—His model highlights a lot of standard economic assumptions and a lot of it is to do with various assumptions of labour market movement. We have not looked at that particular aspect of it in any particular detail. But as I was saying before, when the secretary puts out this stuff you do commission people to look at a few numbers and a few facts and figures to dig into the detail of it. The response that I gave you earlier was to the broad message that he is getting at. Obviously, there are a lot of very specific micro-type issues that are hidden in here that, as I have said, we will examine further.

**Senator GEORGE CAMPBELL**—Can the terms of reference for the modelling that you talked about be made available to the committee?

**Mr Lowndes**—As I say, we are still in the process of commissioning it, so I am not sure what the standard practice with that is.

**Senator GEORGE CAMPBELL**—Just to simply give us an idea of the range of issues that are being taken into consideration?

**Mr Lowndes**—I guess we can do that.

**Mr Paterson**—We undertook earlier this morning to provide you with a list of the broad range of research that is being undertaken. I would see this as being one component piece of that.

**Senator GEORGE CAMPBELL**—That will contain the broad terms of reference and the scope of the study?

**Mr Paterson**—Clearly, we undertake this modelling to inform advice that we provide the government, so what the next stage might be in relation to any of these research activities is something that has to be considered at that point in time.

**Senator GEORGE CAMPBELL**—I understand that and I know that you will not tell me what the advice is, the conclusions you draw from the modelling, but at least it will give us some idea of the range of issues being considered. The AiG *Manufacturing Futures* report suggests that we face a sharp rise in the amount of business shifted offshore by Australian manufacturers. Firstly, do you agree with that assessment? Secondly, what strategies is the department working on to stem the flow if that is the case?

**Mr Pettifer**—The manufacturing sector is in a pretty challenging environment, partly because of the very success of the resources sector, what we have just been talking about, and it is operating in a very open global marketplace. I would think that there would be movement of some activities, which are perhaps labour intensive or some of their activities offshore. How much of that is going to occur is not clear, but I think what we need to do is think about business operating as part of a global supply chain. We need to think about manufacturing not just as the production of goods but a supply chain that goes all the way from research and development right through to probably recycling or something at the end. There are a number of stages of that. The challenge for manufacturers is to decide what bits of all of that it makes sense to keep in Australia, and we have a number of programs aimed at supporting industry to do that. We have talked about the automotive programs and the textiles, clothing and footwear program. Of course, we have the generic programs in relation to research and development and those sorts of things. There are a number of programs aimed at keeping competitive activity here, but some activity, you would have to say, might need to move to other, lower-cost locations.

**Senator GEORGE CAMPBELL**—That has always been the case, I think, just from the point of view of market access.

**Mr Pettifer**—Sure.

**Senator GEORGE CAMPBELL**—Many companies have been required to locate elsewhere in order to achieve market access. But I think their concerns are going way beyond that in terms of their ability to do what they have to do to make themselves competitive in a global sense against, mainly, the emerging economies like China and India, where price is a major factor in terms of being competitive. It is not the only factor, but it is a major factor in some elements of—

**Mr Pettifer**—But it might make sense. If you look at the automotive components industry, which we were talking about earlier on, companies like Air International have located operations in China, and they need to do that to secure the growth opportunities that are there. It might be, in those cases, that they perhaps keep some of their higher end design and engineering work and research and development work located here and that some of the production activities actually happen in China. That is the kind of scenario, I think, that we will need to look at. It is important—the AiG was not seeing these things as necessarily a negative development but, I think, flagging that we need to think about industries, perhaps, in a different way so that, provided you are plugged into the global opportunities and getting an income stream from operations located offshore, then that would be a reasonable thing to be doing.

**Senator GEORGE CAMPBELL**—Yes. But I think the other thing that came out of their report was a general view by their members that the government, through the department, presumably, was not delivering a strategic approach for Australian manufacturing into the future. To what extent has the department sought to sit down with the AiG and its members to talk through these issues and find out what they think the pressure points are, what they think the concerns are, and what you could do differently that would make them more competitive?

**Mr Pettifer**—We have certainly—

**Senator GEORGE CAMPBELL**—I understand that there are complex issues. One of the big issues for them is the value of the Australian dollar. When it was down at 51c they were going gangbusters, and it is up at 78c, which is attributed to the resources boom.

**Mr Pettifer**—First of all, I do not think I would agree with the proposition, if that is what you were putting, that the AiG was saying that we necessarily got the policy settings wrong or did not have a view about—

**Senator GEORGE CAMPBELL**—Sorry, I said, from the report, it was a perception of their members.

**Mr Pettifer**—Certainly, I have not got that impression from talking to Heather Ridout and the others. In terms of how we are engaging with them, they have given us a detailed briefing of their report. That has happened on two occasions and we are certainly planning to follow up with them and have more detailed discussions around some of the particular issues they have raised in that report. But I think, just to go on, that one of the very strong things that came out of their report was the importance of getting internationally engaged and not trying to hold back the tide, if you like, or trying to protect Australian industry from the competitive environment. I think one of the good things about the report was its saying that that is the reality of the marketplace and that what we need to be doing is helping industry to engage in those global opportunities.

**Senator GEORGE CAMPBELL**—Yes.

**Mr Pettifer**—I think a number of our programs are about doing that.

**Mr Paterson**—I would observe that it was a document and a report not just focused on AiG talking to government, but on AiG talking to its membership and having a conversation with its membership about some of the strategies that they may need to contemplate. The traditional alignment of manufacturing-equals-production is the mindset of some people and some who still operate in the industry. It is about saying manufacturing is much more than mere production; production is part of the business that they are in and they need to start to think about how are they going to manage that part of their business and how are they going to manage and locate the other parts of their business. These reports are also marketing documents. They are about the promotion of a particular view at a point in time.

**Senator GEORGE CAMPBELL**—I understand that very well. I have produced quite a few of them over the years and they can be effective marketing tools. But they do say in the report:

While industry was of the view that the states had done a good job in developing manufacturing strategies (where they exist), there was some uncertainty as to whether such a strategy was needed at the Federal level.

That would reflect to me that there appears to be a lack of knowledge amongst their membership generally of what strategies do exist at the federal level. Maybe that is because there has been a narrowing of involvement to a few specific industries rather than the broad approach. They may not come into contact with it as much as they would have in the past. But, certainly, there appears from my reading of the report an ignorance of what is being done at the federal level—whether it is adequate or inadequate is another argument, but an ignorance—and how that fits in or assists them in terms of their strategic planning to deal with circumstances in the future.

**Mr Paterson**—It may indicate that there are some pockets of ignorance in relation to it, but we have spent almost all of this estimates hearing focusing on the very initiatives that are in place to support—almost everything we have focused on today has been about the manufacturing sector in its various elements and the support that is being provided—the programs, the administration and the nature of the take-up. But there may well remain some pockets of ignorance, notwithstanding extensive advertising and promotional activity and the widespread understanding of most of the programs we are involved in.

**Senator GEORGE CAMPBELL**—I accept that as far as it goes, but what today also has reflected is that there is a difficulty—I will not put it any higher than that—of the department, maybe that is just the nature of government, being able to react as quickly in some circumstances, of its being able to change its program settings to meet contingencies that occur in the market.

**Mr Paterson**—You yourself highlighted the fact that a significant part of the challenge that many of these companies face is the value of the Australian dollar. Now you can end a resources boom or we can tank the economy and fix the Australian dollar. That might make it more competitive for them, but it is a hardly likely to help us all collectively.

**Senator GEORGE CAMPBELL**—No, that is right.

**Mr Paterson**—The inability to respond is affected by some of those broader issues.

**Senator GEORGE CAMPBELL**—Sure, and there are some issues that cannot be responded to, by their very nature. I do not think that anyone is talking about re-regulating the Australian dollar to solve our problems with manufacturing. I do not know whether it is possible to do it even if you wanted to, given the integration that has occurred. But in terms of, for example, the auto industry, people in that industry may think that things are moving rather slowly in terms of making those adjustments that you outlined earlier on in terms of assisting their ability to get into global supply chains or whatever. The same with TCF—again, that may be a perception that is out there. There may not be any capacity to alter it, but I would suspect that if there is a capacity to alter it then we would take the opportunity to do it and do it quickly.

**Mr Paterson**—Automotive is a good example; you raised it earlier. The response of the government in relation to providing assistance to Ford was something in addition to all of the

other measures. There was a timely, positive response to a request for support recognising changed circumstances, and that is now part of what is available.

**Senator GEORGE CAMPBELL**—It is certainly part of what is available to Ford, but I take your point.

**CHAIR**—Senator Campbell, if you were going to go on to something else we might suspend proceedings now for the Beaconsfield reception.

**Proceedings suspended from 3.01 pm to 4.15 pm**

**Senator GEORGE CAMPBELL**—I have just a couple of follow-up questions on the Commercial Ready Program. I have already asked you a number of questions but there is one that I missed, and that is: how much does the average Commercial Ready application cost a business?

**Mr Peel**—How much does the average application cost a business?

**Senator GEORGE CAMPBELL**—Yes, to prepare and submit an application for funding under Commercial Ready?

**Mr Peel**—I do not think that I can answer that. I think you would have to ask individual businesses. Some businesses choose to put much more detail in the applications than others, but essentially all we ask them to do is give us their name, their address and an outline of their project; tell us how their project meets the selection criteria for the grant; and provide us with a copy of their business plan. However much that costs for a business to put together could well vary, business to business, depending on what state they are in, in terms of defining their project and so on.

**Senator GEORGE CAMPBELL**—Before this program was actually implemented, you had a series of consultations with industry around the country?

**Mr Peel**—Yes, we did.

**Senator GEORGE CAMPBELL**—About how it should be applied et cetera?

**Mr Peel**—We did.

**Senator GEORGE CAMPBELL**—Was the cost of making an application not one of the issues raised during those consultations?

**Mr Peel**—From time to time people raise with us what they see as the complexity and difficulty of the process and since we introduced the program—I think it was in about October 2004—we have actually reviewed the documentation that applicants are required to complete, to streamline that. We are constantly seeking feedback from businesses, as I said this morning in relation to our customer surveys, about how they are finding things; we do try to streamline where we can. I guess the issue for us is you really do need to find a balance between making it easy for the business and protecting the taxpayers' interests of the money that you are going to provide them in a grant. There will always need to be some detailed information that they will have to provide us in relation to the grant, but we are reviewing that continually.

**Senator GEORGE CAMPBELL**—I understand that. I am not critical of it, but I thought that during that process of consultation you would have established how much the cost factor to make an application was a consideration of the businesses applying for the program. It has

been raised with me on a number of occasions with firms that I have visited from time to time.

**Ms Zielke**—During the consultations a lot of the companies and other organisations that are involved in the consultations told us that they were happy with the R&D Start type approach to the application form, so as a result of that we have tried to stay close to the R&D Start type application, as in the same sorts of series of questions and the same level of detail being requested in that. That is similar to what we now have in Commercial Ready.

**Senator GEORGE CAMPBELL**—But you do not know what the cost to business is? A lot of businesses use consultants to do it, do they not?

**Ms Zielke**—A lot of businesses that tend to use consultants, in our experience, do so due to the fact of not having the time to actually sit and complete the application form themselves, so they are choosing to use a consultant rather than take the time themselves, yes.

**Mr Peel**—Consultants have different charges depending on which consultant you go to.

**Senator GEORGE CAMPBELL**—I am aware of that. If you are not able to give me an average figure, then you are not able to give it to me. I turn to the Venture Capital review and the new programs that have been announced in this budget. I will not go through the elements of them, but the press release that was put out in relation to the two programs says: ‘The initiatives in this package address key findings of the Review of the Venture Capital Industry’, which was done by a chap called Watson, as I understand it. Is it intended to release that review now that the programs have been put in place?

**Mr Morling**—Basically that is still a decision for the government and, as far as I am aware, the government has not made a decision on whether it will release the expert group’s report.

**Senator GEORGE CAMPBELL**—Has not made a decision?

**Mr Morling**—At this stage.

**Senator GEORGE CAMPBELL**—Can the minister answer that question?

**Senator Minchin**—That is a matter for Mr Macfarlane. I am not sure what is current state of mind is.

**Senator GEORGE CAMPBELL**—You are representing him here, are you not?

**Senator Minchin**—Yes, but I am not the Minister for Industry, Tourism and Resources.

**Senator GEORGE CAMPBELL**—I asked you did you know?

**Senator Minchin**—No, I do not know what his state of mind is. I gather he is considering that matter.

**Senator GEORGE CAMPBELL**—Can I ask you to take it on notice to see if the minister is prepared to release the review?

**Senator Minchin**—Yes.

**Senator GEORGE CAMPBELL**—The ESVCLP fund provides for \$15 million over the forward estimates period. It is a pretty insignificant amount, is it not?



**Mr Morling**—That is the estimate of revenue foregone over the forward estimate period. The nature of the program is that it rewards successful investment, so it gives you a tax exemption on income, whether it is capital or ordinary income, on successful investment.

**Senator GEORGE CAMPBELL**—It is revenue foregone, with a cap on it?

**Mr Morling**—There is no cap on it, no.

**Senator GEORGE CAMPBELL**—There is no cap, so it could be \$150 million?

**Mr Morling**—If I could just go on with my answer, the nature of investment in the venture capital industry, as you are probably aware, is that investments are of the nature of patient private equity over a number of years, so with a program of this type where you are rewarding successful investment it will take a while for people to set up their venture capital ESVCLPs, look for suitable investments, undertake those investments and then realise those investments. So as you move forward through time, there is the possibility that the revenue foregone will move up as the program ramps up.

**Senator GEORGE CAMPBELL**—This is the early stage stuff?

**Mr Morling**—This is early stage venture capital.

**Senator GEORGE CAMPBELL**—The argument in this country has always been that there is too much patient capital investment and not enough early stage investment, and that is where the deficiency is in the venture capital industry. I presume this fund is about encouraging that high-risk investment at the early end of the process. If the assessment is \$15 million over the forward estimate period, that takes us through four or five years?

**Mr Morling**—Four years.

**Senator GEORGE CAMPBELL**—It would appear that the expectations are not high for a great deal of activity in the early stages?

**Mr Morling**—Even if it is early stage investment, it still takes time. As you can understand, the earlier the stage, the higher the risk of the investment and the more time and effort fund managers are likely to put into investing. So, even though it is early stage investment, it will still take time for fund managers to set up their vehicle to look at suitable investment opportunities, make those investments and then allow sufficient time for those businesses to get going and potentially provide a return.

**Senator GEORGE CAMPBELL**—When do you expect these early stage funds to be operating?

**Mr Morling**—That will be up to the fund managers, obviously, but we expect the legislation to be in place within the 2006-07 financial year.

**Senator GEORGE CAMPBELL**—You must have some expectation of when they will start to come on stream?

**Mr Morling**—We are in the process of undergoing implementation, but again we will put the legislation in place. It will be up to the fund managers to decide when they set up their vehicles and start making investments. Obviously those revenue foregone estimates would have some assumption of investment undertaken and realised, but they are prepared by Treasury.

**Senator GEORGE CAMPBELL**—Why is there a decision taken to impose restrictions on the maximum fund size?

**Mr Morling**—It is probably more beneficial to look at the conditions together: that is the \$100 million fund size, the \$50 million asset cap on any investee company and the requirement to divest once an investee company's assets exceed \$250 million. Those conditions have been put in place by the government to ensure that investments undertaken by these vehicles are consistent with the emphasis on early stage venture capital.

**Senator GEORGE CAMPBELL**—Explain to me how that will be achieved by limiting the funds, the size of the funds and when they have to divest.

**Mr Morling**—These are decisions taken by the government that, without being too prescriptive as to what constitutes early stage investment, will ensure that the investments undertaken through these funds are focused on the early stage of the cycle. You cannot say there is any one asset size or particular company size that defines a company as 'early stage' but broadly speaking these conditions are put in place to ensure overall that the investments are consistent with early stage investment.

**Senator GEORGE CAMPBELL**—That is not a very satisfactory explanation, because there are a lot of companies in this country that would be way below \$250 million and that you would regard as being mature, not early stage investments.

**Mr Morling**—Are you saying that \$50 million is too restrictive?

**Senator GEORGE CAMPBELL**—No, I am trying to understand why you feel there is a need to impose a restriction.

**Mr Morling**—This vehicle is providing a complete tax exemption to both nonresident and domestic investors. It is a fairly substantial concession that the government has put in place and the government wants to see that the investments undertaken through the vehicle are directed towards the early stage of the market.

**Senator GEORGE CAMPBELL**—Yes, but I am still to understand how putting a restriction on the growth of the companies will actually ensure you get the early stage investment. I am trying to understand what the relativity between the two is.

**Mr Morling**—I guess the government has taken a decision that it does not want to be too prescriptive as to where people invest. It does not want to be too prescriptive in defining what it says is the early stage, but at the same time it wants to put some restrictions there given that it is a fairly substantial concession.

**Senator GEORGE CAMPBELL**—Do you want to throw some light on the subject, Mr Lowndes?

**Mr Lowndes**—Just backing up what Mr Morling has been saying, the idea is that the sort of high-growth, early stage investments are inevitably in very small early stage companies. The point of these restrictions is that, within what generally can be considered venture capital, you have the early stage, which are typically small-scale, high-growth vehicles; you have the more mature private equity buy-out type areas. Really, this concession is targeted at the early stage, at the small end, the high-growth end, and hence there are these restrictions which are largely based on the size of the vehicle that you can invest in.

**Senator GEORGE CAMPBELL**—But it is potentially achievable that in the environment we operate in you could get rapid growth and high growth and still be in early stage investment mode.

**Mr Lowndes**—Sure, yes.

**Senator GEORGE CAMPBELL**—Why would we artificially force people to divest themselves of their investment if it is still growing exponentially and it is still demonstrably an early stage investment?

**Mr Lowndes**—The divestment is at \$250 million. I think by the time you have got to that point you're certainly not early stage any more. That is a fairly large vehicle.

**Senator GEORGE CAMPBELL**—If you look at what happened in the dotcom era, that is not necessarily the case. Some companies went off the Richter scale very quickly. Mind you, some of them came down very quickly, too.

**Mr Lowndes**—Yes, that is right. In normal market conditions it is quite unusual for that to happen and, when you divest, you do not actually lose your tax exemption. All that is required is that you move out of that investment. But I guess you are tying up—

**Senator GEORGE CAMPBELL**—No, I understand that. It is a pretty artificial line in the sand, is it not?

**Mr Lowndes**—Yes. Any restriction that you draw is going to have an element of—it is a number, it is not science, but I think the drift of it is that by the time the investment has got to that extent it is no longer early stage, and essentially we are requiring people to move out of it to keep their tax exemption rather than, if you like, continuing to get tax exempt gains on investments to the growth from that point.

**Senator GEORGE CAMPBELL**—Were there any alternative forms of measurement examined?

**Mr Lowndes**—To?

**Senator GEORGE CAMPBELL**—Of measuring when a company had moved out of early stage investment.

**Mr Lowndes**—There are lot of possibilities but the number of restrictions there—essentially you are trying to target by building a fence around the regime rather than looking at approving this investment or that investment through the board. You are just setting some general rules rather than being prescriptive and, essentially, whether it is \$250 million or \$300 million, it is really just an estimate; but, as I say, it is just a general prescriptive view that, by the time an investment has got to that size, it is no longer early stage and hence should not continue to benefit from the concession.

**Senator GEORGE CAMPBELL**—Presumably it will be open to review at some stage.

**Mr Lowndes**—Sure.

**Senator GEORGE CAMPBELL**—But why is the IIF funding only being offered to new managers?

**Mr Morling**—I think one of the issues the government has found is that the smaller end of the venture capital market does not have a lot of players in it, and one of the features of the existing IIF is to actually encourage new fund managers into the industry. It is seen that a new round of the Innovation Investment Fund should have some emphasis on this feature of the program, which is to encourage new people, fund managers, into the industry so that small and medium enterprise have a bigger market to go into when they are looking for capital.

**Senator GEORGE CAMPBELL**—But aren't we really limiting our capacity here? One of the arguments in this area has been that we do not have enough experienced fund managers who will take the risk in this early stage investment, or have the capacity to understand the nature of the industry and to operate in it. By excluding the existing ones who have had some experience, you are excluding expertise out of the field that could be valuable in opening this area up.

**Mr Morling**—I guess it is an industry where if you have a demonstrated track record you are probably better placed to be able to go out into the market and raise your own funds without the benefits provided through the IIFs, which is the matching government funding. I think within the industry itself it is felt that the best way to get training and to become an experienced fund manager is actually through on-the-job training. Having a new round of IIFs which are looking to assist new managers will actually give those people an opportunity to get into the market, raise a fund and get that on-the-job training.

**Senator GEORGE CAMPBELL**—I am not arguing with the concept of trying to attract new people into the industry and encouraging them. I just put a question mark over the wisdom of excluding people with proven track records from operating in this field, given our dismal results that we have had over the past few years in early start-up venture capital.

**Mr Morling**—Again, if people have operated in the industry and have demonstrated a track record, then they should, other things being equal, be able to go out into the market and raise their funds without the assistance provided through this program.

**Senator GEORGE CAMPBELL**—But, as I understand it, existing fund managers cannot.

**Mr Morling**—I think that there have been some notable successes. Fund managers such as GBS Venture Partners and Starfish Ventures have both been able to go out into the market and raise substantial funds outside government programs.

**Senator GEORGE CAMPBELL**—They may well have but, as I understand it, existing fund managers cannot operate in this field. They have got to be new—or am I misreading the proposal?

**Mr Morling**—I think that there is no absolute ruling out of existing fund managers applying under this program; it is just that the government is seeking more to encourage new fund managers to take it up.

**Senator GEORGE CAMPBELL**—That is fine. So if you are saying that existing IIF managers can seek funding under this program, and there is no bar or exclusion or caveat to that, then that is fine. It seemed to me, on what I have read so far, that there was a caveat on existing fund managers applying.

**Mr Paterson**—Can we come back to that?

**Senator GEORGE CAMPBELL**—I am happy to, because I think that point needs to be clarified. There is now some considerable doubt as to whether existing managers can or cannot apply. Is it the department's view that there will be significant deal flow, enough deal flow, to support new managers coming into the venture capital area?

**Mr Morling**—One point I would make is that successful applicants will only be given matching funding, so they will actually have to go into the market and raise private funds themselves, which will be matched by government funding.

**Senator GEORGE CAMPBELL**—I understand that. Is it your assessment that there are going to be sufficient deal flows occurring to make it worth their while to actually come into the marketplace?

**Mr Morling**—It is a bit difficult for us to judge from here the state of the market. The last ABS venture capital survey did show some picking up in the market. Whether that is continued or not, we will probably—

**Senator GEORGE CAMPBELL**—But surely, Mr Morling, you have had a study done by Mr Watson; you have had an assessment of the venture capital industry; he has done a report; and the government has introduced these funds on the basis of his recommendations. He must have made some assessment of what the potential deal flow in this area was likely to be. How else did he make the judgment of \$50 million?

**Mr Lowndes**—We have not estimated exactly what scale of investment will be in the sector, but most of these programs are spread out over a number of years. I think what you are asking is: will the market be sufficiently large to absorb the extra funds that could come into it through these programs? Our estimate would be—

**Senator GEORGE CAMPBELL**—Will there potentially be enough deals out in the marketplace to warrant someone setting up another fund?

**Mr Lowndes**—As Brendan said, we cannot be certain of that but our estimate would be, based on the scale of the sector that is already there, plus the encouragement that we are giving through these measures, that we would expect that to happen. Ultimately, we will only know as these programs operate. The tax concession programs are essentially market driven; if people cannot find deals, they will not set up the ESVCLP. But we are looking at stimulating the market from its existing base. The funds are spread out over a number of years and we would estimate that the market can absorb it.

**Senator GEORGE CAMPBELL**—Yes. That is why the Watson report would be interesting to be released, to try and understand just where he targets and where he sees this absorption.

**Mr Lowndes**—Sure.

**Senator GEORGE CAMPBELL**—I understand that you are in a difficult position in terms of trying to answer these questions. I note from Budget Paper No. 2 that funding for the further IIF round will only be \$1.1 million over the forward period. Is that considered sufficient?

**Mr Peel**—I think I touched on that this morning. The figure in the PBS that you have got there is the departmental running costs to set up the funds.

**Senator GEORGE CAMPBELL**—Yes.

**Mr Peel**—The \$200 million will come in in the next PBS for the next budget, because it does not kick off until next financial year.

**Senator GEORGE CAMPBELL**—I see, right.

**Mr Peel**—The figure in there is the departmental cost for setting up the funds and managing the funds in this financial year. You will see the \$200 million in the next one.

**Senator GEORGE CAMPBELL**—Okay, fine.

**Mr Peel**—If I could just clarify, the \$200 million, I am told, probably will not appear in the PBS, because it is a capital item. It will be elsewhere in the budget papers, but you will not see it in the PBS.

**Ms McClusky**—The \$200 million does not impact on the fiscal balance, so it is not disclosed as a measure item.

**Senator GEORGE CAMPBELL**—But it will be identifiable in the PBS?

**Ms McClusky**—It will be identifiable in the PBS in the years that—

**Senator GEORGE CAMPBELL**—As what?

**Ms McClusky**—As a receivable. You will see it flow through, and you would also see it throw through as a capital appropriation in the year that the rounds are offered. So we offer an IIF loan and then we have a receivable come on to our balance sheet. So it is an in and an out, effectively.

**Senator GEORGE CAMPBELL**—Right. So it is on both sides of the equation.

**Mr Paterson**—But the \$200 million is declared in Budget Paper No. 2.

**Senator GEORGE CAMPBELL**—Yes, I am aware of that, but it also says, at page 310, that funding is only \$1.1 million for the forward estimates; but Mr Peel has explained that it is only the set-up charges and it will not appear until the next budget papers. Is that right?

**Ms McClusky**—No, you will not see the \$200 million appear. It is disclosed there on page 310; it says ‘comprising the \$200 million’. You will not see that \$200 million disclosed as a separate measure. It is actually included in our PBS, going forward, as a receivable and a capital appropriation based on the phasing of the IIF program.

**Senator GEORGE CAMPBELL**—Yes. And it will be identified as what it is?

**Ms McClusky**—As that comes forward into the forward years.

**Senator GEORGE CAMPBELL**—Yes, that is fine. Is the VCLP structure still relevant, given the decision by the government to abolish capital gains tax for foreign investors?

**Mr Lowndes**—Yes, it still confers some additional advantages because of the fact that the VCLP is a flow-through vehicle, but you are quite right that the changes subsequent to the general CGT treatment of nonresident investors does mean that it is less significant than it previously was.

**Senator GEORGE CAMPBELL**—And when is it anticipated that the abolition of the capital gains tax will be legislated?

**Mr Lowndes**—That would be a matter for Treasury as to when they put through the relevant legislation.

**Mr Morling**—The VCLP actually offers for eligible nonresident investors a complete tax exemption, whether the income is capital or ordinary income. So, as Mr Lowndes says, it will be less relevant once the changes go through. It still does provide that complete exemption regardless of how the income is characterised.

**Senator GEORGE CAMPBELL**—Yes, but it will require legislation, will it, to implement it?

**Mr Morling**—Sorry, the VCLP is already in place.

**Senator GEORGE CAMPBELL**—But if they are abolishing the capital gains tax, that will require legislation. Will that be a priority issue, Minister?

**Senator Minchin**—I am not sure where it sits in the legislative program, but you could pursue that with Treasury tomorrow.

**Senator GEORGE CAMPBELL**—Has the department made a submission to the Productivity Commission issues paper?

**Mr Pennifold**—No, we have not made a submission yet to the Productivity Commission review. I presume you are referring to the one on science and innovation?

**Senator GEORGE CAMPBELL**—Yes.

**Mr Pennifold**—My recollection is that the timing for the submission of those applications is a July date. They put out an issues paper with a July date for applications, and then I think they will bring out another paper later in the year before they then finalise the report.

**Senator GEORGE CAMPBELL**—Will the department's submission be made public?

**Mr Pennifold**—No decision has been made on that. We are still preparing that submission. Once we have done that, we will make a decision as to whether or not it will be.

**Senator GEORGE CAMPBELL**—Could I ask that it be made available to this committee? Presumably you will make a decision that you will make it generally available or available to the committee or not available at all?

**Mr Paterson**—Mr Pennifold has already indicated that no decision has been taken, but we will note the request and take that into account.

**Senator GEORGE CAMPBELL**—In the issues paper the Productivity Commission states that essentially government expenditure on R&D is not keeping pace with business. Is that one of the issues you will address in your submission?

**Mr Pennifold**—We would certainly be looking at the level of support the government is providing to R&D and we would also be commenting on the issue of business expenditure on R&D.

**Mr Paterson**—On the issue you raised in relation to the IIFs, the measure talks about the establishment of new funds. The minister's media release talks about up to two new funds. The detail behind it is that there is a preference for new funds, but we do not explicitly exclude existing fund managers from applying in the new round. There is a preference to have

new people enter the market and that is part of the justification behind the measure, but it does not exclude an existing IIF manager from applying to establish a new fund.

**Senator GEORGE CAMPBELL**—I think that puts it into a different context.

**Mr Paterson**—That was the issue—

**Senator GEORGE CAMPBELL**—It is quite possible that there will be applications from existing fund managers.

**Mr Paterson**—That is possible. There is a preference to have new people enter the industry, but it does not exclude existing players establishing a new fund.

**Senator GEORGE CAMPBELL**—I have a series of questions on small business, most of which I will have to put on notice. There is one set of questions that I am particularly keen to get some answers to and perhaps we can deal with those now and then I will move on to IP. Can you explain for me, Ms Weston, what the government's policy is in respect of the payment for products or services to private business?

**Ms Weston**—Are you talking about the payment policy?

**Senator GEORGE CAMPBELL**—Yes.

**Ms Weston**—The Australian government's payment policy provides for maximum payment terms not exceeding 30 days from receipt of goods and services to specification and a correctly rendered invoice. This policy is reflected in the Australian Government Procurement Guidelines issued by the Minister for Finance and is applicable to Commonwealth department and agency payments to small business for invoices with a value of up to \$5 million.

**Senator GEORGE CAMPBELL**—Does the Office of Small Business monitor the payment relationship between various government departments and small business?

**Ms Weston**—That is right.

**Senator GEORGE CAMPBELL**—How do you ensure compliance with this policy?

**Ms Weston**—At the moment we have a biannual survey of payment by FMA agencies. We inquire of them about their performance against that policy.

**Senator GEORGE CAMPBELL**—You ask the departments. Do you do any survey of small businesses that deal with the departments? Do you do any random checking of them to see whether or not the departments are complying—not that I would suggest that any of the departments would tell you that they are not?

**Ms Weston**—Not specifically in that way. We do monitor complaints and ministerials of that nature.

**Senator GEORGE CAMPBELL**—So you only react to complaints from small business with respect to departments?

**Ms Weston**—Yes.

**Senator GEORGE CAMPBELL**—I see that you have a 30-day framework. Do you measure the average length of time that government departments take to respond to claims for payment or invoices from small business?



**Ms Weston**—I do not have the exact details but, as I recall it, we look at the ones that are paid within 30 days and then we also ask the departments and agencies to provide details of—I could be wrong—those up to 60 days and after. That might be how it goes. I would probably need to get that information to you.

**Senator GEORGE CAMPBELL**—Could you take it on notice? I am really addressing whether or not the time frame is shorter rather than longer than the 30 days.

**Ms Weston**—Do you mean whether sometimes people pay in less than 30 days?

**Senator GEORGE CAMPBELL**—Yes.

**Ms Weston**—In fact, that is the case. I am not sure if it is a regular case, but there are instances where people are paying in seven days, where the arrangements are for seven days. We have some of those in my division, for instance.

**Senator GEORGE CAMPBELL**—Do you have an average for each department in terms of how long it takes them to pay small business clients?

**Ms Weston**—We report a collective of government departments and agencies, and each department and agency is responsible for its own information. The latest survey, which was for the six months to the end of 2004, the Australian government departments and agencies performance was such that 93.9 per cent of invoices were paid on time.

**Senator GEORGE CAMPBELL**—On time?

**Ms Weston**—Within 30 days, I think it says, not exceeding 30 days.

**Senator GEORGE CAMPBELL**—Do you have any figures that show how many businesses were not been paid within the time limit in 2004-05 and 2005-06?

**Ms Weston**—I am just trying to recall whether it is by value or by number. We probably have some collective information about that—FMA agencies and departments as a whole, yes.

**Senator GEORGE CAMPBELL**—Could you take that on notice and provide that?

**Ms Weston**—Yes.

**Senator GEORGE CAMPBELL**—Generally, is this average of 93.9 per cent consistent across all government departments or are there some that are notoriously worse than others?

**Ms Weston**—It is an average. Some are getting there and some are exceptional. This department has close to 98 per cent paid on time. There has been a continuous improvement. There has been an improvement since the first survey in 2002, an eight to nine percentage increase to that 93.9 per cent. We ask departments and agencies what are the things that are holding them back—for instance, staff turnover, a decentralised payment model, those sorts of things—to try and raise some awareness of ways that you can improve payment performance.

**Senator GEORGE CAMPBELL**—Do you take action in respect of those departments that are not meeting the time frames?

**Ms Weston**—Within government, yes, that is drawn to their attention.

**Senator GEORGE CAMPBELL**—Does that also apply to agencies as well?

**Ms Weston**— I cannot remember the exact words, but it is FMA agencies. We can probably find those words for you when we send you that other information. It is for Australian government agencies subject to the Financial Management and Accountability Act.

**Senator GEORGE CAMPBELL**—What occurs in terms of those companies not paid within the 30 days, which might be impacted by the fact that they have not been paid? Is there any compensation for the way in which they are dealt with?

**Ms Weston**—The procurement arrangements have a voluntary late payment penalty clause. Ten of the FMA departments and agencies have those in place on a voluntary basis. Otherwise the business would generally approach the department and say, ‘You have not paid me on time’— the usual business arrangement between a business and a business, which the departments and agencies are.

**Senator GEORGE CAMPBELL**—Similar to the way the government charges me interest on my super payments, does small business get charged interest on the late payment of their bills?

**Ms Weston**—Ten agencies do have late payment clauses.

**Senator GEORGE CAMPBELL**—All departments and agencies or just some?

**Ms Weston**—Not all departments and agencies have them in their contracts. A business can ask to have that included in their contract, and I would imagine that is done on a case-by-case basis. If something is late, the business can ask the department to pay them interest, but that is really up to how the business feels about doing that.

**Senator GEORGE CAMPBELL**—I suspect they would be intimidated into not asking, in a lot of circumstances; that may impact upon their future contractual arrangements with government. Can you provide us with a list of the agencies that do have a late payment clause in their contracts?

**Ms Weston**—I can do that now for you: the Department of Industry, Tourism and Resources, the Department of Finance, the Attorney-General’s Department, the Australian Federal Police, the Department of Agriculture, Forestry and Fisheries, the Department of Employment and Workplace Relations, the Department of Environment and Heritage, the Department of Foreign Affairs and Trade, the Department of Health and Ageing and the Treasury.

**Senator GEORGE CAMPBELL**—There are still quite a few significant omissions on the list. Thank you for that. I have a range of other questions in respect of small business, but I will put them on notice

**Ms Weston**—I will look forward to that.

**Senator GEORGE CAMPBELL**—And I and ask you for as early a reply as possible.

**Mr Paterson**—Are the officers from Small Business free to go now?

**Senator GEORGE CAMPBELL**—Yes, on the condition we get an early response! I now have questions in relation to IP Australia. Dr Heath, this morning we went through some performance indicators outlined for this department. How have you performed against these measures over the past financial year?

**Dr Heath**—In relation to the measures set out in the portfolio budget statements, we did a revision of the way those measures are set out. Our measuring in the last financial year, which was reported in the annual report, is different from the measures set out there.

**Senator GEORGE CAMPBELL**—I take it that you said that, in the last annual report, your performance measures were at variance with these ones?

**Dr Heath**—In the last annual report we had our performance measures set out differently than they are set out in the portfolio budget statements. We did a rearrangement of the way the measures were set out, because we took on some new functions and that required some adjustments. Were there particular measures—there are quite a few there—that you wished to ask questions about?

**Senator GEORGE CAMPBELL**—Generally, how have you performed against those measures and was the performance in line with expectations?

**Dr Heath**—In relation to the first set of measures, which is to do with the operations of the organisation, the major measures against the rights, the IP rights, output 1, for quality are usually measures against our customer service charter. Our customer service charter has quite a list of requirements in it. We are meeting our customer service requirements for timeliness in relation to all measures for trademarks and plant breeders rights; in relation to patents we are only meeting some of them. We have some significant backlogs in our patent area at the moment. That is due, as reported in other places, in particular to do with some issues we have been having with recruitment. If you look at the forward budget statements, there is quite a growth in staff numbers predicted, and that is to raise the number of examiners that we have to try and see if we can better meet the service measures against patents against output 1.

**Senator GEORGE CAMPBELL**—I will come to some issues about patents a little later on. Let us move on. You mentioned the question of staffing. The PBS states, at page 101:

... IP Australia will be appointing more examiners in Patents and Trade Marks during 2006-07 to ensure high level service standards can be maintained.

How many additional staff are to be hired?

**Dr Heath**—In relation to our patent work, we are trying to increase our total patent examiner numbers to 250.

**Senator GEORGE CAMPBELL**—From what?

**Dr Heath**—From currently 200.

**Senator GEORGE CAMPBELL**—So there will be an additional 50?

**Dr Heath**—But we estimate that we actually have to recruit over a two-year period 75 additional staff to end up with 250 at the end of that period. In relation to trademarks, we currently have 100 trademark examiners and we are trying to increase that to 115.

**Senator GEORGE CAMPBELL**—Do you believe that will be sufficient to address the backlog?

**Dr Heath**—In relation to the patent area, the model we devised to work out those numbers has us in what we call a steady state position—that is, the numbers coming in and the

numbers going out are in balance at the end of a three-year period, with that recruitment being the critical step to achieve that.

**Senator GEORGE CAMPBELL**—That will be one of your KPIs for a couple of years time?

**Dr Heath**—Our KPI is to meet our customer service charter standards. When we are meeting that, that will be achieved.

**Senator GEORGE CAMPBELL**—Page 99 of the PBS states:

IP Australia will introduce fee changes in Patents and Trade Marks for financial year 2006-07.

... ..

Patents fees will be increased; in total the fee changes will increase revenue within the customer group by 8.8% over a four-year budget period. Trade Marks fees will be decreased; in total the fee changes will decrease revenue within the customer group by 3.1%. These fee changes have been introduced primarily to address the situation that has emerged over recent years (prior to the adoption of cost recovery policy by IP Australia) whereby Trade Marks customers have been subsidising Patents customers (driven largely by relative movements in sales volumes).

Can you tell me what are these individual fee changes?

**Dr Heath**—At this stage, no, I cannot. We are just trying to finalise a proposal to meet those targets. Our next step will be to consult with our customers about what we propose to do in those fee changes. The expectation would be that there would be a couple of key fee points that we would move up in the case of patents and down in the case of trademarks to meet that outcome.

**Senator GEORGE CAMPBELL**—When is it expected that you will make a decision in respect of that?

**Dr Heath**—I expect to see a proposal on my desk sometime in the next week. And then we have a few steps to go through between that—

**Senator GEORGE CAMPBELL**—No, when do you expect these fee changes to take effect?

**Dr Heath**—We are hoping to have them in effect from 1 January.

**Senator GEORGE CAMPBELL**—What is the cause of the imbalance between patents and trademarks?

**Dr Heath**—I need to explain a little bit. The cost recovery review that is reported in some detail in this portfolio budget statement is a consequence of the government's cost recovery policy changes introduced a couple of years ago. My organisation is largely a cost recovering agency—that is, we do not use taxpayers' money very much at all. We had not focused strongly prior to the cost recovery policy on whether what I would call individual product lines were cost recovered. We were focused more on whether the organisation was fully cost recovered, which it was. When the government introduced the review of cost recovery principles, we agreed that we would look at all of our internal costs and cost recover by each of the key product streams—by patents, by trademarks, by plant breeders' rights et cetera. When we did that review, we uncovered, if you like, in greater detail that our cost recovery

position was not as strong in patents as it should be and we were overrecovering in trademarks. But, as the portfolio budget statement papers show, that was also linked to the fact that we had had significant growth in the number of trademark applications coming in, the sales volume that is referred to there, and that meant we were effectively more profitable because we were able to do more work with similar resources than we were achieving in patents, which was not showing the same growth.

**Senator GEORGE CAMPBELL**—How do these new fee arrangements, and this new fee approach, compare with those of other countries, such as the United States and the United Kingdom, for example? Do they follow the same approach as you have just outlined?

**Dr Heath**—Firstly, not all intellectual property offices around the world are cost recovered as we are, although that is a common model. Some of them are essentially just government agencies paid for by the taxpayer, and the revenue that is achieved by the fees and charges is just posted to consolidated revenue. We do a number of different comparisons with offices around the world so that we understand our comparative and competitive position. Recently we did an exercise where we compared our fees against those for the US, the UK, Canada, Japan and European patent offices to see where we stood. The difficulty is we are not exactly comparing apples with apples here. Different offices charge different fees at different points in the process, and as a consequence these sorts of comparisons, while they are of value, are not something about which you would say, ‘Well, we know exactly where we stand in relation to that,’ because they are different. But in that comparison, for example, we are well placed in relation to our patent costs against most other offices that we are comparable with. Our trademark applications are similarly placed. I can give you some of those details if you wish.

**Senator GEORGE CAMPBELL**—Are you able to do that now?

**Dr Heath**—If you wish. In cost per application, comparing us with those named offices, we were ranked first out of the eight offices that we thought we could do a comparison with. We did not do that against Austria; we think their costs are heavily government subsidised. In terms of our cost basis, if you like—

**Senator GEORGE CAMPBELL**—Do you have a table of these, Dr Heath, that you could table for the committee so we can understand it?

**Dr Heath**—I do. This is a table that sets out the total number of applications that we received, the sorts of costs we have and the staff. As I said, it is for our internal use to try and see where we can do those sorts of comparisons.

**Senator GEORGE CAMPBELL**—Is it possible for you to take this on notice and give us your rating as against those countries without going through all of that detail—that is, how we sit in comparison? I understand what you are saying about not being able to compare apples with apples.

**Mr Pereira**—The table that has been compiled is based on publicly available information from the other offices. We have interpreted it to put us in that position. Some of the information may not have been published as to the true costs and the level of subsidy in the offices, so we are not 100 per cent sure about the data that is in there. It is only based on what was published.

**Dr Heath**—I would be quite comfortable providing you with a copy of this table. I would prefer that it was not published. We are comparing ourselves with other offices. As Mr Pereira has explained, we have pulled their data and interpreted the best of it. I have relationships with all of these offices. If I have misinterpreted their data and this goes on to the public record and they find it, I will find myself having to justify to other officers what I have said on the public record. This data I would prefer not to publish.

**CHAIR**—Dr Heath, I have some advice from the secretary about the course you propose. I do not think it is possible for you to offer the committee a document on the basis that it not become, as it were, part of the record. But, if this were to be acceptable to Senator Campbell, what you could do would be to give Senator Campbell, outside the processes of this committee, a private briefing and supply the document to him or give him the opportunity to examine the document on whatever conditions that you stipulated and he was prepared to accept.

**Dr Heath**—I am happy to do that. As I said, my preference is not to publish this data.

**Senator GEORGE CAMPBELL**—I am happy to go down that line, but I am wondering if it is possible to approach it slightly differently, and that is to give us your assessment of how IP Australia sits against those various IP offices that you have looked at—that is, the ones in a cost recovery environment. If they are not in a cost recovery environment, then just indicate that. I do not want to put you in a position, Dr Heath, or me, of your giving me a document, something getting out somewhere and then my being blamed for it.

**Dr Heath**—On the basis of the work that we have done trying to do these sorts of comparisons, we are confident that we are relatively well placed against comparative offices in terms of our costs and our prices. But there are significant variations in the way the systems work in each country, so at different fee points we see different things. It is significantly cheaper to lodge a patent application in Australia than it is to lodge a patent application in the United States of America, for example. But whether our total fees and charges at the end of a period are the same is a harder question to answer.

**Mr Paterson**—We are happy to examine what part of that material we think we can confidently provide to you that you would then be able to place on the record, and we will provide whatever caveats we need to in respect of that information.

**Senator GEORGE CAMPBELL**—I am only looking for a general comparison with other IP offices.

**Dr Heath**—I am happy to provide a general comparison. I will take that on notice, if I may.

**Senator GEORGE CAMPBELL**—Once you have gone through these fee changes that you are talking about, will they be updated on a regular basis?

**Dr Heath**—In the cost recovery policy and our agreement with the department of finance we have agreed that we will review our fees again in three years time.

**Senator GEORGE CAMPBELL**—Will a three-yearly review be a regular feature? Is that the intent?

**Dr Heath**—The intent is that every three years we would review our fee position and at that point make a decision as to whether there need to be any fee changes. It does not preclude us from changing fees in the period, but we try to minimise that so that we do not inconvenience our customers, but sometimes a change occurs in legislation or there is a different fee point. There is a regular review on a three-yearly basis.

**Senator GEORGE CAMPBELL**—What I am trying to establish is: once you get to that point, will you continue to try to keep at that point?

**Dr Heath**—Yes.

**Senator GEORGE CAMPBELL**—I want to follow up some questions that Senator O'Brien asked you on notice. It is question No. 1685 from April of this year. His question asked for details about the number of patent applications lodged, the number of applications granted and the number of patent examiners employed. You have already told us that. Your answer said that there had been a steady increase in the number of applications saved by IP Australia since 2003 and that there had been an increase in the number of patent examiners employed, but it also tells us that the number of patents granted has actually declined over that period. Is that as a result of insufficient examiners being employed to deal with the number of applications?

**Dr Heath**—The number of patents granted reflects a couple of things. The major driver of that is the number of patent applications that we examine in the period under review, and that is directly linked to the number of patent examiners to that task, but there can be other reasons why the numbers can lag. A higher number could be examined in one year, but the numbers that would actually get to the register may be lower because there are opposition proceedings or something like that, which delays them coming to the register. The number of patent examiners is the key determinant of the number of applications that we are able to examine.

**Senator GEORGE CAMPBELL**—According to the answer that was provided, it said that the patents granted as a percentage of applications in 2003 were 62.6 per cent; in 2004, 58.5 per cent; and last year, 48.7 per cent. For the 15 months until March this year the number was down to 45.2 per cent. It also says that over that period the number of examiners increased from 168 to 238. You say that at the moment that you have 200 examiners employed.

**Dr Heath**—I thought the number was about 200. I will find and correct the current number in a second, if I need to. In terms of the number of applications that are being examined, we have over the last couple of years struck a falling number proportionately, and the explanation for that is at a couple of levels. One is that we have been trying to build up our examiner numbers and that has required us to use examiners to do significant training of the new examiners, so our actual effective examination workforce as a proportion has not stayed up with the numbers that should be there. The second reason why the numbers are falling is that one of the issues which our office focuses on is inside the patent system—the key applications that we receive largely from our Australian based domestic customers are applications for search and international examination under the Patent Cooperation Treaty. This work has to be done in a very timely manner. It is quite difficult work and we, traditionally and currently, put all of our emphasis on making sure that work is done first. As a consequence of that work building up over the last couple of years, our standard patent work, which is the numbers that

you have just been describing, has been falling further behind, which is why we are trying to build up our examiner numbers to a greater extent than they currently are.

**Senator GEORGE CAMPBELL**—Would the international work that you are doing be for all IP officers?

**Dr Heath**—The international work that we do, as I said, is largely for our domestic customers. They are the ones that use this primarily, and it is the step which somebody who wishes to make a decision about their potential international patent position wants to take. They want to take it early and they want an answer early so that they can decide whether to pursue their patent and prosecute it in many other jurisdictions. So, in our language, we establish an international search report and an international examination report and provide that to the customer. I think we have got about a nine-week or 16-week turnaround on that work, which is much faster than anything else we do, so that they can then make a decision as to where they want to go. That work has been steadily increasing in number, but it is our most resource intensive work from our point of view.

**Senator GEORGE CAMPBELL**—Why do you give that priority?

**Dr Heath**—We give it priority because that is, as we understand it, what the customers actually desire the most. They are trying to make significant investment decisions and prosecution decisions on the basis of that early in the process, whereas having lodged their application and having it sit in the final examination queue they are less concerned, so our research indicates, about when that patent actually issues, as they are about getting that first piece of information from us.

**Senator GEORGE CAMPBELL**—Do you do any work for any other patent office?

**Dr Heath**—Yes, we do. We do work for the Singapore office and we do some other what we call commercial work for a range of offices—some of it comes through the Hong Kong office, some of it comes from New Zealand and other places, and we are currently talking to the United States about doing some work for them, but this is all in the context of us trying to sort out how our resources would deal with that.

**Senator GEORGE CAMPBELL**—But you do not do any work for the US patent office at the moment?

**Dr Heath**—We have been talking to the US office about doing work for them for some time, and recently we did 100 examinations for them as part of a study to see whether we could achieve what we desired here, which was to be able to get work done by our office accepted by the United States patent office.

**Senator GEORGE CAMPBELL**—That is for what purpose? Is it to facilitate speeding up patent applications for our Australian firms?

**Dr Heath**—It has two levels. One is to try and achieve a longer term goal, which a number of patent offices have, which is to get work essentially examined once and recognised in other offices, so the process of trying—

**Senator GEORGE CAMPBELL**—It is a mutual recognition?



**Dr Heath**—It is a step towards mutual recognition. We were not doing it strictly on a mutual recognition basis but we saw it, and so did the US, as a step towards achieving that.

**Senator GEORGE CAMPBELL**—Is there currently no mutual recognition between various patent offices?

**Dr Heath**—There are some offices in the world which are not ‘examining offices’ and they therefore recognise somebody else’s work in their jurisdiction. We are an examining office, so we do not do it that way. Singapore, for example, essentially farms out the work that it gets to other offices and then just adopts it. It does not re-examine it, so it is a form of mutual recognition. There are some offices for which their legislation simply says that if the patent exists in that jurisdiction then it automatically can exist in this jurisdiction.

**Senator GEORGE CAMPBELL**—How does that work that you carried out for those other offices impact upon the performance of your office overall? Is that given priority or is that down the bottom of the queue?

**Dr Heath**—As I said before, the international work we do under the PCT largely for Australian customers is our No. 1 priority. In terms of our other examination work, we try to balance our resources between those different models. In the total scheme of things for Singapore, for example, we do about a 1,000 cases or so a year for them compared to the 16,000 or 17,000 we do in total, so it is not the overwhelming number of cases, but of course it has some impact on our total use of resources.

**Senator GEORGE CAMPBELL**—Is it possible for you to give the committee some indication of the average processing time from the receipt of a final patent application to the granting of a patent since 2003? You can take it on notice if you wish.

**Dr Heath**—There are quite long clocks running inside the patent system. Probably the major way we count our work is from a point in time which is when we or the applicant requests examination. But, to go back to the beginning, can I just walk you through the clocks. When we receive an application at the beginning of the process, normally 18 months would go by where no processing occurs on that application. At the end of 18 months that application is published to the world. So prior to that it is secret.

**Senator GEORGE CAMPBELL**—Why the 18-month delay?

**Dr Heath**—That is the broad period agreed under the international treaties that we operate under: for the first 18 months the content of a patent application is private between the applicant and the office.

**Senator GEORGE CAMPBELL**—What happens in that 18-month period?

**Dr Heath**—In our office we do nothing with that. We take the application and we stick it in a queue and at an 18-month point we publish it the world.

**Senator GEORGE CAMPBELL**—What is the purpose of that?

**Dr Heath**—The major reasoning behind that is it gives a period of time to the applicant to actually sort out how they wish to prosecute their application. The patent system is fixed around a point in time, what we call a priority date, and applicants, to secure their patent against the rest of the world, have to take some sort of a balance to achieve the earliest

priority date they are able to achieve. Otherwise their patent becomes invalid if somebody else gets a similar invention into the system before them. So the pressure on them is to get in early, but that means they have not properly worked through the full nature of the invention that they are trying to secure their patent around. So the 18-month period is essentially set there so that the applicant is given a period of time when they can make some adjustments to their application and still hang on to their priority date before it is published to the world, because once it is published to the world it starts to get fixed in terms of its content.

**Senator GEORGE CAMPBELL**—That is the standard procedure adopted by all patent offices?

**Dr Heath**—It is adopted by most offices. The US were one of the latest offices to come on to that system. They did not publish it to the world until a much later point in time. They have actually brought their publication back to that 18-month point, which brought them in line with the way we have been doing it for a while. After that 18-month point is where our backlog queue starts to become an issue. We would normally expect to give notice to the applicant some time in the six months after that date that we wish them to request examination. So they are given notice that they have to say their application is now in order to be examined, and they agree that we can examine it. That period has started to creep out to about 12 months in our office now, whereas normally we would have done it within the six-month period. Having given them notice, they are given a period of time to come back and say their application is in order and they wish to have it examined, and then we examine it. Normally we try to meet the examination within six months of giving them that notice, but again that is another point where our delay is causing us problems and, depending on the technology, it could be anywhere between seven and about 14 months from that point to when they actually get their examination.

**Senator GEORGE CAMPBELL**—In the period covered by the answer to question on notice No. 1685, setting aside the 18-month waiting period or whatever you define that as, the average is 12 months for the examination.

**Dr Heath**—The average is 12 months from when examination is requested.

**Senator GEORGE CAMPBELL**—Yes.

**Dr Heath**—I have given you the shortest technology and the longest technology; I am less confident that you can just average those in that way.

**Senator GEORGE CAMPBELL**—Could you take that on notice and see if you can average it out?

**Dr Heath**—I can give you by technology how they are travelling at the moment.

**Senator GEORGE CAMPBELL**—Yes.

**Dr Heath**—In fact the times here have probably moved up a little bit, I can see now that I am looking at the page in front of me. Starting from the top, in biotechnology it is 16 months; in chemical biotechnology it is 13 months; in chemical engineering it is 12 months; in straight chemical it is 15 months; in electrical it is 11 months; in electronics it is 15 months; in mechanical it is 14 months; in pharmaceuticals it is 11 months; and in physics it is 11 months.

**Senator GEORGE CAMPBELL**—Is the principal reason that it is taking that long to deal with these applications the lack of examiners?

**Dr Heath**—The principal reason is insufficient examiners to bring those queues back to what I would consider to be more reasonable time frames.

**Senator GEORGE CAMPBELL**—What is the typical proportion of an examiner's time spent on examining final patent applications, searching databases and prosecution of patents and general associated administration? How much of their time would they spend on examining final patent applications?

**Dr Heath**—This is a hands-on sort of question. Do you mean how long are they sitting there at the screen, at the desk, doing their work as opposed to their holidays?

**Senator GEORGE CAMPBELL**—Researching databases and general literature, for example, or the prosecution of patents and general associated administration work.

**Dr Heath**—The only figure I have, which may or may not be an answer to your question, is at the moment it is around 53 or 54 per cent of an examiner's full time. The rest of that time is doing things including holidays, sick leave and administration. I do not have it broken down into smaller numbers, but by the time you take away all of their leave entitlements and all of those sorts of things as well as non-examining time it is hovering a bit above 50 per cent.

**Senator GEORGE CAMPBELL**—Would that figure have increased or decreased over the period since 2003?

**Dr Heath**—I do not believe we have the data so that I could confidently answer that. It is an area that we are looking very closely at, but as we look more closely I am not sure that I can go back in time and say, 'Back then, we were there.' Our proportion of that time is one of the things we are trying to get a better handle on.

**Senator GEORGE CAMPBELL**—What proportion of the office's total revenue funding comes from applications and other fees paid by Australian companies, institutions and individuals and the funding by the federal government?

**Dr Heath**—The funding by the federal government proportion is quite easy. In the budget papers you will see that \$2 million is our total appropriation from the taxpayer of a total budget of around \$100 million depending on whether you are talking about revenue or expenses.

**Senator GEORGE CAMPBELL**—So it is \$100 million from the federal government.

**Dr Heath**—No, it is \$2 million from the federal government of a total budget of about \$100 million.

**Senator GEORGE CAMPBELL**—So the rest is funding by fees and applications.

**Dr Heath**—That is right. You asked the question about proportion of Australian versus others.

**Senator GEORGE CAMPBELL**—What was paid by Australian companies, institutions and individuals.

**Dr Heath**—I do not have that worked out. I know that about 10 per cent of our patent applications come from Australia and the rest from offshore, and I know that about just over 60 per cent of our trademark applications come from Australia and the rest offshore. But to take that down to actual revenue items, I do not have that data in front of me.

**Senator GEORGE CAMPBELL**—Over the period covered by question on notice No. 1685, can you take on notice to give us the percentages of where your funding came from?

**Dr Heath**—By appropriation and fees, and then fees by Australian and non-Australian?

**Senator GEORGE CAMPBELL**—Yes.

**Dr Heath**—I can do that.

**Senator GEORGE CAMPBELL**—Are there any other sources of revenue or funding that is available to you?

**Dr Heath**—No.

**Senator GEORGE CAMPBELL**—I turn to an old favourite of mine, Syntroleum. Can you give us an update on the status of the Syntroleum technology licence?

**Mr Ryan**—That will be for after 8 o'clock, when we do the resources division.

**Senator GEORGE CAMPBELL**—So IP are not holding that; it is being held somewhere else. I turn to LPG liquid injection system. What is the status of patent No. 672495?

**Dr Heath**—Can I take that on notice?

**Senator GEORGE CAMPBELL**—It is as referenced in Docklands OIS lodged with ASIC on 28 March 2006.

**Dr Heath**—It is not a patent I am familiar with.

**Senator GEORGE CAMPBELL**—I did not expect you to be. Can you take that on notice and advise us what IP Australia is doing to expedite the termination of this application in order to provide investment certainty for Australian developers and manufacturers of the next generation LPG vehicles?

**Dr Heath**—Have we been asked to expedite it by the applicant?

**Senator GEORGE CAMPBELL**—I do not know, but it is holding up the manufacture and development of the next generation of Ford LPG equipment and apparently it has already been used by Hyundai and BMW and the technology has not been able to be accessed because the patent is still pending. So if I can ask you to take that on notice and provide us with an answer as to whether it is being expedited. If it is not, why not?

**Senator McLUCAS**—I have some questions of the Building Codes Board. I understand they have come back, and I appreciate that. At last estimates I asked some questions about the progress of the access to premises standard. Could you update the committee on what activity has occurred since February of this year?

**Mr Pettifer**—I will attempt to do that. In essence, the Building Codes Board, of which Mr Donaldson is executive director, provided advice to the minister I think on 29 March. That advice will now be considered by the minister.

**Senator McLUCAS**—Is that the homework we referred to at the last hearing? At the last hearing the board had provided advice to both ministers late last year and then you were asked to do further work.

**Mr Donaldson**—Yes.

**Senator McLUCAS**—Do you understand that this work is now complete?

**Mr Pettifer**—Yes. It is possible that as the government considers that advice it might want to ask the ABCB to do some further work. That is not currently envisaged, but time will tell. So I think in a nutshell you could conclude that the ABCB has provided all the advice that was asked of it.

**Senator McLUCAS**—Is the board aware of the process from now on? What is the process from now on?

**Mr Pettifer**—Yes, I think the board is aware of that in broad terms. There will be a process of ministers considering their position on this issue. They may want to talk to relevant stakeholder groups as part of that process. I think I might have mentioned earlier that in due course that would be something that I expect would need to be considered by cabinet, and there would need to be some legislative proposals developed, as my understanding is that this would be an instrument under the Disability Discrimination Act.

**Senator McLUCAS**—Who would do that drafting, this department or Attorney-General?

**Mr Pettifer**—I think that would be done by Attorney-General's Department.

**Senator McLUCAS**—Was part of that advice a further cost-benefit analysis of implementation of an access to premises code?

**Mr Pettifer**—I think I mentioned last time that the minister had asked for further details on the proposal including an analysis of the costs and benefits of particular options.

**Senator McLUCAS**—So that advice to the minister on 29 March included further analysis of the cost and benefits of introduction of such a code?

**Mr Pettifer**—Yes.

**Senator McLUCAS**—Who undertook that work?

**Mr Donaldson**—We advised the Senate, in answer to question 78 from Senator Campbell, of the full documentation of the work that we have undertaken and who was undertaking that work. I think that was in answer to questions 78 to 86. In broad terms the work was undertaken by my office by consultants called Jaguar Consulting, who were responsible for the initial RIS and then the follow-up work, but also Access Economics, which conducted a peer review on the original draft RIS and then further work for us in respect of the revised RIS. There were three parties engaged in that over the time since we provided our preliminary advice to when we provided our final advice, as Mr Pettifer has indicated, at the end of March.

**Senator McLUCAS**—I understand—and this is where the interface between Attorney-General's and this department occurs—you have indicated that Attorney-General's will probably draft the legislation, but there has been an RIS drawn up to this point and that was done by the board or by the department?

**Mr Pettifer**—It was commissioned by the board.

**Senator McLUCAS**—There is a requirement that the states and territories be consulted. Who undertakes that consultation?

**Mr Pettifer**—That is a requirement, as I understand it, under the Disability Discrimination Act, so I think that would be done by the Attorney-General.

**Senator McLUCAS**—Have you had any input into that consultation process?

**Mr Pettifer**—With the states?

**Senator McLUCAS**—I know it is going to happen into the future, but has either the board or your department been asked to comment on what that consultation process should be?

**Mr Pettifer**—We are not at that point. What we are trying to do at this stage is develop a Commonwealth position on the issue, and I imagine at that stage consideration will be given to how best to consult with the states, in line with the requirements of the DDA. We work closely with the Attorney-General's Department on this particular issue. There is a regular exchange of information and that sort of thing. I imagine there would be some discussion about that at that particular point in time.

**Senator McLUCAS**—I am asking this question so I know whether to go any further. There has been no discussion about how that consultation would occur?

**Mr Pettifer**—With state ministers responsible for the Disability Discrimination Act?

**Senator McLUCAS**—Yes.

**Mr Pettifer**—No, not to my knowledge.

**Senator McLUCAS**—Has there been a budget allocation for the progression of the access to premises standard for this year, 2006-07?

**Mr Donaldson**—For the additional work?

**Senator McLUCAS**—For 2006-07?

**Mr Pettifer**—I can answer in broad terms. There is an allocation in the board's budget as a contingency for possible further work that might need to be done. I think it is in the order of \$200,000.

**Senator McLUCAS**—But it is in a pot just in case?

**Mr Pettifer**—At the last board meeting last week there was some discussion of its overall budget going forward. It was felt prudent to set some money aside in the event that further work might be needed.

**Senator McLUCAS**—What was the amount of money spent in 2005-06 on the issue of access to premises?

**Mr Donaldson**—Once again, that information has been provided to the committee. Just bear with me while I check the detail.

**Mr Pettifer**—While Mr Donaldson is doing that, we have identified the costs of the various consultancies that were required in previous answers. On top of that, you probably

need to add in the costs of staff time within the Building Codes Board. It might be something that is best taken on notice.

**Mr Donaldson**—Yes, I agree that it does need to be taken on notice. I have the costs for the consultancies, but that does not capture the full costs associated with our work.

**Senator McLUCAS**—It would be great if you could get me the cost of consultancies plus in-house costs so that we get a total expenditure for 2005-06. What is the status of the Building Access Policy Committee?

**Mr Donaldson**—The Building Access Policy Committee has not met for some time, but in the event that the board needs additional work done or the Commonwealth comes back to the board and asks us to enter into some consultative process, it would be an ideal vehicle to do that. At this stage, it remains there and available but is not active.

**Senator McLUCAS**—In terms of the time line from now on, I recognise your advices have gone to your ministers. Is the board of a mind to have a particular time line for when we would see some implementation of something that has been going on for 10 years?

**Mr Pettifer**—That is really not a matter for the board but more for the government. I cannot give you an answer to that. I think it depends on what further consultation processes are needed, when matters can be scheduled for wider consideration with government, what the legislative program allows in terms of getting the material drafted and those sorts of things. There are a lot of unknowns in that and I cannot be more specific.

**Senator McLUCAS**—I understand that. I want to ask some questions now about the accessible housing research that I understand is under way. Could you update the committee on that process?

**Mr Donaldson**—We indicated before to the Senate committee that a consultancy report on accessible housing had been made available to state governments via my state and territory board members for their consideration. The reason for that was that, when the work was done, a number of issues were identified that went well beyond that which would bear on the work of the Australian Building Codes Board and the Building Code itself. The board decided to do that in its meeting in November, and indeed met again last week and discussed the matter further. We discovered at that meeting that at least one state was actively considering the issues associated with accessible housing, and that report was part of their deliberations. Given that, the question of where the accessible housing report goes is a matter that is yet to be determined by the board. It is not imminent for public release. It is still in the hands of state officials and ministers.

**Senator McLUCAS**—Who makes the decision as to when it will be released or if it will be released?

**Mr Donaldson**—The issue of accessible housing is something that extends well beyond the policy remit of the ABCB. At the end of the day we are a technical advisory body to government, and building regulations are only very much a part of any solution associated with lifting the supply and stock of accessible housing for the community. The question of what the board wants to do in relation to the Building Code will be driven by state government policies rather than the board driving the states.

**Senator McLUCAS**—Does the document belong to the Australian Building Codes Board?

**Mr Donaldson**—The report?

**Senator McLUCAS**—Yes.

**Mr Donaldson**—The report is a joint report with the Victorian Building Commission and the Australian Building Codes Board. The Victorian Building Commission project managed that report and we supported them with funds and expertise.

**Senator McLUCAS**—What is the hesitation in releasing the report?

**Mr Donaldson**—Hesitation?

**Senator McLUCAS**—It is a document that has been commissioned. Public money has been expended.

**Mr Donaldson**—Yes.

**Senator McLUCAS**—I recognise that some of that money was Victorian state government money. But what is the hesitation in releasing it?

**Mr Donaldson**—It is very straightforward. It is policy advice to those governments. We stand in relation to those governments as departments stand in relation to federal ministers. It is a matter for state ministers as to how they want to take these things forward in terms of policy. This is obviously a relevant piece of work. To turn that into something that goes into the public domain before they have got the opportunity of dealing with it seems to be not the appropriate way to go. If there is a hesitation involved, that is the reason for it.

**Senator McLUCAS**—I understand that the request for tender that closed on 20 March 2004 included as a requirement the production of a draft report that would be suitable for a broad public consultation program.

**Mr Donaldson**—That is correct.

**Senator McLUCAS**—Did that happen?

**Mr Donaldson**—No, not yet. During the process of developing their report, there was quite a significant engagement with stakeholders as part of the development of the report. As to the report in its final form, that is not a matter for the consultants, that is a matter for governments and the ABCB at the end of the day.

**Senator McLUCAS**—You are not requiring the consultant to produce a document that would be suitable for a broad public consultation program?

**Mr Donaldson**—That is a matter for government in the first instance. We do not dictate to government. It is a matter for government to determine how they want to take this forward. The intention was to do a research study on the issue of accessible housing to identify what, if any, supply problems there were in the marketplace and whether there was an appropriate environment for policy response and what the nature of that policy response might be. From the ABCB's point of view, that would be an issue associated with whether or not the Building Code was an appropriate policy instrument to assist in developing a better equation between supply and demand in the market. That is just one issue that has emerged from the process that the consultants went through to get to the point where they are at the moment. Public



consultation on the report itself is a thing that will have to follow ministerial consideration at state level.

**Senator McLUCAS**—Has the time line proposed in the request for tender been adhered to?

**Mr Donaldson**—The report is completed. I am sorry, I do not quite understand the point of this question. That is a matter of detail that goes back two years. I do not have that in my head.

**Senator McLUCAS**—It says in the request for tender that it is expected that the contract will commence in January 2005. I understand that occurred. The ‘Guide for tenderers’ states that, for stages 1 to 5, completion is estimated within 6½ months. My question is: did that occur in 6½ months?

**Mr Donaldson**—I do not have that documentation in front of me. I would happy to give you some detailed response to that. The original request for tender went out and a consultant was selected, but that consultant withdrew from the project some months after proceeding into it. The consequence of that was that the Victorian Building Commission had to go back to tender to complete the project, and that obviously involved quite a bit of time. The report has now been completed since February and it has been in the hands of state officials since that time.

**Senator McLUCAS**—How much money did the Building Codes Board put into this process?

**Mr Donaldson**—Once again, I have provided an answer to that question. This is, from memory, in relation to the original one, but I am sure it is on the *Notice Paper*; I can check that. It was approximately \$15,000 initially. The cost of the completed second stage of the consultancy was approximately \$120,000. I am adding that up looking at the answers to question Nos 88, 89 and 90. It is approximately \$120,000 and we have paid that to the Victorian Building Commission as part of our contribution to the work that they project managed.

**Senator McLUCAS**—Was it originally a joint proposal?

**Mr Donaldson**—Who was the original consultant?

**Senator McLUCAS**—No, not the original consultant. The original proposal, as I understood it, was that it was a joint tender letting process between the board and the Victorian entity. Did that change?

**Mr Donaldson**—It did change at one point and what it was about was resources really. We found ourselves under considerable pressure in relation to the DDA issue and we were unable to project manage it. The Victorian Building Commission was able to take a lead role in respect of that.

**Senator McLUCAS**—The report would have only been provided to Victoria and the board?

**Mr Donaldson**—It was both.

**Senator McLUCAS**—Basically, you are telling me that we are now in the hands of the Victorian government and that we await their response to the report as it stands?

**Mr Donaldson**—That is right.

**Senator McLUCAS**—I hope you do not think I am cheeky, but I have to ask you this question. Last Sunday or the Sunday before I was in Western Australia and I was meeting with the Deafness Forum of Australia. They asked if the Building Codes Board had done any work on looking at a standard in building codes and building designs to include issues for people who are deaf.

**Mr Donaldson**—I think I might have an interest in that matter! Yes, of course we have and hearing augmentation is already, to some extent, addressed in places of assembly in the Building Code. There are minimum standards that do exist. There certainly would be issues around whether those standards are sufficient. Certainly, during the process of developing our advice to the Commonwealth, the deafness association of Australia and other parties made representations to the Building Access Policy Committee and to the board, and they were issues that were looked at during that process. Obviously, I cannot comment on what our advice was in respect of those matters, but we were conscious that it is a live issue and the Building Code has historically, during this period of dealing with access for people with disabilities, dealt not just with mobility issues but other matters as well, and hearing augmentation is one of those.

**Senator McLUCAS**—Does that extend only to the inclusion of hearing loops or is it more than that?

**Mr Donaldson**—Yes, that is right, in places of assembly. That is the nature of it.

**Senator McLUCAS**—Has there been any other work done on, for example, requirements in aged care facilities?

**Mr Donaldson**—Aged care facilities in relation to disability or more broadly?

**Senator McLUCAS**—No, hearing.

**Mr Donaldson**—There was a major piece of work done by the Australian Building Codes Board two or three years ago in relation to the design and construction of aged care facilities. As a consequence of that, a whole new classification of aged care facilities was developed and is now in place. There are definitely issues in that environment, given the nature of the population, relating to fire protection and to other matters, particularly disability, that are in place. I am afraid I do not have the details in front of me about whether we address any further provisions in respect of hearing, but I am happy to check and confirm that and then come back to you. Clearly, that is an area where you have a particular need, and one needs to be more alert to those needs than perhaps is more generally the case in the community.

**Senator McLUCAS**—Just by way of a background briefing, could you provide the committee with a list of in what areas the question of provision of hearing augmentation has occurred?

**Mr Donaldson**—We can certainly look at that and provide you with some information, on notice.

**Senator ALLISON**—My questions are about the task force set up by the minister, I think announced in February this year, into nanotechnology. Are we on track to deliver the report to the minister by the end of June?

**Mr Pennifold**—Yes, the undertaking was to provide a report to the minister by the end of June and we are on track to do that.

**Senator ALLISON**—Is there any idea when that report will be made public?

**Mr Pennifold**—No decision has been made on that yet and I think that would be one of the issues that we would be raising with the minister when we deliver that report containing options for a strategy.

**Senator ALLISON**—Will it contain those options? Will it set those out? Or is there another part of the process that does that?

**Mr Pennifold**—The report that we will be developing, I think, will give both some strategies and some options within them, mainly because we have been going through a consultation process, and there has been a range of views that have come through in that process as to what the priority areas are and just what types of actions are needed.

**Senator ALLISON**—So this report will have all the options in it that you have canvassed so far in your consultations?

**Mr Pennifold**—It will reflect the issues that have come through in the consultations.

**Senator ALLISON**—I have heard a couple of criticisms about the process so far. The discussion paper that was intended to assist the public with making a submission to the strategy did not canvass a number of the important issues. Can you comment on that?

**Mr Pennifold**—We thought that the discussion paper was quite open ended in identifying some of the key themes that had come through at that point and invited written applications. To date we have received 25 written submissions: two from NGOs, eight from industry groups, six from the research sector, six from government and three from individuals.

**Senator ALLISON**—Did those submissions canvass issues that were not in the discussion paper?

**Mr Pennifold**—We are still analysing the submissions. Even though they did close some weeks ago, we are still getting some submissions coming in.

**Senator ALLISON**—Are you still accepting late submissions?

**Mr Pennifold**—We have had a few come in. We have not drawn a hard line and not accepted any, because we are keen to get a full set of views from the people who want to come forward. In all of those a range of items came up: the science capacity, industry development and uptake, investment in infrastructure, regulation, metrology, community awareness, international issues, health and safety and the environment and also ethical issues.

**Senator ALLISON**—Were all of those canvassed in the discussion paper?

**Mr Pennifold**—We certainly canvassed most of those key issues and invited others to put forward what their views were. We did not place limits around what others can comment on.

**Senator ALLISON**—So you do not accept that criticism; is that what I am hearing?

**Mr Pennifold**—I think we entered into it in good faith to try and draw out the range of views in the community.

**Senator ALLISON**—As to the budget for spending on nanotechnology, is it possible to get the figures for 2003-04, 2004-05 and 2005-06 and then the projected spending for 2006-07?

**Mr Pennifold**—If I could just clarify, we have had a nanotechnology task force in the department over the current financial year and the cost of that has been in the region of about \$600,000. We did not have any institutional arrangements prior to that within ITR, and in the period ahead we have not got any specific separate arrangements on nanotechnology.

**Senator ALLISON**—So there are not separate budgets for research, commercial development, policy and strategy, public participation or regulatory development?

**Mr Pennifold**—We do not have those budgets in place for next year. Those would likely be among the elements of the strategy paper that we would put to the minister and then there would need to be a decision about what the government then wanted to do in those specific areas.

**Senator ALLISON**—What about CSIRO's efforts in nanotechnology? Am I correct in saying there is a CRC for nanotechnology?

**Mr Pennifold**—I can clarify that for you. Certainly when the PMSEC group looked at this area they identified some \$100 million a year that is being spent on nanotechnology R&D. Often it is called something quite different identified by research field, but in the process of the task force we have not gone through and identified a Commonwealth budget or allocation to nanotechnology.

**Senator ALLISON**—But you anticipate as a result of this report from the task force that there would be budgets developed in the next round of funding for some of those areas or all of them?

**Mr Pennifold**—They would be the sorts of things that would be the elements of a national nanotechnology strategy, and then it would be a decision for the government what it then wanted to do in those particular areas.

**Senator ALLISON**—Am I right in saying there are no specific regulations governing nanotechnology even though it is already being used in a range of products, such as electronics, pharmaceuticals, sunscreens, optical fibres?

**Mr Pennifold**—In the course of the operation of the task force we have spoken with a number of the relevant federal agencies, such as the Office of Australian Safety and Compensation Council, National Industrial Chemicals Notification Assessment Scheme and the Therapeutic Goods Administration. Whilst at the moment we understand there are not specific nanotechnology related regulations, we are aware, for example, that the Therapeutic Goods Administration has recently undertaken a worldwide literature research and review in the nanotechnology area and has issued some advice which is available on their website relating to the regulation of sunscreens.

**Senator ALLISON**—Is that advice intended for the Commonwealth or is that for states?

**Mr Pennifold**—It is general advice that anyone can look at. It is available on their website. It relates to their regulation, in this case, of sunscreens.

**Senator ALLISON**—Does it apply to other bits of technology?

**Mr Pennifold**—No, that is a specific piece of advice relating to sunscreens.

**Senator ALLISON**—What about other areas of manufacturing?

**Mr Gallagher**—There are no specific regulations on nanotechnology but, for example, also the National Industrial Chemicals Assessment has called for information on products that might relate to nanotechnology or include nanotechnology particles. Most of the agencies regulate either in the industrial chemicals or therapeutic goods, and there are existing regulations to assess the safety and efficacy of products. To that extent, that is the regulatory process for those products at the moment.

**Senator ALLISON**—But they are not specific to nanotechnology?

**Mr Gallagher**—No, they are not.

**Senator ALLISON**—Nanotechnology is a new ballgame, is it not, in terms of human exposure?

**Mr Gallagher**—That is a matter, for example, for the Therapeutic Goods Administration, but I think they would say that their processes assess the characteristics of the material. If it has characteristics that are related to it being at the nano scale, their processes would address that, because the regulation is not about whether it is nanotechnology but whether it is safe or environmentally friendly or whatever.

**Senator ALLISON**—We do not know, do we? Is that not part of the problem? The research has not been done to tell us whether nanotechnology particles are safe. Is there not some doubt as to whether they pass the various barriers, skin and otherwise in the body?

**Mr Pennifold**—This is one of the very important issues that we have been trying to pick up in the task force—the environmental health and safety aspects. As part of that work, we have engaged the academies—the Australian Academy of Technological Services and Engineering is representing that organisation, the Academy of Science, the humanities area and also social science. We have engaged them to look at the relative risks associated with different areas of nanotechnology to try and get a handle on the relative risk. Our thought would be that, if the government were to decide to move in this area, it would need to be as well informed as possible. We have a report in an advanced draft stage from the academies that we would hope to have finalised in the next couple of months. They have looked at all of the major areas of research and given their opinion as to the relative risk in some of those areas. As you would appreciate, there is nothing which is a zero risk but for some the risks are less well known than for others. Certainly, the draft advice that we have had from them is that the existing approval and regulation procedures for pharmaceuticals and cosmetic products, in their view, do provide adequate protection for product development and use. That is the draft conclusion that the academies have come to.

**Senator ALLISON**—What about the overseas experience? Are there other countries more advanced than we are in terms of regulating nanotechnology?

**Mr Pennifold**—This is why we wanted the academies to look at this area, to draw on best international practice. I understand, for example, when the TGA did its work it looked at what the international practice was, and the review of that research was an international one.

**Senator ALLISON**—Sorry, the—

**Mr Pennifold**—The review they did of research in that case on sunscreens was a review of the international literature on the subject, not just the Australian research.

**Senator ALLISON**—Has any country put in place specific nanotechnology regulations?

**Mr Pennifold**—I am not aware of that. I might defer to my colleague.

**Mr Gallagher**—As far as I understand, no country has specific nanotechnology regulations, but I obviously cannot say that categorically. We are not aware of any that have introduced specific nanotechnology related regulations.

**Senator ALLISON**—Is there likely to be international agreement on this, so that everyone is not reinventing the wheel?

**Mr Pennifold**—There are some developments under way both in the OECD and in other organisations to try and get a good handle on what are perhaps the areas where least is known, and where more research does need to be done. We are aware, for example, that the Woodrow Wilson Institute in the United States has developed an extensive data base in the nanotechnology area and has registered a number of the articles there relating to health and safety. It is an emerging area of science and there is quite a lot of international cooperation.

**Senator ALLISON**—You cannot indicate the amounts, obviously, at this stage, but will the research that will be recommended cover a broad range of areas, ethical, health, safety, environmental impacts, for instance?

**Mr Pennifold**—None of those decisions has been made, and I think the idea of getting the academies' work done was to start looking at where those priorities might be. On the basis that the government makes a decision in relation to the report, it may well want to start directing funds into particular areas.

**Senator ALLISON**—But there is no money in the budget for this coming year?

**Mr Pennifold**—Not in the budget for 2006-07.

**Senator ALLISON**—What happens if the task force recommendation is that we need research into particular areas? Will it have to wait until next year before we go ahead?

**Mr Pennifold**—That would be a matter for the government but, yes, there is nothing in this year's budget. Sorry, there is nothing specific in this year's budget. We are aware of a large amount of research that is being funded through existing bodies. There is no reason to believe that that would not continue.

**Senator ALLISON**—What is the plan for public participation in the development once the task force report is made public? What is the next step for consultation and public participation?

**Mr Pennifold**—We have not firmed up those plans entirely and that would be a matter for the government to decide, but what we would be presenting to the government would be the

outline of a national strategy. We have been collaborating with the state governments already to date. It would be a matter of talking with the states and also with the general community, specific groups in industry, science and regulators.

**Senator ALLISON**—Just taking workplace exposure for a moment, has there been an estimate made of the number of workers in Australia who would be exposed to nanoparticles in their day-to-day work?

**Mr Pennifold**—I am not aware of that, but I understand that there has been an inquiry by the Senate community affairs committee into workplace exposure to toxic dust, which has been considering these issues. The latest advice I have is that it is due to report at the end of this month.

**Senator ALLISON**—Indeed, the report is on my desk. But it does not go into this question of how many workers there might be exposed to nanoparticles, if I can be so bold as to release that bit of information. Your task force will not be having a look at that question?

**Mr Pennifold**—We have not done specific work in that area, no.

**Senator ALLISON**—Does this mean that there are some workers, and maybe even some consumers, who might currently be being exposed to substances that might do harm? Is it just possible that we may discover through research that protections at the workplace are inadequate and, if so, what sort of compensation might be available for such people?

**Mr Pennifold**—Again, we have not looked at the workplace situation. I think what the academies' report is telling us is that there is not perfect knowledge in this area, that it is a matter of taking a balanced approach to the relevant risk in these areas and that more knowledge is necessary. There is always the possibility that, in the light of further research, some findings suggest that change or regulation is needed. But we would want to move forward on the basis of having some good information about what such action would be.

**Senator ALLISON**—Who would be liable for workers who are exposed currently if it is subsequently found to be a health risk?

**Mr Paterson**—We are not in a position to respond.

**Mr Pennifold**—I do not know.

**Senator ALLISON**—Is there any obligation on employers to warn workers that they are dealing with nanoparticles—that is, to provide workers with whatever we know, and also advise them that there is quite a lot that we do not know at this stage?

**Mr Paterson**—There is a general obligation on employers to provide a safe system of work, but we are not in a position to make comments in relation to liability or potential liability in workers' compensation. It is not our area of expertise.

**Senator ALLISON**—So under the current law, because there is an absence of knowledge about the possible effects, the employers would not be held accountable?

**Mr Paterson**—We cannot hypothesise on that. It is not our area of expertise and not something that we are qualified to comment on.

**Senator ALLISON**—Do you not see the need for either employers or employees to be warned or even for consumers to be warned?

**Mr Paterson**—It is not an area of our expertise.

**Senator ALLISON**—Is this not something the task force is considering, though?

**Mr Paterson**—Mr Pennifold has already indicated the general overview of what the task force is considering. But you are asking for comments in relation to workers compensation and potential liability. I am saying that those two areas are not part of our competence or expertise.

**Senator ALLISON**—I understand that requires further research. However, we are proceeding without the precautionary principle applying, because there are nanoparticles being used in the workplace. I am just asking you whether people should not be warned about this.

**Mr Pennifold**—I think the actions by the TGA in putting information on its website is a good example of where they have actually moved in this area.

**Senator ALLISON**—If someone is not actually making wrinkle cream or sunscreen or something which involves nanoparticles, if they are actually working in an industry where perhaps even the rate of exposure might be greater through dust or whatever, there is no website that they can go to. It does not help them to know about the TGA's website, does it?

**Mr Pennifold**—The information—

**Senator ALLISON**—Let me ask it another way. Does the work that you have been doing so far and the submissions that have been made indicate that there is widespread knowledge in manufacturing among the people dealing with nanoparticles?

**Mr Pennifold**—We have had some work done for us in relation to information that is available through the press and the media, and certainly that information identifies health and safety as one of the key items. Overwhelmingly, the reports that are coming out do point to some of the benefits of nanotechnology in the health area but, similarly, there are a number of articles that also do point to some of the potential problems or unknown potential problems.

**Senator ALLISON**—Take the case of worker on a shop floor who is dealing with a paint with nanoparticles in it. Would he or she be aware of that? Would there be a label on the paint that says: 'This has nanoparticles in it. Be careful. Wear gloves'? I am just thinking that somebody on a factory floor being across this issue, or even knowing that it is an issue, is probably unlikely. What have you discovered so far?

**Mr Pennifold**—I do not know the answer to that question.

**Senator ALLISON**—The submissions you have had from industry do not go to this question?

**Mr Pennifold**—I have not read the submissions.

**Mr Gallagher**—I can answer it in two ways. Some of them did mention this issue. We had a submission from the ACTU. Not surprisingly the issue is of concern to them. In fact, when we ran a forum last December the ACTU came to that and that is an issue on their agenda. I should also add that, although it is not within our bailiwick, in our consultations we have spoken to the Australian Safety and Compensation Council within the Employment and Workplace Relations portfolio. I am aware that the workplace issues are on their agenda. As



the secretary said, it is not something that is in our bailiwick to deal with as a department, but as a task force we have engaged with other agencies that have a more direct interest in that issue.

**Senator ALLISON**—Just to be clear about what the task force is doing, you are suggesting that other agencies will be concerned about the issue of workplace protections. Is that what you said?

**Mr Gallagher**—I simply said that we have talked to the agencies that have more direct responsibility for those issues. As part of developing the options for a strategy, which was our task, we have looked at the range of issues that Mr Pennifold referred to before, and health and safety were part of that issue and that is why we spoke to those agencies.

**Senator ALLISON**—Regulation would be as well?

**Mr Gallagher**—Yes.

**Mr Pennifold**—Regulation will be one of the options. In the work of the task force we have tried to identify the issues and where the broad areas of response might need to come from. It is up to the government how it wants to manage that, but I would expect it would probably take a whole-of-government approach and leave the regulation with the regulators with some policy guidance there, ditto with the research with the research agencies, but to provide a national strategy to take things forward.

**Senator ALLISON**—Do you see this being in a number of stages, given that there is very little research? There may be a need for some early regulation, that in the absence of research tells us whether it is safe or not. Do you see that as being a staged process?

**Mr Pennifold**—It is too early to say. Certainly my observation is that there is quite a lot of research already going on, not all of it in the health and safety area. There is a fair bit going on internationally in this area. When our regulators are looking at these issues, they are drawing on international best practice and knowledge. The work of the academies will be such that it will identify those areas where perhaps more knowledge is needed in moving forward.

**Senator ALLISON**—It is too early to say when you think regulation might be in place?

**Mr Pennifold**—We are not in a position to comment on that.

**Senator ALLISON**—With respect to consumers, members of the public or whoever is interested in this issue from that perspective, as opposed to a manufacturing perspective, is their remuneration for those people to be involved in whatever consultation is taking place? Are they invited to the table? How do you see that consultation working and how is it funded?

**Mr Pennifold**—Certainly we did hold a community forum in December last year, and that was by invitation. A number of NGOs were invited and the Australian Consumers Association was invited. The consultations we have held have been quite open, and similarly with the discussion paper and public submissions, that was open to all. That was advertised in the press.

**Senator ALLISON**—I realise what has happened so far, but in terms of the future?

**Mr Pennifold**—We have not settled on what the consultation strategy would be, depending on what the government decides to do in this area. I would imagine that a similar type of approach would be taken and that it would be fairly open to different parts of society to make a contribution.

**Senator ALLISON**—By invitation to come along to consultation?

**Mr Pennifold**—It might be by invitation or it might be a much more open process as well. We have not reached that point yet.

**Senator ALLISON**—The task force itself does not have a community based advisor or a consumer affairs person represented on it?

**Mr Pennifold**—The task force has been a small unit within the department of three people. A reference group has helped us through this process and that has included people from industry, the science community, and a person from the St James Ethics Centre.

**Senator ALLISON**—But no consumers and no people representing the environmental movement?

**Mr Gallagher**—No. We did canvass in the early stage of setting up the reference group people who were interested. We did canvass with some consumer organisations, but we did not get a lot of response. As Mr Pennifold said, we did have someone from the St James Ethics Centre who dealt with some of the broader non-specific, non-industry and scientific issues.

**Senator ALLISON**—Is that reference group ongoing or does it cease its work now?

**Mr Gallagher**—It is only operating for the period of the task force, and it is the government's decision beyond that.

**CHAIR**—We will resume with tourism.

### **Proceedings suspended from 6.36 pm to 7.59 pm**

#### **Tourism Australia**

**Senator O'BRIEN**—I understand the head of Tourism Australia's London office, Judy Watkins, left Tourism Australia only a few days ahead of the London launch of the advertising campaign, 'Where the bloody hell are you?' Tim Fischer said at the time in a *Sunday Age* article there had been a parting of the ways. Was she hired prior to your commencement?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—What does a 'parting of the ways' mean?

**Mr Morrison**—Judy Watkins ceased her employment with Tourism Australia around the time you mentioned, and the arrangements around that are commercial-in-confidence between herself and Tourism Australia.

**Senator O'BRIEN**—Arrangements about what—how she left or how she started?

**Mr Morrison**—How she left.

**Senator O'BRIEN**—Commercial-in-confidence?

**Mr Morrison**—Correct.

**Senator O'BRIEN**—How does the reason—

**Mr Morrison**—By a mutual reason.

**Senator O'BRIEN**—She may want it in confidence, but it hardly can be commercial-in-confidence, can it? Are you saying she was bought out?

**Mr Morrison**—It is in confidence between her and Tourism Australia.

**Senator O'BRIEN**—Are you saying she was paid a substantial sum of money to leave?

**Mr Morrison**—No, I have not suggested what she was paid, but the arrangements surrounding her departure were in confidence under an arrangement between herself and Tourism Australia.

**Senator O'BRIEN**—A deed was entered into, was it?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—What legal advice have you taken as to how that qualifies for protection under these proceedings?

**Mr Morrison**—We took advice from our legal advisors prior to the deed being entered into.

**Senator O'BRIEN**—What public interest grounds underpin that?

**Mr Morrison**—The nature of the in-confidence arrangement was one that was requested and agreed to.

**Senator O'BRIEN**—That does not answer the question. The question is: what public interest grounds underpin that confidentiality?

**Mr Morrison**—I am happy to take that on notice.

**Senator O'BRIEN**—How much was paid as a termination payment?

**Mr Morrison**—Again, that is subject to the arrangement that we entered into, which is, as we understand it, protected by that confidence.

**Senator O'BRIEN**—Why in the public interest should that, given that it is expenditure of public moneys, be in confidence?

**Mr Morrison**—All I can say is that it would be in line with what a senior executive at that level would be entitled to under the prevailing arrangements that exist in the UK. I should stress the contract is also subject to UK law, not Australian law.

**Senator O'BRIEN**—Is the payment of funds appropriated to Tourism Australia by the budget?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—I guess I will decide if it is important as to whether it is pursued in some other way. Was the international marketing campaign 'Where the bloody hell are you?' market tested on Australians?

**Mr Morrison**—Yes, it was.

**Senator O'BRIEN**—Was it tested in a particular city or a number of cities?

**Mr Morrison**—It was tested in a number of cities.

**Senator O'BRIEN**—Who chose the parts of the market in Australia upon which it was tested?

**Mr Morrison**—It was contracted by M&C Saatchi. It was done by M&C Saatchi in liaison with the client.

**Senator O'BRIEN**—Was it focus testing or phone polls?

**Mr Morrison**—Focus group.

**Senator O'BRIEN**—Were members of the focus group selected from any particular parts of those cities?

**Mr Morrison**—They were selected in accordance with our target audience profile for the Australian market. It was from the target audience that had been identified through the course of our work on the domestic campaign, and the groups were recruited against that targeted audience profile.

**Senator O'BRIEN**—Were they from particular parts of particular cities or is that not the way you would categorise your target audience?

**Mr Morrison**—No, they were more targeted on the basis of income, interests and their responses to various questions. But whether they came from particular areas was not the brief.

**Senator O'BRIEN**—Was there any communication with the government communications unit about this testing process?

**Mr Morrison**—No.

**Senator O'BRIEN**—At the last estimates we were told that the budget for Tourism Events Australia was \$5 million, including marketing, in overseas offices and \$3.7 million was used for promotion. Can you break down further the promotional spending that was allocated to Tourism Events Australia by, for example, how much was spent in Australia and how much was spent abroad?

**Mr Morrison**—I can break it down by type of function here, if you would like, by type of activity. You have to remember that Tourism Events Australia includes two types of activities: business tourism as well as major event related promotions, like the Commonwealth Games, that sort of thing. From a business tourism perspective the major item I would draw attention to would be the business tourism education program, which involves our participation in Team Australia events. These major events were held in Thailand, Shanghai, London and San Francisco. These are events that we partner with the various bureaus around Australia. Our budget for that was approximately \$800,000 for this year.

**Senator O'BRIEN**—For each of those or overall?

**Mr Morrison**—Overall. Some \$220,000 has been set aside for the development of our campaign activity in that area this year, \$100,000 has been committed to the continuation of the national business events study, and \$320,000 has been set aside for the development of the promotional collateral known as destination supplements, which are passed on to wholesalers, event planners and meetings industry professionals around the world. There are a number of smaller items. There are some direct marketing costs and event related costs that were

expended, say, with the young professionals presidents organisation promotion we ran in the United States in Los Angeles earlier this year.

**Senator O'BRIEN**—When you say 'small amounts', what sorts of small amounts do you mean?

**Mr Morrison**—That amount, which is inclusive in that amount, was around \$200,000. That amount was set aside for those types of events and direct marketing activities. The other items relate to around \$650,000 directly out of the Tourism Events Australia budget involved in promotions relating to the Great Australian Outback Cattle Drive. There was some \$250,000 involved in that event and its promotion. And there was around \$400,000 in addition to that through Commonwealth Games activities.

**Senator O'BRIEN**—What do you mean by 'Commonwealth Games activities'?

**Mr Morrison**—In total we spent on games related activities around \$1.5 million, which includes promotional activities in Singapore and the United Kingdom, involvement with the Queen's Baton Relay, a launch event in Canada, events in India, Malaysia, New Zealand, and audience participation kits associated with our opening ceremony involvement. There was signage associated with the opening ceremony. There was involvement in the various media centres attached to the Commonwealth Games and development of media tools, and all of that was \$1.7 million.

**Senator O'BRIEN**—That is three numbers you have given me—\$400,000, \$1.5 million and \$1.7 million.

**Mr Morrison**—They came from different budgets. The overall budget for the Commonwealth Games was \$1.7 million. That includes marketing expenditure from our Indian budget and our Canadian budget.

**Senator O'BRIEN**—Of the Tourism Events Australia \$5 million, \$1.7 million went to Commonwealth Games promotion?

**Mr Morrison**—No, I was stating about \$400,000 of that went to that.

**Senator O'BRIEN**—So the other \$1.3 million came from other parts of the budget?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—Of the \$3.7 million of the Tourism Events Australia budget that was used for promotion, I think we have identified about \$2 million. Was the rest administration?

**Mr Morrison**—Staff costs were \$1.4 million.

**Senator O'BRIEN**—How many staff?

**Mr Morrison**—That covers six staff, which includes our staff overseas working in that area.

**Senator O'BRIEN**—Does that indicate that the average salary is over \$200,000?

**Mr Morrison**—No, I am sorry. I stand corrected on that. I will just get you the right number. There are six dedicated staff but there are a number of additional staff involved in the offices overseas, on which I would have to get you a more accurate FT estimate. So, no, the answer is they do not have an average salary of over \$200,000.

**Senator O'BRIEN**—What is the average for the six dedicated staff?

**Mr Morrison**—The average for the organisation just sits under \$100,000.

**Senator O'BRIEN**—Would this group be typical of the organisation's average?

**Mr Morrison**—On average, yes. My notes here suggest that the other costs related to the activities of staff, so travel and those types of expenses. I will give you a breakdown of what the \$1.4 million is between remuneration and other costs.

**Senator O'BRIEN**—So does the \$1.4 million sit in the \$3.7 million used for promotion or the overall \$5 million budget for Tourism Events Australia?

**Mr Morrison**—That all sits within the overall \$5.112 million.

**Senator O'BRIEN**—Then of the \$3.7 million that was used for promotion we still have about \$2 million identified, on my rough count of the numbers you gave me—\$800,000 for the business tourism education program, \$220,000 for development campaign activities, \$100,000 for the continuation of the new business events study, \$100,000 for the destination supplements, \$200,000 for direct marketing events such as young professionals and presidents association, \$250,000 for the promotion of the great Australian outback event, and \$400,000 for Commonwealth Games.

**Mr Morrison**—Yes, that is right.

**Senator O'BRIEN**—That is a little over \$2 million.

**Mr Morrison**—I do not have it here but I will provide the balance.

**Senator O'BRIEN**—Okay. What is the difference between marketing and promotion in the context of that budget—anything?

**Mr Morrison**—Sorry, I do not understand the question.

**Senator O'BRIEN**—In your answers in February you talked about \$3.7 million being the eighth largest budget of all our marketing programs. Elsewhere you said:

The office, together with our offices overseas, spend well over \$5 million promoting business events.

Is that one and the same thing?

**Mr Morrison**—The \$5.1 million is the combination of the overheads and rent costs together with the marketing expenditure, and that also is inclusive not just of business tourism but of major events expenditure.

**Senator O'BRIEN**—Is the \$3.7 million for marketing the \$5.1 million less the \$1.4 million of staff costs and other associated costs?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—It is hard to tell from the examples you gave me, but is the most of the promotional expenditure spent on major event promotion or business incentive travel promotion?

**Mr Morrison**—When you take into account the \$1.6 million that was spent on the Commonwealth Games and the \$250,000 on—

**Senator O'BRIEN**—But I mean out of that budget. I understand what you are saying about the totality of the Commonwealth Games, but out of that \$3.7 million that was left for promotion after staff—

**Mr Morrison**—I would say the balance would be towards business, but not overwhelmingly.

**Senator O'BRIEN**—I understand you have done some research of Australian advertising spending levels in the German market relative to other countries. Do you have similar research available on Australia's top seven markets?

**Mr Morrison**—The research that we have available on those topics is provided to us through our media agency, Carat. The work we have from them includes the United States, Germany and the United Kingdom.

**Senator O'BRIEN**—Is it possible for the committee to see copies of the findings?

**Mr Morrison**—I think most of them are actually on our website.

**Senator O'BRIEN**—That is even better.

**Mr Morrison**—They are in various presentations. But, to summarise quickly, we are No. 1 in the UK of long haul; No. 2 of both long haul and short haul in the UK; No. 5 in the United States; and No. 16 in Germany.

**Senator O'BRIEN**—I would not mind, if it is not too much trouble, if you can get us the references from your website.

**Mr Morrison**—Yes.

**Senator O'BRIEN**—How important is the German market relative to the United States market?

**Mr Morrison**—The German market in terms of inbound economic value for the year to December 2005 was \$496.5 million. The United States was \$957.9 million. That is for leisure inbound economic value, so that is VFR and holiday. It is around half the size by value.

**Senator O'BRIEN**—Is there proportional representation in our expenditure on promotion?

**Mr Morrison**—We use a tier system. We have tier 1, tier 2, tier 3 and tier 4 markets. Tier 1 are our top seven markets. In that zone we look to spend between around \$4.5 million and \$10 million. That is what we are hoping to achieve next year. As we have changed our allocation process, there has been a transition period getting to that level. A larger market, such as the UK, for example, would be at the upper end of that scale, at around \$10 million. That is marketing programs. It does not include overheads or anything like that. At the Germany and South Korea level, we are round about the \$4.5 million to \$5 million level.

**Senator O'BRIEN**—Are Germany and South Korea in our top seven?

**Mr Morrison**—Yes.

**Senator O'BRIEN**—We have had some industry feedback that the Cairns tourism industry feels it has been neglected by Tourism Australia. Would you like to respond to those criticisms?

**Mr Morrison**—I am not familiar with the criticisms or their basis. I was in Cairns last week and those criticisms were not made to me or my other staff. I would be happy to respond, but I am not aware of what they are.

**Senator O'BRIEN**—Could I ask you to elaborate on activities of Tourism Australia that are directly relevant to the Cairns market?

**Mr Morrison**—If I understand the question, you are asking me: what is Tourism Australia doing specifically for the Cairns market?

**Senator O'BRIEN**—Yes.

**Mr Morrison**—It is Tourism Australia's job to promote Australia as a destination—all of Australia, not just specific places within Australia. The North Queensland product is a fairly significant part of the overall tourism product within Australia and, as a result, the various experiences that are available to visitors in North Queensland, be it reef, rainforest adventure, dining, Indigenous—all of these experiences—feature centrally and heavily in our promotions. I am not sure what the criticisms are that would enable me to respond.

**Senator O'BRIEN**—Presumably you have met with peak tourism bodies in Far North Queensland?

**Mr Morrison**—Yes, I have, as recently as last week. In fact, they were quite complimentary.

**Senator O'BRIEN**—I would not like to ascribe things to particular organisations or individuals. If someone was making a criticism, you would say that there has been no criticism directed to Tourism Australia for you to address?

**Mr Morrison**—I am sorry, the question is a bit hard to pin down. I am not quite sure what aspects or what issues they are referring to. If you are aware of a criticism that they have made, I would be happy to respond to it.

**Senator O'BRIEN**—If I can be more specific, I will do so on notice. What is the state of play with Tourism Australia's role in Indigenous tourism?

**Mr Morrison**—The prime vehicle through which we specifically deal with the issue is Indigenous Tourism Australia, which is a subgroup within Tourism Australia chaired by Aden Ridgeway. They are working across a range of issues, largely looking at the spread and access of specific Indigenous tourism product across Australia. Beyond that, the Indigenous aspect of what Australia provides from a tourism perspective, again, is fairly mainstream to the tourism promotion that we do. There are two scenes in our most recent commercial shoot that feature that aspect of what Australia offers. It is regularly part of our programs or activities, our events, our advertising, our visiting journalists programs, our agency families, ATE, our major trade shows. It weaves its way through all of these activities. While there is a specific program being pursued by Indigenous Tourism Australia, our view of the role it plays in tourism promotion is far more mainstream than that.

**Senator O'BRIEN**—Are you saying that there is a separate developmental stream for Tourism Australia for Indigenous tourism product or is it Indigenous Tourism Australia that we should look to for work towards assisting the development of that product?



**Mr Morrison**—Indigenous Tourism Australia is not a funding agency in terms of product development. There are other programs that are available elsewhere through the department and other government agencies. But the role of Indigenous Tourism Australia is to better advise, guide and direct how those programs might operate and engage with those who are more involved in what I would call discrete Indigenous tourism operations, particularly operations owned and run or operated by Indigenous people. My point was more that Indigenous tourism is not just about wholly owned and operated Indigenous tourism operations. When we talk to customers or visitors about an Indigenous tourism experience, that can be something from just engaging with Indigenous people as they move about Australia through to more formal types of operations and through more broadly to the involvement of Indigenous people in other tourism operations, be they cruising or hotel or catering or whatever it might be. We do not take a very limited view about the role of Indigenous tourism. In the tourism industry it is a mainstream part of the Australian Tourism offering.

**Senator O'BRIEN**—I had thought that one of the views of those who seek to promote the industry was that there is a shortage of the Indigenous tourism product, and I suppose that is one of the reasons you are using Indigenous Tourism Australia to look at the spread and access to that sort of product.

**Mr Morrison**—Correct.

**Ms Kelly**—I think you are aware there is a Business Ready Program for Indigenous Tourism run by the department that attempts to assist Indigenous businesses develop tourism products. Indigenous Tourism Australia, or rather its Chairman, Aden Ridgeway, has been advising on that program, so there is a linkage between the two.

**Senator O'BRIEN**—What is the combined budget of the two?

**Mr Morrison**—The budget for ITA within Tourism Australia is \$300,000.

**Mr Noonan**—The budget for the business ready program is \$3.83 million, but that is over four years from 2004-05.

**Mr Morrison**—Ours was an annual figure.

**Senator O'BRIEN**—Can I divide the \$3.838 million by four to get the annual funding?

**Mr Noonan**—It is not quite as simple as that. Selection of the mentors and so forth means it is slightly uneven.

**Senator O'BRIEN**—How is the appointment of the mentors going?

**Mr Noonan**—Six mentors have been in place now for nearly a year and each of those is working with approximately 10 Indigenous businesses.

**Senator O'BRIEN**—Who or which organisations are engaged as mentors?

**Mr Noonan**—There are six. They are spread geographically so as to give coverage across the nation. In New South Wales it is the Parkes/Forbes Enterprise Development Centre Incorporated. In South Australia it is Diverse Travel Australia Pty Ltd. In the Northern Territory it is TLE North Pty Ltd. In Queensland it is Freeman Productions Pty Ltd. In

Western Australia it is Louvel-Price Partnership and, covering Central Australia, Andrew H West and Associates.

**Senator O'BRIEN**—Do each of those mentors receive the same amount in funding, or are there differing amounts?

**Mr Peel**—Roughly they do. They receive a total of about \$225,000 each over the period of mentoring, although one of them, Andrew West and Associates, gets slightly more at \$331,500.

**Senator O'BRIEN**—It was \$225,000 each?

**Mr Peel**—\$225,000 in total.

**Senator O'BRIEN**—In total over the life of their appointment?

**Mr Peel**—That is correct.

**Senator O'BRIEN**—How long is their appointment?

**Mr Peel**—Two years.

**Senator O'BRIEN**—Will there be other appointments?

**Mr Noonan**—There remain unexpended funds and there is a question before the minister at the moment whether to extend these appointments or to create new ones.

**Senator O'BRIEN**—They are certainly large areas for a single person or entity to cover. Freemans is based in Cairns.

**Mr Noonan**—That is right.

**Senator O'BRIEN**—I am not sure where Louvel-Price Partnership is based?

**Mr Noonan**—They operate in the Broome, Kimberley and Halls Creek regions.

**Senator O'BRIEN**—It looks as though there is over \$2 million left in the program?

**Mr Noonan**—There are certainly unexpended moneys.

**Mr Peel**—The total for the current mentors for the two years is \$1,456,960 and the total available in the administered budget is \$3 million, so there is about \$1.5 million or \$1.6 million.

**Senator O'BRIEN**—Does that mean that the other \$830,000 is for—

**Mr Peel**—Departmental costs.

**Senator O'BRIEN**—Has a decision been made about Tourism Australia under the Uhrig review?

**Mr Noonan**—No, no decision has been announced.

**Senator O'BRIEN**—The tourism white paper recommended a review of the passenger movement charge. What has happened about that?

**Mr Noonan**—That is still before the government at the moment.

**Senator O'BRIEN**—Does that mean there has not been a review?

**Mr Noonan**—There has certainly been a review in progress, but the government has not made a decision in relation to it.

**Senator O'BRIEN**—Who conducted the review?

**Mr Noonan**—There were a number of agencies involved in the review but the Department of Finance had a role in the financial aspects of calculating how much had been raised, what the costs were and so forth.

**Senator O'BRIEN**—Significant amounts have been raised. What were the terms of reference of the review?

**Mr Noonan**—The tourism white paper set out what the review was to achieve. Would you like me to refer you to a page reference there?

**Senator O'BRIEN**—If you could that would be helpful.

**Mr Noonan**—I will ask my colleague to find that.

**Senator O'BRIEN**—Page 41 says, 'The review, including its rationale and implications for tourism ...'. Are you saying that they are the terms of reference of the review?

**Mr Noonan**—Since the review has not, as far as I am aware, been the subject of any decision by the government at this stage, I would not be at liberty to talk about the issues that are being examined by the agencies.

**Senator O'BRIEN**—You cannot tell us what the terms of reference of the review are?

**Mr Noonan**—No, they have not been disclosed and the review itself is before the government at the moment.

**Senator O'BRIEN**—When did the review start?

**Mr Noonan**—I do not have an exact date for that. It was some time ago.

**Senator O'BRIEN**—Could you get that on notice?

**Mr Noonan**—Yes.

**Senator O'BRIEN**—Has the process of review concluded? In other words, are the findings of the review with government?

**Mr Noonan**—The analysis of the financial aspects which I referred to earlier are at an advanced stage. The process from here, as far as I am aware, has not yet been decided.

**Senator O'BRIEN**—The National Tourism Investment Strategy identified that 130,000 workers would be needed over the next decade but, with its current share of employment growth, tourism would only secure 45,000 workers. These figures were released in March in the National Tourism Investment Strategy. The minister noted this as a priority. When will a consolidated response be available?

**Mr Noonan**—I cannot say when that will be available. The strategy was launched in March and we are certainly working on material towards the government's response but I cannot say when that will be completed.

**Senator O'BRIEN**—The government has extended the time backpackers can work in the industry to assist the tourism industry with labour shortages. What is being done to help to help attract, train and keep Australians in the industry?

**Mr Noonan**—To keep Australians in the—

**Senator O'BRIEN**—Tourism industry.

**Mr Noonan**—There are quite a number of initiatives that the government has taken, both generally and specifically to the tourism industry, addressing training and skills issues. There is, for instance, an interdepartmental committee on skills needs, upon which our department is represented. You refer to the working holiday maker visas where there have been a couple of adjustments over the course of the last year.

**Senator O'BRIEN**—That is not about Australians, surely?

**Mr Noonan**—Yes, that is certainly correct. There is the Service Industries Skills Council. That is one of 10 advisory bodies on skills and training, and the department is represented on that. The department has also convened a working group of senior industry members to look at skills issues. At the moment we are focused on data issues—what data is available. There are quite a number of sources within government and we need to make those available to industry and then assess what further needs there are.

**Senator O'BRIEN**—The National Tourism Investment Strategy is identifying a shortfall of about 85,000 people over the next decade. I am trying to find out what work is being done to help attract training to keep Australians in the industry. So you have got an interdepartmental committee on skills needs that this department participates in?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—And the Service Industries Skills Council?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—In which the department participates?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—And a working group convened by the department looking at things like the data sources that industry needs to make its decisions?

**Mr Noonan**—And, having examined those data sources, look for gaps in it and once those gaps are filled, analyse what other policy responses might be appropriate, but we are quite a deal away from being able to finalise that work.

**Senator O'BRIEN**—Is DEST the lead agency for this area?

**Mr Noonan**—In many respects in skills areas DEST is certainly a prominent agency, but of course the National Tourism Investment Strategy itself contained a number of recommendations about how to address skills and training issues. The responses to those recommendations will form part of the government's response to that strategy.

**Senator O'BRIEN**—When can we expect the government's response? This skills problem is one that is not new. It has been around since well before the tourism white paper.

**Mr Noonan**—I cannot elaborate on my earlier answer that we are working on the government response, but I cannot give you a time frame for when that will be produced.

**Senator O'BRIEN**—Concern has been expressed that a whole-of-government approach is needed to meet the skills needs in tourism. How has this concern been met?

**Mr Noonan**—I think all of the initiatives that I have referred to before are all very much whole-of-government initiatives. The two bodies chaired by others of which we are members have many agencies represented on them, and the workshop that we have convened has brought together DEWR, DIMA and DEST in considering these issues, because all of them have sources of data and all of them have a role to play in skills issues.

**Senator O'BRIEN**—There are several skills organisations in the industry—Service Skills Australia, Tourism Training Australia and there are various industry advisory councils. Which is regarded by the department as having overall national responsibility on behalf of the industry?

**Mr Noonan**—We would say that all of those would have something to contribute. In addition to the bodies that the government sets up, of course industry, to the extent that it addresses skills issues, is only to be applauded and welcomed. I do not think that we would try to establish a hierarchy of effort here. There are many players that need to contribute.

**Senator O'BRIEN**—In this regard, how is government assistance to the tourism industry coordinated nationally with peak industry bodies?

**Mr Noonan**—In the case of the body that we have convened, we have made sure that all the peak industry bodies had an opportunity to nominate for that body and a number of them have taken up that opportunity. So we think we have quite a good cross-section of senior representation on that working group.

**Senator O'BRIEN**—Which organisations are represented on it?

**Ms Clough**—The organisations represented on the workshop are TTF Australia; HMAA, which is Hotels Motels Accommodation Australia; the Australian Hotels Association; Restaurant and Catering Australia; Queensland Tourism Industry Council—I am sorry, I cannot remember the final two, but I will get them for you in a moment. One of them is the National Tourism Alliance, and I will get the other name for you shortly.

**Senator O'BRIEN**—QTIC is there. There are no other state based organisations?

**Ms Clough**—As a state based industry, it is the Tourism Industry Council, yes.

**Senator O'BRIEN**—Not from any other state?

**Ms Clough**—No, not from any other state.

**Senator O'BRIEN**—Is it true that Tourism Training Australia manages the development and implementation of national training system initiatives such as New Apprenticeships?

**Mr Noonan**—Tourism Training Australia is a state based body in New South Wales. We do not have any direct connection with it.

**Senator O'BRIEN**—You do not have any direct—

**Mr Noonan**—We are not members of it.

**Ms Kelly**—We understand that they do some training, but they are not directly concerned with us.

**Senator O'BRIEN**—Are they funded in any way by the Commonwealth?

**Ms Kelly**—Not by this department.

**Mr Noonan**—We have not funded their core activities. From time to time they have done particular projects.

**Senator O'BRIEN**—What sorts of projects?

**Ms Clough**—We have a project at the moment that the department has funded. It is a feasibility project called 'Passport to success'.

**Senator O'BRIEN**—That is a training program, is it?

**Mr Noonan**—The concept is that young workers—backpackers for instance—who work with a number of employers would be able to get references or some sort of indication of the place they have worked and collect these together in a passport. Whether this is a feasible project or not is something that needs to be judged.

**Senator O'BRIEN**—How much funding has Tourism Training Australia received from this department?

**Ms Clough**—I do have that in my folder. I will just have to locate it.

**Senator O'BRIEN**—Is Tourism Training Australia made up of a group of industry members or is it a private business?

**Mr Noonan**—I understand it is a private business.

**Ms Clough**—It is a private business.

**Senator O'BRIEN**—It is just a private company?

**Mr Noonan**—I believe so, but I am not familiar with their membership.

**Senator O'BRIEN**—How are tourism businesses specifically made available any federal government assistance that might be available for training?

**Mr Noonan**—They would apply under the various programs. We do not, in this division, deliver any training programs as such. DEST would be a major provider of those, so I would not be able to comment on the details of those programs.

**Senator O'BRIEN**—So if it is promoted, it is a promotion by DEST?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—Is the promotion of New Apprenticeships all being done through the New Apprenticeships centres now appointed by the government?

**Mr Noonan**—The initiatives under New Apprenticeships are basically for DEST to carry out quite a number of them in the 2005-06 budget, for instance.

**Senator O'BRIEN**—I did not want to progress to another area if you thought you might find that number.

**Ms Clough**—Sorry, I have not found it yet. I might have to take that one on notice.

**Senator O'BRIEN**—I will turn to the Australian Tourism Development Program. In assessing grants, who is responsible for establishing the criteria, the minister or the department?

**Mr Peel**—The minister signs off the guidelines for the program, which includes the criteria.

**Senator O'BRIEN**—Is that a published document, or can you provide it?

**Mr Peel**—Yes, it is on the AusIndustry website.

**Senator O'BRIEN**—Has that been a subject of change, or has it remained the same for some time?

**Mr Peel**—It was changed for round 2, which was held last year, to specifically include support for initiatives promoting tourism in regional and rural Australia and to give those projects higher weighting than metropolitan projects. State and territory governments were excluded from grants in that change and eligibility requirements for local governments were tightened to ensure the program does not fund activities that are core local government responsibilities. Also, festivals and events were excluded from category 1 grants in that change.

**Senator O'BRIEN**—So was that criteria change developed in consultation with industry?

**Mr Peel**—I do not think so. I think it was just changed based on our experience of round 1 of the program.

**Senator O'BRIEN**—Is there anything in the criteria that could provide incentives for training programs?

**Mr Peel**—That provides—

**Senator O'BRIEN**—A 'way of funding training programs' is possibly a better way of expressing it.

**Mr Peel**—No.

**Senator O'BRIEN**—The main new item in this year's budget measures for tourism appears to be \$3.9 million allocated to monitor inbound tour operators under the Approved Destinations Scheme. How will the \$3.9 million announced in the budget be used? What is the process of monitoring that is envisaged?

**Mr Noonan**—I think I can take you through that. Essentially, it is in a number of stages. Every year, inbound tour operators have to apply in order to be approved under the scheme. We are just going through this year's process at the moment. There is an agency which helps us vet that, to look at whether the applicants pass a fit and proper test, are financially viable and so forth. Then, once they are approved, we have a compliance monitoring agency which is engaged in a number of activities to verify that the inbound tour operators are complying with the code of conduct, which they are required to do as a condition of being licensed. The checks involve reviews of financial matters, scheduled reviews of each inbound tour operator and also some random checks, looking at how particular inbound groups are being managed.

**Senator O'BRIEN**—So someone will go and ask questions of particular groups as to how they have fared?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—There are surveys, or—

**Mr Noonan**—That is right, and they will observe how the tour is being conducted, where they are going and the circumstances under which they are going, attempting all the time to achieve a balance between not being overly intrusive and at the same time identifying any malpractices that may be taking place.

**Senator O'BRIEN**—And that is all for expenditure in the coming financial year?

**Mr Noonan**—No, \$3.9 million is over four years.

**Senator O'BRIEN**—Will any of it be spent in the current financial year?

**Mr Noonan**—This financial year those activities are in place but they were funded from other sources for this year.

**Senator O'BRIEN**—So how much has been spent from those other sources on those activities this year?

**Mr Noonan**—The amount of money that was diverted was about four—

**Ms Clough**—For 2005-06, the expenditure on the ADS so far is about \$424,000 or \$425,000.

**Senator O'BRIEN**—And the \$3.9 million is for expenditure over the coming financial year and the three further out years?

**Mr Noonan**—That is right.

**Senator O'BRIEN**—In equal amounts? Sorry—that is set out in the budget papers, is it?

**Ms Clough**—Yes, it is.

**Senator O'BRIEN**—I have probably got it here. In June and again last year Minister Bailey announced new administrative arrangements under the Approved Destinations Scheme. Since then the Emerging Markets Strategy released late last year has recommended that national laws against rogue operators be introduced as a matter of urgency. Are these laws being considered by government?

**Mr Noonan**—The government will have to respond to the Emerging Markets Strategy, which it will do in due course. No announcement about legislation has been made.

**Senator O'BRIEN**—Has the department studied the Queensland legislation introduced to crack down on rogue tourism operators?

**Mr Noonan**—Yes, we are certainly aware of the Queensland legislation and that would be something the government would take into account in deciding whether to enact national legislation.

**Senator O'BRIEN**—So you are aware of it. I assume it has been assessed and the difficulties in obtaining prosecution are matters you have looked into?

**Mr Noonan**—Certainly, there are a number of factors that need to be balanced in considering legislation, and the difficulty that you refer to is one of those.



**Senator O'BRIEN**—The industry has expressed concerns about an ATO ruling that requires industry participants to make up-front GST payments upon deposits held for future tourism activities by international purchasers. This would require GST payment, for example, on events that have not yet been held where numbers and final amounts are yet to be determined. The question to you is: has the Australian Taxation Office sought the advice of this department on that matter or, alternatively, has this department sought to discuss the matter with the ATO?

**Mr Noonan**—First of all, there has been no change in the law recently. The relevant law has been in place for some time, and the process that the ATO went through over the last 12 months was to consider how that law should be interpreted. I think it is true that the department was not aware, and the industry was not very aware, of the draft ruling that the ATO put out. That seems to have slipped under everybody's radar, with the result that, when the final ruling came out in I think April, it did catch people a little by surprise.

**Senator O'BRIEN**—What you are telling me I think is that the department really did not do anything in the lead-up to those events, of the final declaration coming out?

**Mr Noonan**—We were not aware of the progress of the ruling, the fact that it was moving towards a final ruling, so therefore we were not participating in that process.

**Senator O'BRIEN**—Does that mean—

**Mr Noonan**—Since the ruling came out, there have been discussions that the ATO convened with tourism industry groups in particular to consider the application of the ruling to the tourism industry, and the department attended that roundtable to hear the concerns of industry. One thing that came out of that meeting was that industry would provide some practical examples to the ATO of how tourism events in particular are structured from a financial point of view, so that they could be considered against the ruling.

**Senator O'BRIEN**—What is the next step?

**Mr Noonan**—The next step is first for industry to provide those examples and then for the ATO to consider them, and we will certainly be having discussions with the ATO at that time.

**Senator O'BRIEN**—Is there a deadline for the industry to provide that information?

**Mr Noonan**—No, but I imagine that they will be motivated to do so as quickly as they can.

**Senator O'BRIEN**—Yes, you could say they have a strong incentive. Mr Morrison, you have no doubt seen the *Financial Review* article of last Friday by Lisa Allen, which is headed, 'Even Tunisia does more to lure German tourists.' Is Tunisia that big a market? We are spending less than Tunisia does in Germany to promote tourism; I would not have thought that they would have had the resources that we have.

**Mr Morrison**—I cannot really speak for Tunisia, but I can speak for what the Australian government is investing through Tourism Australia, and under the white paper it was \$120 million extra for international promotion over four years. As a result, our German budget has gone from the low \$2 millions into now the \$4 millions. As I indicated in answer to an earlier question, the UK market, which is more than four times the size of the German market, is where we are number one amongst long haul destinations and number two amongst all destinations, of which there are around 180 marketing themselves in the UK. So, it is a

question of where you put those additional resources. Tourism Australia has elected to focus its resources in the markets that deliver the most.

**Senator O'BRIEN**—When you said, apparently, to Ms Allen of the *Financial Review* that you wanted to spend about \$70 million advertising in the top seven countries but at present spent about \$50 million a year, where would you expect the additional \$20 million to come from?

**Mr Morrison**—In answer to an earlier question, I said we spend between \$4.5 and \$10 million in our top seven markets, so in those where there is a gap.

**Senator O'BRIEN**—So the article is inaccurately quoting you, is it?

**Mr Morrison**—The particular article I think—

**Senator O'BRIEN**—Sorry, do you mean \$4.5 to \$10 million in each of the seven markets?

**Mr Morrison**—That is right. But to be spending \$50 million in those top seven markets is significantly greater than where we were a few years ago.

**Senator O'BRIEN**—But, according to this article, you are not happy with that?

**Mr Morrison**—Not for the first time I do not think Ms Allen has accurately conveyed the sentiment.

**Senator O'BRIEN**—There is a quote there which says, 'Spending \$70 million a year on those countries will allow us to run a full program.' Advertising is in brackets, 'a full [advertising] program' I think she attributes to you.

**Mr Morrison**—I do not have a problem with that quote. If we were spending \$10 million in each of those seven markets, we would be running a program as large as the program we run in the UK. Ask a marketer how much money they would like to spend and that is the answer I would give.

**Senator O'BRIEN**—More is better?

**Mr Morrison**—Correct.

**Senator O'BRIEN**—Some other time we will enter into the discussion about the productivity of that spend, but not tonight. I am sure that my last few questions do not require an answer from you, Mr Morrison, unless anyone else has something.

**ACTING CHAIR**—In the next financial year, 2006-07, what numbers do you anticipate to come out of mainland China, and what growth does that represent?

**Mr Morrison**—The tourism forecasting committee is the independent body that provides those forecasts. Did you say for the next financial year?

**ACTING CHAIR**—Yes; the latest figures that you might have.

**Mr Morrison**—We have forecasts through to the year 2015, but for the total number of visitors, including everything such as business, education and so on, in 2006 that figure is estimated to be 316,000; in 2007 it is estimated to be 364,000.

**ACTING CHAIR**—Where does that China market rank in terms of overseas tourists to Australia?

**Mr Morrison**—The China market currently on total visitor arrivals would be ranked fifth.

**ACTING CHAIR**—You are not really building up for a big surge, are you?

**Mr Morrison**—To the year 2015, the forecast for total visitor arrivals is 1.1 million, so over the longer term the growth is expected to follow through. Our strategy in China is not to just push for volume growth; it is to push for high yielding growth, so we are taking a fairly patient attitude and looking to lift the average level of spend per visitors out of China, and focusing particularly on the holiday and VFR market.

**ACTING CHAIR**—I was just reading today about the big influx of moneyed money into Hong Kong.

**Mr Morrison**—Sorry?

**ACTING CHAIR**—Moneyed money into Hong Kong by way of tourism. The people who are well off.

**Mr Morrison**—Right.

**ACTING CHAIR**—They have enjoyed a tremendous growth there. I was just wondering—

**Mr Morrison**—From China into Hong Kong?

**ACTING CHAIR**—Yes.

**Mr Morrison**—Our experience of the China market into Hong Kong is that they suffer in pretty much endemic proportions the shopping retail commission problem that the government is working pretty hard to ensure does not translate to Australia. In other words, large volumes of Chinese tourists are going into Hong Kong whose entire itineraries in Hong Kong are paid for by shopping commissions. I would argue that that type of business is not a particularly lucrative type of business, but it is a very large part of the business into Hong Kong and one that is a challenge for the Hong Kong authorities.

**ACTING CHAIR**—Right. I was just surprised that that seems to be a constraint because of the immense amount of wealth that is being made in China at the moment and their reluctance to show that opulence within their own communities, and that is why they are tending to go abroad and spend reasonably extravagantly.

**Mr Morrison**—We are targeting the China market fairly heavily, and we have an excellent relationship with the Chinese National Tourism Administration to facilitate that growth, but as a manager of managing it and making sure that it is good yielding growth, because the China market can have a tendency not to produce that high yielding growth if you do not take the right approach.

**Senator O'BRIEN**—I have some questions for the department.

**CHAIR**—None for Tourism Australia?

**Senator O'BRIEN**—None for Tourism Australia. We are facilitating a drive back to Sydney slightly earlier.

**CHAIR**—You can be excused; thank you, Mr Morrison and officers.

**Mr Morrison**—Thank you.

**Senator O'BRIEN**—The minister visited India apparently on an official visit between 17 September and 24 September. Did the minister stop over in Singapore on the way to or from India?

**Mr Noonan**—I would have to take that on notice.

**Senator O'BRIEN**—If you would. Can you find out what the purpose of the Singapore stopover was, and if it was at taxpayer expense, and what the total cost was to the taxpayer of the Singapore stopover, if it was at taxpayer expense?

**Mr Noonan**—I should say that these are probably questions that you would need to direct to the department of finance on the cost issues.

**Senator O'BRIEN**—Surely not.

**Mr Noonan**—Well, overseas entitlements for ministers are paid for by the department of finance. They are not a transaction that comes through our accounts, so we would not be able to answer those questions.

**Senator O'BRIEN**—This is the minister's department. The minister makes those payments. If I ask a question of Minister Truss's travel, I ask it in Transport; if I ask it of Minister McGauran's travel, I ask it in the Department of Agriculture, Forestry and Fisheries—and those questions are answered.

**Mr Noonan**—We would certainly endeavour to find out the figures for you, but we would have to draw them from the department of finance.

**Ms Kelly**—We can only give you figures from our own knowledge from things that come out of our budget, and that does not come out of our budget.

**Senator O'BRIEN**—The cost of airfares is paid for by the department of finance as well, is it, or from your budget?

**Ms Kelly**—For the minister and the minister's staff, I think from the department of finance. However, for departmental officers, it comes from our budget.

**Senator O'BRIEN**—Who chooses the accommodation for the minister whilst on overseas visits—the department of finance, this department or the minister's office?

**Ms Kelly**—I think it varies. Unless the minister has a particular preference, we usually ask the post for advice on where is appropriate, and often posts have particular hotels that they recommend to most ministers.

**Senator O'BRIEN**—Did the minister alter her accommodation from the Hilton Hotel to the more expensive Taj Mahal Palace?

**Mr Noonan**—We will have to take that on notice.

**Senator O'BRIEN**—The total cost of the visit?

**Mr Noonan**—We will have to take that on notice also.

**Senator O'BRIEN**—Can we get that itemised?

**Mr Noonan**—Yes. For which members of the party?

**Senator O'BRIEN**—The minister's costs. The minister did not travel with relatives, did she?

**Mr Noonan**—No, it was a departmental officer.

**Senator O'BRIEN**—The minister visited South Korea, Japan and China from 10 to 23 July 2005. Again, do you know if the minister stopped over in Singapore either to or from Australia?

**Mr Noonan**—I would have to take that on notice.

**Senator O'BRIEN**—If so, what was the purpose of the Singapore stopover, was the minister in Singapore at taxpayer expense, and if so, how much did it cost the taxpayer?

**Mr Noonan**—Yes, I will take that on notice, subject to the same caveats as expressed earlier.

**Senator O'BRIEN**—I have some other questions of a similar nature about the minister's visit to the UK from 12 to 17 March this year. Will you be taking them on notice as well? If so, I will simply put them on notice.

**Ms Kelly**—I was actually with the minister on that trip, and I do not think there were any stopovers, Senator. That was a straight there and back trip.

**Senator O'BRIEN**—Who travelled with the minister on that trip?

**Ms Kelly**—Her chief of staff, Daniel Tehan, and me. There were some Tourism Australia officials in London for the launch of the campaign, but they did not travel with the minister.

**Senator O'BRIEN**—Those were the three people who travelled at taxpayer expense?

**Ms Kelly**—Yes.

**Senator O'BRIEN**—They were the only three?

**Ms Kelly**—When you say at taxpayer expense, Tourism Australia had a number of people in London for the launch of the campaign.

**Senator O'BRIEN**—They were not in the travelling party?

**Ms Kelly**—They were not in the travelling party, no. The only people who travelled with the minister were Daniel and me. Mr Morrison, various other people, and the young woman who was the star of the ads were also in London, but they were not paid for by the department.

**Senator O'BRIEN**—Okay, they were paid for by Tourism Australia?

**Ms Kelly**—They were paid for by Tourism Australia or Tourism Australia's advertising agency.

**Senator O'BRIEN**—I see. I guess I will put those questions on notice as Mr Morrison has gone. It had to happen, didn't it?

**CHAIR**—It was kind of you to let them go.

**Senator O'BRIEN**—Well, it was. I was prevailed upon on the basis of safer travel back to Sydney, and as a result of the minister's intervention, there will be more questions on notice. I cannot help that.

**CHAIR**—Characteristically generous, Senator O'Brien.

**Senator O'BRIEN**—That being the case, apart from any questions on notice, I will not trouble the department further.

**CHAIR**—Thank you very much indeed, officers. Was that your last bracket of questions for this evening, Senator O'Brien?

**Senator O'BRIEN**—No, Resources.

**CHAIR**—I am sorry, you still have Resources. Officers of the department concerning the tourism area of the portfolio are excused.

[9.17 pm]

**CHAIR**—Can I invite to the table officers of the department concerned in the resources area of the portfolio. Out of abundant caution, can I just clarify that, when Senator O'Brien is finished with his questions to the officers of the department on resources, Senator Moore has some questions for Geoscience Australia, and as I understand it, that is it.

**Senator O'BRIEN**—And I have a few for Geoscience Australia.

**CHAIR**—I see. But the only agency or officers beyond those who are at the table now who need remain are officers of Geoscience Australia. Is that right, Senator O'Brien?

**Senator O'BRIEN**—Yes, I think so, as far as I know.

**Mr Paterson**—Can I just clarify that, Chairman?

**CHAIR**—Yes.

**Mr Paterson**—Anybody from the energy and environment division, or is it just resources?

**Senator O'BRIEN**—Resources and energy; sorry if I misled you.

**CHAIR**—Okay, Senator O'Brien, off you go.

**Senator O'BRIEN**—First on the LNG Action Agenda, given the serious social problems evident in East Timor as a result of the slow pace of economic development and of economic self-determination, has the government turned its mind to measures that might accelerate the development of the Timor Sea gas resources and consequently the flow of revenue for East Timor from that?

**Mr Hartwell**—As you would be aware, we have for some time been working with our colleagues in East Timor in terms of the Timor Sea Treaty and the Sunrise development. We have of course over the last two or three years facilitated the development of the Bayu-Undan deposit, and that has led to the Darwin LNG plant. The revenues that will flow to East Timor over the coming years will be quite substantial in that context .

**Senator O'BRIEN**—Is there any way that can be accelerated?

**Mr Hartwell**—Not at this point in time. The revenues from Bayu-Undan will be dependent on oil prices and on movements in exchange rate and so forth. The other potential revenue that East Timor could gather would be from the Sunrise gas deposit. That deposit has been subject to a number of negotiations between ourselves and East Timor: the Sunrise Unitisation Agreement, which was signed by both countries some three years ago, and then some

arrangements in relation to the Sunrise gas deposits which were reflected in the CMATS Treaty, the Certain Maritime Arrangements in the Timor Sea, which was initialled earlier this year. The Sunrise Unitisation Agreement has been ratified by Australia but not by East Timor. We are also waiting for ratification of the Certain Maritime Arrangements treaty. Until that is done, that would prevent development of the Sunrise gas deposit, which would provide a further revenue flow into East Timor.

**Senator O'BRIEN**—Are there any measures that this government have taken to ensure employment and training opportunities for East Timorese people in the construction and operation of the Timor Sea gas production and associated enterprises?

**Mr Hartwell**—In terms of employment there are a number of East Timorese employed in the Timor Sea Designated Authority, which is the body responsible for day-to-day management of the joint petroleum development area which reports to both governments. The majority of people within that Timor Sea Designated Authority are East Timorese at this point in time. In the context of broader developments in the oil and gas industry, ourselves along with the East Timorese government have encouraged the operators within the joint area to employ and train as many East Timorese as possible. As far as I am aware, that has been done.

**Senator O'BRIEN**—During the last estimates hearing, the department advised that the December 2005 tax expenditure statement included an estimate of excise forgone on condensate for the North West Shelf. Which companies are the beneficiaries of this forgone revenue for 2005-06 and in what proportions?

**Mr Hartwell**—They essentially are the companies that make up the North West Shelf joint venture. Those companies have been provided to this committee in previous times. I will not go through them, but they are essentially the North West Shelf joint venture partners, the six companies that make up that particular joint venture.

**Senator O'BRIEN**—In equal proportions?

**Mr Hartwell**—In equal proportions in the sense that each of them has 16.6 per cent of that North West Shelf joint venture.

**Senator O'BRIEN**—If it is not in equal proportions, can you advise us on those? I assume that it is from your answer so far but you have left a little bit of a doubt in my mind.

**Mr Hartwell**—They would benefit to the extent that the condensate is excise exempt. That would be my answer in the context.

**Senator O'BRIEN**—The estimates that I have show that 5,500 megalitres of condensate were produced with natural gas in 2004-05. If this was treated as all old oil, the estimates that I have show that the excise volume would be 2,835 megalitres with an excise value of \$826 million. If the production volume is treated as all new oil, the estimates I have show that the excisable volume would be 1,455 megalitres with an excise value of \$424 million. Both of those figures are substantially higher than the estimate in the tax expenditure statement. What is the basis on which the forgone revenue calculations in the December 2005 tax expenditure statement were made?

**Mr Hartwell**—The tax expenditure statement is something that emanates from the department of Treasury, so you would have to ask them that question.

**Senator O'BRIEN**—Is it correct that the original decision to make condensate produced separately from a crude oil stream excise exempt was made as an industry assistance measure to assist with the development of the North West Shelf?

**Mr Hartwell**—The history of the excise exemption is a complex one related, to a certain extent, around the ability of that joint venture to go forward with the proposed gas development. But there are a number of other reasons that were advanced at the time. If you wish, we can provide you with more detail. I do not have the full history of the deliberations that took place at that point of time; we are going back to the mid-1980s.

**Senator O'BRIEN**—I am happy for you to provide that on notice. I note that in the United States recently legislation was passed to renegotiate Gulf of Mexico leases in order to re-evaluate the appropriateness of industry incentives in the current high oil price environment. Has the government a view on the continuing appropriateness of the condensate excise exemption in today's high oil price environment?

**Senator Minchin**—I have to take that on notice; I do not want to make a comment on the run on that question.

**Senator O'BRIEN**—Does the exemption have an adverse effect on the competitiveness of new LNG or other gas processing proposals which will not benefit to the same extent from this very generous industry assistance measure?

**Mr Hartwell**—That is a judgmental question. Not in our view. As you would be aware, the only offshore oil and gas developments subject to an excise and royalty regime are the North West Shelf leases. All other areas offshore in Australia, which the LNG developments fall into, are subject to the petroleum resource rent tax. The basis of the petroleum resource rent tax is a profits based tax and it only cuts in after reasonable rates of return have been earned on the project. We certainly would not see the fact that they do not get an excise exemption on condensate, which is a different regime of secondary taxation, being a disincentive to such projects.

**Senator O'BRIEN**—What is a reasonable rate of return? It is in the eye of the beholder, isn't it?

**Mr Hartwell**—It is a tax thing that takes into account a reasonable cost of capital and a rate of return after all expenses have been met, and it is levied on profits above that amount. I would have to check on the exact specifics. The petroleum resource rent tax is a project based tax.

**Senator O'BRIEN**—Who sets that rate?

**Mr Hartwell**—It is set by the Taxation Office.

**Senator O'BRIEN**—What measure applies to new LNG projects in Australia? Does petroleum resource rent tax apply to them?

**Mr Hartwell**—Yes, certainly if they were outside the North West Shelf leases, that is the case.

**Senator O'BRIEN**—Given that, despite large growth in the LNG market, new projects like the Gorgon project and the Timor Sea Sunrise project have still not been able to reach a



final investment decision after many years of planning and marketing, is it appropriate for the government to re-evaluate the targeting of industry assistance measures as is occurring in the Gulf of Mexico and has arguably occurred in Mauritania, where Woodside recently renegotiated the terms of its production sharing contract with the government of that country?

**Mr Hartwell**—We are always continually evaluating the appropriateness of our fiscal settings. Regarding the two projects you mentioned, the Sunrise project is subject to the ongoing deliberations we have with East Timor, and we have already been through that one; and Gorgon continue to evaluate their project. One of the issues that has emerged in that context is the steep rise in development costs over the last twelve to eighteen months. The Gorgon joint venture are still confident of making a final investment decision sometime towards the end of this year or early next year, as we understand it.

**Senator O'BRIEN**—The end of this year or early next year?

**Mr Hartwell**—That is their latest advice, yes.

**Senator O'BRIEN**—After the November estimates hearings, we were provided an estimate of revenue forgone to June 2005 as a result of crude oil excise changes in 2001; that estimate was \$230 million. But in February you revised the estimate up to \$360 million, which is a substantial upward revision, more than 50 per cent. As has been previously confirmed, the beneficiaries of these changes are the participants in the North West Shelf joint venture in equal shares. Is it correct to describe this as an additional form of industry assistance to the North West Shelf project?

**Mr Hartwell**—I would hesitate to describe it as such. It goes back to some streamlining of excise changes in 2001 which was essentially there to stimulate petroleum exploration in Australia.

**Senator O'BRIEN**—What is that if it is not industry assistance? You are assisting the industry by promoting exploration with lower cost incentives on their realisation of profits on the final product. Industry assistance by another name, isn't it?

**Mr Hartwell**—Industry assistance is often in the eyes of the beholder.

**Senator O'BRIEN**—Does it assist the industry?

**Mr Hartwell**—Can I put it this way: the government announced those changes on the basis that they would stimulate exploration. I would stay with that statement.

**Senator O'BRIEN**—What was the original estimate of the value of this industry assistance or investigation measure?

**Mr Hartwell**—Are we talking about the exploration measure?

**Senator O'BRIEN**—Yes.

**Mr Hartwell**—The basis was in the efforts to encourage more offshore petroleum exploration in Australia. We recognise in Australia that we are in a competitive race for the petroleum exploration dollar. It was seen, along with other initiatives related to offshore competitive geoscience, pre-competitive geoscience initiatives and things like that, as being an extra stimulus to getting increased activity in petroleum exploration in Australia.

**Senator O'BRIEN**—What was the estimate of forgone revenue at the time the measure was announced?

**Mr Hartwell**—The estimate of forgone revenue would have been based on the oil prices at that point in time. I cannot remember the precise figure; it goes back four or five years now. It would have been something considerably less than it has turned out; that is correct.

**Senator O'BRIEN**—Do you have a figure somewhere that you can give to us?

**Mr Hartwell**—I have a figure here of around \$75 million.

**Senator O'BRIEN**—This is four or five years ago, subject to checking, around \$75 million. In February the estimate was revised up to \$360 million. Has that estimate changed?

**Mr Hartwell**—That is the latest figure that I have available to me, but it will jump around depending on movements in oil prices.

**Senator O'BRIEN**—Are you saying that if oil prices were to go down in proportion to the current price we could factor that number down accordingly, and if it went up in proportion to current prices it would go up accordingly?

**Mr Hartwell**—That is a possibility. We would have to look at that.

**Senator O'BRIEN**—Has consideration been given to capping this measure at something more like the original estimated value or something a lot closer to it?

**Mr Hartwell**—That is not something that has come up at this point in time, so I cannot answer that question.

**Senator O'BRIEN**—In relation to the Gorgon project, you said at the last estimates hearing, 'The government has under consideration in relation to the Gorgon project what may or may not be done.' I think that was in relation to specific project assistance. What is the status of that consideration and what measures, whether within the jurisdiction of the department or elsewhere in the government, are under consideration?

**Mr Hartwell**—I would suggest that it is still under consideration.

**Senator O'BRIEN**—I am asking what sort of measures are under consideration.

**Mr Hartwell**—I do not think I am at liberty to go into detail there. These are issues that at the appropriate time the government will consider.

**Senator O'BRIEN**—Is there anything in the PBS that relates to cost estimates of such assistance?

**Mr Hartwell**—No.

**Senator O'BRIEN**—During the last estimates hearing the department advised that none of the other potential LNG projects have approached the government with respect to specific project assistance: is that still the case today?

**Mr Hartwell**—Yes, that is the case as far as I am aware.

**Senator O'BRIEN**—Could you check that if you are not sure?

**Mr Hartwell**—I can, but I am pretty certain that is the case.

**Senator O'BRIEN**—You are certain?

**Mr Hartwell**—Yes.

**Senator O'BRIEN**—More than five years ago the then minister for resources, Senator Minchin, appointed a gas to liquids task force to look at whether any policy measures were warranted to encourage the establishment of this industry in Australia. It appears that this work was essentially abandoned in a state of incompleteness at the time of the 2001 election. Has any work been undertaken since to complete this work?

**Mr Hartwell**—The potential for gas to liquids projects in Australia remains under review. Within that context I should mention, in the market reality sense, that gas to liquids projects depend on high volumes of reasonably low priced gas. When you have alternative markets such as LNG, it does make the bringing to fruition of those projects quite challenging. Those project proponents that were around at that point in time have started to look at other countries such as Qatar where they have much larger supplies of gas and a lower marginal cost. That is not to say that opportunities will not arise in the future; it is just that some of the hoped for potential has proved a bit more challenging in the Australian context than was originally envisaged at the time.

**Senator O'BRIEN**—So the project is essentially stalled? There is no work being done on it?

**Mr Hartwell**—In relation to gas to liquids, the issue remains continually under review. There are always potential projects that might emerge. Of course, the present high oil prices do change some of the equation in relation to a possible project, but I could not give you any certainty that something will emerge in the near future.

**Senator O'BRIEN**—The task force highlighted in 2001 the potential significance of the gas to liquid industry to Australia's economy, saying that it could underwrite offshore gas supply infrastructure to bring forward the possibility of major new domestic gas pipelines to connect the national market, increase domestic gas competition and energise gas exploration. The task force said: 'These benefits would be of national strategic significance to Australia and the cost of any government intervention must be considered against potential benefits.' At what level within the department is work continuing on the measures necessary to attempt to bring a gas to liquid industry into reality for Australia?

**Mr Ryan**—There have been commercial proposals put forward at different times for gas to liquids. Through the Invest Australia process we have supported two projects which did not go forward to commerciality. While the high oil price is of certain benefit to these projects, the two other factors they have to deal with are the capital costs that their projects require and the input price for their gas. Those two factors have been the stumbling blocks to date. There are still even further commercial projects around. One of the latest ones is a project in Victoria which is looking at conversion of brown coal into gas through—

**Senator O'BRIEN**—A coal to liquids project?

**Mr Ryan**—Yes.

**Senator O'BRIEN**—I am told that the current price of oil makes economically viable both gas to liquid and coal to liquid on the known cost of those conversions.

**Mr Ryan**—In certain locations around the globe that is true but for Australia it is still a challenge. If you went back fifteen years, the cost of doing an LNG facility was quite expensive for the output level. They have been able to bring that capital efficiency down and that is what we expect to happen in the gas to liquids field. The projects that are proceeding around the globe at the moment are relying on very cheap gas to get them off the ground.

**Mr Hartwell**—In an a priori sense, you make the assumption that high oil price should make a gas to liquids project much more viable, but high oil prices in the present context are also associated with pretty large increases in gas prices as well. The international gas price, including traded international gas such as LNG, has risen substantially. Therefore a prospective developer of a gas project has alternative uses for his gas. All those factors would need to be taken into account in terms of a gas to liquids project going forward.

**Senator O'BRIEN**—Is gas at the price that we contracted to sell it to China a competitive price for a gas to liquid project?

**Mr Ryan**—Today's price of gas would not make it competitive. At the moment the gas market globally is very tight and very much in favour of the sellers.

**Mr Paterson**—With the proposition that you put earlier, if the current oil prices made it commercial then commercial operators would take it forward. It is not commercial at the present time.

**Senator O'BRIEN**—I was wondering whether the uncertainty about the future of oil prices was a break on that development, that if there was certainty about oil prices remaining high that that development might take place. Would that be a fair assumption?

**Mr Hartwell**—I would imagine that any development in the hydrocarbon area, whether it be oil or gas, would not necessarily go forward in the future based on present oil prices. While we might expect given the circumstances that oil prices will remain up for a while, I would imagine that long range projects, long-term projects, would have a bit more of a modest assumption about oil prices. Therefore, the point that you are making is a fair point, that some volatility in oil prices would make project developers a little uncertain.

**Senator O'BRIEN**—So the peak oil predictors do not have any validity in their proposition that we will get to the point where the costs of recovery of oil and the available amount of oil will necessitate a rise in its price rather than a fall?

**Mr Hartwell**—I am not sure of the logical extension that you have drawn there. Obviously the peak oil debate is related somewhat to the price of oil; if the price of oil rises to certain levels then what were formerly uneconomic hydrocarbon deposits to exploit suddenly become exploitable. As well, they encourage more technologically innovative exploration techniques, they bring more discoveries into play, all that sort of thing applies. It is not a fixed, static thing; it moves forward depending on the dynamics of the market.

**Senator O'BRIEN**—If the Prime Minister suggests that certain factors justify consideration of nuclear power, is there not an environmental case to consider, for example, gas to liquids projects in terms of greenhouse?

**Mr Ryan**—We have already considered certain gas to liquids projects and the government has made decisions about the level of support it is prepared to put to those projects. It was not sufficient to make them commercial.

**Senator O'BRIEN**—Are there no industry assistance measures or incentives available to make them a bit more commercially viable? Is the government not considering any industry assistance or incentive measures to make them more commercially viable?

**Mr Ryan**—Most of the measures taken with regard to the environment tend to be more broadly based rather than on a specific product like gas to liquids. I am not even sure if you did it on an environmental basis whether gas to liquids would stand up on the whole of life approach to what you would do, particularly regarding which pathway you went down. If you went down the Victorian proposal, which is to use the brown coal, I am not quite sure what the environmental outcome—

**Senator O'BRIEN**—I did not mention the coal to liquids project because I understand that the energy and other implications may not lead to a positive greenhouse outcome.

**Mr Ryan**—Even if you went for a gas to liquids project, I think we would want to be careful about what we were going to assume about the environmental outcomes of that.

**Senator O'BRIEN**—I suppose care is important. Clearly there is no prioritisation by the government of projects at the moment. There are no special incentives for such projects, are there?

**Mr Ryan**—The projects come along one by one. At the moment there are no gas to liquids projects of which I am aware.

**Senator O'BRIEN**—What sort of industry assistance was afforded to the LNG industry?

**Mr Hartwell**—I do not think there were any specific industry assistance measures to the LNG industry in the way the question has been phrased. The government is supportive of development of the LNG industry, there was an LNG Action Agenda and there were a number of issues that were addressed in the context of the LNG Action Agenda to aid the development of the LNG industry. We have talked about those at previous estimates hearings. I am not sure you would say that there is a generally applicable industry assistance measure to the LNG industry.

**Senator O'BRIEN**—Would you say that the assistance for the North West Shelf project is of no assistance to that industry?

**Mr Ryan**—That assistance is project specific assistance. The way we were interpreting your question is, was there industry based assistance, that it was applied to all LNG projects.

**Senator O'BRIEN**—The correct proposition is that parts of the industry are receiving that assistance?

**Mr Ryan**—Yes, projects receive support from the government.

**Senator O'BRIEN**—Projects which are part of the LNG industry?

**Mr Ryan**—Yes. Often they are part of the oil and gas sector as well.

**Senator O'BRIEN**—I understand the only financial issue relating to Syntroleum is the depreciated Syntroleum technology licence, which I think at the last estimates hearings we were told is valued at just over \$9 million. At those hearings the government said there is a capacity to get a return on that licence of up to \$15 million. How is the department proposing to get that return and what action has it taken to achieve it?

**Mr Hartwell**—As was explained at the last estimates hearing, Syntroleum continued to try and market that licence within the area that they are permitted to do so, with the potential that the Commonwealth could get up to \$15 million in return for that licence. They continue to work actively on possible projects in which the Syntroleum process could be used. They have one in Papua New Guinea and there are some discussions under way in Queensland as well, essentially focusing on stranded gas deposits or coal deposits which might not otherwise be commercial.

**Senator O'BRIEN**—Is the Commonwealth still hamstrung by the requirement to obtain Syntroleum's permission to use the licence as the Commonwealth sees fit?

**Mr Hartwell**—I am not sure what is implied by that. We have full ownership of the licence in that sense. But Syntroleum will go out there and try and market the licence and use the technology with the view that, should they be successful in attracting a project proponent to use the licence, then there would be a return back to the Commonwealth.

**Senator O'BRIEN**—Which company is involved in the possible Queensland incidence for this process?

**Mr Hartwell**—I am not sure I am in a position to indicate that. I am aware that Syntroleum will have been in a number of discussions with possible project proponents. I am not at liberty to discuss that; that is a matter for Syntroleum.

**Senator O'BRIEN**—So it is Syntroleum that is trying to obtain a return from the licence, not the Commonwealth?

**Mr Hartwell**—Yes. It is certainly Syntroleum's technology. They do the marketing, they are familiar with the technology, and they can provide the technical expertise for people who might be interested. However, should they be successful the Commonwealth would benefit.

**Senator O'BRIEN**—What is the rate of depreciation applying to the \$9 million?

**Mr Hartwell**—It is approximately \$1 million per year.

**Senator O'BRIEN**—I hope they do not take too long. I want to ask about the uranium industry framework steering group. I note that that group is due to present its action plan to the minister in mid-2006. Is there a more precise date?

**Mr Hartwell**—No. We would expect that it is more likely to be around August 2006.

**Senator O'BRIEN**—Is the government planning to establish a national register of uranium workers?

**Mr Hartwell**—I am not aware that that is a part of the framework at this point in time.

**Senator O'BRIEN**—What measures are being considered to encourage greater participation by Indigenous Australians in the uranium industry workforce?

**Mr Hartwell**—I might ask my colleague Tania Constable to answer that question.

**Ms Constable**—We have a number of working groups set up under the uranium industry framework. We have two groups under the competitiveness working group that is specifically looking at employment issues. The most recently formed is the Indigenous employment working group that will specifically look at Indigenous employment in the Northern Territory and South Australia. We are also examining specific issues under the national skills shortage working group within the national skills strategy to specifically focus on the mining industry but it does have an element attached to uranium.

**Senator O'BRIEN**—It has an element attached to uranium?

**Ms Constable**—We are specifically looking at the mining industry but the uranium industry is part of that strategy.

**Senator O'BRIEN**—You are looking at the Northern Territory and South Australia. There are some examples in Western Australia of promotion of Indigenous employment; are they not being considered?

**Ms Constable**—In respect to the uranium industry at the moment, the Northern Territory and South Australia are specifically participating in the uranium industry framework.

**Senator O'BRIEN**—Perhaps I misunderstood your answer. I thought you were talking about the mining industry generally.

**Ms Constable**—Broadly in the mining industry, certainly Western Australia is participating in the national skills shortage working group.

**Senator O'BRIEN**—I was referring to examples in Western Australia of a strong promotion of Indigenous involvement. Kimberley is an example that comes to mind immediately where work is being done to encourage growth in the workforce of local Indigenous people.

**Mr Hartwell**—We do have a small program called the Working in Partnerships Program that we run in the division, which essentially is aimed at bringing together resources, industry and Indigenous groups to try and maximise participation in the resources industry. We have held a number of workshops along those lines. We can give you a little more detail on that if that is of interest, if that is the point you are making. That is another project that we have which does have as its focus certainly increased participation by Indigenous people within the resources industry.

**Senator O'BRIEN**—Can that be found on your website?

**Mr Hartwell**—Yes there are details of it on the website. We have held a number of workshops and have set up some regional committees. Essentially these committees are made up local representatives of resources companies operating in that area plus representatives of Indigenous people and local employment agencies and so forth.

**Ms Constable**—We have held two such workshops in Western Australia.

**Senator O'BRIEN**—What issues are under consideration with respect to establishing the uranium royalty regime in the Northern Territory?

**Ms Constable**—At the moment we have a working group specifically to look at royalties. The working group, along with the other working groups, will report very shortly on some specific options as they relate to uranium royalties for the Northern Territory only.

**Senator O'BRIEN**—Which governments and other parties are anticipated to be the beneficiaries?

**Ms Constable**—In terms of the royalties regime that is being considered, we would like to think that the royalties will take into account the needs of the Northern Territory government, the Commonwealth government and certainly the Indigenous community of the Northern Territory.

**Senator O'BRIEN**—Any idea how it might differ from the current arrangements in place for the Ranger mine?

**Ms Constable**—The Ranger mine has been specifically looked at in considering the royalty regime. I am not at liberty to say which way it will go at this stage until the minister considers the uranium industry framework as a whole.

**Senator O'BRIEN**—What are the major land access issues being considered with respect to access to land for uranium exploration and mining?

**Ms Constable**—The issues in relation to uranium are not specific to the uranium industry. The land access issues are currently being considered under the Ministerial Council on Minerals and Petroleum Resources.

**Senator O'BRIEN**—Are there major land access impediments in each relevant state and territory?

**Ms Constable**—The land access issues over time have been addressed in terms of the changes that are currently proceeding with the Aboriginal Land Rights Act and the Native Title Act. A number of technical amendments have been considered specifically under the Native Title Act and they have proceeded through the normal parliamentary processes.

**Mr Hartwell**—I would further add that this land access group to which Ms Constable has just referred did make a submission as a part of those technical amendments to the Native Title Act.

**Senator O'BRIEN**—Did you say they have proceeded or are proceeding through the parliamentary processes?

**Ms Constable**—Some have proceeded and some are proceeding.

**Senator O'BRIEN**—Is this the department organising the preparation of legislation? Is it this minister's legislation?

**Ms Constable**—No, it is not.

**Senator O'BRIEN**—I did not think it was. Which minister?

**Ms Constable**—The Office of Indigenous Policy Coordination is considering those issues along with Attorney-General's, who have specific responsibility.

**Senator O'BRIEN**—Thanks for that. Could someone tell me what the current status of the proposed oil code and petrol retail reform legislation is?



**Mr Payne**—The minister introduced the legislation to effect the reform package on 30 March. It is currently still before the House.

**Senator O'BRIEN**—It has only been read a first time?

**Mr Payne**—Second reading speech.

**Senator O'BRIEN**—So the minister's second reading speech and the debate adjourned in the House of Representatives?

**Mr Payne**—Yes.

**Senator O'BRIEN**—Was there any consultation between this department and the environment department before a decision was taken to block the development of the South Gippsland wind farm?

**Mr Ryan**—No.

**Mr Hartwell**—My Energy and Environment colleagues are telling me no.

**Senator O'BRIEN**—So the department did not make any recommendation to Environment Australia regarding the matter?

**Mr Ryan**—No, we were not consulted.

**Senator O'BRIEN**—There was a vain attempt to approach the table. Can we have an update on the Low-emission Technology Fund?

**Mr Peel**—Applications closed on 31 March. They are currently being assessed and the expectation is the outcomes would be announced in about August.

**Senator O'BRIEN**—How many applications?

**Mr Peel**—Thirty.

**Senator O'BRIEN**—What is the maximum funding available?

**Mr Peel**—It is a \$500 million program.

**Senator O'BRIEN**—Is this the first of a number of rounds of applications?

**Mr Peel**—It depends how the first round goes as to whether there will be subsequent rounds. Rounds are anticipated, if necessary, in 2008-09 and 2011-12.

**Senator O'BRIEN**—Is there a maximum amount available to any particular applicant?

**Mr Peel**—No, the extent of the program is \$500 million. Theoretically, it could be that but it is unlikely.

**Senator O'BRIEN**—It would want to be a pretty good application?

**Mr Peel**—Exceptional, I would say.

**Senator O'BRIEN**—Is the \$500 million available for this round or will some of that have to be carried over?

**Mr Peel**—It depends on the outcome of this round. Theoretically, it could all be allocated in the first round. I should also say that this money is actually appropriated to the Department of the Environment and Heritage rather than this department but AusIndustry is managing the program.

**Senator O'BRIEN**—What about the Solar Cities program?

**Mr D Clarke**—The Solar Cities program is also jointly administered by the Department of the Environment and Heritage and ITR. Solar Cities is now in the evaluation of the 11 short-listed proposals. The two Adelaide bids were presented to the panel today and the plan is to make recommendations on the short list to ministers for a decision around August.

**Senator O'BRIEN**—Is that for decision and announcement or just decision?

**Mr D Clarke**—Decision and announcement.

**Senator O'BRIEN**—Is that a joint announcement or will it be Environment and Heritage?

**Mr D Clarke**—The decision is joint and it will be for the ministers to decide how they manage the announcement.

**Senator O'BRIEN**—What has changed since the 2004 energy white paper that effectively ruled out nuclear power as part of Australia's energy future?

**Mr D Clarke**—The energy white paper listed nuclear power in the reserve technology category and as such it was in that category subject to continuous review. The government might consider that it is an appropriate time to reassess that ranking.

**Senator O'BRIEN**—You would say that its status in the energy white paper was a reserve status?

**Mr D Clarke**—The energy white paper listed 21 energy technologies in the innovation chapter and classified them into three groups. First is market leader—the technologies in which Australia might aspire to be a world market leader; second is fast follower—those technologies where it would be prudent to be ready to very quickly move to deployment; third is reserve technologies—those that we should monitor closely and consider whether there was a case for escalating them in that priority structure.

**Senator O'BRIEN**—What are the economics of nuclear power compared to coal in Australia?

**Mr Drew Clarke**—That is a very simple question to ask and a very difficult question to answer. There have been many opinions expressed on that matter, indeed some released quite recently. To answer that question requires you to make a whole series of assumptions that can have a massive impact—a 50 per cent to 100 per cent impact—on the short answer. So I am not able to give you a robust answer to that question. The data that we see worldwide may not be applicable to Australia and the assumptions that one would make for such an industry in Australia are so significant to the outcome that it is just not possible to give a simple answer.

**Senator O'BRIEN**—Has the department been consulted about possible sites for nuclear power stations?

**Mr Drew Clarke**—No.

**Senator O'BRIEN**—Does it have in its possession any material on relevant possible sites for nuclear power stations?

**Mr Drew Clarke**—No.

**Senator O'BRIEN**—What progress has been made on the new high-level expert energy reform implementation group announced earlier this year to look at options for a national grid, structural weaknesses in the electricity market and financial market measures to support energy markets?

**Mr Drew Clarke**—The energy reform implementation group was announced by COAG in February. The secretariat for that group has been formed within this department and the Prime Minister is currently finalising appointments to the panel in consultation with the premiers and chief ministers. Preliminary work has commenced through the secretariat, the panel has not yet been announced but I expect it will be in the next few weeks.

**Senator O'BRIEN**—Do you have any more details on the issues to be considered by this group?

**Mr Drew Clarke**—Nothing more has been put on the public record. There has not been any more work on it other than the terms of reference that were announced in the COAG communique. The group was given three references: firstly, to look at potential future reforms in the electricity transmission area; secondly, to look at issues associated with the energy market structures; thirdly, to look at potential further development of the financial market that sits behind the physical energy market.

**Senator O'BRIEN**—Is there a timetable in which the group is expected to report?

**Mr Drew Clarke**—The COAG communique asked for the report by the end of calendar 2006.

**Senator O'BRIEN**—Thanks. What action has been taken to ensure that multinational companies operating in the Australian offshore oil and gas industry are not putting at risk critical Australian hydrocarbon investment by reputable Australian companies in circumstances where those multinational companies are using the Work Choices legislation to reduce crew levels on offshore drilling rigs to levels that compromise safety?

**Mr Hartwell**—I am not aware of any action by companies operating in Australia's offshore petroleum area which would be putting at risk our safety regime. It is very difficult for me to answer the specifics of that question without knowing details that have been put forward, if such details are being put forward.

**Senator O'BRIEN**—I am referring specifically to a US based company called Diamond Offshore. It has advised the unions that it intends to eliminate marine crew from its *Ocean Bounty* drilling rig, which it contracts with Australian oil and gas majors.

**Mr Hartwell**—I am aware of the case that you have now mentioned. My understanding is that they are in discussions with our National Offshore Petroleum Safety Authority, NOPSAs, and those issues are being worked through in terms of the safety regime.

**Senator O'BRIEN**—How long have those discussions been going on?

**Ms Sewell**—NOPSAs has been in discussion with the *Ocean Bounty* owners for some weeks now. I understand that they have recently advised both the owners and the maritime union parties that they have been dealing with that they have reached a satisfactory resolution on that.

**Senator O'BRIEN**—Does that change the position taken by Diamond Offshore about the engagement of the labourers?

**Ms Sewell**—My understanding is that it does not. The issue is that certain types of facilities operating in Commonwealth waters come under the Petroleum (Submerged Lands) Act when they are operating as a facility, so they are perceived to be attached to the seabed. But when they disconnect from that facility on the seabed they come under the definition of vessel under the Navigation Act, and there are different requirements for crewing levels set under both those acts. It has been acknowledged that there is some duplication between those two acts. There is certainly no area where neither act provides for an outcome. Basically, NOPSA has been handling this issue in consultation with the Australian Maritime Safety Authority with which it has a memorandum of understanding. NOPSA has advised Diamond Offshore that they will be monitoring the integrity of the staffing levels as they currently stand going forward.

**Senator O'BRIEN**—This is about towing rigs between locations?

**Ms Sewell**—The *Ocean Bounty* is a mobile operating drilling unit, which means that basically it has a propeller, but it spends most of its time effectively undertaking work in one spot on the seabed.

**Senator O'BRIEN**—In a fixed location?

**Ms Sewell**—Yes.

**Senator O'BRIEN**—Does NOPSA have any problems with the safety situation of the vessel without a qualified maritime crew on board when it is being moved?

**Ms Sewell**—The issue is not that the change in staffing arrangements has led to a lack of qualified people on board; it is that there are different categories of professionals specified under the different staffing arrangements that the *Ocean Bounty* has been through. As far as NOPSA is concerned, the changes to the staffing arrangements or the conditions of employment have not impinged on the integrity of the facility's safety case, against which NOPSA assesses the safety of the people on board.

**Senator O'BRIEN**—Have the details of their determination been communicated to the company and to the maritime union?

**Ms Sewell**—That is my understanding.

**Senator O'BRIEN**—Could you check that, and if it is not the case advise us of the current situation?

**Ms Sewell**—Certainly.

**Senator O'BRIEN**—I understand that, in terms of the transportation of LNG, the United States congress is shortly expected to pass legislation that will favour LNG receivable terminals that contract for supply by US flag LNG carriers as part of the US maritime security strategy to help to secure vital US energy inputs over the long term. We are not doing anything in that regard. Why do we take a different position about Australia's national interest? Shouldn't we be ensuring that shipping of this major resource is undertaken with

best practice security and safety standards and in a way that contributes to Australian employment?

**Mr Hartwell**—I am aware that there is some draft legislation that has been recently introduced into the congress in Washington, or is proposed to be introduced. This is certainly a very recent development which would essentially restrict LNG ships that go into the United States to US flag ships. That is an issue in itself from an international trade perspective and would be seen very much as a trade impediment, which, given our interest in selling LNG to the United States, by itself cause us great concern and alarm should this draft legislation come to fruition.

In relation to the second part of your question—why we do not do something similar—this is a commercial issue. Most LNG, as I understand it, is traded on an FOB basis. If I understood the purport of your question, the LNG operators and the government are not in a position, in that sense, to insist on certain crewing levels based on national origin or something of that nature.

**Senator O'BRIEN**—It is about flagging in the US legislation, which I suspect has implications for the nationality of the crew.

**Mr Hartwell**—Yes, the flagging itself may cause us some concern in terms of the freedom of LNG trade. If certain countries take the view they will not accept ships unless they are under their own national flag, that, in itself, will be a major trade distorting impediment to the free flow of trade in international gas.

**Senator O'BRIEN**—The United States has had the Jones Act for many years and has not walked away from it in the US FTA negotiations. We have accepted that, haven't we?

**Mr Hartwell**—I am not sure that we are really comfortable with the Jones Act, but probably that is an issue for someone else.

**Senator O'BRIEN**—We signed up to accept it.

**Mr Ryan**—I think we should wait and see what happens with the US legislation. It is a long way between the introduction and its passing, if it does pass.

**Senator O'BRIEN**—Is there progress on developing an oil and gas industry strategy, which I understand is being taken in cooperation with governments? Could you explain what the key elements of the strategy, or the proposed strategy, are?

**Mr Hartwell**—That is true. In recent weeks there has been an announcement, both by our own minister and by the upstream petroleum industry, as represented by APPEA, the Australian Petroleum Production and Exploration Association, about addressing the challenges and opportunities of furthering development of our upstream petroleum industry. The elements that will be looked at will obviously be petroleum exploration; the wish that we have a greater exploration effort in Australia—essentially, to find more oil. The issues related to developing our LNG capability further will also be addressed. Essentially, the issues all pertain to the development of our offshore oil and gas industry. Some of the issues relating to onshore oil and gas will also be addressed.

**Senator O'BRIEN**—So the only organisation outside government is APPEA?

**Mr Hartwell**—Essentially, we are seeing it as an industry driven exercise which they are making the major input into, but we have agreed—and when I say ‘we’, the government has agreed—to participate in the development of a strategy paper which would detail the issues. Representatives of the state and territory governments have also joined in on this exercise. It is aimed at looking at all the issues that impact on the development of the upstream oil and gas industry.

**Senator O’BRIEN**—Why is there no workforce representation in the development of a strategy to ensure that skills development, safety, security and long-term labour force issues are addressed along with the other strategic issues?

**Mr Hartwell**—That is a question I am not in a position to answer specifically. Certainly, the issue of skills, the impediments to development of projects in Australia—whether that related to rising costs, both capital and labour—will be addressed. It is true that the leaders group putting this together are representatives of industry and government at this point.

**Senator O’BRIEN**—Do you want to take that on notice?

**Mr Hartwell**—I am not sure what I am taking on notice.

**Senator O’BRIEN**—Why there is no workforce representation.

**Mr Hartwell**—I can take it on notice but, in a sense, this suggestion emanated from industry. The government were asked to participate and our minister agreed he would participate in the development.

**Senator O’BRIEN**—So industry is deciding who is on it; is that what you are saying?

**Mr Hartwell**—Not in that same context. Government were consulted but the initiative came from industry.

**Senator O’BRIEN**—The initiative came from industry and the government was consulted?

**Mr Hartwell**—The initiative to have an upstream petroleum strategy document looking at the issues, yes.

**Senator O’BRIEN**—Are you saying it was industry that decided there would be no workforce representation?

**Mr Hartwell**—I cannot answer that question specifically. The group was put together and government were asked to participate. In the sense that the industry drew up the initiative—

**Senator O’BRIEN**—Perhaps you could take it on notice.

**Mr Hartwell**—Okay. I can consult with them.

**Senator O’BRIEN**—Someone made the decision; presumably either they did or the government did. I just want to find out who did. Thank you for that.

[10.29 pm]

#### **Geoscience Australia**

**Senator O’BRIEN**—Can we have a description of Geoscience Australia’s program priorities over the next year with respect to pre commercial data gathering and the evaluation

of new frontiers for oil and gas exploration? I know you provided a series of presentations to a Senate committee recently. For the purpose of these proceedings, you might care to address that question or refer us to matters that you have already presented.

**Dr Foster**—Could you repeat the question?

**Senator O'BRIEN**—I just wanted to know if you could give us a snapshot of your program priorities over the next year with respect to pre commercial data gathering and evaluation of new frontiers for oil and gas exploration.

**Dr Foster**—Certainly, Senator. Commencing this week is a survey in the Rowley sub-basin off the coast of Western Australia, looking at seeps and signatures. Commencing perhaps from November through to early January, a tender has been called for a commercial seismic survey in the Capel and Faust basins, and there will be a future survey across the Great Australian Bight area. They are the new acquisition programs.

**Senator O'BRIEN**—Given that the supply of economic demonstrated resources of crude oil and condensate is about 14 years, according to your evidence given to a recent Senate references committee hearing, what measures are being taken by Geoscience Australia to identify the most prospective future frontiers for oil and gas in Australia?

**Dr Foster**—We have looked at the geological history of the basin areas and we have consulted widely with industry colleagues to select the areas in the current program.

**Senator O'BRIEN**—The ones that you have announced are the most prospective, are they?

**Dr Foster**—They are the ones that have the least data but they have the geological conditions. They are offshore basins, they are under-explored, and that is where the likely largest area will be for new discoveries.

**Senator O'BRIEN**—Have the acreages release program over the last few years been successful in attracting commercial investment to new frontiers?

**Dr Foster**—So far under the new program the two areas that have been released have been the Bremer sub-basin, which closed on 20 April. The work bidding programs are currently under review, so that process is not yet finished, and a southern Perth basin area was released, which was successful.

**Senator O'BRIEN**—So there has not been a great take-up?

**Dr Foster**—No, there has not been the opportunity for great take-up of those particular areas focused on the new program. They are currently coming on stream. For example, the Arafura Basin was released in May this year and it will be open for consideration for one year.

**Senator O'BRIEN**—Does that mean there will be leases awarded during that time or not until the end of that period?

**Dr Foster**—Leases will be awarded next year and the year after. Acreage will be released again in 2008.

**Senator O'BRIEN**—Are there any areas that, on prospectivity grounds, would have been released but have not been released for other reasons?

**Dr Foster**—No.

**Senator O'BRIEN**—Does Geoscience Australia have a view as to the commerciality of gas to liquids and coal to liquids in Australia given the current global outlook?

**Dr Foster**—No.

**Senator O'BRIEN**—Are you leaving that for ABARE?

**Dr Foster**—That is for others, Senator.

**Senator O'BRIEN**—Not in your charter?

**Dr Foster**—No, Senator.

**Senator O'BRIEN**—That is all I have.

**Senator WEBBER**—I am sorry that I did not hear the beginning of Senator O'Brien's questions, so bear with me if I repeat any of them. Could we start with an outline of what the year 2 Geoscience component of the Australian tsunami warning system will be?

**Dr Drummond**—I head the earth monitoring group at Geoscience Australia and one of my projects is establishing the warning system. Year 2 is mostly going to involve establishing several new seismograph stations around Australia and upgrading a number of existing stations so that they can record accurately very large earthquakes at large distances. At the moment they are designed to record earthquakes just within Australia. Our computer hardware systems and software systems will also be upgraded to analyse the data, so that the computers can identify earthquakes that the analysts can then check. We will finalise the recruitment of new staff, finish their training, and we expect to open a 24/7 operations centre towards the end of this calendar year.

**Senator WEBBER**—Can you outline what the costs for that are anticipated to be this year?

**Dr Drummond**—I cannot recall the exact figures. Expenses are of the order of \$5 million and capital expenditure is of the order of \$2 million, but I can confirm those figures precisely. Capital is \$1.677 million.

**Senator WEBBER**—I note from the budget papers that Geoscience Australia has budgeted for an operating loss this year of \$1 million for 2006-07; can you explain that?

**Dr Drummond**—When the initial design of the system was put together there were assumptions made about the design delivery time of new equipment. What was not known at that stage was the worldwide demand, particularly for seismometers, so the equipment that was due for delivery this current financial year will now not be delivered until the June-August period. That has delayed the installation of that equipment, so the minister for finance has agreed that we can carry that money across and install those instruments in the first part of the new financial year.

**Senator WEBBER**—Would that also explain the actual surplus of \$1.74 million from 2005-06?

**Mr Robinson**—The anticipated surplus consists of two parts: the \$1 million that was appropriated this financial year, which will not be spent but will be spent next year; plus



another \$740,000 which relates back to an earlier bringing forward of money in relation to the petroleum program, which in a similar way is affecting this year's budget.

**Senator WEBBER**—Is the money that is anticipated from the operating loss for 2006-07 to do with the tsunami warning system or is it more broadly within the agency as well?

**Mr Robinson**—No, it is solely relating to the tsunami system. That million dollars was appropriated this financial year but will now be spent next financial year; hence we will spend a million dollars more than appropriated next financial year.

**Senator WEBBER**—Has this delay led to any significant delay in the deployment of the warning system?

**Dr Drummond**—No.

**Senator WEBBER**—You have alluded to some of the problems with suppliers of specialist equipment. I know that other senators have asked about this in previous estimates: would increased funding in this coming year speed the deployment of the warning system, or is it progressing as quickly as possible?

**Dr Drummond**—It is progressing as planned.

**Senator WEBBER**—Did Geoscience Australia participate in the Exercise Pacific Wave held earlier this month?

**Dr Drummond**—Yes.

**Senator WEBBER**—Did the exercise identify any possible shortcomings in the system?

**Dr Drummond**—No significant ones, just some indications of where we can harden our communications between the three agencies.

**Senator WEBBER**—Would you characterise the exercise as a success?

**Dr Drummond**—Yes.

**Senator WEBBER**—Turning from that issue, can someone outline what is the agency's view about the possibility of new petroleum fields being discovered in Australia in the next five years? Being from Western Australia, it will come as no surprise that I have an interest in this.

**Dr Foster**—Could you repeat the question?

**Senator WEBBER**—What is the agency's view about the possibility of new petroleum fields being discovered in Australia in the next five years?

**Dr Foster**—Our agency provides pre-competitive data so that commercial decisions can be made to explore. As I explained to another committee, many of these areas have never had any data at all; therefore the very fact that the Bremer sub-basin, for example, off the coast of Albany, has attracted 22 international and national companies to assess it—and bids have been received, I believe—means that these areas are indeed attractive.

**Senator WEBBER**—Does the agency have a view as to Australia's long-term petroleum fields' potential?

**Dr Foster**—The agency believes that Australia needs to discover a new province. We have diminishing reserves and we need a new province. This is the reason for the pre-competitive work that we are undertaking.

**Senator WEBBER**—Do we have a ballpark on the likelihood of that discovery?

**Dr Foster**—No.

**Senator WEBBER**—Are we confident there is something out there to be found?

**Dr Foster**—No.

**Senator WEBBER**—That concludes my questions. Thank you for your indulgence.

**CHAIR**—Thank you, Senator Webber. The committee will resume at 9 am tomorrow.

**Committee adjourned at 10.42 pm**