



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON RURAL AND REGIONAL AFFAIRS  
AND TRANSPORT

ESTIMATES

**(Additional Budget Estimates)**

WEDNESDAY, 14 FEBRUARY 2007

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
RURAL AND REGIONAL AFFAIRS AND TRANSPORT  
Wednesday, 14 February 2007**

**Members:** Senator Heffernan (*Chair*), Senator Siewert (*Deputy Chair*), Senators Ferris, McEwen, McGauran, Nash, O'Brien, and Sterle

**Senators in attendance:** Senators Adams, Bernardi, Heffernan, Joyce, McEwen, McGauran, Milne, Nash, O'Brien, Siewert and Sterle

**Committee met at 9.03 am**

**AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO**

**In Attendance**

Senator Abetz, Minister for Fisheries, Forestry and Conservation

**Department of Agriculture, Fisheries and Forestry**

**Executive**

Dr Cliff Samson, Deputy Secretary

Mr Peter Yuile, Deputy Secretary

Mr Daryl Quinlivan, Deputy Secretary

**Management Services Division**

Mr Bill Pahl, Chief Operating Officer, Management Services

Mr John Bridge, Chief Financial Officer, Corporate Finance

Mr Greg Haughey, Manager, Budgets and Reporting, Corporate Finance

**Corporate Policy Division**

Mr Allen Grant, Executive Manager, Corporate Policy

Mr Charles Willcocks, General Manager, AusBIOSEC Taskforce

Ms Victoria Anderson, General Manager, Policy Development Taskforce

Ms Nicola Hinder, General Manager, Parliamentary and Media Branch

Mr Matt Worrell, Acting General Manager, Corporate Policy and Governance

**Food and Agriculture (including Wheat Export Authority and Grains Research and Development Corporation)**

Mr David Mortimer, Executive Manager, Food and Agriculture Division

Mr Richard Souness, General Manager, Food Policy and Safety

Mr Ian Robinson, General Manager, Wine, Horticulture and Sugar

Mr Simon Murnane, General Manager, Meat, Wool and Dairy

Mr Tim Besley, Chairman, Wheat Export Authority

Mr Peter Woods, Acting Chief Executive Officer, Wheat Export Authority

Mrs Robyn Kemp, Senior Manager, Corporate Support, Wheat Export Authority

Mr Norm Dobson, Communications Manager

Mr Terry Enright, Chairman, Grains Research and Development Corporation

Mr Peter Reading, Managing Director, Grains Research and Development Corporation

Mr Ross Johns, Deputy Chairman, GRDC Board

Mr Gavin Whitely, Executive Manager, Corporate Services, Grains Research and Development Corporation

Mr Iftikhar Mostafa, Executive Manager, Corporate Planning and Program Support, Grains Research and Development Corporation

**Australian Bureau of Agriculture and Resource Economics**

Mr Phillip Glyde, Executive Director

Dr Don Gunasekera, Acting Chief Economist

Dr Terry Sheales, Chief Commodity Analyst

**Bureau of Rural Sciences**

Mr Stephen Hunter, Executive Director, Bureau of Rural Sciences

Dr Colin Grant, Deputy Executive Director, Bureau of Rural Sciences

Dr Kim Ritman, General Manager, Climate, Land and Water Sciences

Dr Stephen Bygrave, General Manager, Fisheries, Forest and Social Sciences

Mr Mark McGovern, Program Leader, Business Strategy and Operations

Dr Gail Kelly, Program Leader for Social Sciences

**Biosecurity Australia**

Mr John Cahill, Chief Executive

Dr Ann McDonald, General Manager—Biosecurity Development and Communications

Dr Bill Roberts, Principal Scientist, Plant Biosecurity

Dr Mike Nunn, Principal Scientist, Animal Biosecurity

Ms Louise van Meurs, General Manager, Plant Biosecurity

Dr Robyn Martin, General Manager, Animal Biosecurity

**International Division**

Mr Craig Burns, Executive Manager

Ms Nicola Gordon-Smith, General Manager, Bilateral Trade, North Asia, Europe, Middle East

Mr David Williamson, General Manager, Bilateral Trade, Americas, South East Asia, Sub-continent and Pacific

Ms Fran Freeman, General Manager, Multilateral Trade

**Product Integrity, Animal (including aquatic animal) and Plant Health**

Mr Steve McCutcheon, Executive Manager Product Integrity, Animal and Plant Health

Dr Bob Biddle, Acting Chief Veterinary Officer, Office of the Chief Veterinary Officer

Dr Peter Thornber, Acting Deputy Chief Veterinary Officer, Office of the Chief Veterinary Officer

Dr Paul Pheloung, Acting Senior Manager, Office of the Chief Plant Protection Officer

Ms Sally Standen, General Manager, Animal and Plant Health Policy

Mr Bill Magee, General Manager, Product Integrity and Safety

Dr Joe Smith, Chief Executive Officer, Australian Pesticides and Veterinary Medicines Authority

Dr Eva Bennet-Jenkins, Pesticides Program Manager, Australian Pesticides and Veterinary Medicines Authority

**Australian Quarantine and Inspection Service**

Mr Greg Read, Acting Executive Manager, Exports

Mr Mark Schipp, General Manager, Technical Standards Branch

Mr Tim Chapman, National Manager, Cargo Management Group  
Mr Peter Liehne, National Manager, Animal and Plant Quarantine  
Mr Tim Carlton, National Manager, Food Exports Branch  
Dr Narelle Clegg, National Manager, Animal and Plant Exports and Imported Food Safety Branch  
Mrs Cathy Cox, General Manager, People, Finance and Planning  
Ms Helen Gannon, Acting National Manager, Border  
Ms Jenni Gordon, Executive Manager, Quarantine  
Dr Andy Carroll, Acting Executive Manager, Quarantine

**Rural Policy and Innovation**

Mr Ian Thompson, Executive Manager, Rural Policy and Innovation  
Mr Matt Koval, General Manager, Drought and Exceptional Circumstances  
Ms Melanie O'Flynn, General Manager, Research and Innovation  
Mr Bruce Bowen, General Manager, Industry Partnerships, Training and Leadership

**Natural Resource Management**

Mr Tom Aldred, Executive Manager, Natural Resource Management Division  
Mr Mike Lee, General Manager, Australian Government Natural Resource Management Team  
Mr David Calvert, Acting General Manager, Australian Government Natural Resource Management Team  
Ms Heather Tomlinson, General Manager, Land Management and Climate Change  
Mr Rod Shaw, General Manager, Landcare and Sustainable Production

**Fisheries and Forestry**

Mr Glenn Hurry, Executive Manager, Fisheries and Forestry  
Dr John Kalish, General Manager, Fisheries and Aquaculture  
Mr Tony Bartlett, General Manager, Forest Industries  
Mr Karl Heiden, Section Head, Tasmanian Region Forests  
Mr Andrew Wilson, Acting General Manager, Forest Industries  
Mr Robert Murphy, General Manager, Fisheries and Marine Environment  
Mr John Talbot, General Manager, Fisheries Structural Adjustment Package  
Mr Richard McLoughlin, Managing Director, Australian Fisheries Management Authority  
Dr Nick Rayns, Executive Manager Fisheries, Australian Fisheries Management Authority  
Mr Paul Murphy, General Manager Operations, Australian Fisheries Management Authority  
Mr Geoff Richardson, General Manager Sustainability and Business Management, Australian Fisheries Management Authority

**CHAIR (Senator Heffernan)**—I declare open this public meeting of the Senate Standing Committee on Rural and Regional Affairs and Transport. On Thursday, 8 February 2007 the Senate referred to the committee for examination the particulars of proposed additional expenditure in respect of the year ending 30 June 2007 for the Agriculture, Fisheries and Forestry portfolio. The committee will now further examine the particulars of proposed expenditure through these additional budget estimates hearings. As agreed, I propose to call on the estimates according to the format adopted in the printed program. The committee has

fixed Thursday, 5 April 2007 as the return date for answers to questions taken on notice. Under standing order 26 the committee must take all evidence in session.

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 purposes of estimates hearings. The Senate also resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinion on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officers to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness shall state the grounds upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. Any claim that it will be contrary to the public interest to answer a question must be made by the minister and shall be accompanied by a statement setting out the basis of the claim.

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 a contempt. It is also a contempt to give false or misleading evidence to a committee.

I welcome Senator Eric Abetz, the Minister for Fisheries, Forestry and Conservation, representing the Minister for Agriculture, Fisheries and Forestry. Minister, do you or anyone else want to make an opening statement?

**Senator Abetz**—I just indicate that the secretary is away and I understand that Dr Samson has a letter addressed to you, Chair, indicating her regret at not being present because she has a longstanding commitment in New Zealand from 14 February to 16 February to attend the trans-Tasman chief executives meeting. It has been timed to coincide with the Prime Minister's visit to New Zealand. Much as we think we are important, Chair, I dare say the Prime Minister gains precedence, and that is why the secretary has made the very wise decision to take herself to New Zealand.

**CHAIR**—Thank you very much, Minister. We did get notice of that, which we thank the secretary for. Senator O'Brien, would you like to start?

**Senator O'BRIEN**—What is happening with KPMG review of the National Food Industry Strategy?

**Dr Samson**—That might be better taken under food and agriculture slightly later in the program, if that is okay.

**Senator Abetz**—Are there any broad questions at this stage?

**Senator O'BRIEN**—I am going to run through a few just in case they are better handled somewhere else. I would rather ask them now and be directed rather than miss the opportunity. Is the proposed 2007 agriculture statement still on track to be made some time after the budget?



**Mr Grant**—We are currently working on a draft of the agriculture statement. A number of the elements that we intend to include in the agriculture statement will be discussed and agreed within the budget. The timing is not absolutely clear at the moment, but we are aiming for a release around budget time. We do not have an explicit date, but we are on track around that time.

**Senator O'BRIEN**—Which area is the work being done in, or is it across the department?

**Mr Grant**—It is being coordinated by the corporate policy division.

**Senator O'BRIEN**—The elements will be determined by the budget outcomes?

**Mr Grant**—Some of the elements will be determined by the budget outcomes, but there are a number of other elements we are looking to deal with in the statement that deal with elements outside the budget and existing policy parameters.

**Senator O'BRIEN**—To which area of the department should we direct our questions on the issue of non-forestry managed investment schemes?

**Mr Grant**—I could probably take those as well.

**Senator O'BRIEN**—Okay, we will come back to those. In relation to the change in administrative orders, can someone detail the impact on this department in terms of staff allocation and financial allocation and point me to any measures in the PAES which substantiate that? Have you lost any staff; have you lost any money? If so, where?

**Mr Bridge**—We are still going through a process with the Department of the Environment and Water Resources. Thirty-four people have transferred to the department. We have identified a budget of approximately \$3.7 million in this financial year of departmental funding, including section 31 revenue, and about \$88.9 million of administered funding for a range of programs associated with water functions and the transfer of functions. These are not detailed in the additional estimates booklets because it was too late for that publication.

**Senator O'BRIEN**—When was the publication commissioned by the department for printing?

**Mr Bridge**—It would have been about 5 or 6 February.

**Senator O'BRIEN**—When did the administrative order change? When was the department informed of the government's intention to change the administrative orders?

**Mr Bridge**—Going from memory—

**Mr Quinlivan**—Can we come back to you with the precise dates? They would be informed guesses at the moment. We will check and give you the precise dates through the morning, if that is okay.

**Senator O'BRIEN**—Okay. I am interested to know when the work was completed on the contents of the PAES prior to printing. Do you know that?

**Dr Samson**—As Mr Quinlivan said, we would be making a best guess if we answered you now. We will get those details for you.

**Senator O'BRIEN**—Was there any advance warning to the department that water was going to environment?

**Mr Quinlivan**—Do you mean in advance of the Prime Minister's announcement?

**Senator O'BRIEN**—Yes.

**Mr Quinlivan**—No; not to the department.

**Senator O'BRIEN**—Do you know when the minister was informed?

**Mr Quinlivan**—I am not aware whether the minister had any prior information or not.

**Senator O'BRIEN**—Can the department take on notice the question of when the minister was informed, and when the department was informed?

**Mr Quinlivan**—I have answered the question with regard to the department. I can ask that question of the minister.

**Senator O'BRIEN**—Thank you. I will wait for the other information during the morning and perhaps return to that. During budget estimates last year I drew the committee's attention to an item that appeared under 'industry development'. That related to an item on page 29 of the PBS. It said, 'Other decisions yet to be announced—\$10 million for 2006-07.' At the time neither the minister at the table, Senator Abetz, nor officials, were able, or willing, to tell senators what this item related to. In fact, the parliament was being asked to vote to expend \$10 million of public money without a clue as to what the government was proposing to spend this large sum on. I note that the government has now changed its mind and this \$10 million allocation is no longer required; or at least that is how we read page 25 of the PAES. What has changed?

**Dr Samson**—I think what has happened is that the government has announced support for the tobacco industry to the tune of about \$40 million. I believe, though the decision had been taken at the time we appeared before the committee last, that \$10 million was notionally allocated against possible assistance to the tobacco industry.

**Senator O'BRIEN**—So the original purpose of the other decision yet to be announced was assistance to the tobacco industry. Is that what you are saying?

**Dr Samson**—That was the case, although at the time the decision had not been made. Subsequently there were changes to the circumstances of the tobacco industry in Victoria and a higher number was required.

**Senator O'BRIEN**—So the PBS was approving money for a decision that had not been made, and now we are removing that decision because another decision has been made.

**Dr Samson**—The decision certainly had not been announced.

**Senator O'BRIEN**—Sorry, you did say 'made'; that is why I put it in those terms. So the decision had been made but it had not been announced?

**Dr Samson**—That is my understanding.

**Senator O'BRIEN**—When we were dealing with the PBS last May, this item, \$10 million, described as 'other decision yet to be announced', was in fact about a decision which had been taken to allocate \$10 million to assist the tobacco industry or the restructuring or some other activity in the tobacco industry?

**Dr Samson**—I repeat, it certainly had not been announced. I am not personally aware at what point the decision was made. We can check that and verify it in the course of the morning.

**Senator O'BRIEN**—So the \$10 million was about the tobacco industry. You are going to confirm whether a decision had formally been made at the time of the budget hearing where we asked these questions.

**Dr Samson**—Yes.

**Senator O'BRIEN**—You are going to find out when the decision was made.

**Dr Samson**—We will come back to it, if we may, in the Food and Agriculture Division part of the proceedings.

**Senator O'BRIEN**—I am happy for that. The explanation you give for the removal of this amount is that there is a higher amount involved. Where in the PAES will I find that?

**Dr Samson**—It is on the same table on page 25.

**Senator O'BRIEN**—\$40.9 million?

**Dr Samson**—Yes.

**Senator O'BRIEN**—The tobacco adjustment assistance package 2006. So when was that package announced?

**Dr Samson**—If you have got more questions on that particular package, we can see if our colleagues from Food and Agriculture are available or we can defer to that part of the program. The announcement by the minister was on 26 October, 2006.

**Senator O'BRIEN**—We will return to that, I suspect, with Food and Agriculture. On page 17 of the PAES, in table 1.3 under 'Other variations' there is minus \$10 million in the current financial year and minus \$4.1 million in the coming financial year. Is the \$10 million there the one we have just been discussing in tobacco?

**Mr Bridge**—Yes, it is.

**Senator O'BRIEN**—Can you tell me what the \$4.1 million saving for 2007-08 relates to?

**Mr Bridge**—My understanding is it is the same, but I will confirm that for you later this morning.

**Senator O'BRIEN**—Under 'Price adjustments of estimates' there is a series of amounts for 2007-08, 2008-09 and 2009-10. Can you tell me what estimates these price adjustments relate to.

**Mr Bridge**—Unfortunately I do not have that fine detail to hand. Again, I will provide it to you later this morning.

**Senator O'BRIEN**—Under the item 'Reforecast of special appropriation estimates' there are some significant variations listed, ranging from savings of \$6.3 million this year to additional expenditure of \$56.7 million in 2009-10. Can you explain each of the figures listed under this item in table 1.3?

**Mr Bridge**—I do have a listing of the variations there. Would you like me to go through them now or provide them?

**Senator O'BRIEN**—I would appreciate a copy, but if you could go through them initially.

**Mr Bridge**—They are a range of adjustments to do with rephasings from previous years. They are to do with the AAA Industry Partnerships, the Tasmanian Community Forest Agreement, the fishing structural adjustment package, the Australian HomeGrown campaign, the sugar industry restructuring grants and the financial viability. I will provide the individual figures for those to you in a table, should you wish.

**Senator O'BRIEN**—Can the secretariat get a copy of that now so we can have a copy distributed?

**Mr Bridge**—Yes, Senator.

**Senator O'BRIEN**—Thank you. Table 1.5 on page 19 of the PAES: what does the amount \$2.032 million listed under 'Non-operating previous years outputs' relate to?

**Mr Bridge**—That relates to two items: \$450,000 relating to long service leave adjustments under the AQIS special account and \$1.58 million relating to the government's 40 per cent export contribution—the export contribution to matching the revenue for the export fees and charges for AQIS.

**Senator O'BRIEN**—Why has that figure been incurred? The long service leave I am less concerned about, but the \$1.58 million additional government contribution?

**Mr Pahl**—Depending on what the collections are through AQIS, to match the 40 per cent that the government contributes you have got to make an adjustment at some point. That would indicate that the collections have been higher than the original estimate and that the 40 per cent matching has had to be increased by that \$1.5 million or similar that Mr Bridge just mentioned a moment ago.

**Senator O'BRIEN**—So AQIS income has gone up by 1½ times that amount, has it?

**Mr Pahl**—Yes; if that is 40 per cent, 60 per cent—on the maths—is exactly one and a half.

**Senator O'BRIEN**—So about another \$2.25 million in additional collections from industries for services provided by AQIS?

**Mr Pahl**—That is correct.

**Senator O'BRIEN**—In table 1.7 on page 21 of the PAES headed 'Other receipts available to be used', I note that receipts from the sale of goods and services—the first item in that table—are expected to increase by more than 10 per cent over the budget estimates. Is there a more detailed explanation available for this \$25.4 million increase? Have prices gone up by 10 per cent, or are you selling more?

**Mr Bridge**—No, that is just a revision of our estimates based on year to date collections. I can certainly see if we can get more information for you.

**Senator O'BRIEN**—The sales of goods and services is presumably more services than goods, but where would we find a breakdown of that figure?

**Mr Bridge**—Not within the PAES documents. I can provide it for you.

**Senator O'BRIEN**—I would appreciate that. How long will that take?

**Mr Bridge**—We should be able to provide it today.

**Senator O'BRIEN**—I want to ask some questions about Q fever vaccine. Can I ask that here or would you direct me to the appropriate area—it is about the supply of the vaccine.

**Dr Samson**—I think later in the program under PIAPH would be the appropriate spot.

**Senator O'BRIEN**—Under which? I didn't know we had a French singer here!

**Mr Quinlivan**—Product Integrity, Animal and Plant Health.

**Dr Samson**—Mr Mortimer advises me that his division, Food and Agriculture, work with the Department of Health and Ageing on that issue, so you might like to pick that up under Food and Agriculture.

**Senator O'BRIEN**—In this document we have table 1.8. I am trying to relate it back to the question that I asked that you are referring me to. Is this table 1.8 the explanation of the various items of adjustment?

**Mr Bridge**—Yes, it is.

**Senator O'BRIEN**—The items marked with a highlighter are the specific ones that refer in total to the number we were talking about earlier.

**Mr Bridge**—No. The highlighted numbers are just meant to represent the significant variations, for which there are explanations beside them.

**Senator O'BRIEN**—The Australian Meat and Livestock Industry Act payments to the industry marketing body are an extra \$8.6 million. It is an adjustment to the estimated actual industry forecast. Does that mean that it could be further adjusted, depending on actual spending over the financial year?

**Mr Bridge**—Yes, and based on what industry might forecast to us.

**Senator O'BRIEN**—The budget estimate for the exceptional circumstances relief payments has gone to \$214 million. Which particular new measures announced by the government since the budget statement have caused that increase, or is there just a higher rate of take-up than was expected?

**Mr Bridge**—No. The new measures are listed on page 15 and outlined by income support, small business and the other measures listed on that page. This table, table 1.8, identifies the funds which will come from special appropriations.

**Senator O'BRIEN**—I am looking at the table on page 15. There is 'drought assistance' and there is 'drought package 2006'. There are six items. Are the changes in just those six items reflected on page 23 of the PAES in the item 'new measure drought, EC'?

**Dr Samson**—If you could wait for the rural policy and innovation division to appear, where the task force resides, they could probably provide you with the most comprehensive explanation for the movement in the figures relating to exceptional circumstances.

**Senator O'BRIEN**—Okay. There are two items for the reduction in R&D funds for the Grains Research and Development Corporation. Is that simply based on harvest numbers and therefore lesser levies?

**Mr Bridge**—I am not exactly aware of the basis of it, but we have obtained those figures based on industry forecasts.

**Dr Samson**—That sounds like the most likely explanation. We can confirm it when other colleagues come to the table.

**Senator O'BRIEN**—I wanted to find out if there was any change other than that factor built into that number. I do not have precisely the numbers. I would appreciate an answer to that.

**Dr Samson**—We will get an answer for you; yes.

**Senator O'BRIEN**—We will come back to some of those items later.

**Mr Pahl**—Senator O'Brien, you asked a question earlier about when the administrative arrangements orders were changed. They were signed on 30 January.

**Senator O'BRIEN**—Are you going to give us information about when the department knew?

**Mr Pahl**—Certainly.

**Senator O'BRIEN**—Can I ask any other non-forestry managed investment scheme questions?

**Dr Samson**—Certainly. Mr Grant will be able to assist.

**Senator O'BRIEN**—What research has the department undertaken on the number of people employed in and the amount of money being invested in non-forestry managed investment schemes?

**Mr Grant**—I am not aware that we have done any specific research on that.

**Senator O'BRIEN**—Why not?

**Mr Grant**—Partly because there have been other priorities that we have been doing research on and partly because up until recent times that has not been seen to be a high priority issue.

**Senator O'BRIEN**—So does the department have any information on the number of people employed and the amount invested in each state for non-forestry managed investment schemes that relate to agriculture?

**Mr Grant**—I think there is a range of information that is available about MIS schemes in general but because there are a lot of linkages between non-forestry and forestry activities among existing proponents, or the same proponents, it is very difficult to get a split on the exact nature of the employment between the two, and we do not have that information.

**Senator O'BRIEN**—And have not sought it?

**Mr Grant**—And have not sought it specifically, no.

**CHAIR**—It is not hard to get a number on the dollars, though.

**Senator O'BRIEN**—Is that right? Senator Heffernan says it is not hard to get a number on the dollars. Have you made any attempt to get a number on the dollars?

**Mr Grant**—There are numbers on the dollars around, yes—the amounts that have been invested, certainly. But I think you asked about the number of employees, and we do not have that information.

**Senator Abetz**—I think Treasury has made those figures available and I suppose, in general terms, you could try to extrapolate what jobs might come from that. But in relation to how many jobs per state and how many jobs are actually related to it, I dare say if anybody were to undertake the exercise it would be a guesstimate.

**CHAIR**—Certainly the cost to the public purse per job is available, which is a huge subsidy.

**Senator O'BRIEN**—It is interesting that Senator Heffernan knows about this cost to the public purse—

**CHAIR**—You could know that too, Senator O'Brien, if you wanted to.

**Senator O'BRIEN**—and I know that the minister from this department has had things to say about this scheme. Is the department saying it has not provided any advice to the minister on this matter?

**Mr Grant**—No. We have provided general advice to the minister in relation to a series of meetings that he has had with proponents and other parties throughout the consultations, but we have not provided a specific analytical brief, to my knowledge, to the minister on this.

**Senator O'BRIEN**—So how many meetings has the minister had with proponents of non-forestry managed investment schemes—

**Mr Grant**—I could not tell you that.

**Senator O'BRIEN**—in this financial year?

**Senator Abetz**—How many he may or may not have had, and drilling down to that, I do not think is an appropriate avenue of inquiry because the next question then will be: 'Name all the people he has met with. How long were the meetings for? Were they 15 minutes, or was it just a chance meeting in an airport lounge?' This is a policy decision which is still, if we are to believe media reports, in a state of flux and that is the ever-current situation.

**Senator O'BRIEN**—It is certainly important that we know what work has been done in relation to this policy by this department and its minister. I would like to know who the minister has formally met with, as distinct from an occasional crossing in an airport lounge—or some like circumstance—in relation to his consideration of the non-forestry managed investment scheme area. He is on the record as saying he supports the decision of the Treasurer and the Assistant Treasurer to can the scheme.

**CHAIR**—Surely you do too.

**Senator Abetz**—The minister, as minister for agriculture—somebody can advise me over how many years now—has undoubtedly taken a lot of advice. I know personally, from my discussions with him, that he has taken numerous representations from both sides of the argument, as you would expect any minister to do.

**Senator O'BRIEN**—Has this department been involved in consultations with Treasury about the proposed winding up—one could express it in a number of ways—or the change in

the taxation arrangements for non-forestry managed investment schemes? Has the department been involved in consultations with Treasury about that subject this financial year?

**Senator Abetz**—I think we have to be careful. All that has actually been announced is that the Australian Taxation Office—which is an independent statutory authority—has indicated that it is not likely to give favourable product rulings as of 1 July, as it has done in the past.

**Senator O'BRIEN**—No, that is not right. What happened was that Minister Dutton made an announcement as to what this independent body would do in a press release launched about seven o'clock at night one day last week. So it was not Treasury that made the announcement; it was Minister Dutton. I do not know what Treasury did subsequently, but that is how it occurred.

**Senator Abetz**—No. The Australian Taxation Office has indicated what its intentions were. I think it was appropriate for the Australian Taxation Office to give the government some forewarning of its intention, given that it had provided product rulings for a number of years. In anticipation of that, cabinet appears to have considered the matter. If I recall the release, it said words to the effect that the government at that stage was not disposed to intervene in that. Having said that, we now have a situation where the Prime Minister is looking to transitional or other arrangements, but no firm decision has been taken there.

**CHAIR**—I actually struck a taxation officer the other day, who was only a very junior person when it happened under a different administration.

**Senator O'BRIEN**—Where you charged for striking him?

**CHAIR**—It was a thing called flower lands. There were a whole range of other tax minimisation schemes, all of which had 'buyer beware' on the front door.

**Senator STERLE**—When was flower lands?

**CHAIR**—That was before your time; you probably were not even conceived. I well remember the process and the argy-bargy. Everyone was trying to maximise the politics on 'bottom of the harbour'. It was the same sort of stuff. So yes, this is just a normal part of the argy-bargy.

**Senator O'BRIEN**—Can I make a speech as well or can we get on with estimates?

**CHAIR**—Unfortunately you are not the chair—I am.

**Senator O'BRIEN**—That is the problem. The chair is supposed to chair and not make speeches.

**CHAIR**—You have got to add a bit of colour and movement to the day.

**Senator O'BRIEN**—There has been a fair bit of colour and movement and we have a long way to go.

**CHAIR**—You ain't seen nothing yet.

**Senator O'BRIEN**—I am going to persist with asking my questions.

**CHAIR**—That is all right; I will let you.

**Senator O'BRIEN**—Thank you for that. I want to return to Mr Dutton's press release of Tuesday, 6 February. It states:



The Government has decided it is not disposed to introduce a similar taxation arrangement for investments in—

**Senator Abetz**—That is exactly what I said, so I am glad my memory was correct.

**Senator O'BRIEN**—

non-forestry agribusiness MIS.

It continues:

The Government, the ATO and the forestry and non-forestry agribusiness MIS industry have been involved in extensive discussions in recent months over the future tax treatment of investments in such MIS.

**CHAIR**—Haven't they been to see you?

**Senator O'BRIEN**—You will get a chance to ask me questions after the election.

**Senator Abetz**—What is the question?

**Senator O'BRIEN**—I am answering a question asked by the chair. He keeps throwing them across and I have just given him the answer.

**Senator Abetz**—When you are ready to deal with the witnesses wake us up.

**Senator O'BRIEN**—I am happy to deal with the witnesses.

**Senator Abetz**—That was addressed to both the chair and Senator O'Brien.

**CHAIR**—It was said yesterday that if the chair had any brains he would be dangerous, so there you go.

**Senator O'BRIEN**—When did the ATO make their announcement in relation to these matters? Is the department aware?

**Senator Abetz**—Can I suggest that you ask—

**Senator O'BRIEN**—Is the department aware of when they did? I can ask them that, can't I?

**Mr Grant**—I am not aware of that.

**Senator Abetz**—I would assume—and I stand to be corrected—that the ATO would have reported to the minister to whom they have parliamentary oversight or responsibility—namely, the Treasurer—and that would then have been fed into the government system. Agriculture would have found out about it in due course, I would have thought, through that avenue.

**Senator O'BRIEN**—Has the department of agriculture had consultations with industry participants about the impact of managed investment schemes on the agriculture sector?

**Mr Grant**—We have not had a specific consultation with industry on those matters. The consultation has tended to be directly focused on ministers and parliamentarians.

**Senator O'BRIEN**—Does it therefore follow that the department has no general bank of information about these schemes—that they are held within Treasury?

**Mr Grant**—As we discussed, the information is mostly about the financial investment in those schemes and that has been the purview of the Treasury. Treasury have had policy responsibility for running with this issue for the last year or so.

**Senator O'BRIEN**—So the department is not aware of the industry sectors in which these managed investment schemes are operating in the agriculture sector?

**Mr Grant**—Yes, we do have some knowledge of that because of our dealings with those sectors on an ongoing basis, of course.

**Senator O'BRIEN**—So which sectors has the department had dealings with where managed investment schemes make a significant contribution?

**Mr Grant**—I think the horticulture sector. There is some discussion that there are investment schemes in the dairy sector and even in the beef sector. Across that range of agricultural sectors a growing number of MIS schemes are operating.

**Senator O'BRIEN**—Does the department have any idea of how significant those investments are in each of those sectors?

**Mr Grant**—Not apart from the figures that are available through the Treasury.

**Senator Abetz**—Whilst I can understand why Senator O'Brien is asking the questions, I think we have to be careful with terms such as 'significant'. I understand, for example, that in the wine sector eight per cent is MIS. Some people are arguing that that is responsible for the wine glut and that it is very significant; other people would say that eight per cent would not make much difference. When you use the term 'significant' we have to be careful that we do not imply that it might be more than 50 per cent.

**Senator O'BRIEN**—I certainly would not have taken it to mean that—although it could. A much lesser proportion than 50 per cent would be significant, as indeed eight per cent would be significant, I would have thought, in the wine sector. It may be one of the factors that you mentioned is a factor in that sector. It may be that in olive production it is going to be much greater.

**Senator Abetz**—Yes, it is going to vary.

**Senator O'BRIEN**—In the horticulture sector there would be various strands of production in which MIS was more important than in others—like the production of citrus, for example.

**Mr Grant**—Macadamias, walnuts and avocados are the traditional areas that MIS have been involved in.

**CHAIR**—But are they viable if it is all dependent on a—

**Senator O'BRIEN**—No, I want to follow this up. You can jump in in a minute.

**CHAIR**—So do I.

**Senator O'BRIEN**—Does the department have any information on the effect that MIS have had on those areas where production is significant? In other words, have they been responsible for growth from very small numbers to very large amounts of production in those areas?

**Mr Grant**—As far as I am aware, we have not run a specific survey to determine whether the schemes have had a positive or negative value on farm values, on the gross amount of output and the values that society in community areas would benefit from. We have not done that research. Of course, there is a lot of anecdotal information floating around the press that is both pro and con. Some say that it has been really good for communities, others say that it has forced up land values and has other detriments. We have not undertaken analysis to assess the pros and cons of MIS in non-forestry agriculture.

**CHAIR**—Really, this is leading to the question that Senator O'Brien would like to ask you: should we have a Senate inquiry to work all this out?

**Senator O'BRIEN**—Actually, I was not going to ask that question at all. I am happy if you want to ask the department that question, but the estimates process—

**CHAIR**—No, I will ask them.

**Senator Abetz**—It will not be for the department to answer that. Ultimately that is a matter for the Senate as a whole.

**Senator O'BRIEN**—That is right. That is exactly what I told the media this morning.

**Senator Abetz**—I always thought you were a bit of a media junkie.

**Senator O'BRIEN**—Not as much as you, Minister. Really, what I did want to know—Senator Heffernan wrongly predicted the question I was about to ask—was this: does it therefore follow that you have not given the minister any advice on the impact of managed investment schemes on those sectors as you have not done any research on the matter?

**Mr Grant**—We have not given the minister formal advice in those areas—that is correct, Senator.

**Senator Abetz**—The agriculture investment managers association have made strong representations. They are the peak body for the various MIS groups. They have made representations and—

**Senator O'BRIEN**—To the minister?

**Senator Abetz**—Yes, I think to all parliamentarians.

**Senator O'BRIEN**—What was the name of the organisation again?

**Senator Abetz**—I think it is the agriculture investment managers association.

**CHAIR**—Just google lurk pty ltd.

**Senator O'BRIEN**—I might find something you do not want me to find, Senator.

**CHAIR**—There is nothing you will find that I do not want you to find, old mate.

**Senator O'BRIEN**—I do not know whether that is the case, but I am not going to do it. I do not have time today. Let's us get on with it. Has the department talked to Boundary Bend about the 20 jobs they have lost in Lara as a direct consequence of the announcement?

**CHAIR**—Could I add a further arm to that question? How many of those jobs relate to the fact that water is not available and they cannot make the planting—as opposed to the announcement of the MIS position? I think you will find there is an answer to that.

**Senator O'BRIEN**—The question was: has the department talked to Boundary Bend?

**Mr Grant**—I am not aware the department has spoken to Boundary Bend.

**CHAIR**—Hoodoo voodoo.

**Senator O'BRIEN**—Has the department spoken to any specific entity which claims to have been affected by the announcement?

**Mr Grant**—No, I am not aware that we have.

**Senator Abetz**—It would be fair to say that in the circumstances those that would say that they are going to be impacted would make representations to their elected representatives and, clearly, they have—to your party, to my party, to Senator Nash's party and I am sure to the Greens and the Democrats as well. In circumstances such as this, it would be normal, I would have thought, for people to make the representations to their elected representatives rather than to departmental officials.

**Senator O'BRIEN**—Given that the minister is the minister for agriculture and there are people claiming this will have an adverse impact on a section of agriculture, can I suggest that the minister would demonstrate an interest by asking his department to investigate claims of job losses—claims that it has been caused by a factor other than MIS, as suggested by the chair—and report to him, but apparently that is not happening. That is what is revealed by the answers that we are receiving—that the minister is not interested.

**Senator Abetz**—That is clearly not the case. If the minister were not interested, he would not even be engaging in the debate. Clearly he has. It is fully accepted that, in a controversial area such as this, that there are two sides to the debate. Clearly they have been given expression in the *Sunraysia Daily*. Yesterday or the day before, there was a front-page article critical of the government's decision. But then on page 3 there was an article representing some farmers who were supportive of the decision. These are always on-balance decisions.

**Senator O'BRIEN**—I am happy to discuss the chair's proposition that anyone involved in these schemes is a lurk merchant. Does that mean that the proponents of the garlic production venture in northern Tasmania are lurk merchants?

**CHAIR**—That refers to where you have a capital base in agricultural rural Australia, part of which is driven by people who can make a profit from a tax loss situation which is subsidised by the taxpayers, with no regard to supply and demand or the market, competing in the same marketplace as people who are out to make a profit from production with full regard to market and supply and demand. Obviously that will cause a distortion in the capital market. That is why it has been banned in the US, Europe and everywhere else on the planet.

**Senator O'BRIEN**—I do not know that that is true, but I am happy to have the debate with you next week in the Senate, Mr Chair.

**Senator Abetz**—Can I suggest, with great respect, that this is the time for questioning of the department, not to have a debate.

**CHAIR**—I apologise for my outburst. Minister, while we are on that line, have there been approaches from the forest contractors in the circumstances where they have claimed they are becoming unviable? I have certainly had plenty of approaches from the Tasmanians.

**Senator Abetz**—I am not sure about that. We are getting back to MIS, are we?

**CHAIR**—We are talking about government decisions that have allegedly caused people to lose jobs.

**Senator Abetz**—No government decision in relation to Tasmanian forest contractors has caused a loss of jobs.

**CHAIR**—We will not open up that front.

**Senator Abetz**—Unfortunately, there has been a market downturn which has meant that less has been able to be exported in the short term. Therefore the contractors, the companies that export and right down the supply chains, are feeling the pinch at the moment.

**Senator O'BRIEN**—I take it from your answers that the department has not made itself aware of the initiatives—I will rephrase that. Given that there has been significant publicity in various newspapers—regional newspapers in particular—about positive impacts of managed investment schemes for investments in agriculture, does the department keep any record of media clippings which would detail those claims of positive impact?

**Mr Grant**—We certainly monitor the media. We would have access to all previous media that talks about the positive and negative impacts of MIS.

**Senator O'BRIEN**—Is that kept within the department in a discrete file in relation to MIS, or do you have it in a general media file?

**Mr Grant**—No. At the moment it is probably in a general media file.

**Senator O'BRIEN**—Do you supply the minister with those clippings?

**Mr Grant**—Yes, we do.

**Senator O'BRIEN**—Who else is supplied with those clippings?

**Mr Grant**—Most of the department, through our normal daily circulation of media clips.

**Senator O'BRIEN**—Is that electronic or hard copy?

**Mr Grant**—Mostly electronic, but there are some hard-copy versions that go out.

**CHAIR**—Would that include the analysis of the cost to the public purse which presently is projected in two years to be \$1.3 billion and vertically rising? Do you also include that monitoring?

**Mr Grant**—If it comes through the media, it will be included in that circulation.

**Senator O'BRIEN**—Would that mean, if there is that amount of investment in the rural economies, we can expect that amount of investment will be removed entirely?

**Mr Grant**—I could not answer that. I am not running an MIS scheme, so I really do not know how those companies will adjust to that.

**Senator Abetz**—That is just speculative, in general terms.

**CHAIR**—That was just the cost to the public purse.

**Senator Abetz**—Some other avenue for investment might emerge.

**CHAIR**—Or as Southern Plantation said, 'We'll go back to trees.'

**Senator O'BRIEN**—Is that right—the withdrawal of these schemes will mean that there is a rise in investments in forestry?

**CHAIR**—What it means is that there is a whole lot of cowboys out there.

**Senator O'BRIEN**—The chair clearly does not support management investment schemes in forestry either.

**CHAIR**—You do not have a position on that.

**Senator O'BRIEN**—You will get to ask me about my position after the next election, Bill.

**Mr Quinlivan**—I think the only answer we can offer is that people will have to make their own commercial decisions about the new arrangements, and it is probably too soon to tell how people will respond.

**Senator Abetz**—And the degree of investment generally in managed investment schemes may well differ this financial year, given our very—

**CHAIR**—Suspect season.

**Senator Abetz**—supportive approach to superannuation generally that was announced with the last budget. Superannuation may become a more attractive vehicle for people. We have to wait and see what the market dictates.

**Senator O'BRIEN**—The chairman will probably reckon they are lurk merchants. We will see.

**CHAIR**—Most definitely not. There is a lot of good superannuation money going into agriculture on the same basis as for every other person who farms for a profit. There is a huge build-up in superannuation investment in rural Australia coming.

**Senator O'BRIEN**—Does the department have any information about the level of superannuation fund investment in rural economy?

**Mr Grant**—No. Not that I am aware of.

**Senator O'BRIEN**—Do you collect all the media clippings on matters relating to the rural economy?

**Mr Grant**—Yes. We do.

**Senator O'BRIEN**—So if the department is not aware, then there probably are not any media clippings about that. Is that right?

**Mr Grant**—We do have a range of meetings with the industry across the board. Where they would be reported as superannuation investments contributing to agricultural growth and prosperity, that would be reported to us, and we would take notice of that, of course.

**Mr Quinlivan**—Senator, these questions that you have asked about research and knowledge within the department, to the best of the knowledge of the people at this table, Mr Grant's answers are all correct, but I think we should just confirm them with ABARE. We will do that through the morning just to check whether ABARE have not been doing some more work in this area, and it is quite possible they have been, that we are not aware of. We will confirm that.

**Senator O'BRIEN**—If you are not aware, the minister would not be aware of it. Is that right?

**Mr Quinlivan**—Not necessarily. ABARE often asked for short pieces of advice that are provided. They will not necessarily all come to our attention.

**Senator O'BRIEN**—I want to make sure that we do not miss out on asking questions like that to ABARE. When are they due before us?

**Senator Abetz**—Hopefully, before long.

**CHAIR**—After food and agriculture. If it would assist you, I can supply you with the superannuation figures, Senator O'Brien.

**Senator O'BRIEN**—I am obviously interested to know what the department has done in relation to those, if they are so important, Mr Chairman. That is the reason I asked the question. Can I take it that the department is not aware of proposed investments to be made by managed investment schemes in agriculture in 2007?

**Mr Grant**—Not the specific details of the prospectuses. No. Nor are we aware of general developments in other agricultural activities of a specific nature. If there are companies that are intending to expand their operations in a significant way, we are not specifically aware of that either, to be honest.

**Senator O'BRIEN**—There are, no doubt, cases where you would not be aware. Given that I am aware there has been a significant amount of reporting of some of these major investments, both negative and positive, I am interested to know what interest the department has taken in these matters and what direction they have had from the minister in relation to taking an interest in them. Can you help me with that information?

**Mr Quinlivan**—Again, I think the general principle is that ABARE make commodity forecasts. They collect information which allows them to make those forecasts. They are macro forecasts rather than to do with very specific sectors. Then, of course, they have a survey program that is used to collect historical data which in turn is used for forecasting. We have quite detailed knowledge of that kind. ABARE will be able to talk to you about that later on. But we do not collect the company specific or the very geographically fine grain data that you are seeking.

**CHAIR**—I want to put on the record that I do not have an interest in an MIS and I think everyone else in this building should do the same thing—declare their financial interest or lack of financial interest.

**Senator O'BRIEN**—I am happy to declare that I have no direct investments, although I do not know what funds are invested on my behalf in superannuation.

**Senator Abetz**—That is one of the reasons for the register of financial interests and there is no need to declare on an issue-by-issue basis any interests. The Senate has ruled on this now. It is on a register of public interest and that is for people to have a look at, therefore obviating the need for specific disclosures. Regular disclosures are made every six months.

**CHAIR**—Senator Sterle has declared his hand, and I think everyone else should.

**Senator O'BRIEN**—Another debate that is more appropriate for the Senate.

**Senator Abetz**—It is not relevant to this hearing.

**Senator O'BRIEN**—We can get on with that. Minister, when did the government announce it was reviewing its policy in relation to management investment schemes? It was last year.

**Senator Abetz**—I am not sure exactly what the timetable was, but for managed investment schemes, generally, there was an announcement, if I recall, on 9 May—if that was budget night—with a statement by Minister Dutton indicating what the government was disposed to do in relation to the forestry sector. I do not have the statement in front of me, but I think there may have been a suggestion that they look at agricultural MIS.

**Mr Quinlivan**—There would be further consultations.

**Senator Abetz**—Yes. That there would be further consultation. Then just before Christmas on 21 December there was a joint statement by me and the Assistant Treasurer in relation to forestry MIS, with a regime. At that time there was also a statement in that release, if I recall, dealing with the issue of non-forestry MIS.

**Senator O'BRIEN**—For all of this period, I take it that the minister for agriculture did not request the corporate policy division to give specific advice in relation to this matter, and collect information.

**Senator Abetz**—What the minister did do was avail himself of all sorts of representations from those supportive of MIS and those not supportive of MIS. No matter where you line up on the argument, no matter what you think of the government's decision, I think it would be fair to say that those who were in the hot seat, be it the Treasurer, the Assistant Treasurer or the minister for agriculture made themselves aware of the issues at stake.

**CHAIR**—A very robust and healthy contest of ideas.

**Mr Grant**—The whole MIS debate started with a review of plantation tax arrangements and certainly the department was heavily involved in that review and ran the consultation process and did report to ministers on the outcome of that process. That was the start of the whole MIS debate.

**Senator Abetz**—In fact, it started as a result of a sunset clause that was put into the legislation, which I understand was foisted upon us by the Labour Party in the Senate. So the situation we now find ourselves in now is that we had to revisit it courtesy of the Labour Party requiring that sunset clause. We can go down that track but the reality is that is what has happened. There has been a contest of ideas and I think it would be fair to say that basically all the facts are well and truly on the table.

**Senator O'BRIEN**—When will that sunset clause run out?

**Senator Abetz**—30 June 2008. That is what happens; that is why you get split juries from time to time; that is why the electorate votes 52 to 48 at the last election. Exactly the same facts and policies were put before the Australian people and they decided one way. At the moment, exactly the same views are being put before the Australian people and Mr Rudd is doing very well in the current opinion polls. People make different decisions when confronted with the same information and that is life.



**CHAIR**—That is a political each-way bet, when you do not have a view!

**Senator O'BRIEN**—Is that right?

**CHAIR**—It certainly is.

**Senator O'BRIEN**—I also take it that the department has not made any specific arrangements, nor has it in relation to visiting specific managed investment projects such as the Great Southern organic olives project in Brookton, Western Australia, the Oak Valley truffle project in Manjimup, Western Australia, the Macquarie almond project in Robinvale or the Elliston, South Australia, abalone project; that has not been the work that this department has done?

**Mr Grant**—We have not had a detailed program of visiting MIS companies but that is not to say that officers from around the department who travel extensively in looking at regional issues might not have visited some of those companies as part of those visits. I do not have that information.

**Senator O'BRIEN**—Could you advise us on notice what activities the department has had in relation to these particular projects, if any?

**Mr Grant**—Of course.

**Senator Abetz**—Well, I think you have been told that there have not been specific visits on the basis of a particular plantation being an MIS plantation or an MIS project. However, that does not mean that MIS projects have not been visited for some other purpose. To ask the department to go through all departmental visits to find out whether a visit happened to be on an MIS project is a huge drawdown on resources. I am not sure it would necessarily be value for taxpayers' dollars or that any answer that might arise would assist you, so I ask you to reconsider.

**Senator O'BRIEN**—Let me put it this way. If the answer was any intersection with these schemes has been purely coincidental activities of an officer rather than a specific visit on the understanding that this was a managed investment scheme project, I am happy not to persist if that is what you are saying.

**Senator Abetz**—All right and I think the evidence is—

**Senator O'BRIEN**—I am not asking did you drive past any one. I am not asking did you pull into the driveway.

**CHAIR**—They are not actually signposted, 'This is an MIS garlic farm.'

**Senator Abetz**—Mr Grant, I think, has indicated, no MIS tour—to use that term—has been undertaken.

**Mr Grant**—That is my understanding.

**Senator Abetz**—Yes, so no MIS tour has been undertaken and I understand that to be; your specific question but that does not mean they have not visited MIS operations.

**CHAIR**—And not necessarily would you know whether it was an MIS operation or not.

**Senator Abetz**—Nor would you know if you visited any other agricultural operation whether it was under a company, a family trust, a partnership or a single operation. People sometimes have signs, 'Heffernan and Sons'.

**CHAIR**—Or 'Lurk Pty Ltd'.

**Senator Abetz**—I think there is one sign like that out at Junee.

**CHAIR**—There is—visit the Lurk farm. There is not much there at the present time.

**Mr Quinlivan**—That is correct. It is also correct with our research programs that when people doing farm surveys visit properties and collect information about their activities for ABARE, as I understand it there are no questions asked about whether the financing is through an MIS or some other financing arrangement. We have not made distinctions in that work between MIS and other—

**CHAIR**—That is patently obvious in my district, where a superannuation fund has a large operation—they have nine properties spread over a region. They do not have a sign out saying this is a superannuation farm or an MIS farm. It is just a farm. In fact, they are the best farmers in the district probably with their leading-edge technology.

**Senator O'BRIEN**—That is another question that we might explore, but at the moment we are exploring the managed investment scheme arrangements. The information we have received can be summarised this way: the department has not had a particular project to investigate managed investment schemes in agriculture for the purposes of its knowledge or the advice to the minister.

**Mr Grant**—Excepting the suggestion of Mr Quinlivan that we just ask ABARE whether they have done any research.

**Senator O'BRIEN**—Subject to what ABARE has to say.

**Mr Grant**—Yes, that is correct.

**Mr Quinlivan**—Perhaps I can characterise a little bit differently. We have detailed knowledge and engagement in the forestry related work. In the non-forestry area, our involvement has been ad hoc. We would, for instance, have provided briefs for meetings that both ministers in the portfolio and the parliamentary secretary have had with firms that may have been MIS firms, in which case we would have provided information about those firms and the sector in which operate, but it is very much on an ad hoc basis, we do not have any systematic data collections.

**CHAIR**—Is there a running capital apportionment between forestry and non-forestry MIS? Is there a public document that sets out?

**Mr Quinlivan**—You would have to ask the Treasury that question. I think the numbers are reasonable well known, but I do not how reliable they are, the ones that—

**CHAIR**—I have them in my head, but I do not know whether they are out there or not.

**Mr Quinlivan**—Me too.

**Senator Abetz**—I think they are because all the MIS companies have to make a disclosure to ASIC each year to indicating how much they have gained in funds et cetera.

**CHAIR**—It is certainly a big shift to agricultural MIS.

**Senator Abetz**—I think all that is on the public record. However many there are, they are all ASIC registered and on the public record. I have just been advised that Industry Edge and a few other bodies, in fact, analyse all the documents and then supply that information into the marketplace in an aggregated form.

**Senator O'BRIEN**—Is that available to subscribers or generally?

**Senator Abetz**—I would imagine so. I am not sure how Industry Edge and all the others work.

**Senator O'BRIEN**—Are the departments subscribers to things like Industry Edge?

**Mr Quinlivan**—I don't think so. I think their principal clients would be financial advisers.

**CHAIR**—The fee seekers.

**Senator O'BRIEN**—Is that true in the forestry section—you do not subscribe to any of these groups like Industry Edge to get the market inside knowledge on managed investment schemes in the forestry sector?

**Mr Quinlivan**—Not to my knowledge, but when the forestry people come to the table later on they can answer that. We certainly have information about the sector as a whole, but the kind of analysis we are talking about tends to be analysis of individual projects and their relative merits compared to other projects and investment products. We are less interested in that, obviously.

**CHAIR**—It would be fair to say there is a huge shift to agricultural MIS?

**Mr Quinlivan**—That is my understanding.

**CHAIR**—I have the figures. I am not going to quote them in case I get them wrong.

**Senator O'BRIEN**—Over what period? You just agreed with the proposition that there has been a huge shift.

**Mr Quinlivan**—In recent times, over the last couple of years—I think over the last three or four years. The expectation was that that shift would continue.

**CHAIR**—That is the advice I am getting from financial planners too.

**Senator O'BRIEN**—Do you have any understanding or explanation for that change?

**Senator Abetz**—I do not think the department can comment on why people are making investment decisions. Clearly, there is a tax deferral for those investing. There is also potentially a profit to be made at the end when they pull out the garlic or pick the almonds or walnuts. What motivates each individual investor is not something I or others can comment on—other than, it would be fair to say in the generic, that people find it undoubtedly an attractive investment vehicle, for whatever purpose, and that is why they poke their money into it. I do not think we can go any further than that.

**Mr Grant**—I think anecdotally there is some suggestion in the media that people switch from forestry to non-forestry because they see it as more environmentally attractive, for example, more socially attractive. There is a range of investment decisions.

**Senator O'BRIEN**—It is the fault of the Greens.

**CHAIR**—The driver there is the promoter, as much as the investor.

**Mr Grant**—Of course.

**CHAIR**—Some of these people who are full up in that forest situation have moved into agriculture—and the best of luck to everyone.

**Mr Grant**—They are promoting a product and they are getting subscribers.

**Senator Abetz**—If what the chair is saying is right, it may well be that the forestry sector is now a relatively mature market after having increased substantially. People vary as to their reasons for investing. I think it is speculative. Whilst I am sure we all think we are experts, at the end of the day, it is individual—

**Senator O'BRIEN**—Far be it for me to say I am an expert on this.

**Senator Abetz**—It is individuals making individual investment decisions.

**CHAIR**—It is indeed. After all, an expert is a spurt under pressure—a drip under pressure.

**Senator Abetz**—No, X is the unknown quantity. An expert is a drip under pressure.

**Senator O'BRIEN**—Yes. I think we might raise some of these questions with ABARE when we reach them. I did want to raise the issue of the claim regarding defective administration by Marnic Pty Ltd.

**Senator Abetz**—The worms.

**Senator O'BRIEN**—Marine worms to be precise. As I recall it, Mr Dalton reviewed the documentation provided by both Biosecurity Australia and AQIS and that material was the basis on which you formed the view that he should proceed to stage 2 and assess the extent of the damage to Marnic as a result of the issuing of a flawed permit. Am I correct in saying that some of that documentation was provided by Marnic?

**Mr Grant**—As we have discussed before, Senator, we have had Marnic's initial application and a series of correspondence with Marnic over the last nearly two years. We have not yet received the documentation from Marnic that sets out their costs and estimated losses as a result of the defective administration. We had correspondence with Marnic as recently as 27 January when they said they were preparing that documentation and expected it to be with us within two to three weeks, but as yet it has not come.

**Senator O'BRIEN**—Can you remind me whether Mr Dalton actually tested any of the material given to him by the two agencies?

**Mr Grant**—What do you mean by 'tested'?

**Senator O'BRIEN**—Had a look at it or made an assessment of it.

**Mr Grant**—Yes, he did, because he came to the conclusion that there had been defective administration. That decision was based on the information provided by Marnic and on evidence produced by Biosecurity Australia and AQIS.

**Senator O'BRIEN**—But as part of stage 2, will he review the Biosecurity Australia and AQIS documentation?

**Mr Grant**—If he needs to; of course.

**Senator O'BRIEN**—As part of the second stage of the process, to determine the extent of damages, I take it he may therefore rely on material from these agencies and material from Marnic. How will Mr Dalton test the veracity of both sets of material—that is, from the agencies and from Marnic?

**Mr Grant**—Mr Dalton has to come to a judgement based on the material he has as to the quantum for defective administration. It is a matter he has to come to a judgement on.

**Senator O'BRIEN**—He has to form a judgement that the material he has received from the agencies and from Marnic is accurate.

**Mr Grant**—That is correct. He can go back to the agencies and back to Marnic with queries and questions asking for more information and clarification. That is part of the normal process of going through that investigation.

**Senator O'BRIEN**—What means has he to test the accuracy of material provided by the agencies? How would he go about that?

**Mr Grant**—Exactly the same as he would with Marnic. He would contact the agencies, ask them questions about the material provided, clarify any misunderstandings that he might have and ask them to provide more information or substantiate what he has.

**Senator O'BRIEN**—Will he be documenting the process he is following?

**Mr Grant**—I suspect so. That is in the hands of Mr Dalton, but I suspect he would.

**Senator O'BRIEN**—Will Mr Dalton interview any officers of the two agencies as part of the stage 2 assessment process?

**Mr Grant**—That depends on the information he gets from Marnic and the sorts of investigations he needs to undertake.

**Senator O'BRIEN**—Given that there are clear gaps in the documentation associated with this matter, it is inevitable, isn't it, that he is going to have to rely on information from Marnic that reflects documentation supplied to the agencies that they no longer have?

**Mr Grant**—I am not aware that there are clear gaps in the documentation provided. I am not close enough to the investigation to make that assumption.

**Senator O'BRIEN**—I had thought that in previous hearings we had determined that there were a variety of permits of which the agencies had no record, which Marnic had. You are not aware of that?

**Mr Grant**—Yes, through the Senate process. I am not sure where the substantiation of those claims has got to. That is a matter that Mr Dalton will have to pursue.

**Proceedings suspended from 10.29 am to 10.47 am**

**Mr Pahl**—We have some information for Senator O'Brien from questions earlier in the proceeding. Senator O'Brien, you asked about the grains levy and why there had been a decrease in the estimate. As Dr Samson said at the time, we have decreased that estimate on the basis of advice from industry. It is due primarily to the unfavourable seasonal conditions,

so they are expecting yields to be down. I will ask Mr Bridge to just deal with that sale of goods and services matter that you raised as well.

**Mr Bridge**—In reference to table 1.7, the increased sale of goods and services item that you wanted further information on, the main elements of that are \$7.3 million estimated increase in revenue for AQIS for import clearances; \$15 million revised revenue estimates for the Bureau of Rural Sciences for additional contracted services; and, \$0.8 million for increased revenue to ABARE for additional contracted services. They are the main components of that. That is about \$23.1 million. The rest are smaller amounts.

**Senator O'BRIEN**—Was it a series of contracts for BRS or one big one?

**Mr Bridge**—No, it is a number of contracts.

**Senator O'BRIEN**—Thank you for that. We are ready for the Wheat Export Authority.

[10.49 am]

#### **Wheat Export Authority**

**CHAIR**—Welcome, gentlemen. In my own head, I have not been able to work out how the Wheat Export Authority works out whether a sale through the Geneva desk advantages or disadvantages the pool. Would someone like to explain that?

**Mr Besley**—Mr Chairman, we would certainly do that and I think we have had a go at that before but could I make a couple of opening points to begin with.

**CHAIR**—Yes, most definitely.

**Mr Besley**—Essentially, they relate to a finding of the Cole commission and comments made during the debate when the bill to amend the Wheat Marketing Act was before the parliament in December last year. One of Commissioner Cole's findings was that the role of the WEA might include an obligation to monitor performance of proper standards of the commercial conduct by AWB(I) and, through it, AWB. The WEA does not agree that under current legislation that is a role which it has or has ever had. The WEA's role is set out in the Wheat Marketing Act 1989. Section 5 of the act says that the Wheat Export Authority controls the export of wheat from Australia. In fact, this power is limited by section 57(1)(a) of the act which provides that the WEA does not control the export of wheat by designated company B which is AWB(I). Thus the only control exercise by the WEA is over exports by non-AWB(I) exporters which accounts for only between one and four per cent of wheat exports in any year. The WEA is however required to monitor AWB(I)'s performance in relation to the export of wheat and to examine and report on the benefits to growers. The former Minister for Agriculture, Fisheries and Forestry, Mr Warren Truss, clarified the role of the WEA when he spoke at the Grains Trans Summit in 2002 when he spelt out what we could do and what we could not do. He said, and I quote—

I want to emphasise that one of the authority's primary functions specified in the legislation is to monitor and review AWB(I)'s export performance and use of the single desk. I must stress this point: the authority does not have a mandate to monitor or oversee the activities of the parent company, AWB and its functions certainly do not extend to overseeing the financial and marketing operations of either AWB Ltd or AWB(I), that responsibility lies solely with the directors of the two companies most of

whom are elected by growers through their A class shareholdings and the directors must account to their shareholders for the performance of their company.

That was the end of what he said, so I go on—

Ensuring that there are proper standards of commercial conduct is properly a matter for directors of AWB(I) and AWB Ltd; it is not for the WEA to shadow those directors' responsibilities. The Cole Commission's finding could well be taken to reflect a view of what the WEA's role should be and not what it is. On a number of occasions I have said that the legislation governing the role and responsibilities of the WEA should be clearer than it is. Accordingly, the WEA strongly supports Commissioner Cole's recommendation that there be a review of the powers, functions and responsibilities of the body charged with controlling and monitoring any Australian monopoly wheat exporter.

**CHAIR**—Hear, hear!

**Mr Besley**—If I turn now to the debate last December—

**Senator O'BRIEN**—You did not vote for my amendment in the Senate in 2003, Senator!

**Mr Besley**—On 6 December, Senator O'Brien said:

The incompetence of the organisation, as it is currently staffed and structured, was highlighted recently when it was revealed that it went through 2005 using the provisions of an out-of-date service agreement as the basis for monitoring AWB.

The fact is that the current services agreement negotiated between AWB Ltd and AWB(I) in 2004 was not sent to the WEA at that time, as it should have been. It was not until 2006 when the Grains Council, having heard rumours of the new services agreement, asked the WEA to check if this was so. WEA did this and then reported to the minister and the Grains Council. The WEA issued its press statement on this on 29 August 2006.

The most significant change in the new agreement concerned a break fee payable by AWB(I) to AWB Ltd, if the arrangement between the two organisations was terminated. All other parts of the agreement between the two organisations remain essentially the same, and as the arrangement between the two was not terminated, the fact that AWB(I) had not informed the WEA of the changed agreement, as it should have done, did not affect our monitoring role.

Senator O'Brien also said:

It is important that the operation of the Wheat Export Authority be thoroughly reviewed as part of any process leading to improved arrangements for wheat marketing. This is the essence of one of the Cole Commission's recommendations, which the WEA strongly supports.

**CHAIR**—Hear, hear!

**Senator O'BRIEN**—Can we have a copy of that statement, please?

**Mr Besley**—You could.

**CHAIR**—That will be excellent. Thank you very much, Mr Besley. That certainly straightens a few issues out for poor old WEA.

**Mr Besley**—I thought it was important to make a couple of comments, because there are some issues around which need clarification, and I think I have made that point before.

**CHAIR**—Mr Besley, you did just say that you do not have any overview of AWB Ltd. Given that the Geneva desk is AWB Ltd, what is the mechanism for Australian wheat growers

to determine whether it is in the best interests of the shareholders or the growers when, as the Cole inquiry demonstrated, there was a default in the delivery from Russia to Iraq, which was allegedly picked up by the Geneva desk from the Argentine to Iraq, instead of Australia to Iraq. How do we know that Australian wheat growers did not get duded? Are you not the mechanism to overview that?

**Mr Besley**—We are aware of, and do take note of, the business arrangement between Geneva and AWB(I). As I have said before, and Glen Taylor has said once before, the AWB(I) has the power of veto over any sales which Geneva may make. Geneva sells not only Australian wheat, but wheat of other origin.

**CHAIR**—I appreciate that. There is an argument that if you were short in a market you could sell it through the Geneva desk, the profit of which, as I understand it—and I stand to be corrected—goes to the shareholders and not the growers.

**Mr Besley**—Sorry, I did not catch that.

**CHAIR**—The profit from a Geneva transaction goes to the shareholders of AWB Ltd, not the benefit of the growers in the pool.

**Mr Besley**—I think that is correct, yes.

**CHAIR**—It is one of the great unknowns out there. I have not struck a grower who could tell me what a most recently retired pool actually returned. I have not found a person who can tell me that. We do not know, and there is no mechanism for us to know, what impact the Geneva desk and associated activity for the shareholders has on the pool.

**Mr Besley**—We do look at the sales that AWB Geneva makes, and there are other offices, of course. They have just opened one in England.

**CHAIR**—But you are not obliged to figure that because it is AWB Ltd.

**Mr Besley**—Only to the extent that it could affect the operation of the pool.

**CHAIR**—That was my first question. How the hell do you make that determination?

**Mr Besley**—Only by getting information from AWB(I).

**CHAIR**—Would it be possible for you to give to the committee an exercise in that? Or would that be some sort of commercial in-confidence issue?

**Mr Besley**—I think we could put something down theoretically. We have some statistics on how much wheat AWB Geneva has sold and of what origin over the years. Since it started operating I think there have only been two occasions on which AWB(I) has vetoed a sale in the interests of the pool. It has occasionally sold Australian wheat into situations where the credit risk was too high for AWB(I) to take on. That was the explanation given to us. It has also sold wheat of other origin to retain a customer when there was not enough Australian wheat to sell to that customer. We could give you a sort of theoretical picture of the way in which AWB Geneva operates without necessarily giving confidential information.

**CHAIR**—We all know that until recently the directors all drank and slept in the one room, as it were, and had joint board meetings—according to the evidence at the time.

**Senator O'BRIEN**—You might be exaggerating the evidence.



**CHAIR**—You have to add a bit of colour. If the credit risk is too great for the pool in a market, and somehow you determine that, is the ASIC obligation of the directors then under threat if they, instead of the growers, take on that risk?

**Mr Besley**—I suppose it is.

**CHAIR**—So it is a conundrum. Thank you.

**Senator O'BRIEN**—My recollection was that your appointment was to the end of 2006. Was there an announcement that I missed in relation to the extension of that appointment?

**Mr Besley**—I do not think it was important enough for there to be an announcement, Senator, but I have another letter giving me a final appointment of six months to 30 June this year.

**Senator O'BRIEN**—I am not sure whether I should say congratulations or something else.

**CHAIR**—He is not sure either.

**Mr Besley**—You took the words from my mouth, Chair.

**Senator O'BRIEN**—You could have had it shortened and you might have missed the next round of estimates.

**Mr Besley**—I realise there is one more to go, so it is not my Dame Nellie Melba performance appearance.

**Senator O'BRIEN**—We will try to make that more special.

**Mr Besley**—Thank you very much.

**CHAIR**—I was out on a stress test the other day and I said to the doctor when I did the stress test, 'Has anyone ever dropped dead on this thing you get on?' and they said, 'No.' We have actually never had anyone drop dead here; we are pretty gentle.

**Mr Besley**—That is pretty comforting.

**Senator O'BRIEN**—I was looking at the statement you made and the references to Minister Truss's Grains Trans Summit statement, where he is quoted as saying:

I must stress this point: the authority does not have a mandate to monitor or oversee the activities of the parent company ... and its functions ... do not extend to overseeing the financial and marketing operations of either AWB Ltd or AWB(I).

My recollection was that the Wheat Export Authority has given evidence to this committee in relation to investigating claims about payments to trucking companies in the Middle East in relation to just such marketing operations. How should I understand the minister's statement in relation to that evidence?

**Mr Besley**—I think the evidence we gave was in answer to questions that were asked of us. I think I have always made the point that the pool operates on an FOB basis. What happens beyond the port when the wheat is shipped is a cost to the buyer, not to the pool. That is why, as you will recall, I said that when we were made aware that there could have been some kickbacks being paid we wanted to know whether, if they were being paid, it was affecting the growers' interests. Our examination of that convinced us, rightly or wrongly, that it was not.

**Senator O'BRIEN**—I am not at this stage wanting to debate whether you did enough or whether you did the right thing, but I do believe that that evidence absolutely contradicts the statement you quote. I am not questioning that it is attributable to then Minister Truss, but it absolutely flies in the face of that statement because, in fact, the Wheat Export Authority did investigate the marketing operations of AWB Ltd and AWB(I).

**Mr Besley**—Not of AWB Ltd—

**Senator O'BRIEN**—No, AWB(I).

**Mr Besley**—We investigated the contracts of sale, not marketing. We investigated the arrangements that were made to sell wheat to Iraq to see whether there was anything untoward and, if there was, whether it was affecting the returns to the growers. But we did not investigate their marketing—that is a matter for them.

**Senator O'BRIEN**—It is fairly unusual language. If you are paying kickbacks to make a sale, that has to be marketing operations, surely.

**Mr Besley**—It could be. I do not think I would dispute that, but let me go back to what I said earlier. Our primary role, and our only role, was to see whether that was happening and, if so, whether it was affecting the pool and therefore the growers. Our investigations convinced us that that was not the case.

**Senator O'BRIEN**—So the Minister is wrong, isn't he, that the authority did have a mandate to make those investigations about kickbacks, which was an investigation of the marketing operations of AWB International?

**Mr Besley**—I do not agree with you, Senator. I do not think that is right at all. The marketing is something different from a contract which tells how much people paid for wheat and what came to the pool.

**Senator Abetz**—Can I suggest, with respect, that the questions ought to be on what Mr Besley's understanding of a particular situation was. It is then for Senator O'Brien to extrapolate or issue his press release. To ask a witness, 'Was the Minister wrong,' when he does not have exactly what the minister may have said in front of him, I do not think is very helpful.

**Senator O'BRIEN**—I do have the statement that was read out by Mr Besley which quotes the minister. That is what I am referring to. I am questioning the evidence of Mr Besley.

**CHAIR**—With respect, I do not think it is a judgement that you can fairly expect Mr Besley to make.

**Senator O'BRIEN**—I suppose I can ask this question: was the activity of the Wheat Export Authority in questioning AWB International about its operations in Iraq and questioning over the allegations of the payment of kickbacks within the mandate of the authority?

**Mr Besley**—You are trying to put words into my mouth or into something. We did not investigate the operations of AWB in Iraq. We investigated the terms of a contract. We looked at the terms of it—we did not investigate it, we looked at it—to see whether or not there was

anything that could be affecting the pool and therefore the growers. What happened beyond that was something we did not investigate and we had no mandate to investigate.

**Senator O'BRIEN**—I just do not think this statement from Minister Truss has direct bearing on the activities in relation to payment of those kickbacks. I am not sure why you quoted—

**Senator Abetz**—That can be your opinion, which people can either take or leave, but let's move on with questions.

**Senator O'BRIEN**—I am moving on with questions. I am asking questions about a statement that was made by Mr Besley at the start of this session. I think it raised the issue of the activity of the authority in relation to the examination of that question. You would not regard that investigation by the Wheat Export Authority as overseeing the financial or marketing operations of AWB International?

**Mr Besley**—No I would not.

**Senator O'BRIEN**—Okay. So the passage that you refer to from Mr Truss's speech does not bear upon that activity?

**Mr Besley**—No, it does not—not on the activity we undertook.

**Senator O'BRIEN**—And the activity that the Wheat Export Authority undertook was in accordance with the law?

**Mr Besley**—Yes.

**CHAIR**—And it would be fair to say that its functions certainly do not extend to overseeing the financial and marketing operations of either AWB(I) or AWB Ltd. Part of your consideration and Cole's reflections of what additional authority you ought to have would be somehow emphasised by that statement, wouldn't it?

**Mr Besley**—Yes, it would. For a long time there have been doubts in people's minds, including my own, about just precisely what the act means in terms of how far we can go in the monitoring. We are not investigating. We are not an auditor. We do not do that. I think Commissioner Cole has focused sharply on that and said that there should be a thorough ongoing review of the power, roles and responsibilities of whoever is monitoring any monopoly wheat exporter. As I said, we totally agree with that. Our annual report, when it is tabled, will say that.

**CHAIR**—So do I, by the way.

**Senator O'BRIEN**—Mr Besley, what steps were taken by the Wheat Export Authority during 2005 to ascertain the status of the service agreement between AWB Ltd and AWB (International)?

**Mr Besley**—In 2005, nothing. We were blissfully unaware that there was a new services agreement. We have to rely on AWB(I) forwarding those documents to it as and when they come. We have no part in negotiating them. We cannot instruct them. We cannot direct them. I think I said before this committee last time that they asserted they had sent it to us some time after it was negotiated in 2004. They said they had sent it to us in 2005. One thing the WEA has a very good system for is recording what we get and what we do not get. There was

absolutely no record of our having received it. They said they had made a statement to the Stock Exchange about it. There was no record of that on the website on the Stock Exchange. When somebody in the Grains Council got a sniff that there might be a new agreement around and asked us at one of our regular report meetings with them if we would look into it, we did, and we found that there was.

**Senator O'BRIEN**—As a matter of routine, wouldn't the Wheat Export Authority regularly ask whether there was any change in the arrangements between AWB Ltd and AWB(I)?

**Mr Besley**—We have not done so, but it looks as though maybe we should.

**Senator O'BRIEN**—That is the point I am leading to. Isn't it fair of me to say that you should have done that?

**Mr Besley**—I am not too sure about that. We cannot compel them to give us any information.

**Senator O'BRIEN**—No, but you can ask.

**Mr Besley**—We can ask specific questions on issues that affect the monitoring role. We need to rely on what I hope is a trusting relationship and that, when they change the rules, they let us know.

**CHAIR**—This thing surfaced in August 2006, did it?

**Mr Besley**—The current agreement with the break clause was negotiated in 2004.

**CHAIR**—Yes, but it surfaced in 2006.

**Mr Besley**—It surfaced in 2006 because the Grains Council—

**CHAIR**—Who was the person who said they had sent it and logged it with ASIC, or whoever? Who was that?

**Mr Besley**—Somebody in AWB(I), who is probably no longer there since they have been quite a few changes.

**CHAIR**—I was just curious to see if they still had a head on it.

**Mr Besley**—I do not know. I do not know who said that. When we heard about this at the Grains Council, we asked AWB(I) whether there was such an agreement and they said, 'Yes, we sent it to you.' We said, 'Well, you did not.' They then gave it to us, and we looked at it and found—

**CHAIR**—It would be fair to say, though, in polite language, that is a way of saying they were lying to you. You do not have to be polite here.

**Mr Besley**—I think that is probably right, yes. The question I have put off answering earlier before this committee is: do I believe we were misled? I am now prepared to answer that, yes, we were.

**CHAIR**—But so was the UN. I am pleased to see the guy that has been warehoused in Crete is now under arrest—the creep that allowed all this to happen at the UN.

**Senator O'BRIEN**—The point I would put to you is this: shouldn't the Wheat Export Authority have had a series of questions which it regularly put to AWB Ltd and AWB(I) about the relationship between those two entities?

**Mr Besley**—I think hindsight is a wonderful commodity.

**Senator O'BRIEN**—So is foresight.

**Mr Besley**—Yes, but let me take you back a little bit. We used to be accused by AWB(I) of being too inquisitive, of being too nitpicky. Then along came the 2004 panel.

**Senator O'BRIEN**—That would be a badge of honour, wouldn't it—the organisation you are investigating saying you are too hard?

**Mr Besley**—We are not investigators; we are monitors. We have had that discussion before. But along came the 2004 panel that said: 'Look, you two organisations have to move to a new level of mature relationship. None of this nitpicking stuff. Get on at a strategic level.' That was a recommendation, one of many made by the panel, accepted by the government—and we have done that. We have worked towards a new, different, high-level strategic relationship.

**Senator O'BRIEN**—So you have worked away from being the 1,000 pound gorilla that the chairman reckoned you ought to have been?

**Mr Besley**—Well, I guess we have moved, in his definition, towards a better relationship, in retrospect.

**Senator O'BRIEN**—Yes.

**CHAIR**—You know that was a very uncharitable thing to say.

**Senator O'BRIEN**—That you would not be you, Mr Chairman, to be uncharitable.

**CHAIR**—Anyhow.

**Senator O'BRIEN**—Anyhow! So now you have an interim chair whose appointment is extended to 30 June. Mr Woods, what is your interim term? Do you have a specific period of appointment?

**Mr Woods**—There is no specific period for my term at the moment.

**Senator O'BRIEN**—Are the terms and conditions under which Mr Woods has been appointed the same as for his predecessor?

**Mr Besley**—Yes they are. You may recall that I said before this committee last time that we had embarked on a process of recruiting a successor to Glen Taylor. We did that and were well down the track but for good and sufficient reasons that was never taken a finality. We therefore had to make some interim arrangements and we asked Mr Woods, who was then an officer of the Wheat Export Authority, was he prepared to act. He said yes and we were pleased about that. He is acting under the same terms and conditions as Mr Taylor.

**Senator O'BRIEN**—You just gave us a bit of a cryptic statement about proceeding to appointment and then it did not happen. What actually did happen; can you give us details?

**Mr Besley**—Yes I can. If you look back at the last time I appeared before the committee I was asked when the recruitment process was to start. I said it was underway and I was having

interviews the next week. I was asked whether there was much interest. I said yes there was, that more than 20 people applied. So we went down that route and interviewed a short list of five candidates. We came to a view on who ought to be offered the job and the process required to get it ticked off and through the minister's office. At the time the minister, for obviously pretty good reasons, decided it was not appropriate to do that while there was still the issue of what the government was going to do about the Cole inquiry and while the Uhrig investigation was still there. The minister decided it would be better to let those things settle down before something 'permanent' was done. So we did not go to the point of offering a person the job following the recruitment process.

**Senator O'BRIEN**—Did the minister know you had gone through this process, that you had invited people to apply and you had interviewed them?

**Mr Besley**—He did.

**Senator O'BRIEN**—But you did not hear from the minister until you were at the point of appointment?

**Mr Besley**—It came to a head at the time we were wanting to get the appointment through.

**Senator O'BRIEN**—What does 'came to a head' mean? Does that mean there were discussions about not doing it before that time or did it just get delayed?

**Mr Besley**—No, the process was an orderly process of which the minister was aware and when the result of that process came to an end and we wanted to move to the next step which was to get agreement to the appointment of a person to the job, the minister decided in the interests of what was happening or what may happen to hold that up and not let it go forward.

**Senator O'BRIEN**—So that was the first you had heard about the delay?

**Mr Besley**—Yes.

**CHAIR**—I would like to say that it is a big improvement if you got 20 applications. On the original appointment of the original CEO, I do not think there were many applications.

**Senator Abetz**—It was all the publicity.

**Mr Besley**—There were some very good applicants of whom Mr Woods was one.

**Senator Abetz**—You didn't apply, Chair?

**CHAIR**—No, I declare I can't read or write so I cannot apply!

**Senator Abetz**—I just wondered whether you needed to declare an interest on it.

**CHAIR**—No. I declare an interest on it. What have I got—some shares?

**Senator Abetz**—That is why it is on the Register of Senators' Interests and we do not have to go through it.

**Senator O'BRIEN**—On page 48 of the portfolio additional estimates statement, we are advised that the Wheat Export Authority had advised the government that it was expecting an operating loss of around \$2 million for the year ending 30 September 2007. Table 1.2 on page 48 of PAES shows that the government has allocated the Wheat Export Authority \$1 million for the current financial year and nothing for the next, which is about half the operating loss. How is the authority going to fund the other half?

**Mr Besley**—When we were advised that the government was going to give us \$1 million up to June the letter went on to say that consideration would be given to further funding beyond that point when it was clearer what was going to happen to the system. I think they were the words. You might like to comment on that Peter.

**Mr Woods**—Yes. We did apply for additional funding of approximately \$2 million and with the way the government is looking at the exporting arrangements at the moment they decided, for the same as my appointment, to fund us until 30 June and once the way forward is clear the Wheat Export Authority will go back in for funding.

**Senator O'BRIEN**—So this additional \$1 million takes us to 30 June?

**Mr Woods**—It takes us to 30 June.

**Senator O'BRIEN**—Your operating loss is expected to be \$2 million for the year ending 30 September.

**Mr Woods**—That is correct.

**Senator O'BRIEN**—Does that mean you will be in the red by 30 June even with that \$1 million?

**Mr Woods**—At the present stage it does not look like it. Fortunately shipping by AWB(I) and other exporters is above what we budgeted on so we have a slightly better cash flow position at the moment than we accounted for.

**Senator O'BRIEN**—So you probably will not experience a loss, if we ignore the \$1 million—a \$2 million loss?

**Mr Woods**—It depends on how the shipping period for the second half of the year continues. As you know there is a \$4 million crop and there is some carryover. It depends on how that is shipped and where it is shipped; there are all sorts of things happening in the industry that impact that at the moment.

**CHAIR**—You do not have to answer this if you do not want, but when your temporary appointment is up are there arrangements in place so you can continue to pay the tucker bill and the rent?

**Mr Woods**—I presume if and when that happens I might go back to my previous position in the Wheat Export Authority as Senior Executive Officer of Exports Markets Compliance and Performance Monitoring.

**CHAIR**—So there will not be an extraordinary payment?

**Mr Woods**—No.

**Senator Abetz**—Do not give him ideas.

**Mr Woods**—I have not had a chance to negotiate anything yet.

**Mr Mortimer**—Can I just come in there? The Prime Minister announced before Christmas that there is going to be a three-month consultation period with growers, which is now in train with the report due at the end of March and that the government would make a decision about future arrangements for wheat marketing—whether there was any change or what direction that may or may not take. Indeed, the current change to the legislation which was passed

before Christmas is due to sunset on 30 June. So it is fairly clear that the government is looking to have decisions made about wheat marketing arrangements before the end of June this calendar year.

**CHAIR**—Mr Besley, has the Wheat Export Authority formed a view—you do not have to answer this either if you do not want to—on the Tigris arrangement given that, as I put it, the Tigris arrangement is a fraud of the pool and a money laundering operation. Do you blokes have a view on that?

**Mr Besley**—Well, I would not necessarily use the phrase ‘money laundering’ but we certainly do have a view on it because, from the growers’ point of view, there was money that flowed into the pool as a commission for collecting the debt—

**CHAIR**—Which should have gone to limited shelf.

**Mr Besley**—To whom?

**CHAIR**—To the shareholders’ side of it. I mean, is the pool in the business of collecting commissions?

**Mr Besley**—Well, we can argue about that but I think—anyway it went to the pool. Part of it went into the last pool—not all of it—and we have asked where the rest is and it is held to go into the current pool. We also wanted to know what effect it had on the out performance incentive and we have got some information on that. Now we have not quite finished our analysis of that. We intend to publish an addendum to both the PMR which, of course, will be confidential but also to the *Growers’ Report* which will be public on what we propose to deal with that issue.

**CHAIR**—But the pool was used to repay BHP, as it were, through the back door.

**Mr Besley**—Yes, well there was a timing issue there.

**CHAIR**—Surely that is an improper use of the pool?

**Mr Woods**—We are not clear if the funds were initially paid into the pool, but certainly if you look at our *Growers Report*—figure 3 on page 5—we try to give everyone our understanding of where Tigris is at this particular stage and certainly the commission that AWB received for collecting the Tigris debt has come into the pool account and part of that has already been paid in 2002-03 to growers. There is more money there yet to be paid to growers which will be paid in this—

**CHAIR**—But is the pool ordinarily in the business of collecting commissions?

**Mr Woods**—We are looking at all those sorts of issues in the addendum report and until I get a clear view on that I would prefer not to answer that question.

**CHAIR**—Well I have, as you would probably know, a pretty strong view on that.

**Mr Besley**—I doubt that it has. These payments that were made—

**CHAIR**—A person sitting down the back of the room there could say that it was ‘hush money’.

**Mr Besley**—‘Hush money’ to whom?



**CHAIR**—I do not know. I do not think the pool was designed to receive commissions on shady deals.

**Mr Besley**—I think that is probably correct. But there was another issue; whether the money that was paid by way of kickbacks, did all come out of the account—the oil for food account—the escrow account. We discovered that one time it was not able to get it out of the escrow account so some money actually came out of the pool account and was paid back, but the issue for us was: what was the opportunity cost of that money? We are looking at that as well. So we have done a lot of digging on this.

**CHAIR**—Also the average cocky out there is unaware of this stuff, as most of them are unaware of what the pool actually pays. Could I just take you briefly, with your indulgence Senator O'Brien, to the break-free payment which was negotiated between AWB(I) and AWB Ltd and the late discovery of that through—

**Mr Besley**—Grains Council.

**CHAIR**—being misled and the adventure of the Grains Council. Have you investigated the circumstances under which that cosy arrangement was negotiated? Would it have been one of those famous joint board meetings? Where was the separation of interests in that decision or would that be something that you would be interested in as acting in the interests of the pool? Is that the sort of thing that you would be interested in?

**Mr Besley**—Well—yes.

**CHAIR**—It seems to me a very cosy sort of a thing if you say instead of having two meetings that you will have I and L together and that will save the tea and the biscuits.

**Mr Besley**—You need to recognize that AWB(I) is a wholly owned subsidiary of AWB Ltd and to get an arm's length between the two when negotiating—

**CHAIR**—Which this committee flagged in 2003.

**Mr Besley**—It is, but there were two committees—but Peter would you like to enlarge on that please?

**Mr Woods**—We certainly have a suspicious mind like you have and we asked for board meeting minutes, briefings—all those sorts of things. We went through them. We provided them to our solicitors.

**CHAIR**—That is the board meetings of the decision to have the break-free.

**Mr Woods**—and how it happened and the renegotiation of the services agreement because as you are aware there are some members on the AWB Ltd committee who are also members on the AWB(I) committee. We wanted to make sure this was all above board and with reasons of compliance and all that sort of thing—yes the members who had an interest stood aside and our legal advice is that it was all kosher.

**CHAIR**—Could we have a copy of those minutes?

**Mr Woods**—That is legal advice to the WEA.

**CHAIR**—No. Is it improper for this committee to ask for those minutes of the board meeting that made the actual decision 'Yes we're going to have this cosy little break-free?'

**Mr Besley**—They are minutes of AWB(I). We would have to get permission to do that.

**CHAIR**—Well, you might apply for permission. I would love to see them.

**Mr Besley**—We can ask.

**Mr Woods**—We can ask, but I would say under confidentiality—

**CHAIR**—I would love to know what the Chinese walls were made out of—probably bamboo. Back to you Senator O'Brien.

**Senator O'BRIEN**—We will go to the Tigris issue later. I suppose it is fair to say that almost everyone concerned with Australia's wheat industry and its future would agree that your 2006 *Growers Report* is the most interesting one you have produced. Past reports have rarely been critical of AWB's operations. This time you have taken what I describe as a more vigorous approach to examine AWB's record and to some extent you have finally taken the gloves off. How would you respond to that comment?

**Mr Woods**—Senator, I would respond that we believe it is a very balanced report. We ask for all sorts of information and we get it from AWB and have industry knowledge as well. We do the analysis and write the report according to the analysis we get. We believe the report is balanced when you have, with the current debate on at the moment, people saying that we are absolutely bagging the single desk and you have people on the other side saying that finally the WEA is authoritative and it is a very balanced report. So we think we have probably got it right.

**Mr Besley**—I think I should add that there were more interesting things to report on this time. We report it as it is—

**Senator O'BRIEN**—There are more interesting things in the public domain to report on but there were lots of interesting things to report on previously.

**CHAIR**—It would be fair to say though that if someone is prepared, as has been demonstrated here today, to deliberately lie to you, as they have lied to me as they have come through my office when I kept saying to them over a period of many months, 'I hear that there is a bit of jiggery-pokery with you fellows out there.' 'Oh no, senator, oh no.' It is just a complete farce. What do you do about that? It puts you in a difficult position. I presume those same people would have briefed the Labour spokesman as well. You may have asked the question and you probably got the same line.

**Senator O'BRIEN**—That is why I am happy to respond, Mr Chairman, because obviously you are directing those comments. When I heard about the allegations in the United States about the kickbacks I said, They are probably untrue but they should be investigated. 'That is what I said.

**CHAIR**—You did not ask the question.

**Senator O'BRIEN**—I did, I did ask various questions.

**CHAIR**—What was the answer?

**Senator Abetz**—Well the idea is that these people are asked questions and we had better get back to that.

**Senator O'BRIEN**—I am happy to do that but we do have an interventionist Chair, so our proceedings will be a little irregular.

**Mr Besley**—There is one other thing I think I should add about the *Growers Report*. This is the first time we have had added a post-balance date kind of statement—the current issues. Now had we reported in the same format as previously none of that interesting stuff would have been there. We did this because it seemed pretty clear to us and to growers that we give this report on a pool and by the time we report on it, it is way back in the past. We have tried to improve it by saying what is happening now. From that point of view, I think we have succeeded.

**Senator O'BRIEN**—If it is so interesting for growers, it must have been a doozy going to the minister, if this is the sanitised version.

**CHAIR**—That is mere speculation.

**Senator O'BRIEN**—You have taken the controversial stuff out, haven't you? The stuff that is confidential would not go to the growers, but would go to the minister.

**Mr Besley**—There would be some confidential stuff that is not in the *Growers Report*, yes.

**Mr Mortimer**—I think the point is that essentially the same message and outcomes are reported in the *Growers Report* as are in the report to the minister. The report to growers simply does not have a lot of the detailed numbers and other material that sits behind that.

**Senator O'BRIEN**—So in essence the minister has received the same message as the growers have received. He just received more detailed information. Is that how we should understand the two reports?

**Mr Woods**—That is normally the case that the PMR report is voluminous. As you know, it takes a year to develop and is confidential. So you could expect there is information in there that does not make it into the *Growers Report*.

**Senator O'BRIEN**—Yes, well, I am asking in relation to the 2006 report. Is that true?

**Mr Woods**—Correct.

**Senator O'BRIEN**—Is there anything preventing the minister making available to this committee on a confidential basis your 2006 confidential report?

**Mr Besley**—That is a matter for the minister.

**Senator O'BRIEN**—I know it is a matter for the minister ultimately but I am asking is there any impediment that you are aware of other than the discretion of the minister.

**Mr Besley**—I rest on what I have just said.

**Senator Abetz**—That is up to the minister to determine, and what impediments he might find that would mitigate against that may not necessarily be known or appreciated.

**Senator O'BRIEN**—I can only ask the Wheat Export Authority what they know, and I am asking whether they know of any impediment other than the minister's discretion?

**Mr Mortimer**—There is the issue of the privacy of the confidential material provided to the WEA by AWB(I). There are strict confidentiality arrangements around that, some of which are captured in the legislation. We just want to make sure there is no issue there.

**Senator O'BRIEN**—The confidentiality arrangements between the Wheat Export Authority and AWB(I) are captured in the legislation?

**Mr Mortimer**—There are provisions in the legislation relating to the confidentiality of information. I think there is a distinction in the legislation between material that is provided at the direction or request of the WEA as opposed to under the normal or separate confidentiality agreement. I would like to refresh my memory. I am pretty sure there were special confidentiality provisions put in when the legislation was amended in 2003. That related in part to the conduct and gathering of material for the 2004 review, but it was not specific to the 2004 review, I do not think. I am happy to advise further on that.

**Senator Abetz**—In brief, you would like the document made available?

**Senator O'BRIEN**—I am not asking for it to be produced to the estimates—let me be clear. It could not be produced confidentially to the estimates. I am asking the minister to give consideration to producing that confidentially to this committee in another forum.

**Senator Abetz**—That is exactly what I was going to suggest. We can take that on notice, if you like, rather than explore it now, and then the minister can indicate what reasons there are for his decision.

**Senator O'BRIEN**—He could not provide it confidentially to the estimates, that is clear, so it would have to be to another forum.

**CHAIR**—I read that out at the beginning.

**Senator O'BRIEN**—Yes. I ask the minister to indicate whether, in another forum, he would be prepared to consider such a request.

**Senator Abetz**—Yes, we will take that on notice.

**Senator O'BRIEN**—I am going to go to some other details in the report. Mr Besley's letter on page 2 states that the Wheat Export Authority supports some of the recommendations of the 2004 wheat marketing review that have not been implemented yet and that would require changes to the Wheat Marketing Act. Specifically, the letter states:

The WEA supports those recommendations which would provide it with the power to suspend or revoke consents if export conditions are breached; make consultation with AWB(I) on specific applications necessary only when WEA considers it appropriate and introduce a variable export application fee structure to provide a more equitable user-pays system.

Mr Besley, could you take the committee through your reasons for supporting each of these recommendations and in particular explain why their implementation would benefit Australian growers?

**Mr Besley**—Let me start by saying that these were recommendations of the 2004 panel, all of which were endorsed by the government and by us, with one exception which was, as I said before, that we needed to have in place on our site an expert in foreign affairs. It is much more cost-effective for us to buy that in when we need it because it is not a full-time job. Apart from that, we supported all those recommendations. The reason that we would like the power to suspend or revoke consents is that there have been occasions when exporters have not played ball. The consent that they get applies to a quantity of wheat, a grade of wheat and an end user, basically. One of the obvious reasons for wanting to have that power is if people

are setting up, say, a trading business in wheat rather than providing it to the person to whom they claim they were going to send it. It seemed to us to make sense to keep control of that.

The other recommendation is about variable export application cost. At the moment it is a flat fee, and we are told that to make it variable there has to be some provision in the act. The flat fee means that the cost to someone shipping out 1,000 tonnes of wheat is no less than for somebody who is shipping out 100,000 tonnes. That just does not seem equitable at all.

The third was related to making consultation with AWB(I) only on specific applications. Again, that was a recommendation of the Wheat Export Authority. Let us remind ourselves that we are talking here of exports which total, in my experience, no more than four per cent of the crop that goes off shore each year. So it is not a huge deal. We felt it would make sense to consult only when we thought it was appropriate. We think we have enough nous to know when it is appropriate. But as it currently stands, the act requires us to consult with AWB(I) on each and every shipment whether it is one tonne or 100,000 tonnes. It seems to us to be a cumbersome way of handling small quantities of wheat in total when that could be streamlined. Would you like to add anything to that, Peter?

**Mr Woods**—The only thing I would correct there is that for the last financial year 4.2 per cent of exports were shipped on WEA consents.

**Senator O'BRIEN**—Was it boxed wheat?

**Mr Woods**—It was all in containers or bags.

**Mr Besley**—There is very little in bags these days.

**Senator O'BRIEN**—Do you know whether the government plans to legislate to implement these recommendations?

**Mr Mortimer**—The government will deal with these when there is an opportune moment. At this stage, as I mentioned earlier, there is a significant process of consultation going on with growers. The legislation is not necessarily going to be changed but if it were it is unclear in which shape or direction. So it is essentially there and will be dealt with as part of any package that might deal with the legislation down the track.

**Senator O'BRIEN**—How much did the wheat marketing review cost?

**Mr Besley**—In 2004? From memory it was \$1.4 or \$1.5 million. I can get the correct figure.

**Senator O'BRIEN**—Was it paid for out of grower funds?

**Mr Besley**—It was paid for by the Wheat Export Authority, so yes.

**Senator O'BRIEN**—Mr Mortimer, those recommendations are somewhere off in the ether and have been there since 2004?

**Mr Mortimer**—What I am saying is that a range of recommendations came out of the 2004 review—I can remember 20 or more. They range from the big picture recommendations about the relationship between AWB(I) and WEA and how AWB(I) should operate and what WEA should do, and that included the framework for export consultative mechanisms around licences and so on. It is fair to characterise these three recommendations here as of a

housekeeping nature without wanting to diminish the benefits to be had from them. The great span of recommendations or the high-level recommendations have been dealt with.

**Senator O'BRIEN**—A great span of them—but the ones to do with the legislation have not.

**Mr Mortimer**—That is right.

**Senator O'BRIEN**—How long have they been sitting on the table?

**Mr Mortimer**—The 2004 report came out at the end of 2004.

**Senator O'BRIEN**—So, it has been over two years.

**Mr Mortimer**—That is right.

**Mr Besley**—It is probably worth adding that, in case you think nothing has happened, we have done all of the recommendations that affected us, except the three that required a change to the act and the in-house financial hedging, and we have reported—

**Senator O'BRIEN**—You have done your work, the minister hasn't?

**Mr Besley**—That is a separate issue, I will not comment on that.

**Senator O'BRIEN**—Towards the end of your letter, Mr Besley, you refer to the temporary measures put in place for the period December 2006 to June 2007. Have you put any processes in place to enable the Wheat Export Authority to monitor the performance of exporters other than AWB who may be given a permit to export bulk wheat under these arrangements?

**Mr Besley**—Are you asking how it is working, or what is happening?

**Senator O'BRIEN**—Have you put any processes in place?

**Mr Besley**—Yes, we are doing it, the process is in place. There have been quite a number of applications. If you want specifics on numbers we can give you those.

**Senator O'BRIEN**—I would appreciate if you can tell me how many applications there have been.

**Mr Woods**—We have had 76 applications bulk applications to date. The answer to the first part of your question is that, yes, we are monitoring the performance of those who have been granted bulk export licences to date. All bar two at the moment have been vetoed by the minister and there are two still requiring a decision by the minister.

**Senator O'BRIEN**—In relation to the applications, how much wheat was involved in the applications?

**Mr Woods**—I think it was approximately seven million tonnes, but I will just get the figure for you—6.989 million tonnes.

**Senator Abetz**—That was pretty close.

**Senator O'BRIEN**—The applications approved I think are a total of 800,000 tonnes.

**Mr Woods**—Eight hundred thousand tonnes for two applicants.

**Senator O'BRIEN**—That is 500,000 tonnes to—

**Mr Woods**—CBH.

**Senator O'BRIEN**—which is specifically for export to their own businesses in South-East Asia?

**Mr Woods**—Correct.

**Senator O'BRIEN**—To comply with that permit they have to ship it there, is that right?

**Mr Woods**—They would have to ship to the buyers or end users that are on the application by consent.

**Senator O'BRIEN**—Once they have shipped it there, is that the end of your role?

**Mr Woods**—After it leaves Australian waters, my understanding is that it is the end of our role. We get compliance documentation, bills of lading, sampling certificates to say where it is going, and—I think where you are heading—if it is proven that the wheat does not end up there then they will certainly get correspondence and inquiries from the WEA.

**Mr Besley**—Under the act it is an indictable offence to breach a consent. In the case of a natural person it is worth \$60,000 if it is proven; in the case of a body corporate \$300,000.

**Senator O'BRIEN**—Sure, but it is not a breach if they ship it to the stated recipient?

**Mr Besley**—No.

**Senator O'BRIEN**—Once they do that, they have met the permit, have they?

**Mr Besley**—They have.

**Senator O'BRIEN**—What happens to the grain after it is received by the recipient is a matter for that recipient?

**Mr Besley**—Yes, it is.

**CHAIR**—Are you talking about on-selling it?

**Senator O'BRIEN**—I guess that is the potential in any transaction isn't it and has been for some time.

**Mr Woods**—The WEA goes to lengths to know what the milling capacity of any buyer or end user is, and our export consents are linked to the end user. As we have now moved to issuing consents for up to two years, we take it very seriously that we are not shipping too much wheat or allowing too much wheat to go to an end user if they do not have that milling capacity.

**CHAIR**—If recent rumours were correct of an export of bulk wheat to an overseas destination of which some was then moved on to another market, would you be able to trace that?

**Mr Woods**—We would certainly see how valid those rumours are, try to do some sort of investigation, ask people—there are all sorts of methods we can do to find out what is going on.

**CHAIR**—You are aware of those rumours, though?

**Mr Woods**—Which particular rumours are you talking about? If you want to be specific maybe we can get specific—

**Senator Abetz**—How about we make a phone call after the estimates.

**CHAIR**—I do not want to set the hares running.

**Senator Abetz**—Or do you need parliamentary privilege?

**CHAIR**—No, it is no big deal. It is just the market at work.

**Senator O'BRIEN**—There has been one other bulk approval. This is bulk wheat, not bagged or boxed wheat we are talking about now.

**Mr Woods**—That is correct.

**Senator O'BRIEN**—There has been one other approval which AWB claims was because they failed to exercise their regular veto of any request. So historically there has only been one previous occasion where bulk wheat has been shipped with a permit under the Wheat Export Authority regime.

**Mr Woods**—That is correct—prior to the minister getting veto.

**Senator O'BRIEN**—And how long ago was that?

**Mr Woods**—That was earlier on in 2005, and that was a very public process.

**Senator O'BRIEN**—So once that wheat had been shipped to that recipient, what happened to the wheat? Was it not the matter that the Wheat Export Authority investigated?

**Mr Woods**—I would think in that case that the wheat went to where it was going because they were calling for it.

**CHAIR**—In much the same way, I presume, that if the pool exported wheat to a destination and the destination resold the wheat to someone else it would be—

**Mr Besley**—We would never know.

**Mr Woods**—We do not know. That is why we take our job very seriously to make sure that we are not creating a secondary market in a country. But unfortunately, as we have already discussed, we cannot stop someone trans-shipping wheat to somewhere else.

**CHAIR**—Unfortunately—as the chairman pointed out earlier, I think—anything that happens through the Geneva desk is no business of yours.

**Mr Woods**—We are not talking about Geneva.

**CHAIR**—I know you are not, but that is another means of—

**Mr Besley**—Except to the extent that it could impact on the pool.

**CHAIR**—Anyhow, that is the world at work.

**Mr Woods**—We do everything that we can to make sure and follow any leads that happen like that. Certainly the industry talks if something is happening. Hopefully it will come to us and we can investigate it pretty quick smart.

**Senator O'BRIEN**—The second application for a permit involved 300,000 tonnes of wheat.

**Mr Besley**—Do you mean Wheat Australia?



**Senator O'BRIEN**—Yes. That is the subject of ongoing negotiations; there is no firm contract for that permit, is there?

**Mr Woods**—We do not know exactly where that is up to. The normal situation in Iraq and in a lot of other countries is that the body charged with purchasing grain for that company calls for tenders. Tenders are called fairly regularly. One has just happened in Iraq. The results should be known eventually when the Iraqi Grains Board decides to say who has won their tenders.

**Senator O'BRIEN**—What role, if any, does the authority play in the collection from these shipments of the \$4 a tonne for the pool?

**Mr Besley**—We need to be informed about it, and it comes through us to the pool.

**Mr Woods**—I am one of the contact persons about that. We are monitoring that the payments are made, when they are made and when the ships are going. We get the tonnage so that we know the correct payment is made. Those are the sorts of details we are looking at.

**Senator O'BRIEN**—And AQIS would have a role in certifying those exports?

**Mr Woods**—AQIS has to certify anything that leaves Australia against the compliance regulations for the destination country.

**Senator O'BRIEN**—Going back to page 5 of the report, the Tigris debt issues, you say in the second paragraph on page 5 that, due to over-delivery on two contracts, AWB(I) received \$554,314 more from the deal than was needed to cover the \$714,694 that was owed to it for providing this service.

**Mr Woods**—That is correct.

**Senator O'BRIEN**—I know that most aspects of this deal were covered in detail by the Cole inquiry, but are you able to tell us how the over-delivery came about?

**Mr Woods**—It is the normal arrangement in contracting wheat that there is an agreement for plus or minus five per cent, plus or minus 10 per cent, or on farm delivery, as Senator Heffernan knows, to the nearest truck load. In this particular case, it appears that over one million tonnes was delivered. Because the calculations for collection of the Tigris debt were calculated at, I think, \$8.375 a tonne and they got more than one million tonnes, they collected more, and that has gone into pool revenue as commission.

**Senator O'BRIEN**—Was it—

**Mr Woods**—An over-delivery on a one million-tonne contract.

**Senator O'BRIEN**—Was it a mistake or was it a deliberate act by AWB to over-deliver on the contract?

**Mr Woods**—No. It is very difficult, when you are loading ships that could be anywhere from 25,000 tonnes to 80,000 tonnes, to say, 'One million tonnes just dropped in on that grain and we will stop it now.' You fill the ship up and send it off.

**Senator O'BRIEN**—Are over-deliveries common?

**Mr Woods**—And under-deliveries, I would think. In the balance of things they would happen depending on a number of issues.

**Senator O'BRIEN**—Mr Besley went on to say that \$77,437 in interest earned on the Tigris money had been retained by AWB(I). Is it normal for interest earned by AWB(I) on payments received for the sale of pool wheat to be retained by AWB(I) and not passed back to the pool participants?

**Mr Woods**—You are looking at figure 3 on page 5. That is all being paid back to the pool participants. The interest there, the interest on the Tigris commission, goes to pool participants, part of which has already been paid. The balance, we believe, will be paid in the 2005-06 pool.

**Senator O'BRIEN**—Which has already been paid? The balance will be paid later?

**Mr Woods**—Some has been paid in the 2002-03 pool. For some reason a year was skipped, and the WEA is investigating that. It is our understanding that the balance of what is in figure 3—\$631,751—plus any other interest between when this was calculated, I would assume, will be paid out to pool participants.

**CHAIR**—How many other instances are there of commissions being paid into the pool?

**Mr Woods**—I do not know of any at the moment.

**CHAIR**—This is such an inappropriate business for the pool. We are talking about BHP wanting to influence some sheik in the desert somewhere: 'Here, mate, here's a bit of wheat. We'll source it from the pool.' That is perfectly legitimate for the pool.

**Mr Woods**—They bought the wheat from the pool—\$5 million.

**CHAIR**—Yes, and my understanding is that they got paid for it.

**Mr Woods**—The pool did.

**CHAIR**—Yes, by BHP. BHP were good; they paid the bill.

**Mr Woods**—They paid the pool; that is right.

**CHAIR**—Then what the hell business is it—and I would think someone ought to go to jail over this—for someone then to say: 'But, hang on, it might appear that there had been an inducement. If someone got on to us we could reflect on that over there in wherever it was—Wombat Land. We'd better have a process where we get that money back, so we'll nick a bit out of very tonne that goes over there through the pool, and then we'll pay the pool a commission on it.' I would have thought that was a highly improper use of the pool. As I said, it could be seen as hush money, because I am sure there were people that snuck through the bamboo wall, so-called, on this between AWB(I) and AWB Ltd. I would not have thought they should have received any commission because the contractual arrangements between AWB Ltd and AWB(I) are that they do the business and AWB(I) pays them to perform the contract. They are not in the business of receiving bloody commissions. It is as dodgy as hell.

**Mr Woods**—This is something we are looking at in our addendum report.

**Mr Besley**—It is something which obviously we have talked about in part in our growers report. It is an issue in respect of which a lot of work is going on. A task force is looking at the issues that Commissioner Cole has raised about the illegality or otherwise of actions of certain people.

**CHAIR**—It certainly sets a precedent for a great lot of inventive use of the pool. I would hope that we come down on them like a ton of bricks.

**Mr Besley**—That is a matter for others to look at. But they clearly withheld that information from us. If you read the Cole material, you will find on page after page that this was not disclosed to WEA; this was not sent to WEA; ‘let’s not send it to WEA’.

**CHAIR**—It is very sad, the whole process. It is just so sad that the courts are about the law and not the truth. Probably no-one will get in because that is why you employ a lawyer when you go to court—if you need to avoid the truth.

**Senator O’BRIEN**—On page 5 you also make comment about the difficulties incurred in the execution of AWB’s first contract to supply wheat to India. You state that the issue related to the trace presence of foreign material, ergot, insect pests and particular pesticide residues. Can I take it that these materials were actually found in the shipment by Indian authorities?

**Mr Woods**—Our understanding is that there were some differences in the Indian specifications and the Australian specification that AQIS were looking at. Once they sorted those out, it was cleared up fairly quickly. I believe it was over a thing called ergot and the amount of that that was allowed—not the amount that was in shipments but the amount that was allowed in shipments.

**Senator O’BRIEN**—What is it?

**Mr Woods**—Ergot is a disease that comes from ryegrass and contaminates wheat to some degree.

**Mr Besley**—It is the sort of thing that was collected during the last world war for patriotic purposes. It aborts cattle but also it has medicinal uses for injured soldiers. Don’t ask me what they are, but I do remember as a boy collecting it off ryegrass for those purposes.

**Senator O’BRIEN**—Right. Were there also insect pests and pesticide residues?

**Mr Woods**—That is the total specifications. In delivering any wheat to a silo in Australia, there are specifications for all of those sorts of beings. There just seemed to be a misalignment between the Indian specifications and the Australian specifications. Subsequently that has been sorted out in other shipments and other contracts have been done.

**Senator O’BRIEN**—I thought AQIS certified that ships and shipments are free of such materials. Is that right? Do they normally do that?

**Mr Woods**—I do not know if it is free. They would have to certify them to the level of the certificate that is required.

**Senator O’BRIEN**—So AQIS would have checked these particular ships against the certificate required and approved it and said it met that standard?

**Mr Woods**—I believe that is why the hold-up was happening. AQIS was unable to make the alignment between the Indian and the Australian specifications.

**Senator O’BRIEN**—What does that mean?

**Mr Woods**—The Indian specifications were slightly different to Australian receival standards. Until that was sorted out, without looking further and checking, I believe that they may not have let the ships load or leave port until they sorted that issue out.

**Senator O'BRIEN**—So India has some particularly stringent phytosanitary requirements that might prevent some of Australia's competitors, including the USA, from competing in that market?

**Mr Woods**—That is correct. There are very few countries, I believe, that could meet the standards for India.

**Senator O'BRIEN**—And AWB would have been aware of those requirements before they entered the market?

**Mr Woods**—I could not answer on their behalf.

**Senator O'BRIEN**—They should have been, shouldn't they, whether they were or not?

**Mr Woods**—You would presume so.

**Senator O'BRIEN**—Is India regarded as a premium market? Do they pay more for wheat than most other importing countries?

**Mr Woods**—At this stage, because India has not imported wheat for a long time, I do not have any analysis that I can turn to on that.

**Mr Besley**—But generally speaking it takes, so far, different grades from the sorts of grades that went to Iraq, for example.

**Senator O'BRIEN**—Have you come to any conclusion as to whether this particular contract provided a net benefit to pool participants, especially when the demurrage charges of \$4.4 million and washout charges of \$5.1 million are taken into account?

**Mr Woods**—Until we know how much is shipped and we get the pricing data from AWB and we can do some analysis, no, we have not made any conclusion.

**Senator O'BRIEN**—Do you know if AWB will earn an OPI as a result of this debacle?

**Mr Woods**—No, I do not know.

**Senator O'BRIEN**—Will you be asking?

**Mr Woods**—We will be looking at the whole. In April next year, because this is the pooling period that it operates under, this pool will be wound up. So in 2008 the WEA will be able to report fully on this, but certainly we have a watching brief on it at the moment to see what is happening.

**Mr Besley**—But the OPI is across the whole pool, not just across the shipments.

**CHAIR**—What actually went wrong with this sale?

**Senator O'BRIEN**—There was an inability to meet the specifications required by India.

**CHAIR**—With our wheat?

**Senator O'BRIEN**—Yes. AQIS would not certify it, apparently, and it led to demurrage charges and other charges totalling \$9.5 million.

**CHAIR**—Before it left port here?

**Senator O'BRIEN**—Apparently.

**Mr Mortimer**—If I can just come in there, I think AQIS did certify the wheat. The problem arose when the first shipment was being unloaded at the Indian port. Then the Indians tested the wheat and it was not to their satisfaction. The question then became whether AQIS in Australia and the Indians were operating against a common set of specifications. The negotiations were about resolving that to make sure that the specifications that AQIS tested against, and indeed would not have let the ships leave Australia without meeting, was the same as what the Indians were testing on the incoming side.

**CHAIR**—So where was it outside the specification?

**Mr Mortimer**—It seems to be about ergot, insect pests et cetera.

**CHAIR**—So it was the health of the wheat rather than the—

**Mr Mortimer**—It is hard to know. They claimed—

**Senator O'BRIEN**—Contamination might be another way of putting it.

**CHAIR**—The pool wore that, did they?

**Senator O'BRIEN**—Well, they will, apparently.

**Mr Woods**—Correct.

**CHAIR**—Does AWB Ltd contract to the pool to ship the wheat?

**Mr Woods**—No. Anything AWB Ltd does with wheat that goes to export falls under the services agreement, so they are doing it on behalf of AWB(I).

**CHAIR**—So they were contracting the wheat into the ship on behalf of AWB(I). So if they sell down, why aren't AWB Ltd footing the bill? Because it is not AWB(I)'s fault.

**Mr Besley**—They are acting as an agent for AWB(I).

**CHAIR**—But they are contracted to provide a service in a fit and proper manner. If you breach the contract—if you muck it up—why wouldn't you sue the provider of the service? Why would you sue the receiver of the service? In feeding it back to the source, the ship owner might say, 'Whoever's got the capacity to pay ought to pay,' but if the service has been mucked up or whatever it was, then surely it is the contractor. I would like to be in the business where you are in a contract and you never got hit with a bill if you mucked it up. She is not a bad little game, this one. The good old pool that covers up all the mistakes. I would have thought that was something the shareholders ought to pick up.

**Mr Besley**—The issue was the specification, not the arrangement of the shipping or anything like that. AWB Ltd was simply acting as the agent to provide the hull in which the wheat was put to ship it to India. The issue of meeting standards was on the seller's behalf, the seller's responsibility.

**CHAIR**—So AWB Ltd does not supervise the sample?

**Senator O'BRIEN**—So if the grain trader had bought it, had a permit and exported it, the grain trader would have paid the cost, but because it is through the pool, the pool pays the cost.

**Mr Besley**—The grain trader is acting as the trader in wheat just as AWB(I) is acting as a trader in wheat.

**Senator O'BRIEN**—Yes, but the grain trader would not be able to pass it back to someone they had already bought the wheat from, would they?

**CHAIR**—But surely AWB Ltd says to—and I beg to be corrected, no doubt a bunch of thundering horses will correct me—but if they contract to put in a hole as you say, Mr Besley, wheat of a certain standard—

**Mr Besley**—I do not think they do that.

**CHAIR**—that may well be the answer.

**Mr Besley**—I think they contract to provide a hole to put the wheat in that AWB(I) has contracted to sell to a certain standard.

**CHAIR**—That is my point. Who samples the wheat to see it is of that specification on behalf of AWB(I) and surely the answer is AWB Ltd?

**Mr Besley**—AQIS does.

**Mr Woods**—If I may correct them, when grain is received at any up country or any port facility, the owner of that facility, whether it be GrainCorp, CBH, ABB, AusBulk, whoever it is, they have sampling standards, they do the sampling. You have been there, so have I, and it takes a while for them to do it. Then everything is checked—the level of ergot, the number of small seeds, or if there is any buck wheat in there they will not let you drop it off and that sort of stuff. The grain is then commingled and then there has been something that has gone slightly wrong at port between Indian specifications and Australian, and AQIS, probably quite rightly, would not let it out of the country.

**CHAIR**—Good on them, that is what they are there for. But before it got to the ship, whoever is contracted to provide the service for getting it to the ship surely has to take responsibility for the contractual arrangements of sampling and it ain't the pool.

**Mr Woods**—I follow your logic but I do not think it is something for us to answer on their behalf.

**Senator O'BRIEN**—You say that AWB(I) has since been successful in tendering for more contracts with India?

**Mr Woods**—That is my understanding.

**Senator O'BRIEN**—Are all the problems behind us now, the issues of specifications sorted or can we expect to—

**Mr Woods**—It would appear so.

**Senator O'BRIEN**—You think it might be that that is the case, but you don't know?

**Mr Woods**—Unless something gets to port and it is outside specifications, and then they would probably move that somewhere else and bring other wheat in—that is how the system works.

**Mr Besley**—But as far as we know, they have resolved the issue of standards. It is a market which at the moment they are estimating at the value of \$300 million, and they have been successful in securing further tenders.

**Senator O'BRIEN**—Which would be very important if we do not get the Iraq contracts.

**Mr Besley**—They are different grades of wheat.

**Senator O'BRIEN**—Different grades of wheat, so it does not replace the lost Iraq market.

**Mr Woods**—Iraq is mainly an AH market; India is basically an ASW grade type market.

**Senator O'BRIEN**—Page 5 includes a section on national pool trusts. How do these trusts work?

**Mr Woods**—That is something that we are looking at in greater detail. The trust arrangement was something that came up late in the time that the WEA was preparing its performance monitoring report and will report more fully on that. We are investigating that at the moment.

**Senator O'BRIEN**—Do you know what happens if AWB(I) is wound up or declared bankrupt with these trusts?

**Mr Besley**—No, we don't. As I think we said somewhere else, maybe the last time here, that we do not understand it sufficiently well. Although we have made a preliminary comment about it under the heading of 'current issues' we need to have more and better particulars in order to fully understand it, and that is one of the issues that obviously we do need to know about.

**Senator O'BRIEN**—You do say to growers in your report on page 6:

One of the main objectives of the trust structure is to ensure that in the event of insolvency, creditors of AWB(I) in its own capacity rather than as trustee of the trust are prevented from having recourse to the national pool trust. AWB(I) is however entitled to recover expenses incurred in relation to that trust in its capacity as trustee.

Can you explain how this would provide better protection for growers given that AWB will still be able to recover its expenses from the trust?

**Mr Besley**—That is, as I said, an interim comment by us on our current understanding of the trust. We need to know more about it. As you will see, we have said at the bottom of that section you are looking at that the pool continues to be run to maximise returns to growers delivering wheat to it. That is our understanding. But we do need to fill in some of the blanks in our understanding and we are seeking information.

**Senator O'BRIEN**—I just cannot see that caveat in the report to growers. Can you show me where it is?

**Mr Besley**—You cannot see which?

**Senator O'BRIEN**—The caveat that you give us now about your understanding of these national pool trusts.

**Mr Besley**—Right down at the bottom of page 6 in the last paragraph above 'Storage and handling' it says that the trust structure that has been set up differs from an ordinary standard family discretionary trust. The pool business operated by the trust continues to be run to maximise returns to growers delivering wheat to it. That is what we have been informed and that is what we need to be sure is correct.

**Senator O'BRIEN**—Yes, but you do not say and there is no equivocal statement there. There is no suggestion that the jury is out in your minds about these issues and that you are investigating. It seems quite an unequivocal statement on the face of it.

**Mr Besley**—Perhaps we should have said that we are getting more details. Some time ago I said that what we have attempted to do this time differently from all of the previous growers reports is to give it an updated appearance by saying what is happening now given the fact that we are reporting on a pool that is 2003-04 et cetera. Perhaps we were remiss in not saying, 'We want more information on this,' which in fact is what we have sought and which we will cover in the proposed addendum to this document.

**Mr Woods**—It was probably an unfortunate editing error that we left out that that would be considered in the addendum report.

**Senator O'BRIEN**—An editing error—so it was in there and you took it out?

**Mr Woods**—Or probably never put it back in or never put it in in the first place.

**Senator O'BRIEN**—You see, someone reading that would not understand the concerns you have and the investigation you believe you need to do into this issue. This is a report to growers for which they pay.

**Mr Besley**—That could well be, Senator, but we will have that addendum out to growers before the end of next month. We will recover that ground, hopefully, by doing that.

**Senator O'BRIEN**—I suppose some growers might come back to you and say: 'We have made our submissions to the government's review without understanding this. This is another problem with the operation of the current arrangements and you did not tell us. You did not tell us that you were not certain about issues surrounding this matter and it was under investigation.'

**Mr Besley**—They could.

**Senator O'BRIEN**—It does not concern you?

**Mr Besley**—Yes, if that becomes an issue it certainly would concern me.

**Senator O'BRIEN**—It is an issue in my mind that you did not tell them.

**Mr Woods**—I think in here we say that, for growers, certainly, there is not a huge deal of difference between the previous structure and this structure because they stay as unsecured creditors. That is the thing that growers would be looking for—the change in their money. That has not changed. The deal with the trust is that AWB is insulating this pool from liabilities of a previous one that may be incurred.



**Senator O'BRIEN**—You think.

**Mr Woods**—On the information we had when we printed this report.

**Senator O'BRIEN**—Yes, but all of the answers we have had so far on this issue indicate to us that you are investigating and in some respects you do not want to make an absolute commitment on the matter until you have investigated.

**Mr Woods**—That is correct.

**Senator O'BRIEN**—Again on page 6 this report says that AWB appears unable to use its market power to significantly influence country storage and handling costs. It is interesting that AWB(I) actually pays more per tonne to AWB Grain Flow than it does to other storage and handling providers. Am I to understand that you are saying that even with its dominant position in the marketplace, AWB is unable to deliver lower cost for pool participants by negotiating advantageous deals on country storage and handling?

**Mr Woods**—We specifically looked at country storage and handling as opposed to port. We know that there are separate arrangements at port, but with the timeframes to include this—and we will be looking at this in more detail in later reports—what you have said is correct.

**Senator O'BRIEN**—AWB appears unable to use its market power. Is that what they told you?

**Mr Besley**—That is our analysis. They would not tell us that.

**Mr Woods**—It is our analysis. We collected storage and handling agreements from a number of service providers, non AWB(I) exporters, and did the analysis.

**Senator O'BRIEN**—On page 8 of the report you outline some of the impacts of the current drought affected pool of changes to the OPI cap and the increase in the WIB out-performance hurdle. You state that the Wheat Export Authority is examining the issue and will report to growers early this year. Has that work been proceeding?

**Mr Woods**—Yes, it has.

**Senator O'BRIEN**—Has the authority made any preliminary findings about the impact of these changes on the pool?

**Mr Woods**—No.

**Senator O'BRIEN**—When will you be reporting to growers?

**Mr Woods**—We will be reporting to growers that our current timeframe is to have the growers report on our website on 23 March and it will be mailed out, all going well with printing, on that same day.

**Mr Besley**—That is the addendum.

**Mr Woods**—That is the addendum report to growers.

**Senator O'BRIEN**—So when will work on the effect of drought on the pool and those other matters I referred to be completed?

**Mr Woods**—We are trying to complete that as we speak. We have to get information from AWB(I) and to do proper analysis we are looking at other external sources of data. We are getting that data in at the moment but until we get it we will not sit down and analyse it until we have enough information to start to look at it properly.

The board has also said to us that if we cannot complete it and do the analysis properly, to carry it over to the next PMR report. But that is not something that we particularly want to do so we are working feverishly to have this done. Setting ourselves a task of one month basically from today to have the PMR report to the minister is massive.

**Mr Besley**—Addendum.

**Mr Woods**—Addendum.

**Senator O'BRIEN**—The figures on remuneration per tonne contained in figure 5 on page 7 seem extraordinary whether you use the 2003-04 model or 2006 model. The remuneration per tonne in a drought year is more than double that received in a normal year. Any comment?

**Mr Woods**—That is affected by the size of the export pool. This was only a calculation based off what was being spoken about at that time; that AWB(I) would receive approximately 4,000,000 tonnes of this year's crop to export and the analysis speaks for itself.

**Mr Besley**—You would be aware that the fixed costs of operating the pool, which were around \$60 million, have been announced as coming down to that lower figure because quite a number of the services they used to provide will not be provided in future. We have a record of what those are. Whether that will continue on beyond the drought year or not we do not know at this stage, but we are reporting on the facts as they are. This is an initiative taken by AWB(I) just to reduce that base cost, by cutting out the services.

**Senator O'BRIEN**—It is a pretty good position for a business to be in. The farmers take all of the risks of the drought and the monopoly exporter simply gets to load up their costs and bears no burden.

**Mr Besley**—In fairness, I think what they have done is reduce that fixed cost so that—

**Senator O'BRIEN**—Only after people were saying they would not put their wheat in the pool.

**Mr Besley**—Whatever the reason was, they have done it. I am not defending it; I am simply telling you what our understanding is of what happened.

**Senator O'BRIEN**—It demonstrates in this context extraordinary market power for the monopolists. It is extraordinary.

**Mr Besley**—It does.

**Senator O'BRIEN**—But they are doing less work. So they are saying: 'We'll just pass on all of our business overheads in higher charges. That is what we have guaranteed ourselves, negotiating between AWB and AWB(I).'

**Mr Besley**—Are you advocating the abolition of the monopoly?

**Senator O'BRIEN**—I am saying that it is an extraordinarily beneficial arrangement negotiated between related parties and paid for by wheat growers.

**Senator Abetz**—I think there is an obvious point: that monopolies usually do have a fair degree of power.

**Senator O'BRIEN**—In this case, it is a monopoly which is created by legislation. The legislation provides no protection against that power.

**Senator Abetz**—It does not matter how a body gets its monopoly status—that is the nature of the monopoly.

**Senator O'BRIEN**—It is not the ACCC that monitors this body; it is the Wheat Export Authority, isn't it?

**Mr Besley**—We monitor the way it manages the pool, yes.

**Senator O'BRIEN**—The way it has managed the pool in this case is that it has insulated itself against the vagaries of climate and has loaded all of those costs onto growers.

**Mr Besley**—There is a bit of history in this. The base fee used to be a more flexible fee. But then the 2004 report review recommended that it ought to be a fixed fee. You may recall that the Wheat Export Authority did a lot of work some years ago to establish whether the fixed fee that emerged from that consideration of the 2004 pool recommendation was a reasonable figure. Given the services which were provided, our investigation was that it was reasonable. The problem is, of course, that, when you get a drought year, the \$60 million or whatever it is sitting there has to be spread over fewer tonnes. So, in its wisdom and to meet concerns, the AWB(I) decided to cut the basic cost. But you cannot do that without cutting out services. They have announced what services they are cutting out, some of which are quite significant. For example, there is \$5 million on international marketing, as I remember. There is a whole raft of these things. They have been upfront and said, 'We'll reduce it, but, in reducing it, these are the services we will no longer provide.'

**Senator O'BRIEN**—I suppose you can afford to reduce international marketing in years where there is an international shortage, you would think. What does the Wheat Export Authority think about that?

**Mr Woods**—Our understanding is that they have reduced staffing levels right across the board and there are smaller allocations of AWB staff costs against the base fee as well. So the \$20 million is basically in salary cost reductions in the services provided by AWB Ltd to AWB(I).

**Senator O'BRIEN**—So that part of their logistics chain cost that they charge has remained?

**Mr Woods**—It is a whole range of services where they are reducing their staffing levels.

**Senator O'BRIEN**—Where they are reducing the staff? I thought you just said that the reduction in the charge reflects a reduction in staffing that they have implemented. Obviously part of their cost structure is based on the cost of their own infrastructure. What I am saying is that it sounds like they have made no concession in relation to that—the full contribution for that infrastructure is being made by growers. It sounds like that is what you said. I am asking you whether that is a fair understanding of what you said.

**Mr Besley**—They have announced in specific terms where the costs are reduced and we can provide that to you; it is a public document. I do not know if we have one here with us, but it certainly can be provided. It is a detailed list of the cost productions that have been given effect to to bring the base fee down to \$39.5 million. Their chairman, Brendan Stewart, has foreshadowed further cost reductions.

**Senator O'BRIEN**—We look forward to more than an outline, but a detailing of those. The point you make on page 7 in relation to export grain logistics is an interesting one. If AWB and its partners were able to provide the ACCC an estimate of the public benefit that would be obtained through this venture, why is it unable to provide the Wheat Export Authority with an estimate of the financial cost benefits of this operation to pool participants?

**Mr Besley**—You would have to ask them that. We asked for that information because that was their claim and we wanted to check it. Our role is to make those inquiries and to report what we find. We cannot direct them, so we have done just that.

**Senator O'BRIEN**—Have you had a satisfactory answer yet?

**Mr Besley**—No, they just said it was going to take longer.

**CHAIR**—Which goes to Mr Coles' point – you need a bit more oomph.

**Mr Woods**—We have asked the question; we have reported it here, originally in 2004. We raised it, we thought it was time to look at it; it is out there for the world to see. I believe we have done the right thing.

**Senator O'BRIEN**—I have not disagreed. It is amazing that games are being played about this where they have been able to play games with the ACCC. This is about your powers as the Chair points out, is it not?

**Mr Woods**—I think this comes down to a joint venture between the partners that they need to be saying, 'Why have our savings not been realised?' and is at this current stage for the WEA not a direct link to the pool. But as a current issue and something that we looked at before, we felt it needed to go in here.

**Senator O'BRIEN**—On page 9 you say:

...although AWB(I) continues to use the advantages of the Single Desk to price discriminate across markets and National Pools, premia are declining.

You go on to say:

AWB(I) achieved lower premia for the major volume grades...

Can you elaborate on this? Why are premia falling?

**Mr Woods**—The premiums are falling as a number of things are happening in the market as grain, wheat in other countries, improves in quality, transport differences happen all the time. In this particular case if you are looking at figure 9 on page 9 the costs of risk management and pool are deducted from that.

**Senator O'BRIEN**—AWB uses the WIB to measure premia; you used other measures as well. In your view as the WIB is currently structured, does it provide an accurate measure of any premia achieved?

**Mr Besley**—You will recall the history of the WIB. It is established by an independent consultant. We have had the benefit of listening to the consultant explain how the basket of wheat was derived on our own, i.e. without AWB(I) being there, so it was a free and frank discussion. Many commodities base themselves on a basket and this is therefore not untypical. I understand that AWB(I) is itself considering whether in fact the WIB as it is currently structured has outlived its usefulness and is looking at other measures. If it decides to adopt another measure it will tell us what that is and we will be able to compare premia against that new measure if it emerges, and continue to compare it against the information we have separately, from whatever that measure may turn out to be.

**CHAIR**—And who pays the consultant?

**Mr Besley**—They did—AWB(I).

**CHAIR**—They paid the consultant to work it out. You are as independent as the person who pays you.

**Mr Besley**—Yes, I suppose that is true.

**CHAIR**—This is dodgy brothers.

**Mr Besley**—The explanation given to us—

**Senator Abetz**—When you say that, you would not believe any audit report ever.

**CHAIR**—You are the lawyer, Minister.

**Senator Abetz**—It is not lawyers. It is just common sense that that is what happens.

**CHAIR**—I know. The more you know, the worse you feel.

**Senator O'BRIEN**—We do not know who the auditor was or what their connection was.

**CHAIR**—That is right.

**Mr Woods**—In this particular case, the WIB is an internal benchmark for AWB. It has not been independently audited, but every year they look at it. It has to be a basket of goods. Let us say it would include wheat on the Chicago Futures Exchange because they can get the daily prices on that and there is liquidity in it so the other baskets in there are like that. They bring in statistics and look at correlation coefficients to see which grades in the world best suit our Australian grades. We all know from way back, from farming, that corn is quite often used to offset some feed wheats in different countries. It depends on how well the correlation statistics stand up as to whether that happens for a year, a month or three weeks. So it actually is a really complicated model.

**CHAIR**—But is that something that perhaps you blokes should do?

**Mr Woods**—With a lot more funding.

**CHAIR**—Yeah. I accept all that.

**Senator O'BRIEN**—How much more funding would you need to do that?

**Mr Woods**—This is really specialised stuff to be looking at these sorts of things. The WEA is not aware of what it costs AWB to have this sort of analysis done all the time.

**Senator O'BRIEN**—I thought the chairman was talking about analysing the basket of goods that would make up the WIB. How much would it cost for you to do that?

**Mr Woods**—It is not just analysing those baskets. You need to have a look at everything else that is available—other wheats—to do the correlation to make sure that, according to the people you get to check it, they have chosen the best grains.

**CHAIR**—Wouldn't you feel better about it if they were your people, as it were?

**Senator O'BRIEN**—Wouldn't it have more authority if you did it than if AWB did it?

**CHAIR**—You could say there is a slight conflict of interest here.

**Mr Woods**—I think that comes back to what we were talking about earlier. An auditor audits a company, so does he have a conflict of interest because that company pays the auditor?

**CHAIR**—It is not quite the same. The concept of an auditor in most respects is that they ask, 'Are the books being cooked?' as it were. This is making a judgement which goes to how much the people being judged are going to get paid in the long run.

**Mr Besley**—I think you need to look at the history of this a little bit.

**CHAIR**—Yeah.

**Mr Besley**—AWB said, 'We have to have some measure we can judge ourselves against. Let's try and find one.' They went out and independently got advice on that, and this is what they ended up with. As I said, they are now considering, because they mentioned it last time we talked to them, that perhaps that particular model has outlived its usefulness and they ought to find another one.

**CHAIR**—I am not saying for a minute that there is anything wrong with what has happened, it is just that it would appear to me to be better for you if you were paying the piper.

**Mr Woods**—In that case, and I suppose if we are analysing them against the WIB and we have analysed non-I exporters against the WIB, it does not matter whether you think the benchmark is a good one or not, as long as you are analysing everyone against the same benchmark.

**CHAIR**—But it does matter if your incentive payment as an individual is in some ways influenced by it.

**Mr Woods**—That comes back to the hurdle rate.

**CHAIR**—In that regard, they have been generous enough to put all of the bribe money in to bulk up the incentive package. I would have thought that was quite creative and it does not stand public scrutiny. Anyhow, as you say, you are the auditor, by gee, you are as independent as the person who pays you, which is the problem.

**Mr Besley**—They did not pay Commissioner Cole.

**CHAIR**—That is for sure.

**Senator O'BRIEN**—That raises another subject, but I might come back to it. On page 10 you state:

AWB underperformed in its commodity hedging in 2004-05 by a \$1.36 per tonne, and that this result reduced AWB's OPI payment.

Presumably it also reduced grower returns.

**Mr Woods**—The theory is sound.

**Senator O'BRIEN**—Is there a theory?

**Mr Woods**—The thing is that you cannot look at commodity hedging on its own. You have got to look at the foreign exchange and the sales price. They all go together to form the end price that the growers get. Without doing any commodity hedging or any foreign exchange, the growers could be in a far worse position.

**Mr Besley**—There is a view, of course, in some quarters that you should not have to be relying on your skill as an exchange dealer or foreign currency dealer to make money for the pool. But the point is that, since they do it, we report on it and say how they doing. By and large, they have done a pretty good job.

**Senator O'BRIEN**—Do you see this underperformance—you may have answered this with your last statement—as an ongoing issue that needs attention and change within AWB or is it just a one-off?

**Mr Besley**—I would not like to forecast. I think if you go back over the years their track record is not too bad. They are an active not a passive manager. They have a policy, but they do not do it passively—they do it actively. They have done, as I said before, by and large a pretty good job, but on this particular occasion they were a bit below where they had been in the past.

**Senator O'BRIEN**—On page 12 you raise a number of concerns about AWB Ltd Chartering. You state:

The success fee paid by AWB(I) to AWB Ltd Chartering has varied between 2.6 and four per cent over the past four years, while the industry norm brokerage chartering fees is around 1.25 per cent.

AWB defends this by saying that AWB Chartering is a full service provider, not just a broker. I take it the Wheat Export Authority is not convinced about this distinction?

**Mr Besley**—That is correct.

**Senator O'BRIEN**—Are growers getting value for money out of AWB's chartering arrangements?

**Mr Woods**—That is for growers to decide. We have only reported on it as we see it.

**Senator O'BRIEN**—They are paying well and truly above market rate, according to my understanding of your report.

**Mr Woods**—That is correct according to our analysis, and that is correct.

**Senator O'BRIEN**—How much does that amount to?

**Mr Woods**—I think we have tried to put some numbers down the bottom in figure 13. No, I am sorry—we did look at that but did not publish the figures.

**Senator O'BRIEN**—Is there any particular reason?

**Mr Woods**—Because we could not guarantee that the way that we were averaging and the cash flows that we were working on could be accurate at that particular stage.

**Senator O'BRIEN**—Roughly how much a year is being charged as a success fee?

**Mr Woods**—I suppose if you look at it, if you said that chartering is achieving 50 per cent—and it is not quite achieving that, from memory—and looked at the years past and then did the sums that 50 per cent of export grain at 1.25 per cent at, say, a \$200 sales prices compared to 50 per cent of the grain at four per cent, it is a big difference.

**Senator O'BRIEN**—Are we talking about many millions of dollars?

**Mr Woods**—Yes.

**Senator O'BRIEN**—Many millions of dollars which AWB are taking from the pool and therefore growers?

**Mr Woods**—In the WEA's analysis written here, correct.

**Senator O'BRIEN**—On page 13 you raised a number of concerns about the costs that could fall on AWB International and therefore pool participants as a result of the termination provisions contained in the 2004 services agreement. Can you take the committee through each of those concerns and the implications that these provisions have for growers?

**Mr Besley**—They are all there in dot points. They could be required to reimburse AWB for costs beyond the expiry date of the agreement. If the agreement is terminated, this break-fee deal that is currently in the agreement is triggered. The exit costs, which they are called in the agreement, are uncapped, unspecified. The basis upon which the thing could be triggered is not all that clear. Furthermore, if AWB ceases to carry on a business, that is another reason or, alternatively, if the agreement between the two is not renewed in similar terms then that is also a cause for a claim like this. It is a very horrendous document actually.

**CHAIR**—How would, once again, an independent person sitting at the back of the courtroom see that it was not seriously skewed against one party?

**Mr Besley**—I think they would be very upset and very concerned that such an arrangement could be negotiated at so-called arms length between two—

**CHAIR**—And blind Freddy could see that.

**Senator O'BRIEN**—It is a rort, is it?

**CHAIR**—So how could the dual directors of this company get away with that?

**Mr Besley**—Well, as Peter said before, we were concerned not only at the substance of the agreement but as to how the agreement came into place. One of the views we thought might be worth exploring was: has it legally been achieved; is there something fundamentally flawed in the process that was followed? The advice that we got from the Government Solicitor is that it was done properly and therefore it was a valid agreement.

**CHAIR**—Did you say earlier that in these discussions on the break fee the appropriate directors excluded themselves from the discussion?

**Mr Besley**—That is what Peter said and, yes, that is correct.



**CHAIR**—Wouldn't everyone be excluded? If you are on this side arguing for the growers and another lot of people are saying, 'You can exclude that bunch,' and the other side are arguing for the shareholders, who would you be left with?

**Mr Besley**—You have independent directors.

**Mr Woods**—You have independent directors on the AWB(I) board.

**CHAIR**—How many are they?

**Mr Besley**—Three.

**Senator O'BRIEN**—So when did the authority first become aware that the risk to growers under the 2004 agreement were significantly greater than those under the previous agreements, such as the 1999 services agreement?

**Mr Besley**—When we were able to get a copy of it following our being alerted by Grains Council that there was another agreement out there. There had been agreements in the past. For example, the 1999 agreement had a termination sort of clause in it but it was capped and it was not as open-ended as this one, nor would it have been triggered if AWB(I) and AWB had not continued in a relationship on much the same terms. So the concept of such an arrangement is not brand-new. Between that and the current one there was an agreement which did not have a termination provision in it at all. That was probably, they would argue, an oversight. But when the current one—which is to be renegotiated, remember—was established, it had all those clauses in it that caused us to be concerned and caused us to report to the minister and make a comment publicly about the nature of that agreement.

**Senator O'BRIEN**—When were these concerns first raised with the minister or the department?

**Mr Besley**—As soon as we heard about it we wrote him a letter and told him.

**Senator O'BRIEN**—As soon as you heard about this or as soon as you got a copy of it?

**Mr Besley**—As soon as we got a copy of it and were able to look at it. You need to be sure about what you are writing about, so we had to have the document in our hand.

**Senator O'BRIEN**—Sure.

**Mr Besley**—We got it pretty quickly when we asked for it.

**Senator O'BRIEN**—I was asking for it to be clarified because you gave me alternative possibilities in your earlier answer. I just wanted to be clear. As soon as you were physically in possession of a copy of the 2004 services agreement, almost immediately on seeing the problems you wrote to the minister?

**Mr Besley**—Yes, we had the same discussion at the last estimates, Senator, you may remember. Would you like me to turn up the *Hansard* and go over it again?

**Senator O'BRIEN**—I would be happy if you could turn up the *Hansard*.

**Mr Besley**—Well, we did. We went through all of this last time. I do not quite see what point you are coming at now.

**Senator O'BRIEN**—I am simply being absolutely clear about the process that has occurred in relation to the matters you reported to growers in the growers report. That is what I am doing.

**Mr Besley**—Okay. We were alerted by the Grains Council; we sought a copy of the agreement from AWB(I); we got the copy; we had it looked at internally; the board looked at it and said, 'It does not look too good, but we had better be sure that, before we go saying too much, that we check that our view of what it means is correct legally'; we did that pretty quickly; having done that, we wrote to the minister and told him; and then, shortly thereafter, we put out a press statement. That was about August last year, as I remember; 29 August.

**Mr Woods**—That is correct.

**Senator O'BRIEN**—You state on page 14 that AWB(I) would not be liable for exit costs if the default mechanism comes into play and that default is understood to include any breaches of Australian law. How does this default mechanism work?

**Mr Besley**—We put that in there—the words 'default is understood to include any breaches of Australian law'—in case it emerged from the Cole inquiry that there had been a breach of Australian law and in case this whole thing began to collapse. It was something that we thought ought to be known that, if there was a default, AWB(I) would not be liable to pay any costs. In other words, the agreement would be expunged; be null and void. We were simply reporting what our legal advice was.

**Senator O'BRIEN**—So default is AWB Ltd being unable to be party to the agreement because of some breach of Australian law in part?

**Mr Besley**—That would be one of the reasons.

**Senator O'BRIEN**—What other reasons?

**Mr Besley**—We specifically asked, actually, whether a breach of an Australian law would constitute a default within the terms of the meaning of the agreement between the two parties and our understanding following our advice is that it would. I am not sure how many other default triggers we have or had, and I would need to look back to see whether there was a catalogue of those. If there is, we would be happy to take that on notice and provide it.

**Senator O'BRIEN**—Thank you very much for that. Your conclusion on page 14 is that the 2004 agreement is unlikely to maximise benefits for growers. That seems to fly in the face of the basic objectives of AWB in its constitution. I take it the Wheat Export Authority stands by the statement on page 14.

**Mr Besley**—Yes, we do. We have told AWB(I) that. In fact, we had a face-to-face meeting with the chairman of AWB(I) about this agreement and at that time he said to us, 'The agreement is going to be renegotiated anyway'. We asked, 'When is that going to happen?' and he said: 'We are not sure. We hope it will be done by some time in November'—last year—'and it will be backdated to October.' That has not happened yet. When it does happen the intention of AWB(I) is to make it public and when that occurs we of course will report on it in the next opportunity we have to report to growers.

**Senator O'BRIEN**—Every grower will be able to see it, will they?

**Mr Besley**—That is the idea.

**Senator O'BRIEN**—They can announce their intention.

**Mr Besley**—Yes.

**CHAIR**—Mr Donges is no longer a director on AWB Ltd is he?

**Mr Besley**—He is the chairman of AWB(I). I do not think he is on AWB Ltd.

**CHAIR**—But he is not a director of AWB Ltd?

**Mr Besley**—No.

**Mr Woods**—No.

**Senator O'BRIEN**—Have you been made aware of speculation that this new services agreement between a demerged AWB(I) and AWB Ltd will operate for a period of three years; that all services will remain bundled and there will still be a significant break fee?

**Mr Woods**—It is my understanding the services agreement is currently on hold for renegotiations. With the government introducing the current commission and way forward with wheat marketing arrangements, the negotiations have been put on hold.

**Senator O'BRIEN**—So there will be no new agreement until the middle of the year if at all?

**Mr Woods**—Correct.

**Senator O'BRIEN**—What is the status of the 2004 agreement? Has that expired?

**Mr Besley**—No it stands.

**Mr Woods**—The chart we have got on page 13, Figure 14, shows the 2004 services agreement does not expire until 30 September 2007.

**Senator O'BRIEN**—Yes.

**CHAIR**—So what is the protection back the other way? There is a very nice protection there for the shareholders in AWB Ltd in this agreement, as we discussed earlier. What is the protection for growers? Given the ASIC obligation to the shareholders and the constitutional vagary of protection of the best interests for growers, where can you read into all these agreements and break fees and things performance protection for the wheat growers?

**Mr Woods**—As far as sales price?

**CHAIR**—As far as anything, any protection?

**Mr Besley**—It is done through AWB Services which is a structure set up. It is an agreement to provide services so that AWB(I) can operate. Now I would have thought in the negotiation between the two bodies which, as Peter says, is on hold and given that AWB(I) now has a lot of its own staff, some of the things which used to be covered by the services agreement as being those which were provided by AWB Ltd to AWB(I) would not be necessary. I cannot answer your question. I do not know—

**CHAIR**—I am sure Australia's wheat growers do not know the answers; the bulk of them do not know anything about this stuff.

**Senator ADAMS**—They are not allowed to know.

**CHAIR**—I wonder who is paying the people who are now in AWB(I) that are independent of AWB Ltd?

**Mr Besley**—AWB(I).

**CHAIR**—Where are they getting the money from?

**Mr Besley**—I think AWB Ltd gave them a start grant.

**CHAIR**—God help us. Isn't it quaint?

**Mr Woods**—Just coming back to who is funding the shareholders and funding all of this. As you are aware there are A and B class shares and the B class shareholders—68 per cent—are growers, so they have got a foot in both camps.

**CHAIR**—That is a very quaint argument.

**Mr Woods**—I am just giving you the facts as they are.

**CHAIR**—That argument is old fashioned and out of date. I mean, it was 100 per cent.

**Mr Woods**—It was.

**CHAIR**—Dad dies and leaves the shares to the girls and they want to do the kitchen up, there will be less and less.

**Mr Woods**—Stuck in the middle of a drought and need the cash flow.

**Senator O'BRIEN**—The boys may want to do the kitchen up as well.

**CHAIR**—The boys might want to renovate the toilet!

**Mr Woods**—They want a new tractor.

**Senator O'BRIEN**—I think the girls might want a new tractor as well. You have to be careful about this.

**CHAIR**—But I am saying that, as the share register is devolved—you never know, the boys might want the farm and the girls might want the shares—God knows what they all might want—it is only going to get less and less and less. As we all know, less than 50 per cent of the business of AWB Ltd is anything to do with wheat. Where is the protection for the growers in all this wisdom?

**Mr Woods**—I believe that is why AWB Ltd and AWB(I) are separating, to give you some clarity on this.

**CHAIR**—Don't take the lead from me; don't get stirred up.

**Senator O'BRIEN**—I want to look at the chart that you referred us to—Figure 14. The repeated renegotiations of the services agreement, very early in the ongoing agreement—that seems rather extraordinary given that the 2004 agreement was renegotiated almost two years before the existing agreement expired.

**Mr Besley**—We share your wonderment. All we can do is be aware of it and report on it. We were not last time because they did not tell us, but we cannot say 'Hold on, why do you keep renegotiating?'

**Senator O'BRIEN**—But did they tell you why they needed to do that? Did you ask them?

**Mr Besley**—I do not think they did.

**Senator O'BRIEN**—Do you know if you asked them?

**Mr Besley**—I cannot answer that.

**CHAIR**—Anyhow, it is now time for lunch.

**Proceedings suspended from 1.01 pm to 2.01 pm**

**Mr Besley**—Mr Chair, could I clarify a point in relation to the revised services agreement? I am advised that we wrote to the minister before we had actually seen the revised services agreement; it was as soon as we heard about it. That was on 13 April 2006. Then we set about getting a copy of it and having it looked at by ourselves and the lawyers, and we wrote finally on 15 June saying, 'Minister, this is the story in the new agreement.' I thought I had better clarify that.

**Senator O'BRIEN**—What was the minister's response, if any?

**Mr Besley**—He wrote back on 30 June saying, 'We should examine and report to growers on the changes to the determination provisions of the service agreement.'

**Senator O'BRIEN**—That is all?

**Mr Besley**—Yes.

**Senator O'BRIEN**—On page 15 of the growers report, you state that the authority believes that OPI payments should depend on AWB Ltd's performance exceeding the hurdle rate rather than just the WIB. Can you elaborate on this?

**Mr Woods**—It has always been the WEA's point that the hurdle rate should be exceeded. AWB Ltd are able to get an outperformance payment under the hurdle rate. There are two tiers in the system and we did not include what was commonly called the aeroplane tail in this year's report—the levels between which AWB Ltd can get an outperformance payment. In this particular pool year, the hurdle rate has been lifted.

**Senator O'BRIEN**—The hurdle rate has been lifted because of the international market.

**Mr Woods**—My understanding is that the hurdle rate has been lifted, and we do state it in the growers report, from \$5 to \$7.50 in a negotiation between AWB(I) and AWB Ltd because a lot more wheat will be sold on the domestic market and to help cap the outperformance incentive. AWB(I) and AWB Ltd came out and have capped the hurdle rate at \$8 million or \$2 a tonne, whichever was reached first.

**Senator O'BRIEN**—Have you had discussions with the minister or the department about AWB Ltd's performance exceeding the hurdle rather than the WIB?

**Mr Besley**—No, we have not. It is up to us to raise these issues, which we do, but we do not seek guidance. If we need to tell the minister something, we do obviously and he in turn no doubt seeks advice from his department as he thinks he needs to.

**Senator O'BRIEN**—You also raised an issue on page 16 in relation to an error made by AWB that resulted in AWB understating the WIB for 2004-05, which apparently you uncovered, not AWB's own auditing processes. You say that AWB Ltd has not made a

payment to AWB(I) reversing the impact of this error. Has AWB now taken action to ensure this problem will not recur?

**Mr Woods**—It was an error that I believe somehow was overlooked, because we were looking at some different sorts of analysis in that particular year and we were doing some different things. I think it actually resulted in us doing the analysis on page 9 that resulted in the figures such as figure 9. I think AWB is looking at how the error occurred, trying to ensure it does not happen again.

**Senator O'BRIEN**—Are you now satisfied that AWB has the appropriate audit processes in place?

**Mr Woods**—Yes.

**Senator O'BRIEN**—On page 19 you said that the Wheat Export Authority has difficulty determining if AWB's Shaping the Future strategy is meeting its deliverables. Why?

**Mr Woods**—We also go on there to say that this is the first year of the Shaping the Future strategy. If you look at figure 18 on page 19, one of the problems is that the goalposts have been moving and we have reported it there. I think you could say that Shaping the Future with the cutbacks might be something that could go.

**Senator O'BRIEN**—Is AWB providing sufficient information to allow the Wheat Export Authority to adequately assess this program?

**Mr Woods**—We believe so. They certainly provided information to us on this in a timely manner, and of course we kept asking them questions on different areas so that we could complete our report.

**Senator O'BRIEN**—On page 21, you draw attention to the object of the company. You say that AWB is to be primarily engaged in grain trading. I am led to believe that AWB Ltd now only draws 40 per cent of its gross revenue from grain trading. Is this of concern to the authority?

**Mr Besley**—No, all we can do is note it. That is a matter really for the directors and in turn the shareholders of the company. It is clear that AWB, the group, is seeking to broaden and diversify its activities. Buying Landmark was a significant move. All we need to do is be aware that that is happening. If we believe it affects the way the growers are being affected, then obviously we would report on that. It is not really up to us to tell a publicly listed company what it should and should not do.

**Senator O'BRIEN**—So is this part of the reason, Mr Besley, that your chairman's letter calls for changes to the legislation to require the authority to only be required to consult with AWB on applications by other exporters of bagged and containerised wheat when the Wheat Export Authority considers it appropriate?

**Mr Besley**—We think that makes sense. As I have said before, here we are talking about non-AWB(I) exporters which do not account for a large percentage of the crop. It was a recommendation of the 2004 panel having heard our views and those of the AWB group. It is one which, according to the act, AWB(I) has a right to be consulted about and it thinks it should retain that right. The only way that right can be taken away is for the act to be changed

or for it to agree that by an exchange of letters it would waive it, but so far it is not prepared to do that.

**Senator O'BRIEN**—Can you take the committee through the findings of the authority's analysis of the prices obtained by non-AWB exporters of bagged and containerised wheat as compared to those obtained by AWB and with the WIB?

**Mr Besley**—What we are saying is that there is some evidence in some markets that non-AWB(I) exporters are getting better prices than AWB(I). AWB(I) disputes that. We have done as thorough an analysis as we can and that is our conclusion. That is not in every market, and there is just some evidence. It is not—

**Senator O'BRIEN**—So the independent finding disagrees with the claims of AWB in that regard.

**Mr Besley**—In what respect?

**Senator O'BRIEN**—You say that the AWB disagrees with your finding.

**Mr Besley**—They dispute that, yes.

**Senator O'BRIEN**—The Wheat Export Authority is the independent body, is it not?

**Mr Besley**—We are, yes.

**Senator O'BRIEN**—So if you found that then we should rely upon your finding and not theirs.

**Mr Besley**—You can argue about that, I suppose.

**Senator O'BRIEN**—I am sure the chairman would agree with me on that. He is not listening. He is not interested—

**Senator Abetz**—It may be of interest but irrelevant to this hearing.

**Senator O'BRIEN**—I am sure it is very relevant to find that the chairman is not listening. It allows me to know what sort of latitude I have.

**CHAIR**—Do you want me to tune in?

**Senator O'BRIEN**—Yes. So at least in certain markets it seems growers are better off dealing with non-AWB exporters.

**Mr Besley**—That is what the evidence points to, if they can get customers.

**Senator O'BRIEN**—That does not say much about AWB's expertise in marketing bagged and containerised wheat.

**Mr Besley**—In those markets, yes. It is only in some markets that the evidence we have points to that.

**CHAIR**—It is quite clear, Senator O'Brien, that in 2003 we recommended that the market be freed up.

**Senator O'BRIEN**—Thank you for reminding me, Mr Chairman. Other people probably have questions for the Wheat Export Authority. I will take a breather and see what arises.

**CHAIR**—Back to you, mate.

**Senator O'BRIEN**—That is all I will ask then.

**CHAIR**—There you go. Wasn't that exciting! We are done and dusted. Sorry to disappoint you.

**Mr Besley**—No, I am not at all disappointed, Mr Chairman. I just shifted my plane booking to a later flight just in case, but I can reshift it.

**CHAIR**—With a bit of luck we will see you again later.

**Mr Besley**—Yes.

**CHAIR**—And then you can work out whether what is happening at the institute is good or bad.

**Mr Besley**—It will be interesting to see where we are in March because there ought to have been a lot of decisions taken on very important issues.

**CHAIR**—There are great moments afoot.

**Senator Abetz**—Thank you very much.

**Mr Besley**—Thank you, Minister, for looking after us.

[2.14 pm]

**CHAIR**—We will now deal with output 4—Food and agriculture—other.

**Senator O'BRIEN**—I asked a question earlier today about the KPMG review of the National Food Industry Strategy. We will start with that and see if we can get an outline of the major findings of that review.

**Mr Robinson**—The KPMG review was finished in October and it is the subject of budget consideration.

**Senator O'BRIEN**—So?

**Mr Robinson**—So at the moment we cannot tell you about findings because it is under consideration by the government.

**Mr Mortimer**—Essentially it is budget in confidence at this point.

**Senator O'BRIEN**—The review was completed last October.

**Mr Mortimer**—That is right. The budget process starts fairly early in the piece. One of the requirements is that a major review be done of programs when they come towards the end of their funding cycle, which is the situation that NFIS is in. Then that report goes to the cabinet budget committee, the ERC, along with any other documentation and the government makes a decision on it. Essentially what we are reflecting here is the normal government rules for managing government business.

**Senator O'BRIEN**—So is it envisaged that this report will be published at the time the budget is announced?

**Mr Mortimer**—It is essentially the minister and government's decision. I think it is fair to say that often these reports are made public at that point. I will not give an ironclad guarantee because I think at the end of the day it is at the government's discretion.



**Senator O'BRIEN**—More rock solid.

**Mr Mortimer**—Yes.

**Senator O'BRIEN**—On 30 November the agriculture and health ministers issued a joint press release announcing that the government had secured a continuing supply of Q fever vaccine. The press release says that the supply will be sufficient for abattoir workers but will be rationed by CSL to others on a needs basis. Can you now assure me that all abattoir workers, rural vets, farmers, farm workers, cattle truck drivers and saleyard workers who need to be protected from Q fever will have access to the vaccine?

**Mr Murnane**—The management of the existing stocks of vaccine is conducted by CSL. CSL provides assurances that the current stocks of the vaccine will be sufficient to last until the new manufacturing facility comes on stream. The protocols for access to the vaccine are also agreed through the state health departments I believe. So we in this portfolio are not a party to those protocols and the rationing of the vaccine.

**CHAIR**—I know but I do not know whether you know that not everyone can have access to this vaccine because they do not like to break a batch up unless they can use it. They do not like to open a bottle unless they can use it all.

**Mr Murnane**—I am not aware of that particular constraint.

**CHAIR**—If one or two people in Junee say they want to be vaccinated, they can forget it. It depends on the limit of the packaging. If you can organise 20 people then they might get it. I have to declare that I might have had Q fever but I have not had the needle.

**Mr Murnane**—I was not aware at that operational level of how the rationing was being conducted.

**Senator O'BRIEN**—Rationing by the doctor or by CSL?

**CHAIR**—They do not like to waste it. If you opened a bottle and only two people were given an injection and they were 500 miles from Timbuktu then you would have to chuck the rest out. They cannot afford to do that. It is only a matter of getting yourself organised, I guess, like New South Wales farmers or whatever.

**Senator O'BRIEN**—So how would a cattle truck driver do that? They would have to round up a whole lot of other people to get it at the same time.

**CHAIR**—I presume you would say to the mob, 'Register here if you want it. On a certain day you can come in and have your needle.'

**Senator Abetz**—I am sure the readers of *Hansard* will be very interested in this discussion.

**CHAIR**—It is informative.

**Senator Abetz**—Very informative, I am sure.

**CHAIR**—I hope you are listening.

**Senator O'BRIEN**—But Mr Murnane said—

**CHAIR**—If you put your hand up to pull a calf right up on the inside, there is a chance that you will get Q fever, especially if you rub your nose, which I have done plenty of times.

**Senator Abetz**—What? Rubbing your nose?

**CHAIR**—Both.

**Senator O'BRIEN**—One followed by the other hand.

**Senator Abetz**—Any other personal disclosures that you want to make?

**CHAIR**—No, that is enough for one day.

**Mr Mortimer**—Essentially, the management arrangements for this are done through the health department with the states, which I think neither Mr Murnane nor myself know the details of. I would be confident that they must make this stuff available to people as indeed, clearly, there is a strong desire to keep the supplies available. But I am also conscious that the scheme must be rather costly. So I dare say it might be treated with a bit of care in terms of how it is dispensed. But one would hope that no lives are threatened by any rules around access to it. But to go back to your initial question, essentially this department worked with the health department in coming up with new arrangements to ensure the supply of the Q fever vaccine and that was settled with CSL. The funding came from the budget of the Department of Health and Ageing.

**Senator O'BRIEN**—So it is rationed to farmers, judging by the press release. It is outside of the high-risk abattoir workers and those visiting abattoirs. It is rationed. That is how we should understand the announcement by the government?

**Mr Murnane**—That is correct. I believe the last time we spoke about this we provided you with the hierarchy that is used in the decisions about making it available.

**CHAIR**—By the way, there is an immunity that builds up if you do this from when you are a young fellow. If you pull calves from when you are a kid, as it were, your body can build up a resistance.

**Senator O'BRIEN**—I will have to remember that I need to be vaccinated before I do that.

**CHAIR**—Yes. I just want to keep you fully informed.

**Senator McGAURAN**—What medical research is that based on?

**Senator Abetz**—It is the junior farmer's almanac.

**Senator O'BRIEN**—Table 1.3 on page 17 of the PAES lists a saving of \$100,000 for the current financial year against the Australian HomeGrown campaign. Is this the final act in the Australian HomeGrown saga? Has that program now finally been wound up?

**Mr Murnane**—I will be able to provide you with the first part of the answer and I will defer to my colleague for the second part of the answer. With the Australian HomeGrown campaign and company, as we have spoken about in this forum before, that arrangement has essentially ceased or been terminated with the liquidation of Australian HomeGrown Ltd in the middle of last year. So there are no ongoing arrangements for the HomeGrown program, as was initially proposed. We had previously spoken in this forum that Australian HomeGrown Ltd was looking at other business models for delivering on what was expected. It was not able to do that and, therefore, the company was liquidated. The \$100,000 referred to there, I understand, has been transferred to the New Industries Development Program. As

to the current status of activities to attempt to achieve the original objectives of the Australian HomeGrown campaign, I would defer to my colleague, Mr Souness.

**Mr Souness**—As Mr Murnane has said, it was agreed to transfer an amount to the Australian HomeGrown initiative. The amount was \$1.34 million and there is current consideration of an allocation of another \$350,000 that would be rephased through to next year as well as part of that Australian Grown initiative.

**Mr Mortimer**—I think Mr Souness and Mr Banfield described and outlined the Australian Grown labelling initiative at the supplementary estimates late last year. That is a new initiative to make available for logo and badging which would be able to be used to distinguish Australian grown product from imported product.

**Senator O'BRIEN**—Is there any property, intellectual or otherwise, to be disposed of from Australian HomeGrown? Has that been transferred across or what has happened?

**Mr Murnane**—The assets and any intellectual property were disposed of by the liquidator of the company.

**Senator O'BRIEN**—Can you remind us how much the Commonwealth put into the Australian HomeGrown campaign over its life?

**Mr Murnane**—If you would just bear with me for a moment. There was a total of \$765,000 over three contracts.

**Senator O'BRIEN**—And what lessons has the Commonwealth learned from the Australian HomeGrown experience?

**Mr Mortimer**—If I can make a lead-in comment on that. Essentially, if a logo is to work, it needs to be commercially viable. It needs to have support from industry groups who can see that it will meet their needs and it needs to have acceptance by commercial operators, such as supermarkets and other businesses, who are prepared to link in with such initiatives.

**Senator O'BRIEN**—So this sort of initiative is dependent on support from the supermarket sector?

**Mr Mortimer**—That is part of it. Essentially, if these initiatives are going to work, it would seem that they would need to have acceptance among the people who were going to engage in actually using them. So, for example, the logo would need to have acceptance by producers and the processors who can see that it adds some value for them, plus that it is straightforward and understandable, and also by the people who might be associated in promotional activities and suchlike.

**CHAIR**—At the same time, the producer has to be mindful that, if you tie your production to one outlet, eventually you get done over.

**Mr Mortimer**—I will not comment on that, Senator.

**Senator O'BRIEN**—And that the outlet might have an interest in marketing something that they are buying a lot cheaper. So how have these lessons been applied to the Australian Grown label that the department has been working on?

**Mr Souness**—The Australian Grown initiative was commenced through the work of a working group chaired by Minister McGauran. That included representatives of both

producers—predominantly from the horticulture sector—processors and retailers plus also relevant government agencies such as the ACCC and the department of industry et cetera. It was through a period of four meetings of the working group where industry—both producers and processors—with retailers worked through what their operations were from an Australian Grown labelling initiative that we came to a unanimous agreement by that working group for a way forward. The department is now working to develop a logo and associated arrangements and rules around that logo with relevant government departments and also with the Australian Made Campaign Ltd.

**CHAIR**—I actually think it will work well. In Junee, in our little co-op they have these little signs, ‘Australian grown’ and provided you can break the monopoly marketing side of it—

**Senator Abetz**—In Junee, that would nearly be seen as international, would it not, if it was Australian grown? Would they not want a sign called ‘Junee grown’?

**CHAIR**—In fact it would be, because Laurie Daley has given us an international label, so there you go.

**Senator Abetz**—There you go.

**Senator O’BRIEN**—How much money has the department put into Australian grown or the Australian grown projects so far?

**Mr Souness**—Senator, it has just been staff time at the moment in terms of consultation and working up the proposal. The minister has currently agreed to the expenditure of \$1.34 million, as we explained earlier, from the Australian HomeGrown campaign but that money has not been committed at this stage. We are still finalising arrangements with the Australian Made Campaign Ltd, which it is proposed would take responsibility for the logo once its arrangements are settled and then take on the role of licensing along with the other ‘Australian made’, ‘Product of Australia’ logos that they also administer.

**Senator O’BRIEN**—How is it expected that the \$1.34 million will be expended?

**Mr Souness**—The majority would be in promotional activities over this financial year and the next financial year. The department wants to develop the logo to a stage that Australian Made Campaign Ltd can take it on as a viable proposition using licensing fees to continue to promote it and grow that logo alongside its current ‘Made in Australia’ logos as well.

**Senator O’BRIEN**—Which we discussed at the supplementary estimates and we were told that the department is hitting a brick wall in efforts to have the Trade Practices Act definition of ‘Made in Australia’ changed to better reflect the needs of Australian agriculture and fishing sectors. The main problems seem to be that other industry sectors do not have the same problem with the requirement that just 50 per cent of the costs must be incurred in Australia in order for it to qualify for ‘Made in Australia’.

**CHAIR**—Which is a sort of dodgy proposition, especially when you see imported prawns with a boxing kangaroo, the map of Australia and ‘Product of Australia’. Is it a fair thing to say that all you really have to do is value add by wholesaling the price up to meet that requirement?

**Mr Souness**—I think it is probably a little more complex than that, Senator.

**CHAIR**—But your words, Senator O'Brien, were 'value add'?

**Senator O'BRIEN**—Yes. Fifty per cent of the costs must be incurred in Australia.

**CHAIR**—So 50 per cent of the costs could be distribution and the mark-up?

**Mr Souness**—There are guidelines that the ACCC have as to what can be counted and what cannot be counted.

**CHAIR**—You might provide those for us?

**Mr Souness**—Yes, I am happy to.

**Senator O'BRIEN**—So is this where 'Australian grown' is supposed to take over?

**Mr Souness**—Yes, Senator, that is correct. We have developed some principles for the use of the 'Australian grown' logo. We are still developing the rules but the principles would include that, where all the produce is made in Australia, the logo 'Australian grown produce' could be displayed for it where it is 100 per cent food content grown in Australia, where the product is part of a mixed food presentation— for example, frozen peas and corn, and the corn might be grown in New Zealand but the peas are all Australian. Where 100 per cent of those peas are Australian and at least 50 per cent of the cost of production has occurred in Australia and more than 50 per cent of the total weight is Australian grown produce, you could use the 'Grown in Australia' logo. It particularly addresses the concern that AUSVEG and the 'Fair Dinkum Food' campaign people expressed to the government. They are concerned that, where there are mixed foods which are directly competing with fresh horticultural products, they want at least to be able to state the Australian-ness of that product.

**CHAIR**—But isn't that telling a lie?

**Senator O'BRIEN**—Could you not equally say 'made with Australian peas and New Zealand corn' or 'imported'?

**Mr Souness**—Yes.

**CHAIR**—We are legitimising lying.

**Mr Souness**—The aim, Senator, is that it would say Australian grown peas on a container like that. So if it has peas and corn and the peas were Australian—and there has to be 100 per cent Australian peas grown in Australia—at least 50 per cent of the production costs have been incurred in Australia—

**CHAIR**—Yes, but you do not identify that there is any foreign material in the packaging on the labelling.

**Mr Souness**—No, the package would say 'made from local and imported food' on the container and it would say 'Australian grown peas'—

**CHAIR**—I will let you off.

**Mr Souness**—Thank you.

**Senator O'BRIEN**—It could be subject to appeal.

**Senator Abetz**—That was very generous, Mr Chair, given the circumstances. I would call it a strategic retreat but we will not go there.

**Senator O'BRIEN**—Has the government completely given up on making changes to the Trade Practices Act definition of 'Made in Australia'?

**Mr Souness**—I cannot say, Senator. The focus is certainly on the Australian grown labelling initiative at this stage, and there is strong support from both producers, processes and the retail sector, so the focus is on getting this up and running as soon as possible.

**CHAIR**—Where is the packaging on the prawn issue? I realise that there has been a fair bit of work done on prawns. The packaging that used to have the map of Australia and say 'Proudly Australian' with a kangaroo in the middle of it, and then down in one corner it used to have this little box that said 'If this box is ticked, product of Indonesia'—are they still allowed to do that?

**Mr Souness**—Senator, I think I received a copy of the packaging from you. We did take it to the ACCC and one of its commissioners and staff had a look at it and they said it currently does comply with the Trade Practices Act.

**CHAIR**—Amazing.

**Senator O'BRIEN**—Streamlined food regulations is the next subject I want to raise. On 15 January this year the minister issued a press release announcing a review to look at ways of streamlining food regulation to be chaired by Mr Mark Bethwaite, former CEO of Australian Business Ltd. Is this the review Ms Hewitt was talking about when she told the committee during supplementary estimates that an independent reviewer was shortly to be appointed to look at the whole raft of business impacts that flow from the Commonwealth-state food regulatory process?

**Mr Souness**—Senator, yes, that is correct. Mr Mark Bethwaite has commenced that review and the Department of Health and Ageing is supporting that review with the secretariat and the Department of Agriculture, Fisheries and Forestry is assisting.

**Senator O'BRIEN**—Are there formal terms of reference?

**Mr Souness**—Yes, there are formal terms of reference. They are available on the Department of Health and Ageing website, and it is consistent with recommendation 4.49 in the Banks report.

**Senator O'BRIEN**—What is the timetable for the review? When is the report due?

**Mr Souness**—Mr Bethwaite has indicated that he wants to complete the review in April and present a report to the government in late April or early May.

**Senator O'BRIEN**—Is it envisaged that the final report will be a public document?

**Mr Souness**—As I understand it, the report will have to be considered by the Australian government and then a decision made as to whether it is to be released.

**Senator O'BRIEN**—Thank you for that. I assume that the round 3 sugar industry, regional and community grants announced in December pretty well mark the end of this program?

**Mr Robinson**—Senator, as a result of round 3 we believe we have in the order of \$60 million worth of projects underway, and the government has not yet decided whether there will be an additional round or rounds.

**Senator O'BRIEN**—I note the minister's press release of 11 December said 'to consult the IOG on possible options for use of the remaining funds'. So the remaining funds might go to another round, might they?

**Mr Robinson**—It might, Senator, yes. The government has not made a decision yet.

**Senator O'BRIEN**—So why could the \$60 million not be spent in the first three rounds?

**Mr Robinson**—I think it is just a question, Senator, of the types of projects that come in. I think the IOG would say that the quality of projects has improved. Actual work in terms of delivering them is progressing. There are some delays due to weather et cetera in Queensland but the projects are underway.

**Senator O'BRIEN**—How much money remains?

**Mr Robinson**—There was originally \$75 million allocated for RCP. About \$60 million of projects, we believe, will be underway once we finish negotiating funding agreements for round 3. What occurs with the remaining money is still being discussed.

**Senator O'BRIEN**—The remaining \$15 million?

**Mr Robinson**—Yes.

**Senator O'BRIEN**—Has the consultation which the minister talked about taken place?

**Mr Robinson**—I do not believe the IOG has yet provided final advice, no. It is underway.

**Senator O'BRIEN**—So we do not know yet what sorts of things money is likely to be spent on?

**Mr Robinson**—For the current round, round 3?

**Senator O'BRIEN**—No, the outstanding amount.

**Mr Robinson**—If it is an outstanding round it will be similar to the previous rounds. Whether the guidelines remain the same is a matter for the IOG to consider and provide advice on. But it would broadly be the same as previous rounds.

**Senator O'BRIEN**—Okay. What happens if the money is not spent? If the money is not spent, does it go back to consolidated revenue?

**Mr Robinson**—Yes, Senator.

**Senator O'BRIEN**—What is the deadline for that determination? I suppose this year's budget, is it?

**Mr Robinson**—Probably. At the moment the RCP rounds and the whole program, with the rest of the sugar package, are expected to be finished by July 2008. Yes, Senator, it would be a matter for the coming budget.

**Senator O'BRIEN**—Now that the sugar industry restructure package is about at its end, can the committee be provided with an update on the total expenditure under each element of the program and the numbers of people who have successfully gained access to each element of the program and by region, if possible?

**Mr Mortimer**—We can give you the key figures now, if you like.

**Senator O'BRIEN**—Yes. We can start with that.

**Mr Robinson**—Going through each element, the sustainability grant has concluded. Some \$146.1 million has been expended. Some 29 mills received \$51.4 million and 7,266 growers received a total of \$94.7 million.

**Senator O'BRIEN**—How many growers?

**Mr Robinson**—It was 7,266.

**Senator O'BRIEN**—Received?

**Mr Robinson**—They received \$94.7 million. For the income support element, \$17.94 million has been spent. That program is also completed. Some 1,612 applications were granted. For the business planning element, which has also been completed, \$6.372 million was spent and 2,788 individuals and eight sugar mills received support. In terms of restructuring grants, which have only just been completed at the end of December, \$25.941 million has been paid out and 3,523 enterprises received grants under that element. For re-establishment grants, which are ongoing and end in June 2007, expenditure has been \$55.965 million to date. Some 567 growers and 24 harvesters have received assistance. For retraining assistance, which is also ongoing, \$250,000 has been spent and 324 individuals have received assistance through the DAFF administered element of that. There are elements done through other portfolios. In terms of regional community projects to date, which are ongoing and will be until the end of the next financial year, \$5.5 million has been expended on that.

As I mentioned, there are some elements in other portfolios. There was crisis counselling provided through the family and community service portfolio. There was the intergenerational transfer element that is in the family and community services and Veterans' Affairs portfolios. There were some retraining elements through the Employment and Workplace Relations portfolio.

**Senator O'BRIEN**—Can you supply us with a complete document on that?

**Mr Robinson**—Yes, Senator.

**Senator O'BRIEN**—Thanks.

**Mr Mortimer**—The total of that, Senator, shows that \$284.47 million has been spent to date.

**Senator O'BRIEN**—How is the sugar price now?

**Mr Mortimer**—A bit better.

**Senator O'BRIEN**—A bit better?

**CHAIR**—If you are going to preach, you had better not. I have a question about grants. Could you supply the committee with the details of all grants in the last five years perhaps?

**Mr Robinson**—Grants for which purposes, Senator?

**CHAIR**—That relate to research and development into water and land in the north. There has been, I understand, a series of grants. Is that inappropriate?



**Mr Mortimer**—That is fine. It is probably best to jog the memory of Mr Aldred when he comes to the table on behalf of the Natural Resource Management Division. It is not something that this division deals with.

**CHAIR**—All right. Someone will have to jog my memory to jog his memory.

**Mr Mortimer**—Okay, fine.

**Dr Samson**—I will jog your memory.

**CHAIR**—Thank you very much.

**Senator Abetz**—That is beyond the call of duty.

**Mr Mortimer**—Sorry, Senator O'Brien. You are interested in the price of sugar?

**Senator O'BRIEN**—Yes.

**Mr Robinson**—At January it was about US11c per pound, which is down on earlier last year but higher than previously.

**Senator O'BRIEN**—At worst it has been lower than six, hasn't it?

**Mr Mortimer**—Yes, it was actually. At the time this package was put together, it was hovering around the 6c a pound level.

**Mr Robinson**—It was 4.85c per pound in December 2003.

**Senator O'BRIEN**—That is US cents, isn't it?

**Mr Robinson**—Yes.

**Senator O'BRIEN**—What impact is the currency having on that?

**Mr Mortimer**—If you exchanged a whole pile, the Australian currency has gone up a bit since then but not hugely. I am trying to think: when was it down to 50c?

**Senator O'BRIEN**—Probably the only time I have ever been in the United States.

**Mr Mortimer**—The only time I was in Britain, which is even worse.

**CHAIR**—It has been travelling the other way against some other currencies. You have to pick where you want to go.

**Senator O'BRIEN**—Perhaps I should ask about another area in terms of the impact of the value of the yen on our meat market, Mr Murnane, or is that something you can answer?

**Mr Mortimer**—The yen on the which market?

**Senator O'BRIEN**—Meat.

**Mr Mortimer**—It might be something worth asking ABARE.

**Senator O'BRIEN**—Sure, if that is the most appropriate.

**Mr Mortimer**—They might be able to give you the best advice on this. They do regular work for MLA. In broad terms, from what I have seen, I do not see any great change in the market outcomes for Australian beef in Japan. Mr Murnane may want to add something.

**Mr Murnane**—In recent times the major impact on the access of Australian beef to the Japanese market has been the withdrawal of the US from the market. So it has been principally due to that rather than to any changes in currencies.

**CHAIR**—Supply and demand we call it.

**Senator O'BRIEN**—The other thing is buyer resistance and substitution. If our product has been impacted by gradual change in our trading arrangements where we have gone from 60-odd to 90-odd yen for the Australian dollar, which is probably over a few years—

**Mr Mortimer**—There is also a quota in Japan, isn't there?

**Mr Murnane**—There are quota arrangements in Japan. I am really not in a position to comment about the currency fluctuations. The health issue raised by US shipments has obviously had an impact on the overall levels of demand in Japan but the withdrawal of the US from that market for a time obviously provided greater opportunities for Australian exporters.

**CHAIR**—And in the meantime they have acquired a taste for our meat?

**Mr Murnane**—Indeed.

**Mr Mortimer**—And we hope they keep it.

**CHAIR**—If you think that is a problem now I would remind everyone that in the early 1980s it was 220 yen to the dollar.

**Mr Murnane**—That is when I was in Japan.

**Mr Mortimer**—It has certainly come down a lot.

**Senator O'BRIEN**—It went down a lot more and has come back up again.

**Mr Mortimer**—Yes, you are quite right, Senator.

**Senator O'BRIEN**—What work is this part of the department doing on the impact of the drought on the Australian herd?

**Mr Murnane**—We are keeping track of developments within industry. We talk with MLA and LiveCorp on a regular basis to get their reading of the situation. Obviously, ABARE did do its own research and its own forecasting. We are not out there front and centre on this. That is principally the role of organisations such as MLA.

**Senator O'BRIEN**—Is the department doing any special work on the live export sector particularly in the context of current public debate about the Egyptian market?

**Mr Mortimer**—I think those questions could be dealt with by the Product Integrity, Animal and Plant Health Division of the department.

**Senator O'BRIEN**—So this part of the department is not doing that? You mentioned LiveCorp.

**Mr Murnane**—We obviously talk closely with the part of the department dealing with animal health issues but they take the lead on it.

**Mr Mortimer**—If I can take it a step further. We are certainly pretty much abreast of developments across the sector, including the different parts of it. The specific arrangements

for the live animal trade are shared between the international trade division which settles issues of how the trade is managed between different countries and PIAPH which deals with issues of codes of practice et cetera that are implemented on the boats and in the marshalling yards to deal with that. We keep a watching brief and intelligence in terms of the impact of any changes on the industry in Australia and how they affect the sector.

**Senator O'BRIEN**—So you are watching the Egyptian issue?

**Mr Mortimer**—Yes, we are.

**Senator O'BRIEN**—Did the department prepare advice for the minister on the issue prior to him making his recent statement?

**Mr Mortimer**—I think that would best be handled by the international division because it had lead responsibility on that one.

**Senator O'BRIEN**—Who makes the final decision on whether we allow live exports to a particular market? Is it this minister or the Minister for Trade?

**Mr Mortimer**—I think it is best if those questions are brought up with the international division as it had the lead responsibility for negotiating the international arrangements.

**CHAIR**—Those questions relating to Australian owned feedlots in places like Indonesia where someone can export cattle to their feedlot would be best for that division?

**Mr Mortimer**—The international arrangements, the protocols et cetera are the responsibility of the international division in this department. We work with them. It is probably unhelpful for me to start venturing into someone else's practical responsibility.

**Senator O'BRIEN**—I do not know, it might be very helpful.

**CHAIR**—If it is a case like me you have to make a strategic withdrawal.

**Mr Mortimer**—Sensible advice, Senator.

[2.56 pm]

#### **Product Integrity, Animal and Plant Health Division**

**CHAIR**—I thank the officers very much and we will move on to PIAPH.

**Senator O'BRIEN**—What are you doing about live exports to Egypt?

**Mr McCutcheon**—I think we might suggest that Mr Craig Burns from the International Division join us for the questions on that. As Mr Mortimer suggested, his division looks after the live trade side of things. Our division's involvement is on the development of standards and codes of practice.

**Mr Burns**—Could you repeat the question?

**Senator O'BRIEN**—I wondered what work the department is doing on the live trade with Egypt.

**Mr Burns**—You may have heard that there has been quite a lot of media reporting over the last few days, including some coverage on *Today Tonight* last night regarding how sheep are being handled in Egypt. The department is doing quite a lot. I will ask my colleague to run

through what we have been doing in terms of the MOU and the statements that the minister has made on it.

**Ms Gordon-Smith**—Since the cattle trade with Egypt was suspended last year there has been a great deal of activity. Chief amongst that is the agreement between Australia and Egypt on procedures for the handling and slaughter of Australian live animals.

**Senator O'BRIEN**—This is since when?

**Ms Gordon-Smith**—That agreement was signed on 3 October last year. There is now work underway to implement the practical obligations under that MOU that involves developing a work plan. Industry is involved with government in this regard and some of the key measures relate to appropriate infrastructure in Egyptian facilities for the handling of Australian live animals.

**Senator O'BRIEN**—What is the relevance of the material that is appearing on television, which I have read reports about but not seen?

**Ms Gordon-Smith**—I understand—I have not seen the footage on television either—that relates to the handling and slaughter of some Australian sheep in Egypt. The measures that have been agreed between our two countries pertain to sheep as well as to cattle. There are some additional measures, however, which pertain only to cattle. I have not seen the report that was aired. I am happy to answer further questions but—

**Mr Burns**—The footage that was apparently shown last night—and, again, I have not seen it but I have read a summary of the program—shows sheep which are being obtained by the general public basically for home slaughter and they are being transported to homes or to areas outside Cairo. Some of them are being transported on the top of vehicles and in boots of private vehicles and then home slaughtered. This is not how the bulk of the sheep that are going there are being treated. The vast bulk are being slaughtered in abattoirs and supervised, but there is some leakage from that official process and that is what the footage is showing.

**Senator O'BRIEN**—So what does our protocol say about that?

**Ms Gordon-Smith**—Our arrangements say that animals should be handled and slaughtered in accordance with international guidelines established by the OIE, the international body for animal health. There are a range of practices which, as I understand, have been shown in the footage from Egypt which clearly do not accord with the practices that we would regard as acceptable or as would be regarded as acceptable by the international body.

**Senator O'BRIEN**—So is that a breach of the agreement that was negotiated by Egypt?

**Ms Gordon-Smith**—I am not sure whether it could be termed as a breach. It is certainly the case that practices that were apparently shown in that footage are not practices that we would condone. We are continuing to work with Egyptian authorities to improve their understanding and of the requirements and of their actual practices in animal handling and slaughter.

**Senator O'BRIEN**—So is the approach of the agreement to obtain certainty about the way Australian animals will be treated when they arrive in Egypt?

**Ms Gordon-Smith**—That is certainly behind the approach. Obviously, it is difficult to, as you say, obtain certainty, but that was part of the intent behind the approach. There are further complications in that we can only work with Egyptian authorities. It is their jurisdiction. They have the responsibility and the authority in their own country and we can work to encourage—

**Senator O'Brien**—We have an agreement. So are you saying that all it is about is encouraging the Egyptian authorities to do the right thing?

**Mr Burns**—I think the issue is that we have signed an agreement which is about how the animals are handled post arrival and the focus is on what happens to them in abattoirs and official handling facilities. My understanding is that the Egyptian authorities are willing to work with us about improving animal welfare standards et cetera in accordance with the MOU. This issue is about the leakage from that official system, if you like, where the animals are being bought by private individuals and taken away and taken out of that official system. So there is an issue there about the fact that this is actioned by private individuals rather than through the official abattoir system

**Senator O'Brien**—Did we have any idea that these private sales occurred when we negotiated the agreement.

**Mr Burns**—I could not answer that. I do not know.

**Senator O'Brien**—Do you know if this is a religious festival occurrence, or a regular occurrence?

**Mr Burns**—It does coincide with a religious festival. There is, as I understand it, about a week when this is happening in Egypt

**Senator O'Brien**—Is that a period that is heavily targeted for export?

**Mr Burns**—It is certainly a period when there is high demand and I presume that exporters would be conscious of that demand at that particular time, yes.

**Senator O'Brien**—I am just wondering, given that that is common in a whole range of Middle Eastern markets, why that phenomenon was not contemplated in the agreement reached—or maybe it was and the Egyptians would not come to any agreement; I do not know. Which is the case? Did we make any claims or proposals in relation to protocol applying to private purchase, or did they resist those?

**Mr Burns**—I will have to check. I was not directly involved in that.

**Senator O'Brien**—Who did that, then? Was it this department?

**Mr Burns**—It was this department but—

**Senator O'Brien**—Another officer.

**Mr Burns**—Yes.

**Senator O'Brien**—Can you contact that officer and find out what went on, or have they gone?

**Mr Burns**—No, I can contact them. I know that they are not here this week. So we might have to take it on notice and get back to you

**Senator O'BRIEN**—So what is happening with live trade in other Middle Eastern markets?

**Mr Burns**—Again, my colleague Ms Gordon-Smith might be able to update you on progression with the other MOUs that we have signed or are in the process of negotiating.

**Ms Gordon-Smith**—I can tell you that we are in the process of negotiating a memorandum of understanding with a range of countries. We have reached ad referendum agreement on a text with Qatar. We are well advanced in our negotiations with Oman. We are continuing our negotiations with Bahrain. Iraq is receptive to the concept of such an agreement, but there is not any commercial trade currently underway and negotiations have been deferred.

**Senator O'BRIEN**—They probably need an agreement about how they treat one another, let alone the sheep.

**Ms Gordon-Smith**—Agreement has been reached with an MOU with Iran. Sorry, my previous comment related to Iraq. Agreement has been reached on an MOU with Iran. The situation is that the finalisation of that text has stalled. Israel has been approached about an agreement but has indicated to us that it is not prepared to consider one.

**Senator O'BRIEN**—What is the problem there? They just do not want a protocol? They will do it their way or no way?

**Ms Standen**—I am not aware of the reasons why Israel has refused to contemplate an MOU and we could only speculate as to its reasons there.

**Ms Gordon-Smith**—We are actively pursuing negotiations with Syria since there has been a change in Syrian legislation which makes that more achievable and we have an MOU with Eritrea.

**Senator O'BRIEN**—That arose from the *Cormo* incident.

**Ms Gordon-Smith**—That is correct.

**Senator O'BRIEN**—So with those countries which we do not have agreements with, or are not making progress, what sort of trade have we got—live trade, that is.

**Ms Gordon-Smith**—With live trade we are constrained. We are required to have an MOU with countries with which there has been no trade since 2002. So before we can commence trade we need to have an MOU in place and we would be actively, as I have described to you in the previous list, pursuing those. I might need to take that question on notice and provide you with a comprehensive list.

**Senator O'BRIEN**—So we do not need an agreement with the UAE?

**Ms Gordon-Smith**—We have an agreement with the UAE.

**CHAIR**—Are these MOUs to protect us from *Cormo Express* type outbursts?

**Senator O'BRIEN**—Amongst other things.

**Ms Gordon-Smith**—That is the intent, amongst other things, yes.

**Mr Burns**—And to promote animal welfare outcomes.

**Mr Yuile**—My recollection from a couple of estimates ago when Dr Murray was still with us is that he also indicated the level of effort that has been going in not only to the bilateral MOUs but also to regional OIE groups to lift this whole area of understanding and practice.

**CHAIR**—Does this make for a very transparent exercise so that no facilitation can go undetected?

**Mr Yuile**—I am not quite sure what you mean. I think they are designed, as I understand it, to assist that level of understanding about the application of the animal welfare standards that we would expect and to get that sort of government-to-government level of agreement on commercial activity. Ms Gordon-Smith has already indicated that they relate, in the case of Egypt, to commercial slaughter. The question of that leakage I think, as Mr Burns said, is clearly an area that you need to continue to work on with the authorities.

**CHAIR**—At the end of the day, was there some wise conclusion about what that was all about with the *Cormo Express*?

**Mr Yuile**—It precedes my time.

**CHAIR**—I rather suspect that I know what it was all about. It would be nice if we could avoid that in the future.

**Ms Gordon-Smith**—I have given you a list of those MOUs which are under negotiation or where there is ongoing effort. For completeness, I should let you know where we have signed MOUs, and that is with the UAE, Saudi Arabia, Kuwait, Eritrea, Jordan and of course Egypt.

**Senator O'BRIEN**—So it follows that we do not now trade with Qatar, Oman, Bahrain, Iraq, Iran, Israel and Syria.

**Mr Burns**—With Oman, Qatar, Bahrain and Israel we are trading but, as Ms Gordon-Smith said, in one case in particular there has been some reluctance to sign an MOU and in others we have been delayed. In those particular markets we have imposed additional conditions. I do not know the details of all of the conditions, but the objective is that the conditions are aimed at trying to get those countries to see the merits of signing on to an MOU.

**Senator O'BRIEN**—So you have got them to sign a document to say that they will work towards signing an MOU, have you?

**Mr Burns**—Not that they have signed a document. In terms of the conditions for sale that we have imposed, it would be more attractive for those countries to sign an MOU. Of course you will recall post Keniry we had some funding to promote better animal welfare outcomes in the region, amongst other things. Those countries that are receiving some of those benefits are the ones that have signed MOUs.

**CHAIR**—Does the international division track future supply, given that we are at our lowest ebb and still coming down?

**Mr Burns**—I would not say that we are tracking supply. What gets sold and who it gets sold to is a commercial decision at the end of the day. We would monitor what is happening in the market, but we are not working in terms of what is going to happen in the future.

**Senator O'BRIEN**—What about the live cattle trade? What has been done in relation to the live cattle trade?

**Mr Burns**—Certainly there is no live cattle trade with Egypt at the moment. The MOU covers both sheep and cattle. We are still working with the Egyptians in terms of the cattle trade. I think it was February 2006 when we suspended the cattle trade, and that has not resumed. In terms of the other markets, I think the MOUs cover both sheep and cattle, but I stand to be corrected.

**Senator O'BRIEN**—They are the Middle Eastern ones. We are also trading into the Asia-Pacific region.

**Mr Burns**—Certainly. The live cattle trade is throughout the whole region, as you say. There are some important markets in China in terms of exporting dairy cattle. We are exporting beef cattle to Indonesia.

**CHAIR**—In relation to the beef cattle that go to Indonesia to Australian owned feedlots, are there any different regulations for Australian owned feedlots as opposed to the foreign owned feedlots?

**Mr Burns**—Not that I am aware of. We would have to check on that.

**Senator O'BRIEN**—What involvement, if any, will the department be having in the prosecutions against live exporters in Western Australia arising from Western Australian animal welfare legislation?

**Ms Standen**—I cannot comment on the details of that particular case. It is not a matter for the Commonwealth. It is an action that has been taken under Western Australian legislation.

**Senator O'BRIEN**—So the department has no role?

**Ms Standen**—I should also mention that the action that the court action is in relation to occurred before the Keniry reforms of 2003.

**Senator O'BRIEN**—Does it have any relevance to ongoing animal live exports from Western Australia?

**Ms Standen**—No, I do not think it has any particular relevance simply due to the fact that we now have legislation in place that occurred as a result of the Keniry reforms and the Australian Standards for the Export of Livestock, which in some ways would override any concerns that there may be in relation to that particular shipment in WA in 2002.

**Senator O'BRIEN**—Going back to the Egyptian situation, what provisions are there in our agreement with the Egyptian government which would lead to the cessation of trade with Egypt? Would a breach of the animal welfare standards we lay down be sufficient?

**Mr Burns**—I do not know that there is a clear trigger on that. It would be a matter for us monitoring what is happening, and it would be a decision of the minister.

**CHAIR**—What sort of cattle do they send?

**Senator O'BRIEN**—It is sheep, not cattle.

**Mr Burns**—There is no cattle at the moment; it is all sheep.



**Senator O'BRIEN**—We closed down the cattle trade for animal welfare reasons, didn't we?

**Mr Burns**—That was following a *60 Minutes* report, I understand.

**Senator O'BRIEN**—But there is nothing that you are aware of in the MOU which sets out an agreement between the two governments about when Australia is justified in not allowing exports?

**Ms Standen**—From my memory—not having the MOU in front of me—what it sets out is an agreement between the two governments on the animal handling and slaughter practices that are required, but I do not think it specifically has provision for what might occur if those handling and slaughter practices are not complied with.

**Mr Yuile**—But there has been no suggestion, I do not think, that the Egyptian government is other than seeking to cooperate fully by those standards in relation to the commercial activities in Egypt.

**Senator O'BRIEN**—What is their position about the domestic activities, if I can put it that way, with people taking the animals home, apparently trussing them with wire in some circumstances and putting them in boots of cars, with high temperatures, or tying them to the roofs of cars?

**Mr Yuile**—I am not aware of any Egyptian government statements along those lines, or part of negotiations, but perhaps we can take that on notice if there is anything that we do have—unless others at the table—

**Ms Standen**—The other thing that I can say is that the MOUs are in relation to practices, as Mr Burns said, at official premises. It is quite difficult for the Australian government to delve really deeply into the private practices of individuals in these countries.

**Senator O'BRIEN**—Which means you are going to depend on the Egyptian government to give you some assurances, are you not?

**Ms Standen**—I think what we continue to do, as Ms Gordon-Smith has already outlined, is continue to work with the Egyptian government. Our industry continues to work with importers and other people on the ground in Egypt and other countries to improve animal welfare practices. It is not something that would happen overnight, but it is something that we are able to do, because we have these MOUs in place.

**Senator O'BRIEN**—Thank you for that. What is the current state of play with our avian influenza precautionary measure regime?

**Mr McCutcheon**—There has been quite a bit of activity since our last report to this committee at the budget hearings last year. I guess the first activity that we have been focusing on is surveillance of wild birds and domestic poultry. A national surveillance plan for wild birds has been developed in conjunction with the Australian Wildlife Health Network. I will give you an indication. During the period July 2005 and December 2006, cloacal swabs and blood samples were collected from approximately 5,252 wild birds covering about 60 different bird species. There was certainly no evidence of AI strains there. There has also been some testing done on eight wild bird mortality events—in other words, state jurisdictions have drawn those to our attention and they have sought testing to exclude those and they have also

been excluded. Our objective for this financial year is to continue that surveillance and to continue the exclusion testing.

Another area of activity has been in respect of vaccines. There have been a couple of areas of work there. One has been to work with the poultry industry in vaccine countries to fast-track the regulatory process for getting vaccines in when we require them in an emergency

**CHAIR**—How about our SPF egg supply here?

**Dr Biddle**—Biosecurity Australia has issued modified conditions that provide for access to that form of eggs—SPF eggs—including conditions that allow the importation of those eggs subject to strict conditions but under exceptional circumstances. Those circumstances were triggered once this year—earlier this year

**CHAIR**—As a long-term sovereignty issue, are we planning to be self-sufficient in SPF eggs, given that this argument, as you know, Dr Biddle, came up a couple of years ago and I have been dealing with that. Have we come to an arrangement where we are self-sufficient because, obviously, if we are reliant on imported SPF eggs and the rest of the world has a catastrophic outbreak of this flu, the last people who will get the eggs are the ones who are trying to get them from overseas; they will want them.

**Dr Biddle**—I would portray the policy as one of encouraging self-sufficiency but recognising the reality that there may be shortages at times due to unforeseen events and unforeseen delays.

**CHAIR**—So do we need, as a nation, to encourage ourselves more to be self-sufficient?

**Dr Biddle**—I think the recent policy change is just that—recent—and we need to see its effects over time. It was triggered under quite an exceptional circumstance. There was a very large and sudden demand for a particular vaccine for the poultry industry and we just could not multiply the number of eggs needed. So it triggered the policy to allow that to occur. That represents a safeguard situation for us. The demand for these SPF eggs tends to be patchy—not constant. I know all in the industry—the vaccine industries and other industries that use these products—attempt to have long-term plans and schedule their production so that there is some certainty that they will have the eggs when they need them. But events can conspire against them and necessitate alternative sources.

**CHAIR**—What if we have a world pandemic? Do we get some eggs from the United States?

**Dr Biddle**—This exceptional policy and the one importation that did occur was from sources in the United States.

**CHAIR**—Right, and they, like us, do not have enough vaccine to go around if we had to give everyone a shot.

**Dr Biddle**—I think we have to be a little bit careful here, because this is straying largely into the human health area. The people who would be making a pandemic vaccine do have special contingency arrangements that I believe may allow a rapid bulking up of supply arrangements within this country.

**CHAIR**—Chooks will lay.

**Dr Biddle**—There are special standards that may be envisaged, I believe.

**CHAIR**—Are there?

**Mr McCutcheon**—I will continue on, if you wish, in respect to the other activities.

**Senator O'BRIEN**—Yes.

**Mr McCutcheon**—Just on the other area of work on vaccines, we are looking at exploring the concept of a vaccine bank or some other contingency arrangement. We had a meeting with industry and government stakeholders on that matter in November 2006 and we have further discussions occurring with the duck, turkey and ratite sectors fairly soon. We have been doing a fair bit of work on communications. A lot of awareness material has been developed and distributed to 100 poultry feed stores nationally. Material has also been distributed nationally to bird fanciers and bird association members. We are also doing some market research or have commissioned some market research on how to determine the most efficient, effective way of getting to small poultry flock owners, which I guess really are the Achilles heel of our AI program.

We have been doing a fair bit of organisation on the epidemiological front—looking at things such as the likely spread between flocks so that we can compare disease management strategies and also looking at risk pathways and looking in particular at what sectors might be vulnerable to the introduction and establishment of the notifiable diseases.

Lastly, the Department of Health and Ageing and our department have prepared an occupational health and safety policy document. It is called the 'Interim health advice for poultry workers and other workers with birds at risk of highly pathogenic avian influenza'. This document sets out the sorts of personal protective measures that will be needed by workers or people coming in contact with potentially diseased birds. That document is expected to be made publicly available in March this year.

**Senator O'BRIEN**—Judging from overseas experience, there is a practice of vaccinating poultry workers where there has been discovery of AI in a flock. Is it intended to go beyond that to some form of routine vaccination?

**Dr Biddle**—Senator, you refer to the routine use of seasonal flu vaccine in poultry workers. A decision has not been made by Australian health authorities to do that. No doubt they are keeping the matter under review and would have noted the recent developments in the US and the United Kingdom where such public health policy decisions have been implemented. As to the future direction of that here, that would be best answered by the Department of Health and Ageing.

**Mr Yuile**—Besides the measures that Mr McCutcheon outlined, clearly there have also been investments in additional staff at airports, additional X-ray machines and quite a deal of capacity- building work with our immediate neighbours—Indonesia, Papua New Guinea and East Timor—in terms of their quarantine and veterinary services and their capacity for rapid diagnostics and so on, just to round that picture out.

**Senator O'BRIEN**—It has been the experience in Europe certainly that most of the spread is by wild birds. What is the nearest site of infection? Is it the Indonesian archipelago or PNG?

**Dr Biddle**—The current distribution of the H5N1 strain of the virus in Indonesia is in 30 or 33 provinces, but it is not believed to be in the Papua New Guinea province of Indonesia. There were some outbreaks about a year ago. They were quite localised outbreaks, and they were controlled, according to reports we have received from the Food and Agriculture Organisation. I guess the closest would be in areas such as Bali and islands in that area.

**Senator O'BRIEN**—So what work has been done on the probability of migratory birds coming that distance?

**Dr Biddle**—A great deal. In fact, it is widely believed that the risk factors that operate in other countries including western Europe, which you mentioned before, do not operate with the migratory species that come and go from Australia, which are mainly shore birds and waders. We do not see large intercontinental migrations of ducks and geese, which are believed to be the high-risk species of wild birds. So that may be a particular factor that has continued Australia's reputation as the lucky country.

**Senator O'BRIEN**—So the shearwater is not likely to be a carrier?

**Dr Biddle**—No. We have tested a number of shearwaters and they have not produced any viruses of interest, but we are continuing to look at that possibility. We are continuing to examine shore birds and waders in quite high numbers at a number of locations around the country. We have not found evidence of this virus. There are other viruses, other influenza A viruses, in these birds at a low rate, and we are looking for shifts and patterns in what we find over time as that might provide a warning. But at this stage we have found nothing remarkable.

**CHAIR**—Why don't ducks and geese make it? Are their fuel tanks not big enough?

**Dr Biddle**—I do not really know. They are certainly nomadic within Australia and fly quite long distances. Maybe there is enough territory here for them to follow the waterways.

**CHAIR**—I am worried about what is going to happen when I put in all this rice up in the north.

**Dr Biddle**—Magpie geese are a well-known problem but, again, they are not believed to be directly migratory.

**Senator O'BRIEN**—What about other birds such as frigate and booby birds? There is a huge migration between Indonesia and Christmas Island.

**Dr Biddle**—Again, I do not think there is any evidence linking those types of birds as high-risk wild species. Obviously our knowledge is increasing all the time, but at this stage there is no particular evidence.

**CHAIR**—The lucky country.

**Dr Biddle**—Perhaps.

**Senator O'BRIEN**—Have there been any further simulated exercises in relation to foot-and-mouth disease since Minotaur?

**Dr Biddle**—Since Minotaur there has been at least one. It was a state level exercise called Exercise Wild West. I think we may have spoken about that at the last estimates.

**CHAIR**—So how did it go? Was it better than the other one?

**Dr Biddle**—We always learn from our exercises, and this was no exception. It used the deployment of the rapid response team and it used quite realistic data generated by some of our FMD spread models. I think the Western Australia authorities found it a very valuable process.

**Senator MILNE**—I wanted to ask about the Tasmanian devil facial tumour disease. I have asked a few questions about this in the past and specifically of AQIS. I raised this from the point of view that AQIS supported the Commonwealth giving an export permit for devils to be sent to Denmark for the felicitation and facilitation of joy for the royal family. At the time there was considerable concern about exporting animals from a state that still had no diagnostic test for the disease or any surety about how the disease is passed on, yet AQIS supported that permit. I wrote to you about that and got an answer saying that they were taken from a wildlife park and that the 'facility is located in a region well away from the area where the disease has occurred'. That was your advice to me. In fact that was quite wrong.

Since that time, three Tasmanian devils within that facility from which the devils that were sent to Denmark were sourced have contracted the devil facial tumour disease. What is more, there are reports that we can now verify from Tasmania that the Tasmanian government certainly knew that a devil manifesting the facial symptoms was found dead on a road very close to the wildlife park from which the devils were sourced. How come you told me that they were sourced from an area that was nowhere near where the devil facial tumour disease occurred and the Tasmanian government knew full well that that was not the case?

**Mr Yuile**—I will just check whether Dr Clegg is here because I think she was involved in that.

**Dr Biddle**—I can answer part of your question. My involvement has been since the breakdown in this captive devil park where the disease was detected after the animals were exported. In my capacity as Acting Chief Veterinary Officer, I have received a report from my counterpart in Tasmania, whose service conducted a very detailed epidemiological investigation. That investigation was able to demonstrate that the expression of the disease in that wildlife park facility occurred after the devils exported to Denmark had gone through their pre-export arrangements and were certified for export.

Based on those assurances and the detailed report provided by the Tasmanian authorities, I was able to advise the chief veterinary officer of Denmark that it was unlikely that the devils given as a gift from the people of Tasmania to the Copenhagen zoo would constitute a plausible risk of expressing Devil Facial Tumour Disease. That is based on the detailed official investigations that occurred at that facility. That is where the matter stands, as no further questions have been raised by the Danish authorities.

**Senator MILNE**—I am raising some now because we know that, in the summer of 2004-05, information, including photographic evidence, was made available to the department in Tasmania that a devil manifesting the symptoms was found dead on the road in close proximity to the wildlife park. Regardless of your answer which said, 'Oh, yes, since we sent them three others have Devil Facial Tumour Disease therefore I did not mislead you,' the fact is that you wrote to me and said that the facility is located in a region well away from the area

where the disease has occurred. Subsequently the Tasmanian minister sent out letters saying that AQIS was wrong in its answer to me in estimates and clearly the Tasmanians did not mislead you. Somebody is not telling it as it is in terms of what happened. I just want to know: on what basis did you tell me that they were sourced from an area located in a region well away from the area where the disease has occurred? At the time you wrote that, they knew that a dead devil with the disease had been found on the road just near the park.

**Senator Abetz**—What is ‘just near’; how many kilometres?

**Senator MILNE**—I cannot tell you that, Senator Abetz.

**Senator Abetz**—There we go.

**Senator MILNE**—You can be smart about this in a political sense.

**Senator Abetz**—It is a very basic question. What does ‘just near’ mean?

**Senator MILNE**—Why do I not ask the department to go back to Tasmania and ask for the photographic evidence of the devil on the road in close proximity to the wildlife park? It is a really important issue because these devils were sent overseas. I do not know whether it is AQIS’s normal policy to allow animals to be exported when there is no diagnostic test for a disease and no ability to know how the disease is transferred. It is clear to me that an exception was made because of the politics not because of the quarantine issues.

**Senator Abetz**—I am sure Dr Clegg will have some answers but my very rudimentary understanding is that most of the scientific evidence suggests that the tumour is transferred when they scratch and bite and do whatever devils do. If you are in a devil park and you are a devil, you are locked away and you are unable to have that sort of contact with those devils that might unfortunately have the tumour, the disease or whatever. I am sure Dr Clegg is a lot more qualified than me.

**Senator MILNE**—Allow me to elaborate. The owners of the wildlife park say that the likelihood is that a wild devil came up to the fence of the wildlife park and interacted with the devils and that is how they got the disease. It is not quite as simple as you are suggesting.

**Dr Clegg**—When the answer was prepared for your question on notice, I think it was in response to estimates in February—

**Senator MILNE**—That is right.

**Dr Clegg**—We were not aware at the time that a consignment was being prepared for export to Copenhagen. So officers in our department rang Tasmania to find out whether it was in fact true that there was going to be a gift given. We were told that it was. We asked where they were being sourced. We were told that it was being managed by the Tasmanian DPI. The officer prepared the answer and included in that answer a statement that the devils came from a park well away from an area where the devil disease had been found.

That was because that was the information she was provided with but it was irrelevant information. I did not notice it at the time and I did not delete it from the answer. The question really was: did Denmark require the devils to be sourced well away from an area free of Devil Facial Tumour Disease? They do not. We met all the conditions of Denmark. We have kept them informed about the status of the Devil Facial Tumour Disease. But that one sentence in

that question on notice I feel has been misunderstood in a way. The officer was informed by an officer she was speaking to in Tasmania. The question about 'well away' is a very good one because what does 'well away' mean?

**Senator MILNE**—The issue is that you were given false information by the department in Tasmania. It is not whether Denmark needed to know. What I need to know is that when AQIS asks for something they get accurate information from state authorities and, in this case, that was not the case.

**Dr Clegg**—I do not know that we can establish that because the officer who was speaking to them may have been told that in conversation. It was not a deliberate misleading of us. It had no bearing on the actual question. Are you preparing a consignment? Yes. Do we meet the conditions for Denmark? Yes, we do. What are those conditions? That is all that should have been in the answer back to you.

**CHAIR**—Just to fill me in, did one of these little fellows have a bit of biff through the fence of the park where they were confined?

**Senator MILNE**—That is the theory.

**CHAIR**—Are they now going to have a double fence so that does not happen again? That would be the sensible thing to do.

**Senator MILNE**—I do not know how the wildlife park is going to manage the issue. I do not think you understand where I am coming from. Where I am coming from is that AQIS is really the institution that the community relies on to get the best information about quarantine and biosecurity issues. We have a situation where on the telephone a Tasmanian government person tells you something that turns out not to be the case. In the case of a disease that we simply do not understand—and sadly that is the case after a decade—how can you justify just saying it was irrelevant to what the Danes asked for and therefore it does not matter. It does matter because state authorities ought to give you accurate information and they did not.

**Mr Yuile**—We are not suggesting that is not an important issue in terms of understanding the disease but in terms of meeting the import conditions it is not. I think that is what Dr Clegg saying. We have to meet the import conditions and they were met in full. This issue of proximity or nearness or further away to the park in a sense was not germane to the import conditions and the requirements that were met. As far as I am aware those animals were exported some 12 or 18 months ago.

**Dr Clegg**—I think it was April.

**Senator Abetz**—So nearly 12 months ago.

**Mr Yuile**—So far as our information goes there has been no expression of the disease, which is a good thing.

**Senator MILNE**—Will you take on notice a question to the Tasmanian department: at what point did they know that a devil with Devil Facial Tumour Disease was found dead in proximity to the park? When did they get that information? How did they get it? How did they give the Commonwealth false information? Let us establish first when and how they knew that that dead animal was near the park.

**Senator Abetz**—People always like to be provocative for a headline with words like ‘false information’. It may well be that it was simply incorrect without the implication of the conspiracy and other things. Let us just keep it relaxed and find out. We might also take on notice what ‘in proximity’ actually means.

**Senator MILNE**—Exactly where was the dead animal? I am very happy to know that.

**Mr Yuile**—We can ask that of the Tasmanian authorities.

**Senator MILNE**—It does not give me a great deal of faith, I have to say, in the rigour of the system.

[3.15 pm]

#### **Australian Pesticides and Veterinary Medicines Authority**

**Senator O’BRIEN**—I want to ask some questions of the Australian Pesticides and Veterinary Medicines Authority. In terms of 2,4-D, at the supplementary estimates we were told that the APVMA had proposed to cancel the registration of 2,4-D because of safety concerns and that the minister had decide that farmers should still have access to this chemical via a permit system until April 2007 when a final decision would be made. Has the broad review of 2,4-D that you talked about, Dr Smith, last time been completed?

**Dr Smith**—No, Senator. Just to recap on the advice that I provided at the last hearings, the APVMA’s decision at that time was to suspend the registration of three high volatile ester forms of 2,4-D and the decision that the APVMA board announced at that time was that we would suspend and issue new instructions. Amongst those new instructions it would not allow the spraying of those particular products during the summer months. During that period we indicated that the APVMA would require registrants and others to provide data in a phased way to allow us to assess and make a final decision on whether those suspensions should be continued, whether the registration should be cancelled or whether another course of action might continue.

The APVMA board’s decision also included that during this period the APVMA would consider permits to allow people in certain areas to use the high volatile forms of 2,4-D during this period. The minister’s press release subsequent to that decision highlighted that aspect of the APVMA board’s decision that had already been made. I also should say that the APVMA said that it would consider application for permits in certain areas provided those applications were supported by the relevant state authorities involved in those particular states.

During this period we have had a number of applications for permits for use of the high volatile forms of 2,4-D. There were a number from the wheat belt in Western Australia and there were a limited number of applications for permits from New South Wales, Victoria and South Australia I believe. We assessed those applications very carefully with consultation and input from the relevant state authorities and looking very closely at proximity to susceptible crops and areas of native vegetation. At this stage we have refused any permit applications from New South Wales, Victoria and South Australia and we have agreed to issue a consolidated permit covering a number of shires in the Western Australian wheat belt. But we have also not accommodated or not agreed to a number of other permit applications from



areas of Western Australia which were closer to areas of susceptible crops or susceptible native vegetation.

**CHAIR**—So are you able to purchase ester in New South Wales?

**Dr Smith**—You are able to purchase it, but you are not able to legally use it during that no-spray window. So the purpose of the suspension, which is our legal mechanism, was to suspend and issue new instructions—and that has been widely communicated by the suppliers—to make very clear that it cannot be used during that no-spray window.

**CHAIR**—So who objects mostly to the withdrawal of it?

**Dr Smith**—I guess the most strenuous input we have had on this issue has been related to grain growers.

**CHAIR**—But what weed are they after?

**Dr Smith**—I would have to take that on notice.

**CHAIR**—Because I do not get it. This is a pretty old-fashioned chemical that is cheap, but there are plenty of good alternatives around. They are probably arguing that it is threepence an acre more but—

**Dr Smith**—Senator, there are a number of alternatives available. There was—

**CHAIR**—You could use 2,4-D as much as you like. Having a ticket, I know how to do it. That volatility thing is a big deal, I can tell you.

**Dr Smith**—Yes, and that is the key issue as we have discussed at previous hearings. During the period since the APVMA has announced the suspension, in addition to the alternatives that were already available on the market, a couple of major companies have launched new products in that area of the market. If I could just continue in terms of the ongoing state of the review, the first phase of the additional data that we requested to allow the APVMA to consider the ongoing situation was due to the APVMA in February and it was received last week. We are currently evaluating that to see whether the suspensions should continue or we move to cancellation or whatever.

**Senator O'BRIEN**—Do you still intend to announce a final decision in April?

**Dr Smith**—It may not necessarily be a final decision. It will depend on what the assessment of this first phase of data is. We have given the registrants, as I mentioned last time, a schedule for providing data to us and the first set of that data was due in February. If that data is not satisfactory or not worth continuing on to the next phase, we will make a final decision by April.

**CHAIR**—Could you make available to the committee your lead objections? Do they detail what they are after in terms of what weed they are after? It is hard to make a constructive appraisal unless they tell us they are after—

**Dr Smith**—I could take that on notice and provide you with information on the specific weed or weeds that they are interested in treating.

**CHAIR**—I would be interested to see that. Then I will tell you the difference in the price if you do that for me.

**Dr Smith**—Okay. We will provide that.

**CHAIR**—It is afternoon tea time. Time flies when you are having fun. See you back here in 15 minutes.

**Proceedings suspended from 3.59 pm to 4.16 pm**

**CHAIR**—We will recommence. I call Senator O'Brien.

**Senator O'BRIEN**—Since at least 1996, APVMA has been considering the future use of Diazinon. As I understand it, Diazinon is mainly used to control lice on sheep. Is that right?

**Dr Smith**—It is a fairly widely used chemical. The key issue at the moment which is of interest is the use for the control of lice and blowfly on sheep, but it is actually a fairly widely used chemical in agriculture.

**Senator O'BRIEN**—What other uses are there for the product?

**Dr Smith**—It is widely used in a number of applications. It is an insecticide used in agriculture. It is used for control of sucking and chewing insects and mites in a range of situations. It has been widely used as an ectoparasiticide—that is the lice and blowfly—in many situations.

**Senator Abetz**—What is its name again?

**Senator O'BRIEN**—Diazinon.

**Senator Abetz**—We might have a good use for it!

**Dr Smith**—It has also been used in companion animals, on flea collars and things like that. To a lesser extent, it is used in agriculture and horticulture for the control of insects in crops, ornamentals, lawns, fruit and vegetables and for a range of insects in a number of other situations. You are correct in that we have had it under review for a number of years, since 1996. There have been a number of interim reports and regulatory actions taken along the way as part of that review. You may recall there was some discussion at estimates a few years ago that we had cancelled the registration and withdrawn from the market a number of Diazinon formulations which, on our analysis and review, were found to be unstable and broke down to form a more toxic degradation product. So we took action to address those issues at the time.

**Senator O'BRIEN**—So what are the risks to humans in applying Diazinon?

**Dr Smith**—I guess the particular risks to humans with Diazinon—in particular in relation to its use in dipping and jetting sheep—are the occupational exposure risks. Diazinon can have both acute and potentially long-term effects. It is essentially what is called a cholinesterase inhibitor that sort of makes it a neurotoxin, if you like. It has short-term toxicity effects. If people are exposed to it, the commonly referred terminology is sheep flu. That is the anecdotal information that we have.

**Senator Abetz**—I trust we will not be going too far down this track. How a chemical works et cetera all adds to our general body of knowledge, but I am not sure that estimates are tutorials as to how a particular chemical might or might not work.

**Senator O'BRIEN**—This goes to the work of the APVMA.

**Senator Abetz**—Estimates are more about if it is registered what are the factors that allow it to be registered; if it is banned, why it should be banned. But it is not a tutorial.

**Senator O'BRIEN**—It is pretty easy to connect it back to the estimates, and I just wanted to get some clear understanding about it. Are there alternative products available that do not pose the same risk to humans, and are these products cost-effective?

**Dr Smith**—There are a number of alternative products available for dipping and jetting sheep. These are products which are generally called synthetic pyrethroids, a class of chemicals. They include a range of active constituents, such as Triflumuron, Diflubenzuron et cetera. The information we have is that they are generally more expensive than Diazinon, which is clearly an issue for people who use Diazinon as a sheep dip. However, as I have mentioned on previous occasions, our legislation gives us an obligation to consider certain factors when we take decisions as to whether a product or a chemical can remain approved or registered. Those factors relate to things like risk to human health, to the environment, to trade, to animals or to crop safety, but they do not include cost. So it is not something that we can take into account in taking a regulatory decision.

**CHAIR**—So what is the main driver of the Diazinon argument?

**Dr Smith**—The concern with Diazinon is concerns about unacceptable levels of exposure to people involved in the dipping and jetting of sheep.

**CHAIR**—That is a bit old fashioned, dipping and jetting. You cannot see where they cut my second head off because of laser surgery, but when I was a young bloke we started off with arsenic in a plunge dip and then we went to the Buzacott spray dip and the stuff would go everywhere. We started off with dieldrin in jetting, and you think Diazinon is bad! These days there is usually back lining for lice and there are other alternatives. Diazinon powder is the worst thing.

**Dr Smith**—Just to clarify my answer, the particular use on sheep that we are concerned about in terms of unacceptable exposure risks relates to dipping and jetting. Having assessed the risks associated with back lining and individual animal treatment, we believe that with some variation of the instructions for use, that use will be able to be continued.

**CHAIR**—Back lining?

**Dr Smith**—Yes.

**CHAIR**—I do not know whether I could stand another head being cut off!

**Senator O'BRIEN**—I will stay out of that one. In the minister's press release of 19 January, the minister said that the APVMA has found that Diazinon posed a risk to farm workers and that the National Occupational Health and Safety Commission concluded that Diazinon could be an occupational risk to workers. The minister announced a roundtable on the future uses of the product. When will that take place, assuming it has not already?

**Dr Smith**—It has already taken place. It took place on 30 January; I was there. The roundtable was chaired by the minister and the parliamentary secretary was present, as were a range of stakeholders present. They included wool producers, AWI, the states, people from the chemicals industry, the Animal Health Alliance and some state agriculture representatives as well.

**CHAIR**—Do you have statistics on the human health side of this?

**Dr Smith**—Yes. Our review has been very extensive and long running. Back when it started, with our support—and I guess at the suggestion and initiation of industry groups including the then Avcare, which is now the Animal Health Alliance—a study was funded by wool producers, coordinated by AWI and conducted with the input and oversight of industry. It was a joint project involving the University of Sydney, the New South Wales department of agriculture and the University of Queensland. It looked at exposure risks in a number of different scenarios associated with current dipping and jetting techniques, and a whole range of different sites, different operators and different conditions were used. So we assessed the data from that trial with the input from the National Occupational Health and Safety Commission—and more recently they have been made part of the Office of Chemical Safety within the Department of Health and Ageing. Assessment of that data has indicated that the level of operator exposure using these current dipping and jetting techniques is unacceptable.

**CHAIR**—So what was the health effect of that? Why did they conclude that? Some people, as you would be aware, Mr Smith, are supersensitive to Diazinon. They immediately react. Others—

**Senator O'BRIEN**—Others grow another head, apparently.

**CHAIR**—Is there some collection of data on the health effects?

**Dr Smith**—There is extensive analysis.

**CHAIR**—What is the usual health effect?

**Dr Smith**—I mentioned at the beginning that it can have both acute and long-term effects.

**CHAIR**—Like dieldrin and aldrin, does it accumulate in your fat system?

**Dr Smith**—I am not sure whether it is cumulative in the fat or not.

**Dr Bennet-Jenkins**—I do not think it is.

**Dr Smith**—We do not think it is. If you want me to go into some of the detail of the symptoms associated, I am happy to do that.

**CHAIR**—I would be, because of occupational health and safety. I agree that this is a cheap chemical. It is an effective chemical, and I have always been very wary of it.

**Dr Smith**—I have to preface my comments by saying that I am not an expert toxicologist, but the typical symptoms associated with acute poisoning would include, depending on the level and the extent of the exposure, things such as nausea, vomiting, abdominal cramps, diarrhoea, headache, dizziness, blurred vision et cetera, and depending on the level it could have a whole range of progressions.

**CHAIR**—But is there a history of it having a long-term detriment? That is exactly what happens to people who are sensitive to it. They get a headache straightaway.

**Dr Smith**—Yes. I understand it can have a cumulative effect. I mentioned earlier sheep flu. That is the colloquial term for some of the symptoms that people experience.

**Senator O'BRIEN**—So with this roundtable, who was there representing the people who work with it the most?

**Dr Smith**—There were sheep producers there. They work with it regularly—wool producers. There were also two members who were representing the AWU. So they expressed perspectives on behalf of the AWU as well.

**Senator O'BRIEN**—What about rural doctors? Were they represented?

**Dr Smith**—Rural doctors were not represented, no.

**Senator O'BRIEN**—So when will a final decision on the use of Diazinon be announced?

**Dr Smith**—The next step in the review is that this is a decision for the APVMA board. We will take that to the APVMA board for its consideration this month. At that point, the APVMA will decide on what action it will take and what the time frame for that action will be. It is likely that in the course of natural justice, once the board decides a certain course of action may be necessary, we then have to give the suppliers—the registrants of these products—an opportunity to show cause why that certain course of action should not progress.

The next stage in relation to its use for dipping and jetting sheep will be the APVMA's board consideration of it this month. The Diazinon review is a very large and wide-ranging review, but I think the issue we are focusing on here at this point in time is its use for dipping and jetting sheep.

**CHAIR**—What else can it be used for?

**Dr Smith**—It is used for ecotoparasiticide control in other animals as well and it can also be used for controlling a range of—I think I mentioned before—chewing and sucking insects on different sorts of crops.

**Senator Abetz**—I did raise before in your absence that these are all very interesting tutorials about the benefits, side effects or whatever of various chemicals but I am not sure that it is necessarily related to that for which we are actually here.

**CHAIR**—It is taking time up.

**Senator Abetz**—Yes. The problem is the longer we will have to sit on Friday.

**CHAIR**—No.

**Senator O'BRIEN**—I want to ask about new product registration. How many new agricultural products would the APVMA register annually?

**Dr Smith**—I am just going back to the 2005-06 annual report figures. From memory, we finalised about 2,600—I cannot give you the exact number—applications for registration of products. That includes both agricultural and veterinary chemical products and that includes everything from brand-new active constituents never been seen before through to minor variations to existing products. So there is a whole gamut of applications there, but 2,260 is the figure.

**Senator O'BRIEN**—What is the process to register a new agricultural product?

**Dr Smith**—It is a well-defined process. The requirements for registration of a new agricultural chemical product are outlined. The criteria are outlined in our governing legislation and we have an extensive set of requirements and guidelines documentation available for people to follow but, essentially, for us to be satisfied so that we will register a

certain chemical product we must be satisfied that there is not an undue risk to human health to people using the product or to people who might be exposed to it, for example, through residues or something like that. We must be satisfied that it will not have an undue risk to the environment, it will not cause harm to crops or to animals or to other things, and it will not threaten Australia's trade. This is particularly in terms of potential for residue violations in the trade of agricultural produce. The other thing we must be satisfied of when we register a new chemical product is that, when used as directed, it will do the job it is going to do—so it will be effective.

The process then is that applicants—and this is pretty consistent with what happens with similar regulators in Canada, the US, Europe and the UK—must provide us with an extensive dossier of information, an extensive dossier of data, to demonstrate those things, to satisfy us in terms of the health, environment and trade risks et cetera. There are well-defined and internationally agreed protocols which we follow. So applicants provide that information to us in terms of the mechanistic detail of what happens. We screen the application to see if the information is there. Once we are satisfied it is, then we will accept it into the full evaluation phase. If we are not satisfied, we go back to them and say, 'This is where it is deficient. This is the additional information we want.' We then take it into an evaluation process.

Under service level agreements, we receive expert advice and evaluation on the human health risks from the Office of Chemical Safety in the Department of Health and Ageing and, similarly, on environment from the Department of the Environment and Water Resources, as it is now known. So that information is provided to those agencies for their expert assessment. Similarly, with the efficacy, we do some of that in-house; we get some external expert assessment. We do assessment ourselves of the chemistry and manufacture and the residue risks associated with the use of the product. If it is a new product on a new crop, we establish maximum residue limits—MRLs. We then liaise with Food Standards Australia New Zealand to have those incorporated into the Australian Food Standards Code.

When all of that information is assessed, and if we are satisfied, we will then liaise with the applicant in terms of advising them what must go on the label of the chemical product. They are then required by legislation to provide us with a copy of the final label, and we then approve the label. The final act of registration is our approval of the label. So I can summarise the registration process in three steps: we approve the active constituent—for example, if it were Roundup we would approve the glyphosate—we register the product—that is, we allow it to be used for a certain number of applications in a certain number of situations—and we approve the label. So they are the three things we do.

**Senator O'BRIEN**—Does this process apply to pool and spa chemicals?

**Dr Smith**—Yes.

**Senator O'BRIEN**—Is the same process undertaken for a repack of a registered product purchased from a manufacturer, such as bulk registered pool chemicals repacked for sale?

**Dr Smith**—What I described to you was the full-blown process for a brand-new product. If it is a repack we have reduced requirements. I might ask my colleague to help me out with the details here, but it is certainly a shorter time frame and fewer requirements.

**Dr Bennet-Jenkins**—The legislation allows us to apply reduced time frame and data requirements for generic type products or repack products. It defines a repack product to be the identical product in the bottle; it just has a different label with a different product name. Everything else must be identical. For a repack type product, we would not do an assessment other than to confirm that it is in fact the identical product in the bottle, that it is in the same type of bottle and that the only thing that has changed is the product name. For generic type products, it depends on how our evaluators assess the similarities against the existing registration as to the extent of the supporting data that we need to prove that the product is similar or does not present any new risks. So we have a tiered approach, and that requires quite a lot of screening of the information put to us.

**Senator O'BRIEN**—How long would a repack registration process normally take?

**Dr Bennet-Jenkins**—The normal time frame for a repack is a three-month application.

**Dr Smith**—That is the time frame for the evaluation.

**Dr Bennet-Jenkins**—This is true, yes. We have a statutory time frame for screening and application of one month. Then on top of that we have a statutory time frame for evaluation of an application of three months for a typical repack application, and that is what we call clock-on time. If there is a deficiency—if we do not have all the confirmatory information that we need—we actually turn the clock off. So there may be instances where it will take longer.

**Senator O'BRIEN**—Have the registration time lines blown out in the last 12 months?

**Dr Smith**—I think there have been significant improvements in our registration time frames in the last 12 months. We have had some challenges in meeting time frames over the last three years, and there have been a number of factors contributing to those challenges. If we go back 12 months, I see that as a line in the sand, if you like. On 1 July 2005 we introduced new categories and modules in our legislation to apply to different application types, and those new categories and modules have associated with them legislative or statutory time frames for those applications. Approximately 98 per cent of all applications received since 1 July 2005 have been completed within statutory time frames.

**Senator O'BRIEN**—What are the factors that can cause the time lines to blow out?

**Dr Smith**—There are a number of factors. It can be just sheer workload—the number of people you have versus the number of applications you get in. Sometimes you get peaks and troughs in workloads. Another factor that adds complexity to our processes and is often difficult is our requirement to approve final printed labels. That can often require a certain amount of toing and froing between us and the applicant to resolve differences. Other complexities are associated with things such as dealing with the new data protection requirements in our legislation.

**Senator O'BRIEN**—How does that cause a difficulty?

**Dr Smith**—In meeting the requirements to identify and publish the details of every particular study that we use in reaching a decision to register an application, there is an additional level of administrative complexity.

**Senator O'BRIEN**—Presumably you are dealing with the data protection requirements and other requirements with the same staff that you had pre the data protection requirements.

**Dr Smith**—In general, we are.

**Senator O'BRIEN**—Does the APVMA undertake client satisfaction surveys of clients who register products?

**Dr Smith**—We do.

**Senator O'BRIEN**—Are you able to summarise the results?

**Dr Smith**—In general terms, we publish the findings or the key issues that are raised from our client satisfaction surveys on our web site. The last one that we published I recall was around October or November last year. I do not have specific numbers with me, but the sorts of issues that our clients indicate where they believe we could improve our performance relate to factors such as timeliness in processing applications—and that is an issue you have already touched on—and concerns about consistency in advice that they get from different people within different parts of the APVMA. I would be happy to take that on notice and provide you with the summary that we have prepared from previous surveys.

**Senator O'BRIEN**—That would be good, thank you.

**Dr Smith**—It is publicly available, so I am quite happy to do that.

**Senator O'BRIEN**—Thank you. That is all I have.

[4.44 pm]

#### **Australian Quarantine and Inspection Service**

**CHAIR**—Would AQIS be happy to take a couple of questions on apples or would that come under Biosecurity Australia?

**Mr Yuile**—It depends on the nature of the questions.

**CHAIR**—The draft ruling on apples is out. The last time we talked about this I reckoned that the ruling fell at the first hurdle and could not get up, and that was you were unable to tell me what the inspection regime was going to be of the orchards in New Zealand. You said, 'Well, there is no model. The New Zealanders have come to us with an inspection protocol.' Is that right?

**Mr Yuile**—Senator, I had not looked at the—

**CHAIR**—Or should I be asking this of—

**Mr Yuile**—Certainly Biosecurity Australia, as you know, are in the process of a draft—

**CHAIR**—The cavalry is coming.

**Mr Yuile**—There is not a draft but an IRA. I will let Mr Cahill and Dr Roberts obviously speak to the IRA. As you know, there is an appeal and there is a process for that appeal to be assessed before any recommendations are then made to the director of quarantine. I guess what I can say, Senator, is obviously until we have the outcome of that appeal and any import conditions that might be established if it is to proceed that is the point at which you then need to operationalise those conditions. I guess I would make a couple of points. AQIS has previously responded to complex import policy and import condition arrangements for perishable imports—grapes from Chile, grapes from California, pears from China. So we are used to taking those conditions and developing with the competent authorities of the



supplying country the implementation of those conditions. So that is the first thing. We do have preinspection already in relation to a number of products from New Zealand and other countries, but in the case of New Zealand in products like avocados and kiwifruit and so on. So we have that experience. Depending on the outcome of the appeal process and the final conditions that might be established—

**CHAIR**—Yes, but let us cut to the chase.

**Mr Yuile**—All I can say to you is once we know those things then we can—

**CHAIR**—No, but we have signed off on an IRA not knowing what the inspection protocol is going to be. How can we do that?

**Mr Cahill**—I might start, if I may.

**CHAIR**—Mr Cahill, from the last time we met on apples the idea I took was that there is a sort of a view that—and bear in mind we are talking about the pear industry here. The pear industry is the one that is going to get wiped out, and I bet you no-one gets the sack if they do. I think there is an acceptance generally within the industry and, maybe you could correct me if not, among the scientists that it is possible for fire blight to travel on the apple as opposed to apple bits and pieces such as leaves and rubbish. Is that a fair assessment?

**Mr Cahill**—That is what the draft report says, Senator.

**CHAIR**—Yes. The assumption is though that it will not get from the apple to the orchard.

**Mr Cahill**—Dr Roberts can speak of course, but there is a specific treatment in there that addresses the risk of surface contamination.

**Senator JOYCE**—Does that treatment get into the calyx of the apple?

**Mr Cahill**—There is an earlier measure that is put in place which goes to the inspection regime that deals with the calyx.

**CHAIR**—We have been arguing about this, Senator Joyce, for a number of years, so if you could just hang on. But we have agreed that at the last hearings you said or someone said—I had better not blame you, and it is not a matter of blame anyhow; it is a statement of fact—that there was going to be an inspection regime and there were going to be no real buffer zones. Is that correct?

**Mr Cahill**—What I might do is get Dr Roberts to outline the proposed conditions, but it is important to note that there is no policy in place at the present time. There is no determination. There are no permits—

**CHAIR**—No, but we have agreed to a certain—

**Mr Cahill**—and it is subject to appeal at the moment.

**CHAIR**—All of that is wonderful. But we have agreed to an arrangement which is now an IRA. In the IRA it says that there is going to be an inspection regime of the orchards over there. Bear in mind that down the line when this committee interviewed those blokes from over there they said that if they had a choice between an orchard that had fire blight—bear in mind they are not talking about pears—they would not mind if they had to choose the one that had the fire blight, which I thought was a pretty dopey answer. But they did say, ‘Well,

there's an inspection regime.' The IRA says there is going to be an inspection regime, so allegedly you will not be picking apples from trees that have fire blight. I presume that is the idea of it. But we do not know how we will do that.

There was no model, whether it was one person per acre or per row or per 10 trees or 10 people, which was part of the failing—you have heard me say all of this before—of the disgraceful turnout at Emerald with citrus canker where a woman and her offside were given a task to look at 20,000 acres and they might as well have stayed at home. How can we agree to an IRA in which there is an inspection protocol when we do not know what the protocol is? The answer, by the way, was, 'Oh, well, the New Zealanders will come up with that.'

**Mr Cahill**—I do not think that was entirely the answer, Senator.

**CHAIR**—It was near enough to the answer.

**Mr Cahill**—Certainly, there are obligations that the exporting country has to demonstrate how it will meet the conditions of Australia's—

**CHAIR**—But my point is how can you agree to the IRA if you do not know what they are telling you? You have agreed to something which is an unknown. That might not be right.

**Mr Cahill**—The IRA is an import risk analysis. Its task is to identify the risks of pest and disease that may come into the country if a particular commodity is imported and to look at possible risk management measures that might mitigate that risk below Australia's appropriate level of protection and, if that is possible, to specify what those conditions might be. Once that is done and once a policy determination is in place, then in granting an import permit there will be a set of conditions that sit around that and a set of protocols and inspections and so on that go with that. Now, what the final IRA report does is specify in much more detail than has ever been specified before the nature of the quarantine regime that will apply to the potential import of apples from New Zealand.

**CHAIR**—But there is no specification to this point—there may well be now since we last spoke—of the actual physical task.

**Mr Cahill**—We have an understanding of what the physical task might be, but that is part of the operational protocol that needs to be put in place once the policy exists, which it does not at the moment.

**CHAIR**—But we were told it was going to be their call and not our call.

**Mr Cahill**—As I said, that is not the full answer, Senator.

**Dr Roberts**—I think you are not characterising it correctly. What we have done is set a performance standard. We have not agreed to an inspection regime because we are waiting for New Zealand to come back to us, assuming it is final as the draft says, after the appeal process. New Zealand has to come back to us and tell us how they expect to meet our performance standard and also why we should believe them. That is what the report says.

**CHAIR**—Dr Roberts, we do not have a performance standard for the inspection.

**Dr Roberts**—We do. There is a performance standard that says the inspection regime for fire blight at four to seven weeks after flowering has to be sufficient that if one per cent of the trees were showing fire blight symptoms they would be detected. So that is the performance

standard. That is the benchmark—the gold standard—we are asking the inspection to meet. So we have not agreed to the inspection regime.

**CHAIR**—That is it.

**Dr Roberts**—We have set a performance standard for the inspection system. Now, in terms of how New Zealand chooses to deliver that, they have to convince us that they can meet that standard before tradeable supply.

**CHAIR**—All of that is true, Dr Roberts. But we must surely have an idea of what that entails. Surely we have a template here that says, ‘If we’re going to have an inspection we ought to have three hours to do 50 trees.’ We have got no idea.

**Dr Roberts**—We have got some idea, but we do not know the New Zealand orchards. We do not know a lot of detail about them. We know a bit about the varieties. We do not know how they train their trees in terms of the way they are pruned and grown. We do not know very much about the topography of the orchards that are likely to export to us.

We do not know much about the exact timing of when that four- to seven-week period post flowering will be. It will depend on variety. It will depend on district. All of these factor into it. The size of the tree is another factor. Clearly if you are looking at small trees that are trained in a way with a single leader it is a different task.

We have found from experience with other imports totally unrelated to apples that the worst thing you can do is set a hard and fast inspection system when you do not understand the exporters’ circumstance. They may say, ‘That’s great. They do not understand our system. They have given us something that is really easy to meet. We will give them what they ask for and we are in.’

So we often follow this path. We set a performance standard and this is what you have to reach. Now you come back to us and tell us how you are going to achieve that operationally and we will also need to be convinced that you can meet that standard in an operational way before we agree. That is where we stand at the moment.

**CHAIR**—Because there is nothing put down, how do you know that what they are going to propose is someone running a two-minute mile, as it were?

**Dr Roberts**—Because they have to tell us that. If they say they are going to use one inspector—

**CHAIR**—Why did we fail in Emerald?

**Dr Roberts**—You are looking at a different circumstance.

**CHAIR**—We are looking at an orchard inspection.

**Dr Roberts**—That was a suspected outbreak of an exotic—

**CHAIR**—Why did we fail?

**Dr Roberts**—I was not directly involved in that. But it is not an export. We were not exporting out of Emerald. It is not a different country.

**CHAIR**—I understand that. This is about human failure and understanding human failure versus the theory of science.

**Dr Roberts**—One of the things we say explicitly is that part of the New Zealand justification has to include things like the training of the officers. How is New Zealand going to train their inspectors, for example? How are they going to allow for the fact that some of them are having a Monday or Friday and they have their mind on something else. All of that is part of the justification we are expecting New Zealand to provide to us to prove to our satisfaction that they can meet the required inspection standard.

**CHAIR**—Why do we not need a buffer zone?

**Dr Roberts**—Because the risk management measures target the fruit. There are two risk management measures that target fire blight explicitly. One of them is this inspection four to seven weeks after flowering. Now there are two risks associated with importing apples from an area with fire blight. We are talking about the fruit, of course, not the leaves, not the branches, not the trees and not the nursery stock.

There are two risks in terms of the apple. One is that you will get fire blight bacteria stuck in the calyx of the apple. The time that that will occur is particularly if the flower gets infected with fire blight but it continues to develop to an apple that is harvested. There is some risk, albeit quite small, that fire blight bacteria would be stuck deep in the calyx of the apple. It goes back to that flowering time.

So the inspection at four to seven weeks post flowering effectively looks back, because four to seven weeks post flowering is the time you are most likely to pick visible, easily detectable symptoms of fire blight if the orchard had it at flowering. What you will find is flower clusters that are blackened and dying off, and you will find new shoots that are drooping and you will have find blackened leaves and so on. The experts overseas who work on this disease have told us time and time again that you need to inspect post flowering. So that is the calyx.

**Senator JOYCE**—We are not inspecting then. That is the whole point Senator Heffernan is getting at. Why can we not have a position where we say, ‘In Otago’—and I do not know whether they have apples in Otago—‘you have fire blight so therefore we will not take any apples’—just like there are quarantine zones in South America in terms of TB and brucellosis. Are we just saying that this orchard has fire blight and this one does not and somehow we do not think the bees fly from one to the other.

**Dr Roberts**—The assumption if you look at the IRA is that every orchard in New Zealand has fire blight. We say that at the very beginning of the analysis of fire blight. That is our starting assumption. Our inspection regime, our risk management is not based on the proposition that we are trying to find orchards without fire blight.

**CHAIR**—Because they all have fire blight.

**Dr Roberts**—Exactly. The proposition is that we are putting in place measures that will help us safely import apple fruit from a country where the assumption is that every orchard has fire blight.

**Senator JOYCE**—What is the risk matrix that you have used to do that? And where are the hard and fast examples of this working?

**Dr Roberts**—If you look at the history of trade in apples around the world, you find that there is absolutely no evidence in the scientific literature that fruit has transmitted fire blight. You can delve further into that. For example, some German researchers have looked at the pattern of fire blight strains—the bacteria itself—and characterised the individual strains because they do vary across Europe.

**Senator JOYCE**—How did it get to New Zealand? Was it endemic there?

**Dr Roberts**—No, it was most likely imported through planting material. There are cases where it is harder and you do not have any evidence. Most of the evidence around the world is it is transmitted by planting material. That is one of the pathways believed to have led to its introduction in the United Kingdom. The spread across to France is almost certainly associated with a movement of birds that roosted in hedge rows in the UK which were dripping with fire blight and flew backwards and forwards to Europe.

You can look at the literature and look at the pattern of strain distribution. For example, if you take Europe you find that a lot of countries in Europe have fire blight. That has occurred largely due to the movement of planting material and where you have orchards right on borders.

**Senator JOYCE**—How did it get to New Zealand?

**CHAIR**—I think the better question, Senator Joyce, is how did it get to the botanic gardens in Melbourne?

**Senator Abetz**—I love the way you guys help each other. Senator Joyce indicated what Senator Heffernan should be asking and now Senator Heffernan is indicating what Senator Joyce should be asking. Possibly if you both had a go we might get there.

**Senator JOYCE**—It is a coalition.

**CHAIR**—Of causes.

**Dr Roberts**—I am lost as to which question we are answering now. We have strayed a long way from where I started.

**Senator JOYCE**—How did it get from New Zealand? What planting material was flown from New Zealand? What bird carried the planting material to the botanic gardens in Melbourne?

**Dr Roberts**—I would not care to speculate on the botanic gardens incident.

**CHAIR**—How does it get there is the better question.

**Dr Roberts**—In terms of New Zealand, the reality is that apples are not native to New Zealand neither are pears neither are all the rosaceous hosts of fire blight.

**Senator JOYCE**—How did it get around New Zealand? The same planting material went from orchard to orchard across the island.

**Dr Roberts**—Yes, it did. Very soon after the disease was detected in New Zealand they gave up trying to control spread.

**Senator JOYCE**—Surely if it is on planting material you just have to stop the planting material moving and it would stop.

**CHAIR**—As they did with foot rot they decided to live with it.

**Dr Roberts**—Exactly, they decided to live with it. That was their decision back in about 1918 or 1919.

**Senator JOYCE**—Can you not see that this range of hypotheses is hardly encouraging to the people of Stanthorpe or Batlow. They are going to see planting material and see a box come over with trash in it— leaves and so on. What is the difference?

**Dr Roberts**—Our analysis on trash has indicated that an apple carrying fire blight and a piece of trash carrying fire blight are roughly equal risk. There is nothing especially risky about trash.

**CHAIR**—Is not the unsaid assumption that it does not really matter whether the orchard has fire blight or not, you think the science is good enough that it will not come in anyway.

**Dr Roberts**—Our analysis indicates that if you carry out the risk management measures we have recommended that trade will be safe. It will not lead to the introduction of fire blight. That is what the analysis concluded.

**CHAIR**—Even if it comes from an infected orchard?

**Dr Roberts**—Even from infected orchards.

**CHAIR**—If there happens to be a human flaw in the science of that then no-one is going to get the sack.

**Dr Roberts**—I would not speculate on that. Australia imports a lot of products from countries that have pests and diseases that we have not got on the basis of risk management measures. We import citrus, for example, which is a fruit fly host from a number of countries that have fruit fly and that is on the basis that there is risk management applied to that fruit before it comes to Australia.

**CHAIR**—But we do not know how it got to the botanic gardens. Are we going to send some people over there to work out what is a fair thing for a human task inspection?

**Dr Roberts**—The IRA says very explicitly that AQIS officers will be involved in all aspects of risk management and that a preclearance arrangement will operate at least at the start-up of trade. Preclearance means that there is an AQIS officer or officers sitting on the packing line, checking the product, checking the records, checking all the documentation, checking the securities are in place properly before it is cleared to come to Australia. Moving further back, for the winter inspection for European canker for example, there will be some AQIS involvement observing that and auditing that. That is the proposal at the moment. Also, at the post bloom inspection, there will be some AQIS involvement as well as, as I said, in the packing house.

**Senator JOYCE**—Just say your plan is wrong and we wake up one day and find that we have fire blight in Stanthorpe—how do we stop it? What is our plan then?

**Dr Roberts**—We have concluded in the IRA, given the characteristics of the disease, that if it established properly in Australia it is unlikely you would stop it.

**Senator JOYCE**—So if it arrives here, it is just good night, Irene.

**CHAIR**—We are history.

**Dr Roberts**—Yes, that is the worst case assumption.

**Senator Abetz**—May I suggest with regard to this line of questioning, if that is the bottom line in all this discussion and also in Senator Heffernan's previous question—that is, what happens if somebody makes a mistake?—that is why you have risk assessments. If you have no risk whatsoever, then you would not have to worry yourself about these questions, but then chances are other countries might impose that on our product as well. That is why you get a better balanced view.

**CHAIR**—That is what this is all about. Our job is to defend our clean, green and free status—

**Senator Abetz**—Test the robustness of the advice, by all means.

**CHAIR**—and we will deal with that fearlessly, Minister.

**Senator O'BRIEN**—I want to talk about apples. The period for appeals closed on 12 January. There have been three lodged against this IRA. Where is the process of considering these appeals up to?

**Mr Yuile**—The appeal process is handled separate from both Biosecurity Australia and AQIS, on an arms-length basis. I invite Ms Anderson from the Corporate Policy Division to speak to that.

**Ms Anderson**—As you said, after the IRA was released on 30 November, three appeals were received by the due date on the 12th. Shortly after that, the IRA appeal panel's chairman determined that all three of those appeals would go to a full IRA appeal panel. That panel has been convened and is currently considering the appeals and is scheduled to report to the appellants and the Director of Quarantine by 26 February.

**Senator O'BRIEN**—Who is on the panel?

**Ms Anderson**—The chairman of the panel is Mr John Crosby, who is currently chairman of the Quarantine and Exports Advisory Council. The other QEAC member nominated by the chair is Dr Roly Nieper. The DAFF member of that group is Daryl Quinlivan, our deputy secretary. There is another member, Dr Glen Kile, who is executive director of the Forest and Wood Products Research and Development Corporation.

**CHAIR**—The experience we had in Emerald, which was a complete and dismal failure—and it was an import issue; it is just that we could not jail the people concerned—was that the officers should have gone in there with steelcapped toes on their boots and kicked that door in when they came to it, instead of them saying, 'There's no key,' or whatever it was. Are these people going to have enforcement capacities when they inspect an orchard, so that if the bloke says, 'Don't go down that road. We'll go down this one,' but the officer says, 'No, I want to go down that one,' you can actually force them? Will you be able to say, 'Open that door please,' even if the bloke does not want to? Will we have that sort of SAS capability, as it were?

**Senator O'BRIEN**—That is a different question to the appeal process. In fairness, I wanted to find out less about—

**CHAIR**—But I just wondered what they were thinking.

**Senator O'BRIEN**—But you are asking the person who is talking about administering the appeals process, rather than someone who is adjudicating on the decision.

**CHAIR**—Okay. I just wondered what was in their head.

**Senator O'BRIEN**—I would like to know the range of options open to the appeal panel in respect of its recommendations.

**Ms Anderson**—In the past, and this is how it will be done on this occasion as well, the appeals can be allowed, dismissed or held to be outside the grounds for appeal. They are the three findings that can be made in relation to each ground of appeal. Then the appeal panel will report its findings to the Director of Quarantine and the appellants. If the appeal panel wanted to recommend any actions, it may do so to Biosecurity Australia. The Director of Quarantine has those findings from the appeal panel, and I guess it would be open to Biosecurity Australia to make any revisions that were seen as reasonable in response to the IRAAP's findings.

**Senator O'BRIEN**—So the members of the panel coming from the Quarantine and Exports Advisory Council are the chair and Dr Nieper?

**Ms Anderson**—Yes.

**Senator O'BRIEN**—Do they have any special expertise in this area, or are they only there to look at process?

**Ms Anderson**—The grounds of the appeal are quite narrow—one is a purely process ground and the other is whether or not a significant body of scientific information relevant to the outcome of the IRA was not considered. So we are not calling for scientific merits appeal here; it is mainly about process, and then there is the body of science issue as well. The handbook outlines that the chair of QEAC is always the chair of the IRAAP. Dr Nieper has a scientific background but is not a plant scientist.

The Chief Plant Protection Officer from the department is ordinarily one of the members of the panel in cases where plant related IRAs are under consideration. In this case, Lois Ransom, our Chief Plant Protection Officer, did declare a conflict of interest because she had been involved in the IRA under appeal. The handbook provides that she or the chair can nominate an alternative member, and that is why Dr Kile was nominated. Dr Kile has similarly quite extensive scientific experience as well. There are two scientists on that panel, but primarily the panel is not there to look at the scientific merits. I guess it is an added bonus, not an absolute requirement, that there is significant scientific expertise on that panel.

**Senator O'BRIEN**—So if the finding is to uphold the appeal, what does that mean? Does it have to go back to the start, or is the process at an end?

**Ms Anderson**—If the finding is to uphold the appeal?

**Senator O'BRIEN**—Yes.

**Ms Anderson**—It depends on the nature of the recommendations. If, for example, one of the grounds of appeal was about a deviation of process and that finding was upheld, the recommendation from the panel could be to the chief executive of Biosecurity Australia to do



that step correctly or to do it in accordance with the handbook, so that is primarily what the findings are.

**Senator O'BRIEN**—And if it was based on the finding that there was a significant body of conflicting science, what would happen in those circumstances?

**Ms Anderson**—It would be the same issue. If they thought it was significant enough to the outcome of the IRA, they could ask that they reconsider that body of science in the course of the IRA.

**Senator O'BRIEN**—Thank you for that.

**Senator JOYCE**—I would like to talk about bananas and the Philippines. Do you imagine that your protection against mosaic, black sigatoka or moko virus is going to be delivered under an import risk assessment in the Philippines in the same manner you expect it to be delivered in New Zealand?

**Mr Cahill**—We have not yet issued the revised draft report on bananas. We put a public notice out just before Christmas to say I expected to do that by the end of February and that is my expectation.

**Senator JOYCE**—Let us be fair dinkum: there is no way on God's earth that someone in the Philippines is going to report that their bananas have one of these viruses if they want to keep a job. If we expect them to monitor their crops that they are exporting to us—in this case, I am talking about bananas—we are just living in a fool's paradise, aren't we? Surely we do not think they are actually going to do that personally.

**Mr Cahill**—The stage we are at with bananas is different from the stage we are at with apples. With bananas, we are at the stage of reissuing a draft report for stakeholder comment. So there will be a period of comment and submissions. No doubt people will make that point and other points, I am sure.

**Senator JOYCE**—We are beating around the bush. There has to be an expectation that if you are bringing in bananas from the Philippines they are not going to be looking after you; they are just going to be chucking them on a boat and sending them to you and good luck when they arrive.

**Mr Cahill**—I think we need to await the issuing of the report and the comment period.

**CHAIR**—I think I was even more subtle than that.

**Mr Cahill**—I think you were.

**Senator Abetz**—I reckon it would be a competition.

**Senator O'BRIEN**—So how long before there is a final determination on a proposal to import bananas from the Philippines?

**Mr Cahill**—As I said, I have indicated that we will release a revised draft report by the end of February. So it will then be open for a comment period. That would normally be 60 days but maybe a longer period. It depends on the nature of the submissions that are received—what further work we need to do. Once we have done that, it then goes to the eminent scientists group for review. They have another 60 days. That gets us to a final report and

policy recommendations, which is then open to appeal for another 30 days. So at the earliest, you are looking towards the end of the calendar year

**Senator O'BRIEN**—For a final—

**Mr Cahill**—For a potential policy determination, yes.

**CHAIR**—This eminent group of scientists, do we know who they are?

**Mr Cahill**—Yes, we do.

**CHAIR**—Are they allowed to disagree, bearing in mind the last time we got into this argument.

**Mr Cahill**—The task of the eminent scientists group that reviews the draft, or the final IRAs, is to ensure that stakeholders' comments have been taken properly into consideration.

**CHAIR**—But can they have a non-majority ruling?

**Mr Cahill**—They operate on consensus. They operate under their own rules. I do not influence that at all.

**Senator JOYCE**—Who makes those rules?

**Mr Cahill**—The eminent scientists group.

**CHAIR**—You know what I am talking about—the last time this unfortunately came up. Is it not a fair thing, though, that if someone has a very strong view in that eminent group of scientists who disagrees—this is what you call competing science—they are allowed to publicly express that view?

**Mr Cahill**—Certainly. I think there are two issues here. On the last occasion, what we saw was a disagreement, or a differences of view, within the IRA panel—put the eminent scientists group to one side for the moment—but that was one of the issues that emerged the last time around. That may very well emerge this time around.

**CHAIR**—This time around, without having to play silly buggers with everyone, are they going to be able to say the panel, 'The panel'—

**Mr Cahill**—It will be transparent. It will all be there in the report.

**CHAIR**—So, when it gets to the scientists, are they allowed to disagree and will that be transparent?

**Mr Cahill**—The process—

**CHAIR**—Because it is pointless having these things if you cannot say what you think.

**Mr Cahill**—If there are differences of view that individual panel members wish to express, that will be reflected in the draft report. When we get to a final report—that is, after we have received the stakeholder comments and submissions—that then goes to the eminent scientists group and its task is to ensure that stakeholders' comments have been taken properly into account. It provides its advice to the director of quarantine directly. So it does not come to BA directly; it goes to the director of quarantine. How they go about their task, based on experience to date, is really one of consensus. They go forward with that advice to the director of quarantine. So they do not publish a separate report as such, but we have—

**CHAIR**—If you are a scientist on that group and something is burning a hole in your heart, as it were, in disagreement with the rest of the scientists, then surely it would be dishonest not to let you publicly express that view?

**Mr Cahill**—The procedures for the eminent scientists group are matters for the eminent scientists group; they are not matters for Biosecurity Australia.

**CHAIR**—Yes, but you know—

**Senator JOYCE**—You are ducking the issue.

**Mr Cahill**—No, just let me—

**CHAIR**—No, he is doing all right.

**Mr Cahill**—They are matters for the eminent scientists group. If within that group of four people, as it presently stands, one of those eminent persons wishes to express a different view to the others, I am sure they would do that. These are very able people.

**CHAIR**—But can we give them permission here today, because there is a lot at stake here—

**Mr Cahill**—We do not prescribe. Certainly BA is not—

**CHAIR**—No, do not prescribe them.

**Mr Cahill**—We do not prescribe what they can and cannot do.

**CHAIR**—But let us agree that if there is four on the panel and one bloke says, ‘I think the rest of you are wrong for all of these reasons,’ then for the greater good the rest of Australia ought to know his reasons. Otherwise, why be on the damn panel?

**Mr Cahill**—I am not disagreeing with you.

**CHAIR**—Can we get that nailed down somewhere?

**Mr Cahill**—The procedural arrangements, the way in which the eminent scientists go about their task, is a matter for the eminent scientists group.

**CHAIR**—Could someone give us some advice to the effect that that would be possible without getting that person the sack or feeling that it is a waste of time in the process?

**Mr Cahill**—We will convey that to the eminent scientists group. There is an example of an eminent scientists group report. The advice that they provided to the director of quarantine on the final apple report we published on our web site. So it is there for everyone to see.

**Senator JOYCE**—And that had a dissenting report, like a High Court—

**Mr Cahill**—No, it did not.

**Senator JOYCE**—But it makes sense. The High Court has dissenting reports and no-one kicks up a fuss about it. It makes absolute sense here to have to.

**Mr Cahill**—This is an administrative process that operates generally on consensus, but there is nothing stopping the eminent scientists from disagreeing and expressing that view. We will convey that to them.

**CHAIR**—We had a view put to us of, ‘What is the point of being on one of these things if you are not allowed to’—

**Mr Cahill**—That was in relation to the IRA panel.

**CHAIR**—It is just an extension of it.

**Mr Yuile**—I think, as Mr Cahill has said, we are talking about very eminent scientists. They are not about to forgo their professional credibility because of a different view if they are appointed by the director of quarantine.

**CHAIR**—But from the public’s point of view it would be nice to know that they can, if they want to, have a different view.

**Mr Cahill**—There is nothing stopping them from doing that.

**Senator Abetz**—Just as much as senators can put in dissenting reports to the Senate. Very rarely—

**CHAIR**—Very rarely does this committee do that.

**Senator Abetz**—I dare say these scientists, if they were so motivated, would be able to do that.

**Mr Yuile**—It is probably dangerous, as the director of quarantine is not here, but I would think that she would expect the eminent scientists to be just that—giving her their robust view.

**Mr Cahill**—To be robust in their advice.

**Senator O’BRIEN**—I did want to ask some questions of AQIS, which we seem to have jumped over.

**Mr Yuile**—You do not?

**Senator O’BRIEN**—I do. I am sorry to disappoint you.

**Senator SIEWERT**—I wanted to ask the people from Biosecurity on a different matter—

**Senator O’BRIEN**—Biosecurity comes after AQIS. We just brought it forward.

**Senator SIEWERT**—I am fine. I can wait.

**Senator O’BRIEN**—I will not be long with AQIS. Table 1.2 on page 15 of the PAS lists a series of additional appropriations over the next few years for pandemic influenza preparedness, establishing rapid deployment teams for thermal scanning at airports. It is \$2.059 million this year, \$2.815 million in 2007- 08, \$2.919 million in 2008-09 and \$3.028 million in 2009-10. So is this program up and running?

**Mr Yuile**—The short answer is yes it is. I will invite Dr Carroll to give you more detail. Basically, on the last report I saw, we had some 30 officers trained. We are doing them in groups of 30 with a view to having these people at all of the international airports prepared to be able to use this equipment and to undertake this sort of activity on behalf of the department of health. I will ask Dr Carroll.

**Dr Carroll**—As Mr Yuile has said, that is quite correct. We have developed all the training material, we have all the necessary equipment and we have delivered the first training course

to 30 staff members as well as to contractors who might be involved. We plan on doing a rolling series of training so as time goes by more and more officers will be available to be rolled out if the need arose.

**Senator O'BRIEN**—Staff members of whom?

**Dr Carroll**—AQIS.

**Mr Yuile**—Airport staff?

**Dr Carroll**—Yes, quarantine officers.

**Senator O'BRIEN**—So all the people who are being trained are airport based?

**Dr Carroll**—Yes.

**Senator O'BRIEN**—How many staff will be involved in each of the years in this training?

**Dr Carroll**—The current plan is to train through three training sessions in the first year. So that will be 90 officers and the funding runs over four years. So we will continue to run out at that pace. If we find that we can do it in a shorter time, then we will put more officers through the training

**Senator O'BRIEN**—So 90 officers nationally?

**Dr Carroll**—Yes.

**Senator O'BRIEN**—A year?

**Dr Carroll**—Yes.

**Senator O'BRIEN**—Plus contractors?

**Dr Carroll**—Plus contractors. The system for using scanners, if they need to be deployed, is that a contractor actually holds the thermal scanner and people who are identified by thermal scanning identified as needing further referral are looked after by AQIS officers and taken to an airport nurse for further assessment.

**Senator O'BRIEN**—What is your budget per staff member for training?

**Dr Carroll**—We costed it out and the package all up was roughly \$100,000 for training, but I would have to verify that.

**Senator O'BRIEN**—Per year or per staff?

**Dr Carroll**—Per year. The training is in things such as the use of personal protective equipment; how to handle people who might be distressed—for example, if we identify one person and they are travelling with their relatives or if we identify children—and knowledge of the Quarantine Act with regard to human quarantine. So they undergo that sort of intense training. There are also some elements of train the trainer, because the ideal is to have a core staff that will be fully trained. If the need was to roll out thermal scanning, we would then have those staff to show other people how to do the task on the job.

**Senator O'BRIEN**—So this is training of core staff for the purpose of being aware and passing on knowledge.

**Dr Carroll**—Yes, to establish a core who can rapidly do the task and to then upskill other people as necessary.

**Senator O'BRIEN**—You have estimated the cost of training to be \$100,000 a year.

**Dr Carroll**—That is correct.

**Senator O'BRIEN**—So what is the other money for?

**Dr Carroll**—For wages of the staff. We have additional people—

**Senator O'BRIEN**—You have engaged additional staff.

**Dr Carroll**—Yes.

**Senator O'BRIEN**—How many additional staff are you engaging?

**Dr Carroll**—Thirty.

**Senator O'BRIEN**—Thirty additional staff nationally.

**Dr Carroll**—Yes. Thirty staff have been brought in and have done their training. We then roll them back into the general staff at airports, select another 30 and provide the training to them and then roll them back in, and then take another 30 out et cetera.

**Senator O'BRIEN**—Is the budget so that you can take them out of line duty and pay someone to do their job while they are being trained?

**Dr Carroll**—Essentially, yes. It was to give us a buffer of 30 additional staff to move them in and out.

**Senator O'BRIEN**—How long is the training package?

**Dr Carroll**—I will invite the Acting National Manager Border to answer that.

**Ms Gannon**—The training program runs over a period of several days. There are several elements to it. Some of those are delivered by the Department of Health and Ageing and some are delivered by AQIS staff.

**Senator O'BRIEN**—Is it going to be centrally delivered?

**Ms Gannon**—It is centrally delivered. The first course was delivered in Canberra. For logistical reasons, the next course will be delivered in Sydney because the majority of the staff who are being trained are from Sydney airport, which is our largest airport.

**Senator O'BRIEN**—Who is doing the training?

**Ms Gannon**—There is a combination of people involved. There are officers from the Department of Health and Ageing involved. There are internal AQIS people involved when it relates to AQIS procedures. So there are different people delivering the different elements of the training program.

**Senator O'BRIEN**—Is there any estimate of how many staff would actually be required to cover all Australian international entry points during a pandemic?

**Ms Gannon**—There are 25 thermal cameras that are to be deployed throughout the airports and there is an estimate of five people per team to operate those cameras per shift. There are a number of policy decisions that will need to be made by the Department of Health and Ageing. For example, are they going to operate 24 hours a day at airports? Are they going to target only specific flights? Those decisions have not been made, and without that information we cannot give you a final number. But each camera takes five people in a team to operate.

**Mr Yuile**—To operate and to manage the movement—

**Ms Gannon**—To manage the movement of the people who are identified.

**Senator O'BRIEN**—So at a curfew airport you would probably have two shifts and at a non-curfew airport, three.

**Ms Gannon**—It would depend. The Department of Health and Ageing are yet to determine whether we would screen every flight or flights from specific countries that may be at risk.

**Senator O'BRIEN**—Depending on what is happening at other ports coming through.

**Mr Yuile**—Depending on whether there are any flights at all.

**Senator O'BRIEN**—Yes, that is true. Is it envisaged that if there were a shortfall of staff or equipment during a pandemic certain entry points would be closed?

**Mr Yuile**—That is a bit hard to answer in advance.

**Dr Carroll**—We would probably need advice from the Department of Health and Ageing. Because those are human quarantine issues, it would set the policy with regard to that based on the information it had. We are certainly not aware of any such concept at this stage. If there were a pandemic of human influenza, the impact that might have on the number of people travelling et cetera would also have to be taken into consideration. Certainly we have the capacity to roll out sufficient staff to do that job at this stage.

**Senator O'BRIEN**—Thanks for that. On the subject of grain imports, at supplementary estimates Mr Lihne told the committee that the government was considering 17 applications to import wheat, 14 applications to import maize and seven applications to import sorghum and that countries involved included USA, China, Ukraine, Canada, Brazil and Argentina. How many of those applications were successful?

**Mr Lihne**—At this stage we have a number of assessments that have been done by Biosecurity Australia which have elucidated the import conditions for some of those grains. None of the applicants at this stage have formally applied to bring shipments into Australia. The shipments are managed on a shipment-by-shipment basis and each shipment requires a separate permit. So the conditions have been set. And until such time as importers wish to bring material in they will not apply for an active permit for a specific shipment.

**Senator O'BRIEN**—What does that mean? You have set conditions, so if they comply with those conditions they are allowed to bring them in? Effectively, they can put in an application that the processes determine will be approved.

**Mr Lihne**—The initial round of applications was essentially to get a risk assessment done to determine whether there were conditions which would allow the importation of grain from different production areas into Australia. That advice has now been given. In order to manage the quarantine management of those shipments when they arrive—because there is quite intensive scrutiny of the shipments as they are offloaded and transferred through to processing—we would normally issue permits on the basis of individual ships and individual shipments. So the actual permits will be issued very close to the date that the shipments would be required.

**Senator O'BRIEN**—Have there been any further applications since that evidence?

**Mr Liehne**—No. There have been no recent applications for consideration of other commodities from different countries.

**CHAIR**—The last time we did this—in fact, a mate of mine did the job—we brought in a couple of shiploads from England, if you recall. Have we learnt some lessons from that?

**Mr Liehne**—Yes. We have certainly tightened up the requirements for the screening of commodities prior to shipment so that we ensure that those things are properly managed. Certainly the staff that we had managing the imports last time developed a quite intensive operational manual for the management of such shipments in future, and that is being applied or will be applied to future shipments and be updated based on the advice of any new conditions that may apply. To date, there are no new conditions that would not be accommodated.

**CHAIR**—Because this grain is not allowed to go up country, do we actually search thoroughly for weeds?

**Mr Liehne**—For weed seeds?

**CHAIR**—Yes.

**Mr Liehne**—All shipments on arrival are screened through a normal sampling process to determine whether weed seeds are present, whether there are other grains or other seeds present that are not part of the primary shipment, and a quarantine assessment is made at that time as to what proper measures are needed to manage that.

**CHAIR**—But it would probably make sense to do that before the ship left wherever it came from.

**Mr Liehne**—We set conditions and requirements for the grain coming in. That is certainly part of the import permit, but it is always confirmed on arrival with a thorough sampling process.

**CHAIR**—Just say those ships were loaded somewhere in the UK; do we take samples as the grain is being loaded, sieve it out and see what is being loaded on the ship and send that information here before the ship gets here?

**Mr Liehne**—The scrutiny of that is done by the exporting country and its authorities, if that is needed. We would do the checking on arrival.

**Mr Yuile**—The answer is yes.

**CHAIR**—The answer is, yes, we do do that.

**Mr Yuile**—And that is what applied in the case, for example, of the canola that came out at the end of last year.

**CHAIR**—We have brought some canola in this season.

**Mr Yuile**—Yes. It was required for testing and the laboratory tests have to be supplied ahead of the vessel actually arriving, but it did not preclude us then from doing the postarrival testing, as Mr Liehne has said.

**Senator O'BRIEN**—So at the moment there is no imported grain coming into the country?



**Mr Liehne**—That is right.

**Senator O'BRIEN**—Does the applicant for a permit have to indicate the intended use for the grain or where it is to be used?

**Mr Liehne**—The grain can be imported for processing. It is not imported for planting et cetera so, yes, they do have to provide the end use. The normal conditions that apply with the permit is that we would require the results of any prescreening for pests and diseases that would occur prior to loading. We would need to know the vessel that it is loaded on, the port that it is coming to, the arrival time, where the grain will be stored and where it will be processed. So all of the use and management of the grain through the shipment and post arrival is required to be recorded in order for the import permit to be issued.

**Senator O'BRIEN**—Thanks for that. They were the questions I had for AQIS.

**CHAIR**—Does anybody else have questions for AQIS? If not, I will not ask any.

**Senator O'BRIEN**—Mr Yuile, can you just hang around in case there is an overlapping question?

**Mr Yuile**—Yes, we will always be here, Senator.

[5.39 pm]

#### **Biosecurity Australia**

**Senator SIEWERT**—Can someone tell me where we are up to with avocados?

**Mr Cahill**—Senator, as you know, there was a report of avocado scab in New Zealand prior to Christmas. We looked at that. We undertook a visit to New Zealand. Tighter conditions were put in place for the importation of avocados. They were tightened again subsequent to further discussions with industry and experts in Australia about the avocado scab disease. That is where the situation stands at the present time, although New Zealand has provided information to us that suggests that the initial report was the result of a misdiagnosis and in fact New Zealand is free of avocado scab. So we are now looking at that information and again consulting with the avocado industry and with scientific experts and we will form a view about that shortly.

**Senator SIEWERT**—Thank you for that. Will you verify the information from New Zealand that in fact it was a misdiagnosis?

**Mr Cahill**—Yes. We have sent officers to New Zealand with that in mind, yes.

**Senator SIEWERT**—If it is, do you intend in scaling back the measures that you have put in place?

**Mr Cahill**—Yes, we would do that.

**Senator SIEWERT**—But will you write to the industry before you do that to inform them?

**Mr Cahill**—We are in almost constant dialogue with the industry. We had discussions I think in the last week again with them, so we have had very close contact with them.

**Senator SIEWERT**—Thanks.

**CHAIR**—Anything you would like to report on prawns?

**Mr Cahill**—Anything you would like to ask me on prawns, Senator? I can say that the comment period closes in a week, so we will be looking at those very closely and very quickly when they come in.

**Senator JOYCE**—Obviously you would have seen the reports on white spot, and I say that because I know you understand it perfectly but say it for the purposes of the *Hansard* so they know what we are talking about. Are you aware of the report I am talking about? I think it was the *7.30 Report*.

**Mr Cahill**—Yes, I am.

**Senator JOYCE**—What are your comments to the allegations that were put forward in that report in terms of white spot getting into the Australian prawn industry?

**Mr Cahill**—The draft report that is out for comment suggests that that is a risk and additional risk management measures are required to manage that and a few other risks. We flagged that, subject to the views that stakeholders express by the end of the comment period in a week, we will recommend tighter conditions than those in place at the present time.

**CHAIR**—Obviously this is something that we have been talking about for a while, but why did we not wake up to all of this at the start—the animal side of it as much as the human side of it?

**Mr Cahill**—I think earlier discussions that we have had, Senator, have indicated that we have been looking at it fairly constantly while the import risk analysis has been proceeding. What is different is that we have finished the import risk analysis and issued a draft report. It is there for comment, and we are getting plenty of that—publicly and otherwise—and we will come to a view about that very shortly.

**Senator JOYCE**—Will there be any decision made about the importation of prawns in the next six months, before you have a chance to come back to estimates?

**Mr Cahill**—Yes. We have indicated, Senator, that we would introduce tighter conditions subject to the views that stakeholders express in their submissions on the draft report that is out at the moment and that we will do that prior to the finalisation of the IRA.

**Senator JOYCE**—What I am asking, Mr Cahill, is do we get a chance to talk to you again before this decision is brought down, because we do not know what we are talking about yet because we—

**Mr Cahill**—The draft report is a public document. It is there for all to see.

**Senator JOYCE**—But that is going to be changed somewhat because you are going back to the stakeholders.

**Mr Cahill**—No, it is out for stakeholder comment now and that closes in a week's time. It has been out for 90 days, so people have had plenty of opportunity to express a view about it and make submissions. Unusually, this time around what Biosecurity Australia did was flag the likelihood that we were going to recommend tighter conditions immediately.

**Senator O'BRIEN**—I note that the government has announced these new quarantine measures for imported prawns for human consumption. I wanted to ask the minister a

question. The spokesman for Biosecurity Australia was quoted in the *Sunday Telegraph* on 21 January saying—

These measures are necessary to protect our aquaculture from exotic diseases associated with imported prawns.

Do you agree with that comment?

**Senator Abetz**—Can you just take me back. What were ‘these measures’? Is that in the independent—

**Senator O’BRIEN**—Tougher prawn import quarantine measures.

**Senator Abetz**—Yes, and Biosecurity said that that was a requirement for protection?

**Senator O’BRIEN**—They are quoted in the *Sunday Telegraph*—a spokesman for Biosecurity—as saying—

These measures are necessary to protect our aquaculture from exotic diseases associated with imported prawns.

I just want to know: do you agree with that statement?

**Senator Abetz**—Whether I agree with them or not may be of passing interest, but Biosecurity Australia is charged with making these decisions and providing assessments. Somebody will undoubtedly provide me with a brief on this, but I would have thought it is not only for the aquaculture industry. I think we may have some concerns about our wild sea prawn fisheries as well.

**Senator O’BRIEN**—I was asking you because you are the fisheries minister and aquaculture is a part of the portfolio.

**Senator Abetz**—Yes, and that is why if you asked me specifically if I agree with that, yes, I would have thought that might have been a good reason to have a regime. But I also understand that there might be a good reason for it for our wild sea fishery as well—so not only aquaculture. That is the problem with these statements when only one sentence is reported in the media. I would assume—and these people can speak for themselves—that there would be a view that it is needed for the protection of not only aquaculture.

**Senator O’BRIEN**—So why then delay the introduction of new measures until 21 February or later?

**Senator Abetz**—At the end of the day this is an issue very much for BA to determine. But over the 10 years, I think, that this has been in the making there have been changes in the manner in which prawns are being used that have come to light. So circumstances are different and that means that any risk assessment needs to be adjusted according to those changes in usage. We also live in a society where in general terms you allow people a degree of natural justice.

If you are going to change the regime you would give them some opportunity for input. That is the purpose of floating this new risk assessment. The cut-off date is 21 February—one week from now. We will find out what the objections are. Today in the mail I got a good dozen letters complaining that the proposed risk assessment regime will be too tough. There are people undoubtedly on both sides of the argument and that is for their own commercial

reasons. BA has to try to steer a clear course based on science and not necessarily based on people's economic imperatives.

**Senator O'BRIEN**—Are you aware, Minister, that the Queensland and Western Australian governments have conducted random testing on imported prawns purchased from supermarkets and that those tests have confirmed positive detections of white-spot virus?

**Senator Abetz**—Yes, I am aware of that.

**Senator O'BRIEN**—Why is the government continuing to allow the importation of disease affected prawns?

**Senator Abetz**—There have been risk assessments undertaken to date and that is the advice based on the best expert advice. At the end of the day, that is why we have an expert body to advise us on this.

**CHAIR**—If you threw these prawns that are detected in the supermarkets into the local waterway where there are wild prawns, what would happen?

**Senator Abetz**—I am not qualified to speak about that. You would need a scientist to advise you on that. As I understand it, the chances of something happening are very limited, but the potential is there. That is why, on balancing these things, BA has determined that for the future it would be better if no such imports were allowed into this country.

**CHAIR**—This came to my attention perhaps 18 months ago when I went up to have a look in Queensland and I asked the local fishermen who were fishing with prawns where they got their bait from. They said they got it down at the supermarket.

**Senator Abetz**—That is right. That is one of the changes in usage that previously had not been anticipated. That is one of the things that has genuinely engaged BA. I think they have taken that seriously.

**CHAIR**—I think they have taken it all very seriously. I congratulate them.

**Senator Abetz**—Whereas 10 years ago I do not think that would have been an issue, in fairness. With respect, this risk assessment has been dragging on for some time. When I became minister 12 months ago I was concerned about that. We allocated some more resources to try to get it expedited. If I might say so, I think that is what we are witnessing now. Submissions close within seven days with a final determination when?

**Mr Cahill**—We have indicated that we will do that quite quickly. We will look at the submissions and move very quickly to make further recommendations about the appropriate conditions in the light of that.

**Senator O'BRIEN**—It has taken 10 years to get to this point, has it not?

**Senator Abetz**—Can I say, Senator O'Brien, without going over all the old history on this, I think a 10-year delay is far too long. That is why when I became minister and became aware of it I sought an expedition of this matter. I think things have been moving relatively quickly in recent times.

**Mr Cahill**—It is worth noting various things were done while the import risk analysis was underway, including the imposition of quite strict interim conditions. They have been in place

for some time and remain in place today. We are looking at a further tightening of those conditions.

**Senator O'BRIEN**—In relation to this import risk assessment we have the time for submissions closing on 21 February. What happens then?

**Mr Cahill**—BA will have a look at those submissions and then quickly make further recommendations to the Director of Quarantine.

**Senator Abetz**—The final report is subject to a 30-day appeal period, is that right?

**Mr Cahill**—The final report will be, but we are proposing, as we flagged in the draft report, to potentially introduce revised conditions earlier than the final report. We are not going to wait until the final report. It is subject to the submissions that we receive. So we do need to look at those. Once we have looked at those we will go forward with some further recommendations. They will then be translated into conditions attached to import permits.

**Senator O'BRIEN**—How will that occur? What instrument will you issue to implement restrictions prior to the conclusion of this process?

**Mr Cahill**—The import permits will be modified effectively.

**Senator O'BRIEN**—So you will withdraw them all and reissue them, will you?

**Mr Cahill**—That will be a matter for AQIS operationally to implement that but that would be the normal procedure, yes.

**Senator O'BRIEN**—It is known how many permits there are, I take it?

**Mr Cahill**—Yes.

**Senator O'BRIEN**—There are no sleepers out there?

**Mr Cahill**—No.

**CHAIR**—There are a few crafty blokes out there.

**Mr Cahill**—There are.

**Senator Abetz**—On both sides of the debate, can I tell you. I read with interest somewhere that somebody thinks that this could cost us 450,000 jobs. I am not sure where that came from. Chances are that a couple of extra zeros were added on, if not more. Nevertheless, we should be mindful of the fact—and I am very mindful of the fact—that I am getting it from both sides in this debate. Can I tell biosecurity that no matter what decision they make they will get it wrong and they will be criticised severely for it.

**CHAIR**—The one thing that you can be sure of is that this committee will continue to throw its weight around with regard to protecting Australia's clean, green and free status. Just as an aside, do we have any statistics on rejections of prawn consignments?

**Mr Yuile**—Yes, we do. In relation to the current testing program?

**CHAIR**—Yes, I probably would like to include in that, which is somebody else's job I suppose, the antibiotic part of it.

**Mr Yuile**—We can get you that information, Senator.

**CHAIR**—I did get some recently.

**Mr Yuile**—We would have the data with respect to white-spot syndrome because of the testing regime there. I can see what other data we have. My memory is about 80-odd per cent of consignments are clear and 20 per cent are rejected, but I will double-check that for you.

**CHAIR**—I got into trouble the other day for saying that we are objecting to drinking recycled water when we actually in some instances are eating recycled water because of how these shrimp are produced.

**Mr Yuile**—I was at Dinmore last Friday and I drank some of it. It was fine.

**Senator O'BRIEN**—Is it true to say that the government has been aware that prawns imported into Australia during the past 10 years have tested positive for white-spot virus?

**Mr Cahill**—Yes.

**Senator O'BRIEN**—How is that consistent with our stated goal of managing quarantine risks to a very low level as is contained in Biosecurity Australia announcement BA2006/02?

**Mr Cahill**—The prawns are only allowed to be imported for human consumption. Regardless of where you may think they end up, that is the only way in which they can be imported. There is a range of other conditions and a testing regime that is in place to manage the risk of white-spot virus and the other risks that are presented by imported prawns. Those conditions are already in place. What the draft report is saying is that there has been a change over time of end use which has influenced the way in which imported prawns might be used and there is a need for additional conditions to be imposed.

**Senator O'BRIEN**—Your announcement that I referred to earlier says that Australia takes a conservative approach to quarantine and manages quarantine risks at a very low level. Is it the government's view that allowing prawn imports over the past 10 years—when it was known there was white spot and the usage of these prawns in the community was not known—was a conservative approach to managing the quarantine risk?

**Mr Cahill**—I cannot speak for the government; I speak for Biosecurity Australia. I guess some of the evidence that has been publicly reported, even recently by stakeholders who think the proposed conditions are excessive, makes the point, among other things, that there has been no detected incursion of white spot in Australia despite the significant trade that has occurred.

**CHAIR**—The government blew the whistle.

**Mr Cahill**—Sorry?

**CHAIR**—We blew the whistle.

**Senator O'BRIEN**—Then why has the government determined it is necessary to impose tougher restrictions or propose them?

**Mr Cahill**—The draft report, as I indicated, talks about the analysis that we have now completed indicating that, with increases in the volume of imports, there have been changes to the way in which those prawns may be used. That has increased the risk potentially to fisheries and aquaculture—

**Senator O'BRIEN**—What sorts of changes?

**Mr Cahill**—and tighter conditions are required.

**Senator O'BRIEN**—What sorts of changes?

**Mr Cahill**—The sorts of changes that Senator Heffernan was talking about before.

**Senator O'BRIEN**—People buying their prawn bait at the—

**Mr Cahill**—People using prawns imported for human consumption for other purposes.

**Senator O'BRIEN**—So you say that there is no white-spot virus in our waterways?

**Mr Cahill**—No incursion has been detected is what I am saying.

**Senator Abetz**—There has been no detection.

**Senator O'BRIEN**—What testing has the Australian government done to assess whether exotic diseases have been transferred into the marine environment?

**Mr Cahill**—You have probably reached the limit of my technical knowledge, so I might invite one of my colleagues—

**Mr Yuile**—It is more likely that it has been at a state level in terms of their responsibilities for waterways.

**Mr Cahill**—That is really a matter for the Product Integrity, Animal and Plant Health Division.

**CHAIR**—It is the same question. There is no—

**Mr Cahill**—We can take it on notice—

**Senator O'BRIEN**—So has there been any testing of wild stocks here in Australia to determine whether white spot or any other virus has become established in the wild?

**Dr Martin**—My understanding is that there has been some surveillance done for white spot, but we can get further information for you from the product integrity area.

**Senator O'BRIEN**—I would like to find out when it was most recently done.

**Dr Martin**—The work that I am aware of was done, I think, back in about 2000.

**Senator O'BRIEN**—How can the government be confident that white spot or Taura syndrome virus have not become established?

**Senator Abetz**—Have not?

**Senator O'BRIEN**—Have not become established.

**Senator Abetz**—In relation to becoming established, I am not sure what that means. At this stage we have not detected anything. In the face of that, I dare say we are relatively confident. But our waterways are very vast and expansive. I do say we can never give an absolute guarantee but to the best of our knowledge, information and belief, there are not any exotic diseases in our waterways.

**Dr Martin**—Both of those diseases are notifiable diseases in Australia. So there are reporting obligations. Certainly, white spot—which affects species of prawns and other crustaceans—affects a wide host of species that are present in Australia. It causes severe mortality—or just mortality. That is pretty severe in itself.

**Senator O'BRIEN**—As much maximum mortality you can possible have.

**Dr Martin**—Indeed. Therefore, we would expect that that would be reported and there is an obligation that it is reported.

**Senator O'BRIEN**—I note the government introduced a testing regime for white-spot virus back in 2001. Can we be provided with the results of the tests on imported prawns since that time? Is there some information that you can provide us?

**Mr Yuile**—I think I have taken that on notice.

**Senator O'BRIEN**—You have taken that on notice already.

**Mr Yuile**—That is what I understood you were asking earlier. So the outcome of the testing regime in terms of white-spot virus?

**Senator O'BRIEN**—Yes. Since that time, the decision to change policy and the approach has been brought about because the government believes people are buying prawns in supermarkets to go fishing. Is that what I understand you are telling us?

**Senator Abetz**—There has been, as I understand it, a change in community usage of the prawns which previously was not known or, if it did happen before—and chances are it may have done on a rare basis—we are now aware of it, or BA is now aware of it, and that has to be factored in whereas previously I assume, and I cannot speak for what happened all of those years ago, it was not brought to BA's attention as a likely risk.

**Mr Cahill**—Since 2001-02, the total amount of imports has increased from something like 18 kilotonnes to 30 kilotonnes. That is a significant change in the volume of imports and it does reflect on the potential end use of those imports.

**CHAIR**—That is a fair bit of yum cha.

**Senator O'BRIEN**—So 30,000 tonnes as distinct from what amount?

**Senator Abetz**—Eighteen.

**Senator O'BRIEN**—So a 40 per cent increase.

**Mr Cahill**—No, a 60 per cent increase.

**CHAIR**—And what is the labelling on those? Do they come in with the dancing kangaroo of Australia mostly—as does the water from China in those bottles?

**Senator Abetz**—I thought it was Indonesian.

**Mr Yuile**—All the produce that I have seen in supermarkets now is all labelled.

**Senator Abetz**—You have not been to a supermarket lately, have you?

**CHAIR**—My word I have.

**Senator Abetz**—If you go into the fresh fish area in particular—

**CHAIR**—There is no such thing as fresh fish in our supermarket.

**Senator Abetz**—What? June? Right. I stand corrected.

**CHAIR**—You are up there with the cafe latte set, son.

**Senator Abetz**—I stand corrected.



**Senator O'BRIEN**—I note that the proposed new measure requires country or zone disease freedom. I also understand that Australia is one of only a few nations in the world which is believed to be free from OIE listed diseases such as white spot and that the vast majority of prawns imported into Australia are from China, Indonesia, Thailand and other disease affected Asian nations. Is the practical effect of this new measure to be a ban on imports? In other words, the countries now supplying the prawns not being free of the virus will not be able to supply?

**Mr Cahill**—They can cook them, but not raw, for example, or they can be highly processed.

**Senator Abetz**—Yes, the cooking or highly processing of them gets rid of the disease risk.

**Senator O'BRIEN**—What? Removal of the head and shell and testing—

**Mr Cahill**—The conditions for disease freedom from white spot and the other four diseases of concern are cooking, a high level of processing such as being crumbed and so on, or the removal of the head and shell, and batch testing.

**Senator O'BRIEN**—How big a batch?

**Dr Martin**—Batches are defined in the draft conditions as a different pond population. If they were wild caught, it could be a production run, which would be in the same location. If they were different species of prawns, that would be a different batch. If it was a mixture of wild and farmed, they would be two batches. So there are some criteria that are used for determining a batch.

**Senator O'BRIEN**—So it is expected that these measures will reduce the volume of imported prawns into Australia?

**Mr Cahill**—Certainly uncooked.

**Senator O'BRIEN**—There is a finite market in each area and the uncooked area is one market.

**Mr Cahill**—But you talk about the volume of prawns. It might be that China is the one from which they can come into the country.

**CHAIR**—Do we monitor the price when they come in?

**Mr Cahill**—Biosecurity Australia does not, no.

**CHAIR**—No. I thought that little exercise in Canberra a year or two ago was interesting when someone had on the menu for some years southern Queensland farmed prawns which actually came from Indonesia. They were \$12 a kilo when they landed in the state where they landed, without dobbing anyone in, and they retailed at Woden for \$48 a kilo. They were pretty good prawns. That is not a bad mark-up. Therefore, you could put on 'Product of Australia' and value add 50 per cent.

**Mr Yuile**—We obviously do not monitor the pricing of those. You might talk to Customs in terms of countervailing dumping duty assessment, but not us. That is a commercial decision. If restaurants choose to mislead you—

**Senator Abetz**—That is the opposite in fact to dumping.

**CHAIR**—Just for the record, wholly owned fully bottled Chinese water comes in at 28c for a 650 millilitre bottle and retails for \$1.85 to \$2.50!

**Senator Abetz**—It is nearly worth putting into the Murray-Darling.

**Senator O'BRIEN**—Is the government concerned about the impact of the new measures on the price of prawns in the domestic market?

**Senator Abetz**—Whether we have a concern or not is, at the end of the day, irrelevant to the considerations that need to be taken into account, and that is the robustness of the scientific approach. If you want an opinion that I assume is not worth much because it is simply mine: if there are fewer raw prawns imported, it stands to reason from my basic grade 11 economics that if the supply goes down the price may well go up. Therefore, the consumer will have to pay more and, for the northern prawn fishers with whom a certain person in your office has an association, chances are it will put a smile on their face. Having said that, the consumer undoubtedly will have to pay more.

**CHAIR**—But the local prawn farmers were tearing up money. They could not stay in business.

**Senator Abetz**—Yes, but it has to be stressed that just because local prawn farmers are finding it economically tough that is not a justification to think of some sort of disease issue to bolster them.

**CHAIR**—I understand all of that, which is why I argued against shutting down our dairy industry a few years ago because you could get the milk cheaper importing it from New Zealand. That is what you call supply and demand in the market. Everyone gets a turn.

**Senator Abetz**—We as a government are absolutely robust in relation to the approach on this because, if there is any suggestion—and I am sure I will be corrected—that these sorts of regimes are being put in place to bolster prawn aquaculture or to help the price obtained by the northern prawn fishers, undoubtedly we will be appealed—

**CHAIR**—It is the protection of our status.

**Senator Abetz**—Exactly, and that is why the liability of prawn farmers or the price consumers might have to pay—which are two questions I have just fielded—do not come into the equation in the consideration of this.

**Senator O'BRIEN**—The chairman of the Seafood Importers Association of Australia, Harry Peters, was on the *7.30 Report* on Monday night. He said that the supply of imported prawns—and I presume he meant raw prawns—would be dramatically impacted by the new measures. I take it that you agree with him. I also take it that, if you agree that he is correct, there will be an upward pressure on prices for uncooked prawns.

**Senator Abetz**—As I said, for what it is a worth from my grade 11 economics, if the supply goes down usually the price for the product goes up. If that rule follows then that will occur, unless of course that gap in the marketplace is potentially filled by more prawn farms and then the price will readjust itself. In the short term, the chances are that Harry Peters—a man for whom I have a high regard and respect—is right.

**CHAIR**—Forrest Gump's mate might come to the rescue.

**Senator Abetz**—We never know what might happen.

**Senator O'BRIEN**—Is it credible that consumers will be paying up to \$80 or \$100 a kilo for prawns, which is what has been suggested?

**Senator Abetz**—I am not that acquainted with the price structures et cetera. Once again, even if that were to occur—

**CHAIR**—That is the market.

**Senator Abetz**—that is not a consideration that should be taken into account, albeit we would be letting our regime slip to try to keep the price of prawns down and thereby prejudicing the potential of disease coming into the country.

**Senator O'BRIEN**—So this is not an issue. You have not done any assessment. It is not something that has been factored into this process at all.

**Senator Abetz**—In general terms, if I had to make a prediction—and I do not suggest that anybody take much note of it, but academically I think what I said before is right—if supply goes down the price will go up. In the short term the chances are that that will happen, especially in relation to raw prawns. But, given that circumstance, we do not know whether people will say, 'Raw prawns are too expensive and as a result we are going to buy cooked prawns.' Thereby there might be a new market for cooked prawns.

**CHAIR**—That is what you call the free world.

**Senator Abetz**—Yes, and the market will adjust and readjust rather than me trying to predict that. That is something that government, in general terms, is not good at. The market usually sorts these things out.

**CHAIR**—Bananas have sorted themselves out.

**Senator O'BRIEN**—Is the time gap from the initial announcement until now effectively a way of making sure that there are not shipments in transit on the water, as it were, so that we do not have complaints from importers that they have made arrangements to import and then the rules have changed?

**Senator Abetz**—I would have to seek advice as to what motivated Biosecurity in relation to this.

**Senator O'BRIEN**—They might tell us.

**Senator Abetz**—At the end of the day, it is a risk assessment and that risk should be determining the outcome of this. If it were to be seen as a completely and utterly unacceptable risk in the short term, for what it is worth, my opinion is that I would hope they would stop the container coming for the sake of the prawn industry.

**Mr Cahill**—The consultation period is there to allow all stakeholders the opportunity to comment on a draft report with draft conclusions. What we have seen in the intervening period in public reports—media and otherwise—is some quite robust and contrary views being expressed about the conclusions of the draft report. So that is the purpose of the consultation period—to allow people to digest the report, come to a view and make submissions about that and give us some information about whether we have the assessment right. That is the beginning and the end of it.

**Senator O'BRIEN**—Can we be assured that if the protocol comes into effect it will not be possible for prawns from a country that does not have disease-free status, such as Thailand or China, to be diverted into disease-free countries, such as New Zealand or New Caledonia, and then simply rebadged and exported to Australia?

**Dr Martin**—We are proposing that they will have to be certified by the exporting country of the country of origin. So they will have to actually declare where the prawns have come from.

**Senator O'BRIEN**—So if the administration in one of those countries gives you that certificate, that will allow the prawns to come to Australia. Does that mean they will not be tested or you would still test?

**Dr Martin**—It would depend on which country it came from. If we accepted that country as being free from all five diseases, then whole prawns could come in. They would need to be certified that they originated and grew in that country.

**CHAIR**—This was a problem with power drinks, wasn't it? We were not allowed to manufacture power drinks here, but because of our trade arrangements with New Zealand they could bring them into Australia even though we could not produce them here. They were importing them and bringing them in, so obviously everyone is inventive in the marketplace and I guess we would want to be alert to what Senator O'Brien is talking about.

**Dr Martin**—And they certainly would have to be accompanied by an official competent authority certification attesting to their origin.

**CHAIR**—Does New Zealand have a domestic prawn industry?

**Senator O'BRIEN**—I am not absolutely certain how they would manage that.

**CHAIR**—If they did not, you could be certain they were importing them.

**Senator O'BRIEN**—There would be certain things that would make that obvious, that is true, but things can change as well. Does the government agree that peer review is an important part of the scientific process in this assessment?

**Senator Abetz**—I understand that happens, doesn't it? An eminent scientists group reviews the final report to ensure stakeholder comments on the draft have been addressed properly; that is the brief I have in front of me. Then the final report will be issued for a 30-day appeal period. I assume that these eminent scientists are the peer group.

**Senator O'BRIEN**—Have the findings of the scientific assessment panel of the prawn IRA already been subjected to peer review, or is that yet to happen?

**Mr Cahill**—Are you still talking about prawns?

**Senator O'BRIEN**—Yes.

**Mr Cahill**—We have got a draft report that has gone through a process through an IRA team and through Biosecurity Australia. There are experts on the IRA team from both inside and outside Biosecurity Australia, and then Biosecurity Australia as a whole is responsible for the publication of the draft report. There are some further phases that come beyond that. As part of that development, you could say that that is a form of peer review that is undertaken.

**Senator O'BRIEN**—A form?

**Mr Cahill**—Well, there are experts from inside and outside the organisation who are looking at the evidence, the scientific data, the information that comes forward and the drafting of the report, and if they are satisfied about that report that is then published for comment from everybody—scientists and otherwise.

**Senator O'BRIEN**—Can the committee be provided with a copy of the minutes of all meetings of the scientific assessment panel?

**Mr Cahill**—There are summary records of IRA team meetings published on the BA web site.

**Senator O'BRIEN**—Is that effectively the minutes?

**Mr Cahill**—Yes, that is right. They are the records that are kept of the meetings.

**Senator O'BRIEN**—Is it true that members of the scientific assessment panel are required to sign confidentiality agreements before accepting appointment to the panel?

**Mr Cahill**—The outside members of the teams are engaged on consultancy contracts and, yes, they would be required to sign confidentiality agreements and declare any conflicts of interest.

**Senator O'BRIEN**—Why would you want to place restrictions on the freedom of members of the scientific assessment panel to discuss their findings with their peers?

**Mr Cahill**—I do not seek to do that. What I seek to do is to in fact encourage open and robust discussion within the IRA team about conflicting evidence and information that might come to them. They can do that in a full way within the IRA team and come to a view. Then if there are different views, as we discussed earlier, they are made transparent as well.

**Senator O'BRIEN**—But they cannot go and seek their own information and engage in a dialogue with someone about issues that are being discussed for their benefit?

**Mr Cahill**—We do not prevent that.

**Senator Abetz**—That is a very broad question.

**Mr Cahill**—That is right.

**Senator Abetz**—In general terms, I suppose they could.

**Senator O'BRIEN**—But would they breach their confidentiality?

**Senator Abetz**—Any confidential information they came across by virtue of sitting on the panel could not be divulged to a scientific colleague.

**Senator O'BRIEN**—What does a confidentiality agreement mean then? I just want to be clear on that.

**Mr Cahill**—The nature of the task that IRA teams and therefore IRA team members are required to perform is a task for Biosecurity Australia. Biosecurity Australia is responsible to the government for undertaking independent, science based risk assessments. It is our job to do that. One of the mechanisms that we use for a particular task is to establish a specialised team to help with that task. As I said, that is a combination of inside BA officers and outside

experts who come to form a team, and we engage those under the normal arrangements for engaging such experts.

**Senator O'BRIEN**—That is a glib way of saying almost nothing. What does it mean? If you signed a confidentiality agreement and there is a matter under consideration, does that prevent you from going to someone and saying, 'I am looking at this scientific issue and I just want some assistance with thinking it through'?

**Mr Cahill**—No, it does not prevent that at all.

**Senator O'BRIEN**—So what does it prevent them from doing—talking about an individual submitter's name, or something like that? I am not sure.

**Mr Cahill**—It might do that. There may be confidential information that comes to the IRA team. There may be submissions that are made that people want to keep in confidence, for a range of reasons.

**CHAIR**—I would think there would be circumstances in which confidentiality would be important to prevent market manipulation too.

**Senator O'BRIEN**—In this context, it is a long bow.

**CHAIR**—No. You could be someone who is just about to be barrelled by something that is in the national interest because of the science and you could be told, 'You'd better get out of that, old mate, because they're about to barrel you.'

**Senator Abetz**—In relation to that proverbial container of prawns that you were talking about that is on its way to Australia, if you were a part of the initial assessment and you got an inkling from your colleagues that we might ban it, then loose lips may allow another scientist, even inadvertently, to tell somebody in the industry, 'It might be time to shut up shop.' As a result, they might be able to hedge against a business failure which others who were not provided with that sort of information could not do. It is hypothetical, but I think we understand why in all these areas confidentiality is an important consideration.

**CHAIR**—I think it is a fair thing for the public to know that, if there is a difference of opinion, it can be public at the end of the process.

**Mr Cahill**—That is right. We need to keep this in perspective, I think. Australia has I would propose the most open, transparent import risk assessment process of any country. It is not a secretive process by any stretch. We publish almost everything. It is there for all to see. There are extended periods where it is available for comment, for review, for appeals. So it is a completely open and transparent process. As I have indicated, we also will publish minority views, if they exist. So there is nothing secretive about it.

**Senator O'BRIEN**—Would the members of the scientific panel be free to discuss their findings on matters of science with their peers?

**Mr Cahill**—The findings on the issues of science are published for peers and everyone else to see, and there is no impediment to proper, scientific discussion and dialogue amongst peers. We do not prevent that at all; we encourage it.

**Senator O'BRIEN**—In announcing the new measures, Biosecurity Australia notes that the risks arising from Taura syndrome virus require additional quarantine measures. What measures have been introduced to address this threat?

**Mr Cahill**—I think we have already talked about the measures.

**Senator O'BRIEN**—There is no special measure in there that is about that threat.

**Mr Cahill**—We have identified five diseases of concern, and the measures that we are proposing to put in place deal with those diseases of concern.

**Senator O'BRIEN**—I am told that the world's leading prawn health expert from the University of Arizona, Dr Don Lightner, has published a paper which shows that TSV can infect banana prawns. Do you know if the scientific assessment panel considered Dr Lightner's work?

**Dr Martin**—Biosecurity Australia commissioned Dr Lightner to conduct trials—

**Senator O'BRIEN**—Have they considered it, then?

**Dr Martin**—on five species of prawns, including banana prawns—actually, three species of prawns and two crayfish. Those results were considered by the IRA team.

**Senator O'BRIEN**—Is there any restriction on the distribution of Dr Lightner's report?

**Dr Martin**—We put that out as a progress report prior to the import risk analysis draft report being released. So that is on our web site.

**Senator O'BRIEN**—I understand that the Australian Prawn Farmers Association has received correspondence from Biosecurity Australia instructing it not to direct any questions regarding the study to Dr Lightner. Is that correct?

**Dr Martin**—I would have to see the correspondence, but the prawn farmers sought a copy of the draft report from Dr Lightner. Again, this was work that Biosecurity Australia had commissioned. So, once we got it and it was considered by the IRA team, it was provided to interested stakeholders including the prawn farmers.

**Senator O'BRIEN**—So you are saying your concern was about a request for a copy of a report which was your property and you had not determined that it would be distributed at that time?

**Dr Martin**—Certainly, yes. The prawn farmers could write to Dr Lightner about scientific matters. That is anyone's right. But this was a report that we had commissioned.

**Mr Cahill**—The report was owned by Biosecurity Australia and it was a matter for Biosecurity Australia to consider that and release it in the appropriate way. If we have engaged or commissioned someone to do a job of work for us, we would expect them to report to us, and if a third party wanted access to that report we would expect them to come to us to get that report. As it turns out, it has been published anyway so there is no problem with that.

**CHAIR**—So after dinner, for which we are now to break, do we need Biosecurity?

**Senator O'BRIEN**—Probably briefly.

**CHAIR**—Why wouldn't everyone just switch to cooked imported prawns?

**Mr Yuile**—Is it possible to finish it now, Senator?

**CHAIR**—Do you want to finish it now and go for a few more minutes?

**Senator O'BRIEN**—No. It will take more than a few more minutes because I have skipped over some things that I want to deal with.

**CHAIR**—Can we take a bit of advice for later in the night. In terms of the last department for the night—Fisheries and Forestry—would it be inappropriate for them to go home? I am sure they really want to stay, but if you insisted they would go home.

**Mr Quinlivan**—Or perhaps if you wanted to prune the program now. Perhaps if it is not Fisheries and Forestry it might be another that you have not got questions for. We could give them advice now. In other words, if you let us know the priorities for the rest of the—

**Senator O'BRIEN**—Yes, but I thought we had already done that for areas we do not have questions for.

**Mr Quinlivan**—I am not sure that advice got through to this side of the table.

**Senator O'BRIEN**—Perhaps we gave it to the secretariat, I am not sure. For example, GRDC we dealt with earlier.

**Mr Quinlivan**—That one we did, yes.

**Senator O'BRIEN**—But I will review that during the break.

**CHAIR**—Senator O'Brien, do we need a little private meeting to work out where you think we are going to get to tonight?

**Senator O'BRIEN**—Yes, let us have a quiet chat.

**CHAIR**—Okay. We will get some advice on who can go home, if anyone.

**Proceedings suspended from 6.31 pm to 7.31 pm**

**CHAIR**—Thank you very much, ladies and gentlemen. We are back in session.

**Senator O'BRIEN**—At supplementary estimates we were told there had been some preliminary discussions with the draftsmen about developing the regulations for the new import risk assessment process. What has happened?

**Mr Yuile**—Senator, that resides with the corporate policy division, so I ask Ms Anderson to answer that.

**Ms Anderson**—DAFF is currently finalising the regulations to implement the new system. We expect those regulations to come forward probably over the next month or so. I cannot give an exact date at this time.

**Senator O'BRIEN**—That is about the timetable for tabling, is it?

**Ms Anderson**—Yes.

**Senator O'BRIEN**—Am I right in assuming that the basic structure of the proposed changes remains the same as that set out in the flow chart we were provided with at supplementary estimates and which appeared on the Biosecurity Australia website at the time?

**Ms Anderson**—The structure of the new system? That is correct, yes.



**Senator O'BRIEN**—I have been told that under these new arrangements the Quarantine and Exports Advisory Council may have some formal role in IRA appeals. That sounds like it is already occurring. Is it?

**Ms Anderson**—Those appeals are in place under the current flow chart in the current handbook. That will continue. The exact terms of reference of the new version of the IRA Appeal Panel have not been released yet, but they will be contained in a revised IRA handbook that will come out when the new regulations commence. So QEAC will still have a role in that appeal.

**Senator O'BRIEN**—How long have QEAC had this role in the appeals process?

**Ms Anderson**—From memory, since at least 1998, but I would need to check that for you to make sure that is correct.

**Senator O'BRIEN**—Thank you for that. The most recent document we can find posted on the Biosecurity Australia website in relation to the import risk assessment for imported chicken meat is dated 20 October. Unless we are making some error in access, we cannot find anything later. Is that the last update?

**Dr Martin**—The latest submissions would be all the submissions that we have received on the draft IRA report.

**Senator O'BRIEN**—The update that I am referring to states that the chicken meat IRA will continue to be dealt with under the previous set of IRA procedures and the process will be finalised in the first part of this year. Is that still going to happen?

**Mr Cahill**—As Dr Martin said, we have stakeholder comments in on the draft report and we are considering those now. We intend to produce a final report soon and that will be referred to the Eminent Scientists Group for consideration. One of the issues that we are looking at with this particular IRA is that many of the comments that have been received from stakeholders relate to human health issues rather than biosecurity or animal quarantine issues, so we are talking extensively to the department of health about those matters. So, to some extent, we are in their hands in terms of the advice that they are able to provide us in good time.

**Senator O'BRIEN**—So the department of health's advice will determine the outcome of the IRA?

**Mr Cahill**—No, it will not, but where there are issues of human health concern, then obviously the imported product needs to comply with both quarantine and human health issues. Our responsibility is to address the animal biosecurity issues and consult with the department of health about the human health issues. We will endeavour to reflect that in the final report on the basis of advice we receive from the department of health.

**Senator O'BRIEN**—If the final report is concluded soon and it goes to the eminent scientists panel, when would we expect to see the final import risk assessment?

**Mr Cahill**—I would expect the final report, as we have indicated on the website, to occur in the first part of the year. The Eminent Scientists Group has 60 days to consider that and again it depends on what issues emerge from that and what more work, if any, Biosecurity Australia has to do in response to that; so it will be later in the year.

**Senator O'BRIEN**—On 10 January this year, Biosecurity Australia issued policy memorandum No. 2007/01. Biosecurity Australia has now established protocols for the importation of wheat, maize, sorghum and soybean from Argentina and soybean from Paraguay and it will shortly be making an assessment with regard to grains from Brazil. The memorandum refers to site visits as part of the assessment process. Does this mean that Biosecurity Australia staff have actually visited wheat, maize, sorghum and soybean farms in Argentina and soybean farms in Paraguay?

**Mr Cahill**—I will ask Ms van Meurs to come and answer those questions.

**Ms van Meurs**—Yes, it does, Senator. They have visited those particular countries.

**Senator O'BRIEN**—Have they followed each of these grains through the supply chain, the handling and storage processes in these countries, and are now satisfied that the standards are equal to our own?

**Ms van Meurs**—The assessments that Biosecurity Australia undertook were to determine the pest and disease status of that particular country and to determine, particularly from the point of view of fungal diseases, that there was either low pest prevalence or country freedom from those particular fungal diseases that we are concerned about.

**Senator O'BRIEN**—I take it Biosecurity Australia is satisfied that there are no weed or disease issues for those grains and pulses?

**Ms van Meurs**—No, we have an existing policy for grain for processing in the metropolitan area from the 2002 drought and from the previous drought in the late nineties. The process is to assess the pests and diseases but more important is the end use. The end use goes into the processing in the metropolitan area to ensure those, particularly bacteria, viruses and weeds, are actually rendered non-viable in the process of processing for feed grains. Although we look at those and we assess those, the main area we are concerned about is particularly the fungal diseases where there is a possibility on discharge that some of the fungal diseases could be airborne in Australia, so it is a matter of making sure that the particular country is free of, or that there is a very low prevalence for, those particular diseases on the particular commodity, so it is really looking at the scientific assessment for what is in that particular country on that particular commodity.

It is really talking to the scientists in that particular country and walking through the scientific assessments as well as, obviously, our own research that we undertake.

**Senator O'BRIEN**—So you visited farms and spoke to people from the department of agriculture equivalent?

**Ms van Meurs**—Yes.

**Senator O'BRIEN**—What about Brazil? Where is that process up to?

**Ms van Meurs**—The Brazilians have come back to us with some more information. We are assessing that information at the moment and then we will determine whether the diseases that we are concerned about are able to be managed and, if they are, we will provide that advice to AQIS. At the moment we are in the process of assessing the information that we have asked the Brazilians to provide and which they now have provided.

**Senator O'BRIEN**—What is the state of the import risk assessment for the importation of bee semen?

**Dr Martin**—There has been some work done on it. We put out a policy memorandum in 2006 which relooked at the disease agents or hazards that we would be concerned about, so there has been some further work on looking at the risk assessment for those diseases.

**Senator O'BRIEN**—On 25 January the minister issued a press release announcing a number of agribusiness grants. Among them was a grant to a West Australian company to import something called hygienic bee semen. Is there already a protocol for the importation of this semen or would it be covered by the IRA you are developing?

**Dr Martin**—I am not aware of that press release, sorry. This may be from eastern states into Western Australia, in which case it would not be a quarantine issue at the Commonwealth level.

**Senator O'BRIEN**—It is a media release from Minister McGauran announcing, amongst other things, a grant of \$65,164 to Western Australian hygienic bees, and it says:

Western Australian Hygienic Bees will use their PCP grant for the importation of new Hygienic Bee semen to produce hygienic queen breeding stock to supply local markets and in particular to supply hygienic queens for the package bee industry to America, Eastern Australia and New Zealand.

Clearly, it is about importing semen.

**Dr Martin**—WA has a restriction on bees going from eastern states into WA, so it may be semen from eastern states rather than from overseas. For overseas, of course, we do need to complete import risk analysis. We do have conditions in place to import queen bees from overseas.

**Senator O'BRIEN**—Yes, but at the moment you can't bring in bee semen?

**Dr Martin**—You cannot bring in bee semen from overseas, no.

**Senator O'BRIEN**—We had better ring the contact and find out whether it is as you suspect or in the expectation that there will be an approval of or an IRA for bee semen.

**Mr Cahill**—We will follow that up.

**Senator O'BRIEN**—How long has this process been going on bee semen?

**Dr Martin**—I would have to take that on notice.

**Senator O'BRIEN**—Perhaps on notice you can tell us what the issues are with the importation of that product.

**Dr Martin**—There are pests and diseases—diseases of bees. We can give you a list of those.

**Senator O'BRIEN**—Yes. There are diseases that can be passed on to bees in the semen?

**Dr Martin**—That is what the assessment would have to look at; that is part of it. There is often very limited information on this aspect.

**Senator O'BRIEN**—Fancy that!

**Dr Martin**—Indeed.

**Senator O'BRIEN**—On that note, I am ready to go to International.

[7.47 pm]

#### **International Division**

**CHAIR**—Does anyone want to talk about the side letter on blood?

**Senator O'BRIEN**—In the US FTA?

**CHAIR**—Yes.

**Senator O'BRIEN**—Yes.

**Mr Burns**—I think that might be an issue for the department of health to handle.

**Ms Freeman**—Yes, and Trade as well, in terms of managing the ongoing implementation of that.

**Senator O'BRIEN**—I want to ask about a subject that I am not sure is relevant here. Are there any activities undertaken by this department in relation to the Official Development Assistance, which I understand is assistance provided by this government, not limited to AusAID?

**Mr Burns**—That is correct. We provide a range of technical cooperation and capacity-building activities, some of which are directly funded by AusAID and we deliver them on behalf of AusAID, and they would count as ODA, but in addition there is a range of activities that we fund under our existing programs, such as the International Agricultural Cooperation Program and the live animal trade cooperation out of Keniry. Fifty-one per cent of our contribution to the United Nations Food and Agriculture Organisation classifies as ODA under the definition that the OECD puts out. We report to AusAID on a biennial basis on which projects we operate, and really it is a judgment for AusAID as to whether they classify it as ODA or not, but I would say that across the department there are quite a few activities that would qualify as ODA.

**Senator O'BRIEN**—I expect you will take this on notice: I want full details of the Official Development Assistance eligible expenditure and activities undertaken by the department since the 2000-01 financial year to date.

**Mr Burns**—We should be able to provide that, on the basis that we do have to report it to AusAID anyway.

**Senator O'BRIEN**—Fantastic. In table 1.3 on page 17 of the PAES, there are increased contributions to the UN Food and Agriculture Organisation of \$484,000 this year and \$410,000 in each of the out years. Does this reflect something like an increase in affiliation fees that applies to all member states or is there some other explanation?

**Mr Burns**—This issue pops up every few years, and it really revolves around exchange rates. There is a forward estimate, if you like, as to what the contribution will be in Australian dollars and when the conference of the FAO sets what the fees are going to be for each country, that is set in a combination of both US dollars and euros and, depending on what is happening with the exchange rate, we will be going back to the department of finance to get

extra money and back money. In these particular years, we believe that we have underestimated the exchange rate movement. It is a contribution of just over \$8 million, so it is hard to guess with any accuracy—

**Senator O'BRIEN**—Which exchange rate have you underestimated, the US dollar or the euro, or do you get a choice?

**Mr Burns**—I think the estimates come from the department of finance. We do not make that estimate.

**Senator O'BRIEN**—So you do not know which currency they are estimating?

**Mr Burns**—No. I could find out, but I do not know off the top of my head.

**Senator O'BRIEN**—If you could. I am trying to understand it, when our currency, I would have thought, has appreciated against the US dollar.

**Mr Burns**—But not against the euro.

**Senator O'BRIEN**—With the euro, there has not been a major change, but I do not know what has been involved. If you can get the details of that, I would appreciate it.

**Mr Burns**—Sure.

**Senator O'BRIEN**—On 25 January Minister Truss issued a press release announcing that Australia has signed up to the World Wine Trade Group agreement on wine labelling. What will this mean for the Australian wine industry?

**Mr Burns**—That is an issue which is handled by the food and agriculture group, unfortunately. That is the group that has the details. From my knowledge of it, there will be a range of advantages in terms of some commonality in the types of labelling requirements for trade between the countries. This cuts down on costs. We see with many countries that have wine labelling requirements that change almost on a yearly basis that there are a lot of costs involved for the wine industry in not only monitoring what those changes are but in tooling up to do different labels for different markets.

So any certainty that we have on that and also any common agreement in terms of what goes on the front labels and the back labels has to cut down on costs. That is certainly one of the key initiatives that came out of that last meeting, to my knowledge. Again, it is the food and agriculture group that were involved in that.

**Senator O'BRIEN**—Will this decision impact on all winemakers or just those who export their product?

**Mr Burns**—I imagine it would be of most significance for the exporters, but again it might be better if we take that on notice and refer it to the food and agriculture group.

**Senator O'BRIEN**—Perhaps you can at the same time find out whether Australia's main international competitors in the industry, such as Chile and South Africa, also signed up to the treaty.

**Mr Burns**—If they are members of that group, I think they would have, but we will confirm it.

**Senator O'BRIEN**—Further, the minister's press release says that the World Wine Trade Group member nations account for 47 per cent of Australia's wine exports. Can we get a list of which nations are members and which are not.

**Mr Burns**—Yes, that is easily done.

**Senator O'BRIEN**—The minister also said that the implementation of this treaty would mean a cost saving of \$25 million a year for the Australian industry. Can we get details of how that figure was calculated.

**Mr Burns**—Yes. I know that people from the Wine and Brandy Corporation were involved in those discussions. Again, I am only talking off the top of my head, but I think that figure came from them. However, I will confirm that.

**Senator O'BRIEN**—I assume it is mainly accrued to the big wineries who export the most. On 24 January the minister issued a press release about an APEC agricultural biotechnology forum held in Canberra. The press release implies this is a regular forum. How often does it meet?

**Dr Samson**—We could answer that under the rural policy and innovation area. They have responsibility for biotechnology.

**CHAIR**—Does the international division take an interest in the moving of Australia's grape-growing industry offshore?

**Mr Burns**—Not specifically.

**CHAIR**—Does it come to your attention?

**Mr Burns**—We monitor trade flows. We do not monitor where our investments are. Again, as it is the food and agriculture group that participated in this recent meeting, it is their responsibility to monitor what is happening in the wine industry. We certainly have an interest in trade flows, but we do not get so involved in structural issues around the industries.

**CHAIR**—Are you aware of the planning for some consolidated grape growers to move their technology et cetera offshore?

**Mr Burns**—Not in a sense that we are tracking it as a division.

**CHAIR**—Have you heard of it, though?

**Mr Burns**—What I read in the media, like other people.

**CHAIR**—Then they will flick their other wineries to an MIS for the bunny market. It is a pretty good plan.

**Senator O'BRIEN**—As most of my questions were to the wrong group, I do not have any more for this group.

**CHAIR**—Senator Nash?

**Senator NASH**—That is all, thanks.

[7.59 pm]

**Australian Bureau of Agricultural and Resource Economics**

**CHAIR**—Our good friends from ABARE! Does ABARE think that the price of oil could go back to \$40-odd a barrel still? I read the other day that it could.

**Mr Glyde**—Yes.

**CHAIR**—When the person from ABARE said that a year or so ago, we all thought, ‘Hell, he needs counselling.’

**Mr Glyde**—The person you spoke to is no longer here for the counselling!

**CHAIR**—But the point is he might be right.

**Mr Glyde**—He may well be right, and certainly prices have eased. Do you want our view in relation to what we think is going to be happening to oil over the short to medium term?

**CHAIR**—Why not!

**Mr Glyde**—In terms of 2007, we expect the price of oil to average lower. In fact, I think we are forecasting it—and Dr Sheales will correct me if I am wrong—to average \$US56 a barrel in 2007 compared to what it averaged in 2006, which was \$US66 a barrel. Then over the longer run, to 2011, we are forecasting that to decline steadily and ease to about \$US45 a barrel in 2011.

**CHAIR**—Why?

**Mr Glyde**—Looking at the production forecasts and the demand forecasts, we are expecting them to be coming more into balance. The price goes up over time. Other sources of oil become commercially viable—they come on the market—the price goes up. There will also be other substitutes for oil coming onto the market. For those reasons, we are expecting that it is going to be pretty much in balance by 2011.

**CHAIR**—Does that mean that you think that increasing demand is going to be matched by increasing discovery?

**Mr Glyde**—Yes, that would be one of the factors.

**Senator SIEWERT**—In terms of other sources of oil—

**Mr Glyde**—In terms of known reserves but also oil that is yet undiscovered. As the price goes up, they become commercially viable. They are not commercially viable to exploit at present.

**Senator SIEWERT**—But you are forecasting that the price will go down.

**Mr Glyde**—That is correct.

**Senator SIEWERT**—So the price goes up, they find more and then the price goes down.

**Mr Glyde**—We are saying that, on average, as prices go up more supplies come on the market and it depresses the price of oil in the longer run.

**CHAIR**—That is the momentum in the exploration. While the price is high, it eventually allows the price to fall.

**Senator SIEWERT**—Does that take into account the fact that they are going into deeper and deeper water? The evidence that we have heard through our inquiry was that as they go into deeper water it gets more expensive, and they can only sustain going into deeper water when your oil is a high price. What happens then? If the price has to be high for them to be able to go and explore and actually acquire the oil, when the price drops what happens?

**Mr Glyde**—In terms of the price drops, a whole lot of new supplies come onto the market. It is a volatile thing that moves over time.

**Senator SIEWERT**—But surely that is then uneconomic.

**Mr Glyde**—What we are saying is that the market will continue to operate over time. If you look back on past experience you will see that that has been the case from the turn of the 19th century to the 20th century.

**CHAIR**—So what does that mean for the new scoping that is being done for a number of new ethanol plants?

**Mr Glyde**—To the extent that the price of oil goes up, then—

**CHAIR**—No, if we are going back to \$45 a tonne.

**Mr Glyde**—It is going to make it a lot harder.

**CHAIR**—That adds to the question. We were told by Dr Fisher and maybe Mr Sheales that at \$40-odd a tonne coal liquefaction is a viable proposition, and in our recent oil inquiry, which gave a unanimous report to the parliament a week or two ago, we added into that the carbon emission equation side of oil liquefaction, which is pretty expensive. Given the predicted price of oil, what does that mean for coal to liquid when you include the carbon effect, or the emission effect?

**Mr Glyde**—I am afraid I am going to have to ask Dr Sheales to answer that.

**Dr Sheales**—I will not claim to be an expert on the carbon element.

**CHAIR**—That is good, though, because the carbon market is about to fill up with carpetbaggers of all sizes and descriptions.

**Dr Sheales**—I will not comment on that one.

**Senator SIEWERT**—Very wise.

**Dr Sheales**—Maybe there are opportunities there, let us say. What I would say about coal to liquids is that it is our understanding that, at around \$US40 to \$US45 a barrel for crude oil, it becomes economic to produce that. We have also got oil from oil sands that have already been developed in Canada.

**CHAIR**—Are you talking about shale there?

**Dr Sheales**—No, I am talking about from sand.

**CHAIR**—Right.

**Senator SIEWERT**—My understanding is that, when we asked Dr Fisher about that, the cost of carbon had not been included in those calculations.

**Dr Sheales**—We are talking about, I understood—maybe incorrectly—finding oil.



**CHAIR**—Yes.

**Dr Sheales**—At what price do we get oil? That was the original question. As Mr Glyde indicated, we are talking about prices coming down over the next few years to around the mid-\$US40s a barrel.

**CHAIR**—So coal liquefaction is still a goer?

**Dr Sheales**—It still is. It is probably pretty marginal there.

**CHAIR**—Yes. We were told that we are a net exporter of energy, which means we have got heaps of coal, and we have got coal liquefaction as a doable product now. Where does that leave us, though, with the brave new world of carbon trading, carbon offsets and emission sums?

**Mr Glyde**—Emissions trading.

**CHAIR**—Yes. What is the real price of liquefied coal?

**Mr Glyde**—If there were a price on carbon worldwide, then I think that would accelerate the moves towards biofuels, alternative fuels, low-carbon fuels. I think that is really all we can say at this stage.

**Senator SIEWERT**—Even if there is not a price per se on carbon, there will still be a cost to geosequestration. It is inevitable, I think, that for coal to liquids to occur—in fact that is what the proponents are taking on board—there is the need to geosequester carbon. Have you factored that into the prices? Is that cost factored into the price of when it becomes economic?

**Mr Glyde**—No. I do not think in these forecasts we are forecasting in an additional price on carbon.

**Senator SIEWERT**—There is nothing. Is that what you mean?

**Dr Sheales**—There is no more reason to do that than there is to do it for oil. There is no more reason to do that with, say, a substitute for oil or alternative oil than there is for oil itself.

**Senator SIEWERT**—I beg to differ. There is, because there is more carbon released when you are converting coal to liquid. What you are doing when you are converting coal to liquid is producing carbon to produce and oil that then produces as much carbon as oil. So I beg to differ. There is a different cost to carbon when you are doing coal to liquid.

**Mr Glyde**—Sorry, Senator. My understanding of your question was: have we factored carbon pricing into our forecasts for oil price? The answer to that is no.

**Senator SIEWERT**—The answer is no. I appreciate that it is difficult to factor it in at the moment because there is no policy for it.

**Mr Glyde**—Yes.

**Senator SIEWERT**—However, the cost of producing coal to liquid will include, regardless of whether there is a tax on it, the cost of geosequestration, because in a community sense they will not get away with pumping those gases out, so they will have to sequester carbon. The issue of a tax comes later, so let us ignore the tax and just say the cost of production includes geosequestration. Have you included that?

**Mr Glyde**—No. I think what you are saying is that, despite the fact that there is no regulatory regime, no price incentive, the companies that are producing coal to liquids will, because of a licence-to-operate type constraint, feel obliged, without any regulatory or price incentive, to sequester the carbon emissions. I think that is what Dr Sheales was saying. I am not sure why they would do that when their competitors would not be facing the same sort of obligation.

**Senator SIEWERT**—Because the competitors are not producing that much carbon to produce their oil, for example. I am not saying this is justified. I am saying they are not, because the people producing the liquids from coal are producing—I do not know the exact conversion figure—twice the amount of carbon that oil is. That is the point.

**Mr Glyde**—What I understand you to be saying is that the coal to liquid thing will have a higher carbon signal than the competitors and therefore it will not come onto the market.

**Senator McGAURAN**—It is not onstream, is it?

**CHAIR**—It is doable now.

**Senator McGAURAN**—It is still being researched, isn't it?

**CHAIR**—No, it is doable now.

**Mr Glyde**—Coal to liquids.

**Senator McGAURAN**—Is it doable now?

**CHAIR**—Yes.

**Senator SIEWERT**—There is a plant operating in South Africa.

**Senator McGAURAN**—It is not in the Latrobe Valley. Anyway, the whole discussion on oil prices is—

**CHAIR**—Are you telling the committee what to do?

**Senator O'BRIEN**—Yes, he is trying to.

**Senator McGAURAN**—Yes, I am—is virtually the absurd, because it was not so long ago that the predictions were as high as \$90-plus a barrel. I do have a question at the end of all this. Besides that, at \$45 in 2011, it would be great for the world economy if that were the case, and we certainly would not hold you to it. But that is only four years away, and you are relying on new discoveries. It takes longer than that to get them onstream. But, anyway, I am not pitching myself against ABARE at all.

**CHAIR**—Don't take it to heart, Minister.

**Senator McGAURAN**—No, you do not have to answer that. I am still making my statement. There will be a question at the end of it.

**CHAIR**—You are worse than me.

**Senator SIEWERT**—And that's hard!

**Senator McGAURAN**—With oil prices there are so many variables. Look at last year and what we were predicting, for example. That is not the question, by the way.

**CHAIR**—Were you listening, Senator McGauran? \$40-odd.

**Senator McGAURAN**—That is their prediction now.

**CHAIR**—No, that was last year too, or your last prediction.

**Senator O'BRIEN**—The prediction last year was \$67.

**Dr Sheales**—Last year we were talking about over a five-year period. What we have done is to move forward one year.

**CHAIR**—How much a barrel?

**Senator McGAURAN**—It just changes. Let us not get into this game, except to say that if your prediction is \$45 in 2011, that \$45 is so low—I hope you are right, but that is a 1990 price. When was the last time it was \$45?

**Dr Sheales**—We are talking about in today's dollars.

**Senator McGAURAN**—Yes.

**Dr Sheales**—So inflation is taken out of that. I am not saying that in nominals, when you add in inflation it is—

**Senator McGAURAN**—When was the last time it was \$45?

**Dr Sheales**—Probably about a year ago. I would have to look it up. I do not know exactly. But we have moved from there.

**Senator McGAURAN**—It is 1990 prices you are predicting for 2011.

**Dr Sheales**—In real terms?

**CHAIR**—Yes, in real terms.

**Dr Sheales**—It is probably a bit below that, but I would have to check.

**CHAIR**—Thank you, Senator McGauran, for that important interlude.

**Senator McGAURAN**—We have not even factored in the Venezuela situation.

**CHAIR**—Will you go outside and study a book!

**Senator McGAURAN**—No, I will talk to the Labor Party about that.

**Senator SIEWERT**—Senator Heffernan, can I just go back to my question.

**CHAIR**—Yes, you can. Thank you, Senator Siewert.

**Senator SIEWERT**—Does that include that extra additional cost of carbon? Do I interpret the answer to be no?

**Mr Glyde**—No.

**Senator SIEWERT**—No. Thank you.

**CHAIR**—At what stage do you think—that is, ABARE—that it would be an appropriate time to start calculating the emissions cost of energy in your predictions? The states are now saying that they are going to set up their own trading arrangements—for power generation, presumably, is it?

**Senator O'BRIEN**—Yes.

**CHAIR**—Would that be an indicator for you blokes to then start valuing what Senator Siewert is talking about—the real cost of coal liquefaction?

**Mr Glyde**—I am told by Dr Sheales that forecasting commodity prices is a pretty heroic activity.

**CHAIR**—It is. I can guarantee you it is.

**Mr Glyde**—Forecasting the appropriate time for an emissions trading regime is not something that we are in the business of doing. Also, as I think everyone is aware, the Prime Minister has a task force going at the moment on emissions trading and it is looking at various options. I would not like to comment on the outcomes of that.

**CHAIR**—Senator O'Brien, have you got some useful questions?

**Senator O'BRIEN**—I am sure I have, but other people are asking questions at the moment. I have asked a lot today.

**Senator SIEWERT**—I want to throw another one in.

**CHAIR**—Righto.

**Senator SIEWERT**—Are you advising the task force, or are you part of the task force?

**Mr Glyde**—We are not part of the task force.

**Senator SIEWERT**—Are you advising them?

**Mr Glyde**—We have been asked to do some work by the task force; to use our modelling to look at a range of different approaches.

**Senator SIEWERT**—How are you modelling the cost of carbon if you are not modelling any in some of the other predictive work that you are doing?

**Mr Glyde**—I make a distinction between the work that we do in relation to forecasting and the very long run modelling that we do for looking at the various costs and benefits of different mitigation strategies. They are two quite separate activities. As you have seen in the various publications that ABARE has put out over the last few years, you can quite explicitly model various prices of carbon, various carbon taxes or emissions trading regimes. I can provide the references to you, if that would help.

**Senator SIEWERT**—That would be useful. In any of the more longer term predictions that you are doing outside the modelling for the task force, you are not modelling the cost of carbon in any of that work?

**Mr Glyde**—There are various scenarios for a carbon tax that have been examined over the last four or five years, using ABARE's modelling capacity. It looks at trying to achieve certain stabilisation levels and the various costs of getting to that and you can model in various prices for carbon, if you wish. The capacity is there to do it.

**Senator SIEWERT**—If there is a policy change that becomes a cost to carbon, you can then plug that into the model. Is that an appropriate understanding.

**Mr Glyde**—Yes.

**Senator SIEWERT**—Thanks.

**Dr Sheales**—Senator, in doing the forecasting part of what we do—which I am largely responsible for—unless we know that a policy is going to change for sure and know what it is going to be, we will use the policies as they currently stand; otherwise you could be running around doing thousands of different sorts of forecasts and not really get a lot of sense out of them.

**Senator SIEWERT**—I appreciate what you are saying. However, when it comes to predicting coal to liquids and prices like that, it is not just a policy: there is additional cost. There is more carbon. It is inevitable, even without a tax, that licensing and things—would seem to me to be reasonable to start factoring in that additional cost of the additional carbon so it is carbon equivalent.

**Mr Glyde**—In the modelling work, that stuff is explicitly taken into account. You can look at the various carbon intensities of the various fuels and, depending on the scenarios that you are running and the price you have on carbon, in those sorts of scenarios you will end up with the gas to liquids or the coal to liquids types of things doing relatively worse than less carbon intensive fuels. We have got that capacity on the other side.

But what I think Dr Sheales is saying is that we do not use that when we are factoring in forecasts, particularly near-term forecasts. This modelling goes out over the next 100 years, whereas Dr Sheales is forecasting prices for next year and also in the next five years.

**Senator SIEWERT**—I do appreciate that. But when you are doing predictions about what becomes economic when more oil comes on and the price of oil, surely that is highly relevant to your work.

**Mr Glyde**—The implicit assumptions are—well, I suppose we are explicit in what we publish—that on current policy settings—that is, we are not accounting for the price of carbon in current policy settings because there is no framework either globally or domestically—these are the prices at which they become economic, they come onstream. As Dr Fisher said in earlier evidence, it is accepting a carbon pricing regime that is outside of the known policy settings that we have.

**Senator SIEWERT**—When you provide advice, do you provide qualifiers? When the advice was provided to us, the qualifier that, ‘This doesn’t include the cost of carbon,’ was not given. I am not accusing you of deliberately misleading. It is quite misleading to hear that because—

**Mr Glyde**—Yes, because you only get the headline figure. But in the documents that we publish, we try to put forward the basis on which we make those forecasts. It is like forecasting what is going to happen in relation to drought. You make an assumption about rainfall and what have you and you say, ‘That’s the assumption,’ and you forecast on that basis; sometimes it is wrong. We try to make it as explicit as we can, otherwise people are not—

**Senator SIEWERT**—Predict the rain?

**CHAIR**—Do you try and not look scared most of the time?

**Mr Glyde**—Dr Sheales keeps telling me that it is a very heroic practice and not for the faint-hearted.

**CHAIR**—Senator O'Brien, would you like to have a crack at this?

**Senator O'BRIEN**—Not that subject but a number of others.

**CHAIR**—All right.

**Senator O'BRIEN**—We were told this morning that the ABARE budget for the year has gone up \$0.8 million—

**Mr Glyde**—Yes.

**Senator O'BRIEN**—as a result of new contracts. What is the sort of work?

**Mr Glyde**—That change is largely due to an error in the PBS, where our previous revenue was attributed not to output 8 which was economic research but to output 7 which was scientific research.

**Senator O'BRIEN**—So you got no more money: you just moved it to another column. Is that right?

**Mr Glyde**—Yes, basically. We have not suddenly got an extra \$8 million worth of revenue.

**Senator O'BRIEN**—No, \$0.8 million.

**Mr Glyde**—I am sorry, I have misunderstood the question. My apologies. There are three things: increased data sampling of our farm surveys; improving the accuracy of ABARE's farm survey estimates; and doing an economic assessment of adjustment in the wine grape industry.

**Senator O'BRIEN**—Has that been requested by the department?

**Mr Glyde**—Yes, it has been requested and I think it has been finalised; it has been released.

**Senator O'BRIEN**—It has been?

**Mr Glyde**—Sorry. It has not been released.

**Senator O'BRIEN**—Do you know when it will be released?

**Dr Sheales**—Not off the top of my head.

**Senator O'BRIEN**—Shortly?

**Dr Sheales**—Obviously reasonably soon, yes.

**Senator O'BRIEN**—I as usual want to ask ABARE to update the outlook for the major agricultural commodities: wool, sheep, meat, beef, dairy, wheat, coarse grains, wine, horticulture, chickens, pork. Can you do that for us?

**Dr Sheales**—It is fair to say that the big question hanging over all of our heads at the moment is, 'When is it going to rain?'

**Senator O'BRIEN**—It rained today.

**Dr Sheales**—Particularly in the major winter grain-growing areas but also elsewhere. At the moment, there are indications that the El Nino effect is weakening, and that comes from the Bureau of Meteorology and not from us. We are a consumer of that information. At this point in what I call the major south-east part of the country in terms of grain growing and also

a lot of our livestock production, there is still a fifty-fifty change of whether or not we will get average rains over the next three months. So while there are some early indicators that things might be improving, we have still got a long way to go in terms of even getting any rain. Having said that, in order to do our forecasts which we will be releasing early next month for various commodities that you have mentioned, we have to make some assumption about whether it will rain or not.

What we will be assuming is that there will be a reasonable autumn break, and people will be able to plant crops, and grass will grow, and everything that flows from that. Some would say that is a pretty heroic assumption, but we have to start somewhere, and, as I said, some of those indicators are suggesting that we are moving in the right direction, so that is what we will do. Assuming we do get that decent sort of a break—it may not be flooding rains or anything like that, but enough to get crops in—we are forecasting that the area under crops will probably jump a little bit, relative to say two years ago, that there will be a bit of a bounce-back. There always is after a drought, particularly if people have had to destock and they have some extra land that they can put under crop to try and generate some quick cash flow.

If I were to hazard a guess at the moment—and we are still working on the numbers, so this is very preliminary—we would be looking for about 13 million hectares to go under wheat. That is up from about 11 million last year, but, as we know, last year it was very difficult to get a crop into the ground, let alone grow it. For barley also we would expect the area to go up somewhat, and for canola. Of course, canola is not one of the big crops but it is a very important one. If the break comes quite late, then some of that land that might have gone to canola will go into probably wheat or barley. Farmers will make their decisions at the time and it partly depends on how much feed they think they need or have at the time.

The sorghum crop, which of course is still the current crop, has been very badly hit by dry weather. In early December we thought we might have had a two million tonne grain sorghum crop. The way things are looking now—and we will put out some forecasts next Tuesday—my guess is that it will probably come in at a bit under two million tonnes. We are still finalising those numbers—but, say, half of what we were thinking earlier. Very dry mid areas. There are some areas that had some rain and will not be too bad, but, in general, in northern New South Wales and southern Queensland it has been very difficult for that sorghum crop. That has implications, of course, for feed grain supplies, which I will come to in a little bit.

The cotton crop: not a lot went in, not a lot of water, so it is going to be well down, possibly half what it was the preceding year. Rice is an even bigger problem. A very small area went into rice and, on top of that, there was abandonment during the course of the season as people ran short of what little water they had. The last crop I will mention before I move to livestock is sugar. The issue with sugar is that it is a smaller crop that is well and truly harvested now, but prices are probably going to be a bit lower, mainly because of increased supplies around the world, particularly from Brazil but also from India, going into that world market, which will more than offset some constraints on how much sugar the EU puts into the market.

**Senator O'BRIEN**—How big a player is India?

**Dr Sheales**—It has had a very closed sort of an economy. Most years it has not been putting anything of note out there, but off the top of my head I think they were talking about a couple of million tonnes going out this year, which is a big increase in terms of what they normally do. Whether or not they will maintain that going out, we do not know at this point. There is a lot of internal politics involved with India and what it does in relation to a fair bit of its agriculture.

Moving on to livestock, for beef we are forecasting prices for 2006-07, so ending in the middle of this year, to be around 280c a kilo dressed weight and dressed weight equivalent in the saleyards. That is down a fair bit from last year. Part of it is because people have been turning off some stock that has been drought affected. That has helped to drag prices down. But also we are factoring in the US becoming involved in that Japanese market in a fairly substantial way. I would say that, when we redo our forecasts and release them in a month's time, we will back off from that a bit in terms of the US not getting into Japan quite as quickly as we originally thought. There have been a fair few difficulties.

**CHAIR**—Is it 320c presently? That 280c is 320c at this minute?

**Dr Sheales**—That is right. But all I am saying is that I think that price will be a bit higher for 2006-07 when we come to redo our numbers, unless I have misunderstood.

**Senator McGAURAN**—The Japanese have sent the Americans away completely now, haven't they?

**Dr Sheales**—They are still negotiating. We are not involved in the negotiations or sitting in on them, but they are pretty tough negotiations, and it is to do with the Japanese having put in place an age limit on the beef that can be imported, which I think is 20 months, and there are difficulties even in getting a decent supply of beef into the market—it is nothing like the quantities they were exporting—so I think there is a long way to go. It is going to be a long, slow, hard road for the US to get back into the Japanese market in any major fashion. So far there has been very little go back in, even though ostensibly the market has been opened up following the BSE issues.

As anyone who knows producers of lamb would know, they went through a pretty bad spot in the spring when a lot of people were offloading lamb, but from what I can understand a lot of those lambs were not slaughtered. A lot of them went on to failed crops and in fact they will be coming back into the market, probably starting now. Therefore, the supply will not be perhaps down as much. At least, the conditions that they are being turned off will not be as bad as we thought. In December we forecast lamb prices to average about 290c. We may revise that up a little bit, just depending on how things are looking, because prices are certainly a bit higher than that at the moment.

**CHAIR**—What do you think the price is now?

**Dr Sheales**—As recently as last week, the class of lamb we are talking about was about 340c a kilo, saleyard, dressed weight.

**CHAIR**—What do you reckon it is going to get back to?

**Dr Sheales**—Remember I am talking for the year as a whole, so we have already gone through nearly eight months of that. We were saying 290c. It has averaged so far now, with



the benefit of some additional information, about 310c. My guess is that we will probably move that up a bit, but not substantially, in terms of the forecast.

**Senator McGAURAN**—What about the live sheep and cattle trade?

**Dr Sheales**—For the live sheep trade I do not have any numbers readily to hand. The main constraint on that, of course, is the availability of suitable sheep, particularly out in the west, and I think we were talking about four to five million head, but I would have to double-check that.

**Senator McGAURAN**—That is standard, isn't it? That is basically what they have been doing each year?

**Dr Sheales**—Yes. One way to put it is: nothing dramatic one way or the other on that. Live cattle in recent years have been a bit down from what they had been previously, but still they are extremely important to the northern cattle industry. In fact, since I am mentioning it, we put out a report today about the live cattle trade for Northern Australia.

**Senator O'BRIEN**—It is a long way to an abattoir in the northern part of Western Australia and the Northern Territory.

**Dr Sheales**—That is where the live trade has really been a saviour for the industry. There are a few other factors, of course, that have contributed to that. One is the destocking in the VTEC program, and the fencing of properties is a lot better than it used to be; bringing in better stock and turning stock off at a much younger age. Clearly, that has had a revolutionary effect on that northern industry. I think it is not unfair to say that. It has made a huge difference. I have brought along some of those reports if the committee would like us to share them.

**CHAIR**—Thank you very much.

**Dr Sheales**—I will leave them here. As I said, it is hot off the press and will give you a bit of a picture of what has happened with that northern cattle trade in the last decade. It runs through how it has developed and what it has meant to producers in those areas.

In relation to wool, as you would all know, the wool market has been quite strong in the last several months and there have been a lot of raised expectations about how well that will be sustained. We put out a forecast in December which, with the benefit of some hindsight, was too pessimistic; how pessimistic we are not quite sure yet. The main driver of that strength in the wool market has been concerns on the part of buyers about supplies of wool in the face of the drought. We have been through this before in 2002-03. It ran up and, as soon as things improved in terms of seasonal conditions, it ran down just as fast. We are not saying that will happen exactly again, but certainly we have seen the run-up.

We are a bit concerned that there could be some sort of shake-out in the market, probably starting next quarter when the next Northern Hemisphere ordering season comes into play for the major retailers. They will be, as always, driving hard bargains with the manufacturers and no doubt there will be pressure on the manufacturers to perhaps substitute more of some other fibres for wool in their apparel and whatever they are producing, so we are a bit concerned about a shake-out there. We are not talking about a drastic one or anything like that, but I

think it is fair to say that for the season as a whole we would be looking at an average of roughly 800c; but we have not finalised the numbers yet.

**Senator McGAURAN**—That is low.

**Dr Sheales**—It is low compared to the 920c or something that it was last week, but that will be factoring in a bit of a shake-out. I do not think we can escape that. I hope I am wrong, of course. It is one of those things with forecasts: you do not always want to be right.

**CHAIR**—Do not talk the market down.

**Dr Sheales**—There is no danger of that, I would suggest.

**Senator McGAURAN**—That is a crash.

**Dr Sheales**—It has come from a lot lower than that, I can assure you.

**CHAIR**—It was about 680c.

**Dr Sheales**—Anecdotally I know that some advisers are suggesting to wool growers they should lock in the current prices. That suggests that there are other people out there that share that view that the market is probably a bit higher than what is sustainable.

**Senator NASH**—Where was it 10 years ago? It might not be something you have there; but just out of interest, if you do not have it there, perhaps you could let me know.

**Dr Sheales**—No, I do not have it there.

**CHAIR**—It was certainly 1,000c a kilo before all the silly business in the floor.

**Dr Sheales**—If we want to go back that far—

**Senator NASH**—That is way back. That was, what, early nineties?

**Dr Sheales**—It peaked at 1,280c.

**CHAIR**—It goes up and down.

**Dr Sheales**—The other thing for the wool industry is that there are readily substitutable fibres out there. There is an extremely competitive apparel market and those processes have to be competitive. If they want the business of the big retailers, they have to meet their price demands. They will substitute. That waxes and wanes depending on price relativities between wool and particularly polyester or synthetic fibres which are the main substitutes.

**Senator NASH**—How far out have you forecast for?

**Dr Sheales**—I am talking about this current season, to the middle of the year.

**Senator NASH**—Have you done any work further out than that?

**Dr Sheales**—We will be releasing that next month, but we have not done it yet so I cannot even hazard a guess, to be perfectly frank with you.

**Senator NASH**—You might like to supply the committee with the information when it comes to hand.

**Dr Sheales**—We will be supplying everyone with the information when we have it ready.

**CHAIR**—What did you actually predict for the market this time whenever you were predicting it—last June or something?

**Dr Sheales**—A year ago?

**CHAIR**—The market generally said, ‘Yes, it’s going to get dearer as we go.’

**Dr Sheales**—We have been laggards, to be perfectly frank about it.

**CHAIR**—What do you reckon?

**Dr Sheales**—I could not tell you the number we said at the time, but it was not the size it is now. It would have been roughly 700c—that would be my guess—for the season average, and we are probably going to come in quite a bit above that. The important thing that has changed between now and a year ago is the season. As I said earlier, it has been a very supply-driven response on the part of buyers who are concerned about the availability of wool.

**CHAIR**—There is not going to be much wool for this coming season, is there?

**Dr Sheales**—As you know, wool takes a long time to grow. It takes 12 months to grow. There are two things that affect it: one is the size of your sheep flock and the other is growing conditions. Wool does not fluctuate like, say, crops do because it is more of a continuous production process but it is fair to say, I would think, that next season we would be looking for a wool clip that is going to be not as big as it was a couple of years ago but whether or not it is drastically smaller than this year, I have doubts.

**CHAIR**—It might not be smaller but it will not be any bigger.

**Dr Sheales**—We have not tried to forecast that yet.

**CHAIR**—All the Riverina is terrible.

**Dr Sheales**—It is in bad shape, that is right. There are plenty of other places in bad shape.

**CHAIR**—The Lachlan is going to stop running in June.

**Senator O’BRIEN**—It if does not rain.

**Dr Sheales**—A lot of things will change if it does not rain, obviously.

**CHAIR**—It is pretty scary stuff.

**Dr Sheales**—If it does not rain, when it comes to livestock we are going to be looking for another sell-off—have to be—because I do not know where they are going to find the feed.

**CHAIR**—Where did you have the dollar in all of those predictions or commodity briefs?

**Dr Sheales**—For the current year, off the top of my head, it was probably about mid 70 cents. It has been a bit higher but who knows where it will go in the future? Obviously, we have to make some assumptions when we do our projections. At the moment, and in the last five or six months in the case of wool, it does not seem to have had much of a dampening effect on demand. That is not to say that it cannot in the future. If things get tougher again over the next six months in the marketplace, it could well have an effect.

I did not get to dairy. I think that was the last one left. We are forecasting farmgate milk prices of about 32c for the current season—that is, down slightly on the previous season. What the dairy industry has going for it is very strong commodity prices in the global market; the Aussie dollar notwithstanding, a strong one. There has been some reduction in EU

shipments into the world market, which has helped; plus smaller Australian and New Zealand shipments of manufactured products into the market have also helped that market.

Going on further, we have not done it yet but you would expect probably things to stay much the same. I think the real challenge for the dairy industry here at the moment in Australia in many areas is the cost of feedstuffs, because clearly with the drought on they are paying a lot of money to feed their animals and that will have an effect. We are talking about, for the current season, milk production being down about 1 billion litres, from about 10 billion to 9 billion in round numbers. If it stays dry, it will probably come back even more.

**CHAIR**—Farmgate 32c, you reckon?

**Senator McGAURAN**—Why is that? Why are you predicting a fall, given the drought and the extra cost of input?

**Dr Sheales**—It is really a combination of those manufactured product prices, what the factories are offering, what they are able to get on the domestic market both for fresh and manufacturing milk—it is all the one now—the effect of a small rise in the dollar, which I mentioned, and product prices globally, which are not as good as they were 12 months ago. That would be the main driver of that. They have come off somewhat, but they are still pretty attractive.

**CHAIR**—You do not do water, do you?

**Dr Sheales**—No.

**CHAIR**—Why is half a litre of milk \$1.20 and a 650-millilitre bottle of water \$2.50, given what we have just said? Is that a marketing con job?

**Dr Sheales**—No, Senator, I really do not know.

**CHAIR**—It is hard to explain, I know.

**Dr Sheales**—Obviously, there is a difference between anything you get at a farm gate versus retail. There are a lot of costs built into that: processing, packaging, transport. If we are talking about milk, there is refrigeration. There are all those sorts of things that add to the cost. I cannot comment on the comparison you are making.

**CHAIR**—Is it a marketing thing, though? We are landing water into Australia from China for let's say 40c, for easy working, for 650 mils and we retail it for \$1.85 to \$2.50. Milk, as you know—have to get up in the middle of the night and do all those things—is half the price.

**Senator Abetz**—I do not think they do have to, do they? At the end of the day, it is the market that determines—

**CHAIR**—Now, Minister, don't get upset!

**Senator Abetz**—I am not.

**CHAIR**—Just enjoy the ride!

**Dr Sheales**—I am not an expert on water prices. With your indulgence, Senator, could I provide Senator Nash with those wool prices?

**CHAIR**—You can do whatever you like.

**Dr Sheales**—Someone has kindly given them to me. Back in 1998-99 the Eastern Market Indicator—the principal one we focus on—averaged, in dollar values at the time, 550c per kilo clean. The following year, 1999-2000, it went up to 627c, then to 764c. It was 841c in 2001-02 and, as I indicated earlier, it averaged 1,049c in 2002-03. It then came down to 820c, once there was some assurance there was wool around, and also that substitution effect I mentioned came into play. Some of the pressure came out of the market when prices came down again. In 2004-05 it averaged 767c and in 2005-06 it averaged 713c.

**Senator NASH**—That is almost back where they started.

**Dr Sheales**—As I recall it, a year ago we would have been going for an average in 2006-07 roughly similar to that in 2005-06, but I do not know the exact number. This is historic stuff.

**Senator NASH**—Thank you.

**CHAIR**—Hence, the fat lambs kept everyone alive!

**Dr Sheales**—The prime lambs have certainly been a real boost for a lot of producers, particularly in those areas where they can raise them. If you go back 10 years, there has been a major turnaround and the sheep industry has been driven by prime lambs, and how valuable and rewarding that has been. That is all I had on the outlook.

**Senator O'BRIEN**—What about wine, pork, any horticulture commodities?

**Dr Sheales**—I can tell you a bit about wine, but I am not really au fait with horticulture. In the case of wine, as you would have been hearing, the current harvest is down, affected by frost and drought. We are talking currently about the grape pick being down about 20 to 30 per cent on what it was a year ago, the previous harvest. That gives you an estimated harvest of around 1.3 million to 1.45 million tonnes. It was 1.8 million in last year's harvest.

When it comes to prices, we may on the face of it say, 'Well, okay, this is good for the stock situation.' Last time I was here we were talking about high stocks and their effect on the market. That stock situation in some respects has improved a little bit in Australia but, as I indicated previously, it is what is happening out there in the global market that is really important in terms of stocks and prices. We are exporting the majority of our produce to world markets, so we are having to take those prices, and what is happening here will not have that much of an effect.

What I understand is happening, though, in terms of the intake by the wineries is that warm climate grape prices—principally, as I understand it, out of the irrigated areas—have not improved from last year and are still pretty poor, frankly, whereas cool climate grape prices have gone up fairly significantly.

**Senator O'BRIEN**—Like Tasmania.

**Dr Sheales**—I do not have the actual numbers, because we are still collecting them.

**CHAIR**—And part of that, you can thank all those fires. There were a lot of cool climate grapes that got done over.

**Dr Sheales**—I could not vouch for that one way or the other, Senator.

**CHAIR**—It is true!

**Dr Sheales**—That is what I know about wine. I am happy to entertain any particular questions, although I do not know that I can add much.

**Senator O'BRIEN**—What about pork and chickens?

**Dr Sheales**—In relation to pork, despite high grain prices—and maybe partly because of that—pork prices have been a bit better in the past, say, 12 months than they were previously. That is mainly because production of pork is down. We are talking about production in the past 12 months being about 380,000 tonnes versus 390,000 the previous year, which is not a great difference, I admit, but average prices have been 260c a kilo versus 232c, so that is a pretty substantial increase. Some of that might be reflecting that pork is out there competing with beef, lamb and chicken in the one marketplace. If prices of some of the competing meats are bit higher or, more importantly, if the supply is a bit down, pork producers will benefit. Given that we import pork, I imagine that there is also an issue with the prices at which imports are coming in. They may be a bit higher, but I would have to check that.

In the case of poultry, prices have not risen a lot. They have averaged about 375c versus 368c, so it is not much of a change, but production has gone up pretty substantially from 800,000 tonnes to 840,000 in round numbers. That is a fairly substantial response there on the part of poultry, despite high grain prices. Once again, as it has done for many years, this reflects the ability of the poultry industry to be able to turn out their product at ever lower prices, both in nominal terms and, particularly, in real terms.

**Senator O'BRIEN**—It is probably the cheapest meat in the supermarket, is it?

**Dr Sheales**—I do not do the shopping, but I think it is, and that is a reflection of the nature of that industry. It is very highly vertically integrated and you can get very efficient conversion of feed into meat with poultry. Obviously, it is the most efficient of all of the various meats that we talk about.

**Senator O'BRIEN**—Thanks for that. Has ABARE done any recent work on the future prospects and economics of the ethanol industry?

**Dr Sheales**—We have had some involvement, initially with the Biofuels Taskforce. We did some modelling work for them, and that was largely about getting some estimates about the cost of producing the different sorts of biofuels from different sorts of feedstocks and getting a feel for how much feedstock would be required by the biofuels industries in order to meet the government targets that have been set. That was published some time ago.

More recently—and I am talking about right now—we are doing a small amount of work updating elements of that to be released at the time of the Outlook conference, but it is not going to be a major piece of work. It is more a smallish update of some of that work. The bottom line coming out of the earlier work, which is not that old really, is that at current oil and feedstock prices, and government policy settings obviously, the production of ethanol—for example from C molasses, grain or biodiesel from used cooking oil and tallow—appeared to be economically viable—that is, when they did that study.

I think it is also fair to say that the longer term economic viability of our biofuels industry quite clearly will depend on the policy settings that are in place and how they may or may not change over time; competing fuel prices, particularly oil as we have talked about earlier

tonight; and also the availability of feedstock. If we think about the current drought, if there was a large biofuels industry out there operating right now we would certainly, I would suggest, have more trouble sourcing some of our grains. It would have a significant effect on the grains market, particularly the ethanol side of it. They are issues for the future. We do not have any answers for them at the moment.

**CHAIR**—If you put energy versus food as the driver of ethanol, and it is a by-product, obviously if you have a 6,000-cow dairy downstream from a mid-sized ethanol plant, you kill two birds with one stone, don't you?

**Dr Sheales**—You mean in terms of the by-products?

**CHAIR**—Yes. If you look at ethanol in isolation from grain stocks, well, forget it.

**Senator O'BRIEN**—You would have to do an adjustment to see what the greenhouse gas emissions from the dairy were compared to the savings from an ethanol plant.

**CHAIR**—Well, there is going to be a fart reduction program right across Australia—

**Dr Sheales**—That is outside my experience. But I would say that, clearly, you have to look at the whole picture, just like you are suggesting, Senator. We have this distillers grain that is an output from ethanol plants that is a valuable feed input for livestock, so you would have to work out the economics. You would have to look at the total picture, as I said. I think that the jury is a bit out on that, and it will depend on your feedstock prices and the competing—

**CHAIR**—I do not know whether you blokes can take a global snapshot. But at that thing in London the other day—whatever it was called—with the world experts on climate change, what stood out for me was that it was said that in 50 years time half the world was going to be water poor, which means that we are already mining our food resources because we are mining our water resources. So we are going to have a serious challenge in feeding the world. Do you think about that when you go to bed at night?

**Dr Sheales**—Not every night, Senator.

**Senator Abetz**—I do not think we will go into that!

**Dr Sheales**—I would say that, as you develop markets for these different activities—let us call it—that will sort itself out. That sounds a bit glib, I appreciate, but in fact that is what does happen. Whether we are talking about water markets, markets for commodities that are unimpeded by distortions, that will sort it out. Each end user will get as much as they are prepared to pay for. Whether you think that is appropriate or not, that is what happens.

**CHAIR**—It is hard to know who to believe in this. But in predicting future commodities, yesterday we were told, from one of those guys that was in that London affair, that they packaged up 20 or 30 different models and put it into one which said that there is going to be 20 per cent less rain and 60 per cent less run-off in the southern part of Australia—and this is a free plug for my northern adventure—and obviously a big offset in the north.

**Senator O'BRIEN**—We need to grow some mahogany and teak up there—

**CHAIR**—Well, all ideas are welcome.

**Senator O'BRIEN**—We might need some managed investment schemes to get it going.

**CHAIR**—Is it legitimate for me to ask, ‘Is it time for ABARE to start thinking about those sorts of predictions and where that’s all going to take us?’

**Dr Sheales**—We do not have the scientific expertise. I appreciate where you are coming from, but I will leave it to my leader to answer your question.

**Mr Glyde**—I think that they are the sorts of questions that we need to begin to look at. Our role in the longer run is to make sure that the productivity of the farm and mineral sectors continues to improve and, if these are factors that are going to affect that, we need to begin to look at it. Part of the problem in dealing with the question that you have raised really relates to having accurate enough estimates of where in Australia the climatic effects are going to be and how it is going to change at a regional or more local level, so that we begin to understand it. Once we begin to understand some of that science, then the economists at least can begin to model some of the impacts and talk about some of the costs that flow from the climatic changes that have been predicted in the IPCC report. It is a pretty significant issue that the country has to grapple with.

**CHAIR**—The committee will now have a private meeting.

**Proceedings suspended from 8.58 pm to 9.15 pm**

**Senator O’BRIEN**—I think the last question I asked was about ethanol. Is there any work that has been published or is all the work you have done secret?

**Mr Glyde**—No. The work that Dr Sheales referred to was published, and it was published as part of the Biofuels Taskforce report. It was also published separately. We are happy to give you a copy of that, if you like.

**Senator O’BRIEN**—Yes, thank you.

**Mr Glyde**—And, as Dr Sheales said, we are doing some work for Outlook as well, which we can provide you at that stage.

**Dr Sheales**—It is more a small update of a few elements, not the whole box and dice.

**Senator O’BRIEN**—The week after next, is it?

**Dr Sheales**—6 and 7 March.

**Senator O’BRIEN**—Has ABARE done any recent work on the likely impact of climate change on the Australian agricultural sector?

**Mr Glyde**—We have done some work and I think we provided at the last estimates the references to the work we had done specifically on the impacts of climate change on agriculture, and also a lot of the work we have done over the last four to five years on climate variability and the impact on farmers, because that gives you a bit of an indication of what some of the costs could be if some of the scenarios that are talked about come to fruition.

**Senator O’BRIEN**—That was work done under the climate variability program, was it? There was a program run by this department on climate variability for agriculture. Was that the program that funded your research?



**Mr Glyde**—I am not sure. That is probably a question best directed to the Natural Resource Management Division. We could probably take that on notice and find out what the funding sources are, if you like, but they would definitely have been one of the funders.

**Senator O'BRIEN**—Would you do that, because we said we did not need them, so—

**CHAIR**—That would be good. They will feel wanted!

**Dr Sheales**—We are very indebted. Senator, I think it is fair to say that we have probably used a variety of sources of funding for that, depending on who the client was, but some would have been from the department.

**Senator O'BRIEN**—At the supplementary estimates, Dr Sheales, you told the committee that ABARE had difficulty estimating Australia's total grain stocks because the major players, especially AWB—fancy that!—guard that information closely, and you told the committee that there was an initiative under way to have the ABS collect data on grain stocks from AWB, CBH, ABB and GrainCorp and that data from that initiative would become available to ABARE in December. Has that data now become available?

**Dr Sheales**—Yes. The ABS data is available. They have done three surveys. The first one related to stocks at the end of October, then at the end of November and the end of December. The end of December was the last one released. They put that out on 1 February. Just to give you an idea of what we are talking about: as of end of December, total wheat stocks held by AWB, GrainCorp, CBH, ABB, plus some of the main private grain traders as well, was about 11.4 million tonnes. That is up, quite obviously—following the harvest that we did have—from about 7.6 million at the end of October. We are talking about total grain stocks, so as well as wheat that will include barley, oats, triticale, oilseeds, sorghum. Total grain stocks held by those organisations at the end of December was 16.3 million tonnes, so it is probably, I suspect, a bit larger than most people would have thought, but that is what was in holdings at that time.

The other element that I mentioned, I think, at the last hearings was that ABARE was also doing a survey of farmers. We have, I think, about completed that. It is a telephone survey to try and get an idea of how their harvests went, what sort of holdings they have got on farms, both grains and fodder. We are hoping to have something ready by the end of this month, but the Outlook conference might be a more appropriate time to release that sort of information. We are still processing it at this point.

**Senator O'BRIEN**—Do you now have a better handle on the magnitude of the shortfall, if any, in Australia's ability to meet feed grain requirements?

**Dr Sheales**—As I know you heard when you were asking questions about import permits and so on, there have been a number approved but no imports have come in except for some canola at this point. What we are hearing from the trade is that no-one is really seriously thinking about importing any cereals, at least for the foreseeable future, but I suppose, as we discussed earlier this evening, if it does not rain, people will have to re-evaluate the situation and at the end of the day it will be a commercial decision on the parts of those potential importers as to whether they are able to source it domestically or import it. I would say in that respect that there is no cheap grain anywhere in the world at the moment, unless 2002-03,

when there was quite a bit of low-cost grain out of the UK, wheat in particular, which came in in quite substantial quantities. We are not faced with that this time.

**Senator O'BRIEN**—Is the feed grain cost likely to go up or down or remain the same over the next few months?

**Dr Sheales**—We have been discussing this in terms of doing our medium-term projections. The factor that is out there in that global market at the moment that, say, was not four years ago is biofuels and the demand for grain that is coming from those. In the United States, for example, there has been a huge increase in the amount of ethanol production, and that is all corn based. That has introduced a very significant new dynamic into that corn market—feed market, as far as we are concerned. I think it is fair to say—and, as I said, we have been discussing it and still discuss it—that that extra demand out there in the market is going to keep prices relatively high for some years. How long, we do not know at this point, but there is certainly a fairly significant factor out there. In Europe it is more biodiesel, with oilseeds. We would not be seeing, I would suggest, any precipitous drop in grain prices even if there is a good season globally this calendar year.

**CHAIR**—So how courageous are you? 220c?

**Dr Sheales**—For wheat?

**CHAIR**—Yes.

**Mr Glyde**—Do you mean this year?

**CHAIR**—Yes, the coming year.

**Dr Sheales**—We have not had a go at that one yet, so I am not going to venture an opinion.

**CHAIR**—You are not courageous.

**Dr Sheales**—I am not courageous, Senator. I apologise for that.

**Senator O'BRIEN**—Was ABARE involved in doing any work for the government in relation to non-forestry managed investment schemes?

**Mr Glyde**—No.

**Senator O'BRIEN**—What about forestry managed investment schemes?

**Mr Glyde**—Not that I'm aware of, no.

**Senator O'BRIEN**—I think I recall you do produce information in relation to timber products and material?

**Mr Glyde**—Yes, we do.

**Senator O'BRIEN**—What can you tell us—and you may not be equipped to today—about the national plantation based resource?

**Dr Sheales**—I do not have any information to even help me answer that. We have a forestry group. It is very small. They tend to collect statistics and publish some of those. They may do a few other things, but I am not across that. I understand—and maybe I could be corrected—that the BRS collects some forestry statistics, which may in fact be what you are after, but you will have to ask that when the time comes, please.

**Mr Glyde**—I can take it on notice, Senator.

**Senator O'BRIEN**—Sure. So going back to managed investment schemes, ABARE has not done any work on that at all?

**Mr Glyde**—No, that is correct.

**Senator O'BRIEN**—In relation to horticulture industries, what work does ABARE do? I am not asking you for specific details.

**Dr Sheales**—Apart from wine. We do quite a bit of work on wine; mainly production projections and some market analysis in a broader sense. You may recall we released a report just prior to the last Senate hearings.

**Senator O'BRIEN**—Yes.

**Dr Sheales**—With respect to the rest of horticulture we do very little. What I mean by that is that we do produce some estimates of gross rate of production because that is used as an input into the determination of levies paid by the industry for research and development. That is essentially a statistically based operation. We do not collect any qualitative information of note at all. So apart from wine really we do not do any research of note.

**Senator O'BRIEN**—If you wanted to find out how the olive crop would be, there is no resource?

**Dr Sheales**—I could not help you, I am afraid. If there were some statistics around we could say, 'Senator, here are the statistics,' which will be from an ABS historic, but beyond that we are not at all equipped to do anything.

**Mr Glyde**—Yes, we are certainly not funded to survey those industries.

**CHAIR**—There is absolutely no reference in that market to supply and demand. It is a different dynamic.

**Mr Glyde**—That is right.

**Senator Abetz**—That is a comment. They have indicated they have not studied it, so that is that.

**CHAIR**—The industry does not need to know.

**Senator Abetz**—There are a lot of things they do not study, you know. That is the reality.

**Mr Glyde**—Priorities and resources.

**CHAIR**—I can assure you supply and demand is a real reality in real agriculture.

**Senator O'BRIEN**—If you have not done any work on that, I have not got any more questions for you.

**CHAIR**—That was pretty painless. What about the rest of the troop?

**Senator NASH**—Just a couple of questions around the *GM grains in Australia: identity preservation* report of December.

**Mr Glyde**—Sure.

**Senator NASH**—Part of what it appears you have based the report on is what you term ‘perceptions’ of consumer resistance to genetically modified GM grains. Can you just outline what those perceptions are and why you have termed them ‘perceptions’ and why you did not feel that they were more substantive than just a perception?

**Mr Glyde**—I can try to have a go at that, Senator, and perhaps Dr Sheales might help me if I get it wrong, but my understanding is that this was based on some case studies—

**Dr Sheales**—Yes.

**Mr Glyde**—rather than a complete survey, so we are getting the results from about four different case studies. They are not necessarily like a representative sample of the entire industry. In a way we are dipping our toe in the water to get a sense from these case studies as to what the feelings are and what the costs are likely to be, if you were to go to the business of having to separate GM from non-GM.

**Senator NASH**—I understand that it is only a small sample. It just seems interesting that so much of the report is quite substantive but it is based on a perception. That is my difficulty with it. I think it was Kim Chance, the WA ag minister, towards the end of last year—and I understand consumer resistance probably comes around dollars as well in a lot of areas—on a slightly different tack, said that there was a price premium achieved for GM-free products.

**Mr Glyde**—Yes.

**Senator NASH**—Sorry, this is a bit longwinded.

**Mr Glyde**—No, you are right.

**Senator NASH**—One of the main points of this is saying that the cost for the segregation should fall to the non-GM canola growers because they are the ones thinking that they are going to get the price premium. From ABARE’s perspective, if that is the case, what is the point of moving to GM canola crops if the price premium is around the non-GM?

**Mr Glyde**—I think we were really trying to do two things: one was to establish a framework for estimating the additional costs for the identity preservation of grain, so we did that through the case study approach. That came out, as you know, that it is about four to six per cent of the average farmgate price for canola. In a typical year that was the cost of separating. We also were aware of the minister’s comment, but in terms of trying to establish whether there is or is not a price premium, we had a look at whether or not there is a price premium, say, in a receiving country, so in this case Japan, and looked at whether Australian canola was getting a better price than Canadian canola. As far as we can determine, by the time you take out transport costs and the like, there is no premium in relation to non-GM canola. I think the assertions in relation to who should bear the cost have been made by commentators—I might stand to be corrected—outside of the report. We were really just trying to establish the cost.

**Senator NASH**—If that is the case, you have not actually attributed that in the report. This is my issue: why would ABARE have ‘allocated’ the \$14.48 to the non-GM canola grower if that was the only thing being taken into account. Sorry, I can take you to this. It is page 2:

If the additional identity preservation costs are attributed to non-GM canola growers [because it is they who hope to benefit from price premiums],—the estimated cost averages \$14.48 for each tonne of canola delivered. This represents 4-6 per cent of the average farmgate price for canola in a typical year.

**Mr Glyde**—I see, yes.

**Senator NASH**—It was leading the reader of the report to think that that is ABARE's view as opposed to if you had attributed that to outside views.

**Mr Glyde**—I think it is more that, if the non-GM canola grower can see that there is a price premium, there is an incentive for that grower to introduce the identity preservation. You are coming at it from another perspective.

**Senator NASH**—I suppose, though, if we moved to the situation where you would have to segregate the two, that will come through, I would imagine, a whole range of government decisions on where we are going to go in terms of GM canola or not. So why would you then just lump it all—I am not saying you are, but why would anybody then lump all the cost of that with the GM-free grower, saying that, 'They're getting a price premium so it should all sit there'?

**Mr Glyde**—I think it is where the price incentive is in the market. As people claim there is a farmer getting a better return for a non-GM product, then they will have the incentive to introduce the segregation to continue to produce non-GM canola. I understand the point you are making.

**Senator NASH**—I think we are going around in circles here because then it goes back to my original question of why we are even discussing GM canola if non-GM is going to have a better price.

**Mr Glyde**—Yes.

**Senator NASH**—To me it just seems illogical that as a nation we are even having the debate.

**Dr Sheales**—Senator, if I may, we have looked at a number of elements of this over recent years. One of the potential attractions of growing GM canola is because of its superior agronomic character. Let us say it could be higher yields or greater pest resistance or whatever. I am not across the detail of what its potential advantages are—or Roundup Ready, for example. So the issue facing producers, I would suggest, is something along the lines of, 'Well, we've got an option of cutting our costs or staying with what we've got now.' I am sitting there as a producer and cutting my costs by bringing in GM canola, potentially earning greater returns. But if it is selling at a discount, you may not have a better return.

**Senator NASH**—And that is my point. I ask these questions purely out of interest because I am just trying to get a handle on the whole situation.

**Dr Sheales**—We have looked at that side of it, and then we have looked at this side which says, 'We haven't been able to identify any consistent premium for non-GM canola out there in the marketplace,' and Japan is the place where Australia non-GM competes head to head with Canada which is a GM canola producer; some months one is higher than the other, other months the other one is higher, and it is not consistent.

**Senator NASH**—If that is the case, then the premise of putting the charge on the non-GM grower would not stack up.

**Dr Sheales**—No. The next step in this is to say—

**Senator NASH**—I should have known there would be another step.

**Dr Sheales**—Let us say I can grow GM canola and I can grow non-GM canola and I get the same price for it, approximately, why should I deny myself the opportunity to grow, let us say, a higher yielding crop at lower cost?

**CHAIR**—That in itself is, with great respect, B/S because (1) it is not established. I will declare an interest here: I am into this stuff, canola. Who has demonstrated the difference in the yield in a commercial world? No-one. Who has demonstrated a difference in the costs? No-one. All that is different is a new set of chemicals because you have got all of this driven by Monsanto and these people who want to get you from these chemicals to these chemicals. They are chemicals peculiar, and I have to say that the reverse onus on the non-GM person is a fraud—is a fraud. And the burden of segregation: the solution to this is either everyone is in or everyone is out, and all the rest of the arguments are rubbish.

**Senator Abetz**—Now tell us what you really think.

**Senator SIEWERT**—It is seldom I agree with you but—

**Senator NASH**—We are all in furious agreement.

**CHAIR**—I am sorry for my passion. It is not established. Monsanto have gone from getting out of some aspects of the market and getting into new aspects and what GM is about. Sure, I plead the case for GM cotton as part of the solution for some of the north stuff—and we will have to change some attitudes there—but in terms of canola, it is either all in or all out, because if anyone has tried to clean a bloody header out of canola, you have to strip a lot of weed until you do not get any canola in the sample. You have to live in the real world, not stuck away in a laboratory or buried in the bowels of the bureaucracy to understand that.

**Dr Sheales**—Senator, I fully understand what you are talking about.

**Senator NASH**—I think I'm done!

**Dr Sheales**—Could I suggest that Canada is an example of a commercial application of canola. They have, as a nation, by and large shifted over to GM canola.

**CHAIR**—Yes, it is all in or all out.

**Senator SIEWERT**—And they had to.

**Senator NASH**—That is the point. The question I would like to ask—

**CHAIR**—Sorry, Senator Nash.

**Senator NASH**—That is quite all right, Chair. I am very happy with your interjection. You say in the report:

... co-mingling in the grain receipt system is not likely to introduce undesirable levels of unintended presence of GM material in non-GM canola and other grains, provided there is a reasonable level of cleaning between handling different types of grains.

I will declare that we grow a very small amount of canola, but the ability to be able to adhere to that 'reasonable level' is—

**CHAIR**—It is garbage.

**Senator NASH**—nigh on impossible.

**Senator ADAMS**—When you are using road trains, where do you go?

**Senator NASH**—When ABARE said 'reasonable level of cleaning', what was your definition of 'reasonable level of cleaning'?

**Mr Glyde**—I am afraid that I do not have that information.

**Senator NASH**—Could you take that on notice for me.

**Mr Glyde**—Yes.

**CHAIR**—They would not have any idea.

**Senator NASH**—Hang on! I am nearly done.

**CHAIR**—You have got to have a toleration of canola.

**Senator NASH**—Okay. Give me two seconds. I have been really good all day. You may well have to take this on notice:

Third, it is possible to alter which group of growers bears the additional costs through altering the truck queuing rules at the central receival site. If, for example, it is decided that GM grain growers should bear all the additional costs and not non-GM grain growers, then the queuing time could be lengthened for GM producers and shortened for other grain producers.

Could you explain what that means and how the length of the queue is going to affect what your return is going to be?

**Mr Glyde**—I knew we should have brought the author of the report with us.

**Senator NASH**—I am sure my office indicated that I was going to ask questions around this.

**Mr Glyde**—My apologies, because I was not aware of that.

**Senator NASH**—That is okay. Maybe there was a miscommunication.

**Mr Glyde**—I was not aware of that.

**Senator NASH**—If you would not mind taking that one on notice as well for me?

**Mr Glyde**—My briefing notes do say that this is an issue that attracts equal criticism from both sides of the debate.

**Dr Sheales**—I think you will find that there is a simple answer to that.

**CHAIR**—There is not one practical, sensible bone in the body of the person who dreamt that up.

**Mr Glyde**—We will do our best to convince you otherwise, Senator.

**CHAIR**—Never!

**Senator NASH**—You are right: there are two sides. That is why I am trying to ask some question so that we can get a bit of debate on this.

**Mr Glyde**—Yes.

**Senator NASH**—Given that the moratoriums around the states are going to come off next year, this is going to be a very important question. I notice at the beginning in the introduction:

The introduction of genetically modified (GM) grains in Australia appears to offer significant agronomic benefits.

But there is no clarification in this report of what ABARE thinks those are.

**Mr Glyde**—Yes.

**Dr Sheales**—They should have come in previous reports. I would have thought that was cited but, without seeing the thing in front of me, I do not know if it was cited.

**Senator NASH**—No, it does not appear to be. In chapter 2 it goes on, admittedly talking about the world situation:

However, some consumers have concerns about GM crops.

There is a bit of inconsistency through the—

**CHAIR**—It is a bureaucratic nightmare.

**Senator NASH**—It is a bureaucratic nightmare.

**CHAIR**—Has anybody been through CSIRO and had a look at how you auger canola—in a flat auger? The author of that rubbish, would he have been to have a look and see what a difficult process it is to clean out a flat auger?

**Dr Sheales**—I cannot comment because I do not know.

**CHAIR**—I would love you to bring him along on Friday and we will have a bit of an arm-wrestle with him.

**Senator NASH**—That sounds like a very good idea. I think the costs attributed—I do not have it with me—to one of the farms was \$331 and \$1,119 on two others. But it did not say what that cost was—whether it was per month, per year, or a one-off cost. Do you know what that might have been?

**Dr Sheales**—You need further elaboration and we would be very happy to give it to you.

**Mr Glyde**—I am sorry that we do not have the officer here.

**Senator NASH**—Thank you, gentlemen. I think it may have pointed out a few of the difficulties we might be facing in terms of trying to segregate—

**CHAIR**—I agree with you, Senator Nash.

**Senator NASH**—Excellent, Chair! Thank you.

**Dr Sheales**—We can provide you with a written answer on this.



**CHAIR**—But the reverse legal onus in this argument on the people that are the status quo being imposed by the people who are not the status quo, we will go to the barricades on it. The bush will go to the barricades on it.

**Mr Glyde**—I think you are raising very legitimate policy questions. With these series of reports, we are trying to put forward a robust framework for estimating the costs, and decisions about where those costs should fall and on who.

**CHAIR**—Can I give you a cast-iron guarantee that you will not be able to successfully segregate GM canola from non-GM canola. If you say, ‘A little percentage of stuff in the bottom of the auger doesn’t matter,’ well, the next time you go to plant it the next year and you have got that little bit of contamination, it becomes a big bit, and then who sues who? Well, I will go to the barricades: it is rubbish. It is either all in or all out.

**Mr Glyde**—Thank you.

**CHAIR**—With that, I am finished. I’ll take my dummy and go home! Senator O’Brien, have you got something sensible to say?

**Senator O’BRIEN**—Yes. I am ready to go to the Bureau of Rural Sciences.

**Senator SIEWERT**—I still want to do my climate change stuff. But just to finish on this issue—I raised these same issues, I think, in October 2005 when you did your previous report about the reverse costs—at least do a balance and do both. While I entirely agree with Senator Nash and Senator Heffernan on this, at least you could do both sides of the costs.

**CHAIR**—Do you do contract work?

**Mr Glyde**—Yes, we do contract work.

**CHAIR**—You have not been contracted by the GM growers, have you?

**Mr Glyde**—Not that I am aware of.

**CHAIR**—Could we find that out?

**Mr Glyde**—Yes.

**Dr Sheales**—Some work has been funded by GRDC and some work funded by our department. On this particular one, I am not sure.

**CHAIR**—This is a nutcase scenario.

**Mr Glyde**—We will give you the funding. I think it came through the National Biotechnology Strategy, but we will confirm that.

**Senator SIEWERT**—The point there is to at least do both sides so that you look at the costs of doing it the other way. The other issue is: who bears the costs of environmental weeds and all those sorts of things in GM? The last piece of work did not include the environmental costs, which are significant. Surely you are not going to make the non-GM users pay those costs. They are not factored in and they are potentially huge.

**CHAIR**—There is a whole new chemical regime required. This is an international con job. Anyhow, we are finished.

**Senator SIEWERT**—No, I still want to do my climate change. We started touching on the issues around climate change and what ABARE was doing to address it. You will have been through previous estimates, so you know that we have been asking about these issues consistently, a number of us. We touched on it tonight and you acknowledged it was an issue and you raised the issue of the need for the regional scenarios. What are you doing to address that? How are you starting to engage with that debate and doing some modelling?

**Mr Glyde**—Essentially, as I said earlier on, there is a need for better understanding of the science and the biophysical impacts at a regional level within Australia. We are currently working with CSIRO, the Bureau of Resource Sciences and others to begin to grapple with that issue. Understanding how the changes are going to occur, how best for the farm sector and others to adapt to it is critical to the long-run future of the farm economy, so we have begun that work. It is an area of priority in the National Agriculture and Climate Change Action Plan. The Natural Resources Management Division, which comes later, is probably best placed to explain what the various elements are.

**Senator SIEWERT**—Yes, I am fairly familiar with the plan.

**Mr Glyde**—You would know about that.

**Senator SIEWERT**—I just do not think it is adequate.

**Mr Glyde**—We are beginning that work.

**Senator SIEWERT**—What is the time line? Do you have a time line for when you will actually be producing some results?

**Mr Glyde**—We are putting a paper out about that, just toe in the water type stuff, at our Outlook conference, in terms of what some of the things might be. But if you are talking about the time line for coming up with really detailed impacts, it is a very long time. It is a long project to be able to do all that. We are still in the process of working that through with our colleagues.

**Senator SIEWERT**—What is long term? Are we talking years? I am trying to get an idea of what time frame you are talking about because those of us who come from Western Australia in particular are already feeling these impacts; so are other states.

**CHAIR**—Did you say climate change impacts?

**Senator SIEWERT**—Yes. I am talking about the longer term change, beyond some of the drought climate change interaction.

**CHAIR**—Western Australia, unlike the rest of the world, woke up to this in 1985.

**Senator SIEWERT**—Yes, you are correct. It must be the good greenies over there that were pushing the government.

**Mr Glyde**—I am not sure what sort of end point you are talking about, but I would suggest that it is years of work in order to get a really good understanding at a regional and local level of some of these impacts and to be able to begin to help the farm sector to adapt to climate change. That is not to say that things cannot be done in the shorter run, but I think what you are saying is, ‘When will we get a better understanding and have all the modelling done to such an extent that it is providing useful guidance to farmers on the ground?’ I think that is

going to take us some time and my colleagues in the BRS would probably be able to elaborate a bit more on what they are doing in terms of getting a better handle on the science, the biophysical aspects of this.

But if you think back—to take a very small part of the climate change problem—to the work that ABARE has done over the last five to 10 years in relation to modelling different mitigation strategies and the costs and benefits of those, that modelling work really took a long time, a lot of investment, to develop. Those models were built for understanding agricultural subsidies around the world, so those models took many years to put in place. I think we are talking about a similar effort to get to that level of understanding, such that we can provide meaningful guidance and advice to governments when they are contemplating mitigation strategies and adaptation strategies for climate change. I think we are embarked on a long-run process that will continue for many years.

**CHAIR**—To give everyone a bit of hope, I can recall when Wren wheat came out. Do you remember that, the little dwarf wheat that Al Grassby got tangled up in? You went from Ford and those big, tall wheats down to this little stumpy wheat. We have now gone to complete zero tillage and root zone water, so we will end up in the challenge of the south producing nearly as much with a whole lot of better technology with a lot less water.

**Senator SIEWERT**—The points being made in some of the work that I have read were that we are getting to the end of where we are making those progressive changes and we need some more dramatic leaps.

**Mr Glyde**—The question is, ‘How sudden might some of these changes be?’ Clearly, the Australian farm sector has been extremely adept at adapting to change and has done it forever. So the question is, ‘Are the changes that may be coming too quick for standard approaches and adaptation to occur?’

**Senator SIEWERT**—Some of the work that is coming out of Western Australia is saying we are getting to that point.

**Mr Glyde**—Yes.

**CHAIR**—By the way, I hope that you were not confused with our position on GM. I am not opposed to GM. I am absolutely opposed to the view that you can fairly segregate GM canola.

**Dr Sheales**—We understand. I think the positions were made very clear.

**Senator SIEWERT**—I am opposed to GM. Put that on the record.

**CHAIR**—Where are we up to? BRS. Bring it on.

[9.52 pm]

#### **Bureau of Rural Sciences**

**CHAIR**—Would the Bureau of Rural Sciences have—I think they probably will have—a major contribution to make in terms of what we have just been discussing—that is, the climate change proposition in Australia of disadvantage in the south and advantage in the north and what we might grow, develop and do with the north. Do you have a role in all of that, do you think?

**Mr Hunter**—Yes, we do. As Mr Glyde was pointing out, climate variability is an intrinsic part of what Australian agriculture has had to deal with over the years, so we obviously have been dealing with climate variability for quite some time and are now at a stage of extending that understanding into climate change, an extension of climate variability. We have been providing scientific advice on the impact of drought on farming regions to the National Rural Advisory Council for more than 10 years. In 2003, we set up a climate impact sciences program within the bureau. That program has built up very close ties with CSIRO and the Bureau of Meteorology to provide advice on climate issues.

Clearly, climate variability is one of the key components of some of the products that we provide through, for example, the National Agricultural Monitoring System, the Rainfall to Pasture Growth Outlook Tool, and the Rainfall Reliability Wizard; in other words, we have been developing practical tools that sectors and individuals might use to understand the impact of variability on their farming activities. To the extent that that variability starts to pick up some of the changes that, for example, were referred to in Western Australia, it is picking up some of the impacts of climate change as well.

**CHAIR**—Would you have done a lot of data collection in recent times? Obviously, when the Prime Ministerial task force is set up with the secretariat in the department of whatever they call the new department there, with Malcolm Turnbull—what do they call it?

**Senator Abetz**—DEW. A little drop of water.

**CHAIR**—I must declare an interest there, my corporate identity. I must see them. I call myself Dew Pastoral Co. That is my registered trading name.

**Senator Abetz**—Is that D-u-e because all your bills are due?

**CHAIR**—D-e-w. It stands for Dad, Edward and William—Pty Ltd.

**Senator Abetz**—There you go! At least that is recorded for posterity.

**CHAIR**—The first thing we have to do is a SWOT analysis and get all our data together and not have to go back and reinvent the wheel.

**Mr Hunter**—I might invite Dr Ritman to talk a little about some of the data that we have around water and climate, particularly as it affects the north.

**Dr Ritman**—Last time we spoke I mentioned a few systems that we have developed and cooperation with state agencies and other data collectors around soils and other things. I will contain what I say to what the bureau is doing. If I understand your question, it is what data are we collecting around climate change, and that might be applicable with northern Australia. Is that right?

**CHAIR**—Yes.

**Dr Ritman**—Through the NAMS—the national agricultural monitoring system—we have been able to collect Bureau of Met data, state agency data, ABARE data and data from other suppliers to put on a website, where you can inquire about more than 600 geographic regions across Australia. You have that sort of information there, and you are familiar with that because we demonstrated it to this committee last September.

We have been working with the Bureau of Met and the CSIRO on a project called AWAP—the Australian Water Availability Project—and in July this year we will have products come out of that project. Those products will be five-kilometre grids with national coverage, weekly and monthly information on water availability, rainfall, run-off, deep drainage and a couple of other datasets. That is also historically cast data. I do not have the exact figures in front of me, but all of it is back to the mid-eighties. There is also some that goes back to the forties, where you have Bureau of Met data on rainfall. They will be very important datasets. A five-kilometre grid is a fair size, but it is a high enough resolution to do regional planning.

They are two major areas of data collection that we have in that sort of biophysical area. We also have a lot of social data that we have been collecting and analysing—not with broad coverage across Australia, what we collect, but certainly analysis of ABS data has broad Australian coverage, so we can also bring that to bear.

**Senator O'BRIEN**—At the supplementary estimates, Ms Hewitt told the committee that the primary industries standing committee had commissioned work to put together a database of all R&D related to agriculture and climate change. What has happened about that? Are you doing it? If so, where is it? It is not modelling, it is a database of all research and development related to agriculture and climate change.

**Dr Samson**—Rural Policy and Innovation, which is coming up next, may be the area, but I am not 100 per cent sure.

**Dr Grant**—I am not sure if we are at cross-purposes, but it may be that it is the extension of the national agricultural monitoring system into irrigated agriculture. I am not aware that we are working on assembling a total dataset on climate change. That would be a fairly mammoth task. I think it is an interpretation, trying to understand exactly what was—

**Senator O'BRIEN**—It is on page 145 of the *Hansard* of 31 October 2006, in the middle of the page.

**Dr Samson**—We will have to take that on notice. It may be something that is being pursued in the industry development committee of the primary industries standing committee.

**Senator O'BRIEN**—Okay. I would obviously like to know what has happened. Ms Hewitt thinks something is happening.

**Dr Samson**—Yes, and I am sure she is right.

**Senator O'BRIEN**—I thought I'd get that answer!

**Dr Samson**—By definition, she would be right.

**Senator O'BRIEN**—You told us, Dr Samson, that BRS was working on longer term climate modelling and that that could be ready in months rather than years, which I think is consistent with what you were saying earlier. I just want to be clear.

**Mr Hunter**—Yes, we are doing work on a longer term understanding of the impacts of climate change—in particular looking at developing a number of different methodologies that might allow us to do that which do not necessarily involve modelling. For example, one of the methodologies we are looking at at the moment is using different statistical methods to re-analyse the relatively recent climate record of specific localities in Australia to understand

whether there has been a significant variation in climate variability in those areas due to climate change.

As I say, we are seeking to develop methodologies which will allow us to understand and measure—and therefore enable farmers to adapt to—climate change. If we are successful in developing those sorts of tools, we would be able to incorporate them in things such as the national agricultural monitoring system so that they also take into account not just the general variability that we have in our climate but the broader climate change brought about by global change.

**Senator O'BRIEN**—What are you publishing, if anything?

**Dr Ritman**—We are publishing in the area of climate change and those models.

**Senator O'BRIEN**—Perhaps you can give us on notice a list of the material you have published.

**Dr Ritman**—That we have published?

**Senator O'BRIEN**—Yes, and what you are intending to publish as well.

**Dr Ritman**—We have undertaken reports on farming profitably under climate change. We have a *Science for Decision Makers* on climate adaptation and we have in plan some others which we will take on notice too.

**Senator O'BRIEN**—Thank you. What are the aims of the Signposts for Australian Agriculture project?

**Dr Grant**—Signposts for Australian Agriculture is a program that originated out of Land and Water Australia. We took a contract from them to produce a database of information that can give an indication of how an industry is going. We chose in the first instance, with some assistance from the relevant R&D corporation, to look at the fishing industry, and from there it has blossomed to looking at a number of industries. We have looked at the grains industry and we are subsequently now looking at the dairy and, I think, pork industries. I can take on notice as to which particular industries.

What we are trying to do is to look at the industry from the point of view of what we consider is the triple bottom line—that is, what does this industry contribute to environmental performance, social performance and economic performance in terms of both the positives and the negatives.

We gathered the data that exists. It is not a survey as such, but what existing data there is we assembled into a framework which has been agreed by the industry group. They guide us in this. We are able to answer questions like what does this sector contribute in terms of economics, what does this sector do in terms of employment and social support in a particular region, and that sort of dataset. That is what it is about. It is an ongoing process; it is not an end product in its own right. As more and more data is obtained, the greater a set of information sources you get around those three elements of understanding of the industry's performance.

**Senator O'BRIEN**—So there is a key element of social research in it?

**Dr Grant**—It is social, economic and biophysical. In terms of grains, you can look at where the grains grow, what are the implications on soil quality of growing grain, what about soil quality affecting grain growth, where does that take place, what does the industry contribute to towns in that region, what are the demands on water, does it have implications or does salt have implications on it, and so forth. It is that sort of a dataset, to answer some questions along the lines of: does this industry have a beneficial or a detrimental impact? As I say, is it a social benefit or a social detriment? Does it have an economic benefit or an economic detriment? We can provide you with any amount of information on the industry sectors that we have looked at.

**Senator O'BRIEN**—How would you provide that information? Is it a matter of searching a database?

**Dr Grant**—Yes. We can give you access to those databases. In fact, when they are built and once they are approved by the industry sector, they are publicly available. The Grains Corporation has a dataset now that they are using as a tool to assist them to understand how their industry operates.

**Senator O'BRIEN**—If you know the right questions.

**Dr Grant**—You go into the framework and it will guide you through that framework against a suite of questions, yes, and those questions have been identified by workshops asking a range of questions. If the data is there to answer the question, it is included. If there is not any data, sometimes questions cannot be answered.

**Senator O'BRIEN**—Has the bureau been commissioned to do, or has it in any case done, any work on non-forestry managed investment schemes or forestry managed investment schemes?

**Dr Bygrave**—We have not done any work on non-forestry MISs, but, as part of our collection of data for the national plantation inventory, we have information on managed investment schemes for plantations.

**Senator O'BRIEN**—Where is that published?

**Dr Bygrave**—That is published in *Australia's plantations 2006*, which is this report here. There are a number of pieces of information on MISs in that report, including the fact that 23 per cent of plantations are currently under managed investment schemes and that 92 per cent of the approximately 70,000 hectares of new plantations last year were under managed investment schemes.

**Senator O'BRIEN**—But there has been no work on the non-forestry sector?

**Dr Bygrave**—That is correct.

**Senator O'BRIEN**—The PBS matters we were exploring this morning revealed to us that there were, I think, some new contracts entered into by BRS to a value of \$1.5 million for this financial year. What are they?

**Mr Hunter**—I did not hear the discussion this morning, but certainly, in terms of the bureau's finances in the current year, we have had a significant increase in the funding that we receive through our section 31 agreements. In particular, it was as a result of additional work

that we are carrying out in salinity mapping, whether it be by aerial means or stream sampling. That has accounted for the significant growth that we have had in our section 31 revenues in the current year.

**Senator O'BRIEN**—It is table 1.7. I am sorry, it is not \$1.5 million, it is \$15 million.

**Mr McGovern**—The figure was in fact \$15 million.

**Senator O'BRIEN**—Sorry. I underestimated you.

**Mr McGovern**—Can I just give you a little bit of background on the way we put together our budget estimate. A lot of our business is done through work from other agencies and we have to estimate that at the beginning of the year, so when we put the budget estimate together, which is a couple of months prior to the budget being delivered, we have a number of signed contracts for work for the forthcoming year, we have a number of negotiations on contracts, and we make a provision for what we estimate with the additional work we will get throughout the remainder of the year. In the budget we estimated a figure of about \$12 million for that. Since that time we have concluded a number of the contracts under negotiation, a range of new projects have come in, and the most significant of the additional funding that came in related to the community stream sampling and salinity mapping program, where we have had an increase of \$10 million over the estimate we had in the budget. The balance of that would be across a range of up to 30 different contracts, and we have still got a provision for additional work to come in for the remainder of the year that we have not yet begun negotiations on.

**Senator O'BRIEN**—What impact will that have in terms of staffing?

**Mr McGovern**—It will have a reasonably minimal impact on staffing, simply because we have taken an approach where we have an anticipation of the level of work to come in that is not funded by appropriation, and we staff up to that level so that when we are requested to do work we have the resources available. In addition, a lot of that money is not money that is spent within the bureau on staffing. The lion's share of that is what we call pass-through money which goes out in further contracts, so in terms of the salinity mapping program we have a lot of aerial airborne electromagnetic mapping surveys being done. Yes, there are very significant costs—multimillion-dollar contracts in a couple of areas.

**Senator O'BRIEN**—Can the committee receive on notice the detail of the contracts which can be accounted for in that \$15 million additional expenditure?

**Mr McGovern**—Yes, we will provide it on notice.

**Senator O'BRIEN**—Thanks for that. That is all I have for the bureau.

**CHAIR**—Senator Nash.

**Senator NASH**—Thanks, Chairman. Halfway through last year, about June I think it was, there was about \$850,000 for new biotechnology studies. I think there were eight studies, and on the website it said that reports from the studies would be made publicly available either later in the year or early this year. Have they all been completed?

**Dr Ritman**—We had three projects that we were involved with under the National Biotechnology Strategy. One was the GM oilseeds and the Australian oilseed industry. That



report is being finalised now. It is in the review process. The other one was plant molecular farming in Australia and overseas. That again is in the review stage. And we have a GM crops as tools for insect pests and weeds. Again, that one is in review.

**Senator NASH**—When you say in the review stage, how long is it going to be until those three are completed?

**Dr Ritman**—These projects are all due at the end of this financial year. We go through various processes with each report. They go out to stakeholders, Biosecurity Australia, and internally within the department, for comment. There is no date for publication, but as far as I am aware we would have those finished this financial year.

**Senator NASH**—Good. Thank you.

**Senator SIEWERT**—I have been asking a series of questions around the place about the money that is going out of the water plan to the Bureau of Meteorology. Will that information be able to be fed in as part of the NAM system, and the new water availability system?

**Mr Hunter**—It is a little bit early to say how the new arrangements will work. We understand the new role that the Bureau of Meteorology is being given. We are working on the basis that the Bureau of Rural Sciences will continue to work with a range of agencies with an interest in the water field. We already work with the Bureau of Meteorology of course, with CSIRO, the National Water Commission and of course with the Department of Environment and Water.

We anticipate that we would continue to be in a very cooperative and partnership type of arrangement whereby we would each access from each other information and data in order to carry out the roles which governments have given to us. I realise that is very broad but at this stage working through precisely how the arrangements will work with BOM and its new responsibilities is perhaps a bit early.

**Senator SIEWERT**—Thanks. I want to ask a question about the *Fisheries status reports*. I have read it and it is a little bit unclear to me how you make the calls that you do make. Where has the information come from?

**Mr Hunter**—I might invite Dr Bygrave to assist you with that.

**Dr Bygrave**—The data for the reports comes from a range of sources, including the various management advisory committees that look after the fisheries in Australia, industry information, information from CSIRO and the various resource assessment groups as well that look after the fisheries in Australia. Where there are international managed fisheries such as southern bluefin tuna or big-eye tuna, yellowfin tuna, the information comes from a range of sources because those are internationally managed fisheries so we, along with other international scientists, collect data from those international sources. BRS is a member of the scientific committees that report to the various regional fisheries management organisations. We cooperate with the other countries involved with those commissions to collect data and analyse the data and provide advice essentially to those commissions.

**Senator SIEWERT**—What is the degree of accuracy?

**Senator Abetz**—I had a fish scientist tell me that his discipline was only second to weather scientists in accuracy.

**Senator SIEWERT**—Particularly if you are relying on industry figures.

**Dr Bygrave**—Often there are a range of estimates put around the status of stocks. For example, for southern bluefin tuna the scientific committee under the Commission for the Conservation of Southern Bluefin Tuna has put in a range of four to 19 per cent around the actual spawning biomass for that stock. That is the range of figures that are given. A lot of statistical analysis is done to arrive at those figures and we also rely very heavily on some expert statisticians from around the world and also nationally to provide us with that sort of advice.

**Senator SIEWERT**—Thanks. I want to ask you about a specific table? It is the table on page 5 that gives the status classification by year. You have got ‘status not classified’. In 2004 it was nine and in 2005 it was zero. ‘Overfished including overfishing’ has gone up from 17 to 24, and ‘not overfished’ has gone up from 17 to 19. Can I assume—because again it is a little bit unclear from here—that the decrease in the ‘status not classified’ is reflected in part in the increase in ‘overfished’ and ‘not overfished’?

**Dr Bygrave**—To some extent that information is due to the data that we have at the time. Last year we put a lot of energy in particular to the high-value stocks and the high-value fisheries. We do not have the resources to look at every single fish species so we try to concentrate on the high-value stocks. For example, of the 83 species that we look at, that would represent over 80 per cent or the majority of gross value product—GVP—for the industry. We tend to focus on the high-value stocks such as southern bluefin tuna, yellowfin tuna, big-eye tuna and other species. The information represented on that table reflects what data is available to us and where we have put our resources, given that they are limited.

**Senator SIEWERT**—Yes, sorry. I am not sure if I have misphrased my question. The number that you had ‘not classified’ went down from 2004 to 2005. ‘Species overfished’ went from 17 to 24. ‘Species not overfished’ went from 17 to 19. Does that mean that ‘status not classified’ has been going down progressively over the years? I was presuming that that means you have been progressively classifying new species.

**Dr Bygrave**—To some extent it reflects a move from the different classifications into another classification, but not in all cases.

**Senator SIEWERT**—Yes.

**Dr Bygrave**—For example, it would not be fair to say that all of the nine species that were unclassified in 2004 have gone into other classifications in 2005.

**Senator SIEWERT**—What does that mean then? Does that mean you did not classify them at all this time?

**Dr Bygrave**—I would have to take that on notice. But my guesstimate at this stage would be that it reflects that we have not focused our energies on those particular species and that we have focused our energies in particular on those high-value stocks.

**Senator SIEWERT**—The increase in species overfished, including overfishing, means that there are species that have moved into that category?

**Dr Bygrave**—That is right, and there has been an increase in the number of species that have moved into that category.

**Senator SIEWERT**—It is not a reflection of the fact that, as I was trying to work out, the species that are now classified were not classified before. It is not a reflection of values—that species have now moved into species that are overfished?

**Dr Bygrave**—That is right. There is an increase in the number of species that have moved to the classification of ‘overfished’ and are subject to overfishing.

**Senator SIEWERT**—So there has been an increase now of those that are not overfished. The number that are uncertain has remained the same in the last two years. There has been an increase in the number of overfished species and an increase in the number of not overfished, so that means there has also been another increase in the number that you have classified. Do you see what I mean? There has been an increase in both areas: there has been an increase in ‘not overfished’, an increase in ‘overfished’ and no increase or no decrease in ‘uncertain’.

**Dr Bygrave**—Yes. As the years go on, we can look at more and more species.

**Senator SIEWERT**—Yes.

**Dr Bygrave**—Our data collection is getting better all the time. I guess that is reflected in those numbers as well.

**Senator SIEWERT**—Thank you.

**CHAIR**—Thank you very much. That completes the exercise for you fresh young men. I would now like to call Rural Policy and Innovation. Can I just give a bit of advice to the people out the back there? There are a few questions that Senator O’Brien suggests he wants for Rural Policy and Innovation. Then we are actually going to move to Fisheries and Forestry and we are going to hand the rest of the evening over to you, Senator, in Fisheries and Forestry if you have got questions.

**Senator SIEWERT**—What are we doing about natural resource management?

**Senator O’BRIEN**—Nobody else owned up so they have gone.

**CHAIR**—I thought you said you did not have any questions.

**Senator SIEWERT**—No, not for natural resource management.

**Senator Abetz**—Can you put them on notice? Are they of a capacity to be put on notice?

**Senator SIEWERT**—Yes, I suppose.

**Senator O’BRIEN**—Do you have a lot? It is not going to be a big problem for them to come back on Friday, because we are going to be here on Friday.

**Senator SIEWERT**—Yes, can we get them back on Friday?

**Senator O’BRIEN**—And do them at the end?

**CHAIR**—Yes.

**Senator Abetz**—Are we going to be that long on Fisheries and Forestry?

**Senator O’BRIEN**—Basically, we are not going to get to them.

**CHAIR**—We are going to give you a real workout!

**Dr Samson**—If you would like anyone around on Friday, Chair, we are obviously happy to oblige.

**CHAIR**—You have some deep and meaningfuls, have you? You don't want to put them on notice?

**Senator SIEWERT**—There are a couple I would like to see if I could get responses to, because they have been hanging around for quite a while, and it means I will not get an answer till May.

**Senator O'BRIEN**—June probably. We should finish RPI tonight, unless something remarkable happens.

**Senator Abetz**—So Fisheries and Forestry have gone?

**CHAIR**—No, they are here.

**Senator Abetz**—They should stay.

**Senator O'BRIEN**—Senator Siewert has indicated she has some questions on fisheries, and so I was proposing to leave her to start those off, if that is all right, tonight.

**Senator Abetz**—How long will you be on fisheries, do you think? We have half an hour. Can we send the forestry people home—that is what I am getting at.

**Senator O'BRIEN**—Yes.

**Senator Abetz**—All right, done!

**Senator NASH**—Chair, can I just flag that Senator Bernardi has some fisheries questions too. So either today or Friday.

**Senator O'BRIEN**—It will be Friday, by the sounds of it.

**CHAIR**—All right, let's go!

**Senator O'BRIEN**—I cannot make any promises, if all the coalition senators are going to turn up on Friday asking questions.

**CHAIR**—We will sort it out.

[10.26 pm]

#### **Rural Policy and Innovation Division**

**Senator O'BRIEN**—In supplementary estimates Mr Koval confirmed that actual expenditure on drought relief has totalled \$1.2 billion since 2002-03. Can we get an update on that figure?

**Mr Koval**—We certainly can. The latest figure is \$1.364 billion actual expenditure on direct assistance to farmers and approximately \$169.5 million on non-portfolio budgeted costs, which are things like youth allowance, healthcare cards and all those types of things.

**Senator O'BRIEN**—That is \$300 million since September. Is that right?

**Mr Koval**—\$1.2 billion back in October was on direct assistance—things like income support, interest rate subsidies and those types of things—and that is now sitting at \$1.364 billion.

**Senator O'BRIEN**—So the comparable figure is \$1.364 billion? Can you update the committee on which areas are currently eligible for exceptional circumstances assistance and the dates when assistance will cease, both for interest rate subsidies and income support.

**Mr Koval**—I have that on a table, if I can pass that across.

**Senator O'BRIEN**—Yes, if we can get a copy of that and incorporate it. Table 1.3 on page 17 of the PAES shows a saving of almost \$10 million this year. Is that drought related?

**Mr Koval**—This is the \$9.986?

**Mr Thompson**—I think that is the \$9.986 for FarmHelp. FarmHelp is also another demand-driven program. With the rapid expansion of drought payments providing income support, the number of recipients for FarmHelp has been estimated to decline. So, as with all demand programs, we reduce the estimated expenditure for that.

**Senator O'BRIEN**—Why is it estimated that it will decline?

**Mr Thompson**—Because many people who are eligible for FarmHelp also become eligible for drought exceptional circumstances income support a little earlier. The conditions for accessing FarmHelp are a little more stringent—your business has to be in greater financial difficulty—so people will apply for income support under drought exceptional circumstances first and therefore they do not apply for FarmHelp.

**Senator O'BRIEN**—So this has probably seen comparable increases in the exceptional circumstances—

**Mr Thompson**—It is impossible to tell, because they are just people in rural Australia applying for assistance and we do not know who they are until they apply. As Mr Koval pointed out, there has been \$300 million worth of drought expenditure since October, which is a rapid increase, as new areas have been declared in drought. As the drought harshened, more people became eligible. We are working with roughly the same client base, although they become eligible for drought support a little earlier than they would with FarmHelp. Our experience is that that has resulted in a decline in demand for FarmHelp. So rather than have estimated amounts of expenditure sitting in the budget that will not be called on, we adjust the budget at additional estimates. We have done that in a number of years.

**Senator O'BRIEN**—The same table shows savings in the allocation for the Industry Partnership Program of \$150,000 this year and \$250,000 next year. What does that indicate? What should we take from that saving?

**Mr Thompson**—That was not an absolute saving; that was a transfer of funds from the Industry Partnership Program to the New Industries Development Program, which is part of food and agriculture—part of the portfolio to be applied to some projects in that program. So there has not been a net loss of money; it is just movement within the portfolio.

**Senator O'BRIEN**—Whereabouts in the PAES will I find that movement?

**Mr Thompson**—That is on the same page. There is an increase in the New Industries Development Program of \$250,000 and then a further \$250,000. The money from the Industry Partnership Program actually comprises some of that.

**Senator O'BRIEN**—All but \$100,000. So where is the other \$100,000 coming from?

**Mr Thompson**—I do not administer the New Industries Development Program. I would not be able to provide that information. I would have to take that on notice.

**Senator O'BRIEN**—On 23 January Minister McGauran issued a press release congratulating Woolworths for donating a day's profit to the CWA drought relief program and to drought research. PAES table 1.9 on page 25 shows an additional \$4 million for the CWA drought relief program in 2006-07. There is no doubt CWA is doing a lot of good in drought regions, but it is distributing a significant amount of public money. How much has been provided to this program to date?

**Mr Koval**—This financial year we have provided \$2 million to the CWA of that \$4 million. The other \$2 million has yet to be allocated. Woolworths had a shopping day at which they raised \$4.7 million, which they provided to the CWA. That is Woolworths' allocation of funding. This year we have allocated \$2 million of that \$4 million. We have allocated funds in previous years totalling \$4 million.

**Senator NASH**—Has that \$2 million all been disbursed?

**Mr Koval**—Some funds remain in the Northern Territory, Tasmania and Western Australia.

**Senator NASH**—How much funding is left to be disbursed?

**Mr Koval**—It is \$9,500 in the Northern Territory and \$9,500 in Tasmania. WA has expended, I apologise. It is just those two states, with some funds left in Queensland but that is a small amount.

**Senator NASH**—Did you expect it to happen that quickly?

**Mr Koval**—No. We thought there would be demand for it and we thought there would be uptake for it. We never expected it to go in the matter of weeks that it did go, which I suppose is in part the reason why Woolworths decided to do what they did, because of the demand.

We have the \$2 million left to disburse to the CWA should the demand continue at a rate where it is needed. The early indications that we have received from the CWA are that those initial allocations from Woolworths have been expended pretty rapidly in New South Wales and Victoria.

**Senator NASH**—Thank you.

**Senator O'BRIEN**—Do you have a breakdown, by EC declared region, of where this money has been spent?

**Mr Koval**—No, we do not.

**Senator O'BRIEN**—How is the expenditure acquitted?

**Mr Koval**—The process we went through with the CWA was that there was a donation to the CWA. We sat down with the president of the CWA and all the state presidents and went through the process of saying, 'There's \$2 million allocated by the Australian government. How would you like it to be allocated between the states?' One of the ways that it could be done is pro rata, depending on the EC declared area that their state represents from a national average. The state presidents and the national president agreed that that was the process to go through, so we allocated the funds to each of the states based on that formula. The CWA then

distributed the funds to drought-affected families. They do not provide us with the postcode data to break it down and say how much of these funds went to this area or that area. We get a monthly report from them, and that report tells us the number of applications, the amount of funding provided to those applications and the types of expenses that that was used for.

**Senator O'BRIEN**—Can the committee receive that information?

**Mr Koval**—The next reports are due tomorrow. We can take that on notice and provide you with the latest information that we receive later this week.

**Senator O'BRIEN**—That would be fine. How many small businesses have so far applied for EC assistance?

**Mr Koval**—In terms of interest rate subsidies, we have had 191 applications received by the states. In terms of small business income support, we have had 594 applications. That is at 9 February.

**Senator O'BRIEN**—How many applications have been accepted?

**Mr Koval**—In interest subsidies, 57 applications have been approved. There are 120 applications still to be assessed.

**Senator NASH**—How long is it since those the earliest of those applications was received? I am trying to get a handle on the time line of the assessment. You said that there are still some to be assessed.

**Mr Koval**—Yes, there are some still pending.

**Senator NASH**—What I am asking is: when did they come to you? How long have they been waiting?

**Mr Koval**—They go to the state rural adjustment authorities. They have undertaken to try and assess the applications and pay the clients within six weeks of receiving an application. The states, as well as Centrelink, have received a huge number of applications both for income support and for business support, way above their normal average. At the moment, it is taking a matter of some five to six weeks for those applications to be assessed, approved and paid.

**Senator NASH**—So the turnaround is six weeks?

**Mr Koval**—Yes.

**Senator O'BRIEN**—How many small business income support applications have been approved?

**Mr Koval**—Sixty-one applications have been approved. There are 470 applications pending; yet to be assessed.

**Senator O'BRIEN**—None rejected?

**Mr Koval**—For income support?

**Senator O'BRIEN**—Yes.

**Mr Koval**—Fifty-nine.

**Senator O'BRIEN**—What about the interest rate?

**Mr Koval**—Twenty-four.

**Senator O'BRIEN**—You have done about 40 per cent of the interest rate subsidies but only about 20 per cent of the income support?

**Mr Koval**—The program only started, in a practical sense, at the end of November, early December. It is probably fair to say that we are not sure whether we have got a representative sample of either applications or decisions yet. It could well be that some of the decisions were made on the basis of looking at the ones that were complete applications and easy to assess and there are a lot of more complex ones where additional information has been sought and they are still waiting. It is a little premature to see that number as representative of the number that might flow through from really only a couple of months worth of applications for what is a new program.

**Senator O'BRIEN**—Is the criteria for assessment on the department's website?

**Mr Koval**—In terms of the?

**Senator O'BRIEN**—On both of those—interest rate subsidy and small business income subsidy.

**Mr Koval**—In general terms, they are on our website. The more detailed—which include the application forms and everything else—are on Centrelink's website and also the state rural adjustment authorities' websites.

**Senator O'BRIEN**—It is an objective assessment against those guidelines whether you succeed or fail?

**Mr Koval**—The guidelines that have been established are very similar to what is available for farmers at the moment, the difference being that they have to be reliant on agriculture for their income and less than 20 full-time equivalents. Everything else is exactly the same, as best we can get, for farmers. They have to be in financial difficulty, which is an objective test, but we have no hard and fast numbers about equity ratios and those types of things. It is not a formula-driven approach.

**Senator O'BRIEN**—If you are in a town that depends on agriculture but you are not supplying agriculture—you are selling food and clothes—you are not eligible?

**Mr Koval**—If you are in a rural town where you are not directly dependent on farm business—a business and business relationship—then currently you are not eligible to apply.

**Senator O'BRIEN**—Business to business relationship?

**Mr Koval**—Things like grain contractors, fencing contractors, feed merchants—those types of people.

**Senator O'BRIEN**—Thanks. On 24 January the minister issued a press release about the APEC agricultural biotechnology forum held in Canberra. The press release implies that this is a regular forum. How often does it meet?

**Mr Thompson**—It meets annually, Senator—once a year.

**Senator O'BRIEN**—Who represents Australia at these meetings?



**Mr Thompson**—The representation does vary, depending on the nature of the issues to be discussed. But there will be usually someone from Biotechnology Australia; there may be someone from this department; Agriculture, Fisheries and Forestry; and usually someone from Foreign Affairs and Trade. If it is in Australia, they may come from the department here; if it is overseas they may come from the relevant post in that country.

**Senator O'BRIEN**—Does the forum hear from representatives of organisations which are cautious about the future impact of biotechnology, as well as its proponents?

**Mr Thompson**—The attendance at the dialogue itself is an intergovernmental forum and the representatives are from governments. There is a wide range of views expressed, representing the views that come from those countries.

**Senator O'BRIEN**—So for and against?

**Mr Thompson**—Yes, there are for, against, and in between.

**Senator O'BRIEN**—So for and against, and not sure. Is that the categorisation?

**Mr Thompson**—For and against, and under active consideration.

**Senator O'BRIEN**—In his press release, the minister talks about 'the need to continue building public confidence in the use of biotechnology'. What is the government doing to build this confidence?

**Mr Thompson**—There has been some discussion of that earlier in these sessions. The major activity is coordinated through the National Biotechnology Strategy through Biotechnology Australia, with information and communications. This portfolio is doing work under the National Biotechnology Strategy and has commissioned a number of studies to provide information which can help inform people as to the nature of things like segregation, use of biotechnology in this country and other countries—those sorts of things—providing well-informed, well-researched information to feed into people's considerations.

**Senator O'BRIEN**—Where can we find a list of the material that has been prepared to build public confidence in the use of biotechnology, or can you supply us with such a list?

**Mr Thompson**—If we do not have it here tonight, we can supply you with a list of the projects that we have funded or completed; and the communications material that Biotechnology produce on behalf of the government as a whole is available on their website.

**Senator O'BRIEN**—And will any papers that have been prepared be available on the website or in some other form?

**Mr Thompson**—The papers that have been prepared as part of our work under the National Biotechnology Strategy as they are completed, peer reviewed et cetera, are released publicly.

**CHAIR**—They say a picture paints a thousand words. Have you got an example of something you have done in that area?

**Mr Thompson**—You discussed one early today, which was some of the work ABARE did on the cost and possibility of segregation.

**CHAIR**—The one on canola?

**Mr Thompson**—Yes, it was that one, Senator.

**Senator O'BRIEN**—Okay. It will be an interesting list. Thank you very much.

**Senator NASH**—This may well not fall under you at all in terms of research, but have you done any work on lignocellulose and ethanol?

**Ms O'Flynn**—I cannot give a comprehensive answer as to what research in that area might have been done by one or more of the research and development corporations or companies but there is certainly nothing that I am readily aware of that falls into that area at the moment. We could certainly take it on notice and let you know.

**Senator NASH**—That would be great. In terms of drought and EC and policy, are you doing any work at all on drought preparedness?

**Mr Thompson**—We did quite a lot of work last year with the states on coordinating a range of activities that would help farmers with drought preparedness. The actual substantial work on drought preparedness is the sort of material you have been discussing with the BRS or the sort of material that is done by the R&D corporations. We have things like Meat and Livestock Australia producing tools which help people make decisions about pasture management or the sort of material that GRDC has on minimum till or more water-efficient cropping, that sort of material. It becomes a matter of extending that as governments. Most of the extension of that material then flows through either the state agencies or the direct grower representations by the RDCs. During last year, one of the things that we worked on between the Commonwealth and the states was agreement that drought preparedness was the key to long-term improvements in the ability of farmers to withstand variability of climate.

**Senator NASH**—Absolutely. I was of the understanding—and it may not be your part of the department—that there was some work specifically being done for the minister on drought preparedness.

**Mr Thompson**—That was probably the work that was being done jointly with the states through the Primary Industries Ministerial Council, which resulted in some agreement on some of the broad principles of the drought policy, which did talk about preparedness remaining an important objective. The intensification of the drought late last spring meant that implementing preparedness in the middle of a very bad drought was something that took second fiddle to actually coping with the immediate impact of that drought. But it is something that sits there on the joint Commonwealth-state agenda which we will be following up over the coming years.

**Senator NASH**—Is the work that has been done in the form of a report?

**Mr Thompson**—No, it was not in the form of a report. It tends to be working group papers, which have never got beyond the—

**Senator NASH**—So wait till it rains and you will get back to it?

**Mr Thompson**—As climatic conditions improve, we will be able to get back to it. The same people were formulating immediate approaches to doing something about inadequate water supplies and pastures falling over and animals starving and those sorts of things.

**Senator NASH**—And they are very glad you did, I am sure. Thank you.

**CHAIR**—Fisheries? Thank you, ladies and gentlemen. Please do not pretend you can segregate canola.

[10.51 pm]

### **Fisheries and Forestry Division**

**Senator SIEWERT**—I want to start off with a broader issue first. We heard yesterday in the ECITA environment estimates about some of the positive results they are getting from the green zones in the Great Barrier Reef National Park Rezoning Plan. Have you had a look at that? Has Fisheries had a look at those results?

**Mr McLoughlin**—The use of what we term spatial management in fisheries—the closure of areas to commercial fishing—is one of the central tools that we utilise. In the last few months, for example, as part of a broader strategy around ecological risk management as well as TAC-setting quotas, we have implemented a whole range of spatial management measures, particularly across southern Australia. Spatial management enclosures—green zones they might be called elsewhere—have been a routine feature of fisheries management in the Northern Prawn Fishery and down the east coast for a long time, so it is a standard measure that we use. One of the features of the last few months has been closing all of the areas deeper than 700 metres across southern Australia to trawling; fishing inshore of that because of the sensitivity of those deepwater habitats.

**Senator SIEWERT**—Are you talking about temporary closures or permanent no-take areas?

**Mr McLoughlin**—These range from no-take areas to areas where specific types of fishing or periods of fishing are not allowed, or over particularly sensitive habitats like seagrass, for example, in the Northern Prawn Fishery. They are usually renewed on an annual basis as we update information and understand what the impacts will be, but many of the closures have been in place for many years. They are not national parks. They are management measures to achieve a particular management outcome. They tend to stay.

**Senator SIEWERT**—What is the difference, if they are zoning within a marine park?

**Mr McLoughlin**—Zoning in a marine park is a DEWR task, as you would well know. The issue for us in spatial management measures is what is the area and why would we consider it unsuitable for fishing? There might be a whole range of reasons why we would consider it unsuitable for fishing, ranging from the protection of nursery areas for juvenile fish to particularly sensitive habitat areas such as seagrass or deepwater habitats or areas where we have fish spawning, for example, so it would depend on the management outcome that we were looking for and whether spatial management was appropriate as opposed to simply catch controls. A combination of spatial management, catch controls and gear types is the toolbox we would draw from to achieve a particular sustainability outcome.

**Senator SIEWERT**—Do you say you have not had a look yet at the work that has been done around the green zones for the GBR?

**Mr McLoughlin**—We are well aware of it and we track those things. We have regular meetings with DEW on MPA development. We are involved as a partner in green zone research up the east coast and Torres Strait, for example, where some of those were

implemented. We were the biggest cash contributor to the Torres Strait Cooperative Research Centre in terms of the research that led to some of those areas. We were not directly involved in the designation of those green zones but we were certainly partners in the research around stock assessment up through tropical Australia and the east coast.

**Senator SIEWERT**—Are you surprised by the results that have come back so far?

**Mr McLoughlin**—No, I am not. I think we understand fully that fishing has an impact on fish stocks, and if you stop fishing the fish stocks tend to bounce back. That is the business we are in.

**Senator SIEWERT**—I have heard some fisheries agencies say different things about that, so I am pleased to hear it. You would have been in the other room, so you would have heard me asking BRS about the *Fisheries status reports*.

The table is on page 5. I am wondering if you could give us some insights into why Fisheries thinks that there has been an increase in the number of overfished, including overfishing, from 17 to 24?

**Mr McLoughlin**—Is this a Fisheries or a BRS thing? That is the BRS?

**Senator SIEWERT**—The BRS *Fisheries status reports 2005*. The stock status table says that there has been an increase of ‘overfished, including overfishing’—that is the category—from 17 to 24 species from 2004 to 2005.

**Mr McLoughlin**—The main reason, from my experience, observation and involvement in the process around these things, is that as the definitions of ‘overfishing’ and ‘overfished’ became clearer, particularly during that period in 2004-05, and additional data became available about the status of the stocks as a result of very considerable work being done on research on the fish stocks in southern Australia, it became clear that the stocks were subject to overfishing, or were overfished or becoming overfished. That led in turn during 2005 to the implementation of a whole range of new strategies that we started to put in place, particularly in the south-east fisheries, which that table you are talking about refers mostly to, that were reinforced with the issuing of the ministerial direction and additional policy direction from government at the end of 2005. It is that trend which is a quite concerning one for all of us, which was a precursor to a much more robust response to the programs we were implementing through that period.

**Senator SIEWERT**—So you are talking about the package Fishing for the Future?

**Mr McLoughlin**—That is correct.

**Senator Abetz**—That was combined with the section 91 ministerial direction, which required the Australian Fisheries Management Authority to set total allowable catches in a whole host of fisheries on the basis of sustainability.

**Mr Hurry**—It is also related to the fact that a number of those stocks have come off the ‘uncertain’ list. We now have a better understanding of them. We have got them classified as either fully fished or overfished. So there is a link between all the figures in that table.

**Senator SIEWERT**—With all due respect, that is what I was trying to get out of BRS, and in fact that is not what BRS said. That was what I was trying to ask them, to see if that was in fact that, and they said no.

**Mr Hurry**—I would have thought at the end of that question, Senator, that they got to that response as well: that there was an acceptance that some of those were moved from that table of being ‘uncertain’.

**Senator SIEWERT**—No, that is not my understanding of what BRS said.

**Senator Abetz**—Anyway, we can read the *Hansard* on that.

**Senator SIEWERT**—Yes, we will read the *Hansard*. I am not trying to verbal them. I asked them twice to do it, which is why I am trying to ask what is the cause for the increase of those numbers, and, if I understand what you have just said correctly, it is that we have got better data collection now.

**Mr McLoughlin**—That is right, and better definitions of what overfishing is and what ‘overfished’ means. As we formalise the definitions to make decisions about how to respond to the data that was becoming available, things start to get categorised.

**CHAIR**—On that high note, I hereby declare we are going home. I hope you all had a lovely day.

**Committee adjourned at 11.00 pm**