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SENATE

ENVIRONMENT, COMMUNICATION, INFORMATION
TECHNOLOGY AND THE ARTS LEGISLATION COMMITTEE

Consideration of Supplementary Estimates

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SENATE

**ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS LEGISLATION COMMITTEE**

Wednesday, 20 November 2002

Members: Senator Eggleston (*Chair*), Senator Mackay (*Deputy Chair*), Senators Bartlett, Lundy, Tchen and Tierney

Senators in attendance: Senators Bartlett, Campbell, Carr, Crossing, Eggleston, Harradine, Lundy, Mackay, McLucas, Tchen and Wong

Committee met at 9.08 a.m.

**COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS
PORTFOLIO**

In Attendance

Senator Alston, Minister for Communications, Information Technology and the Arts

Communications, Information Technology and the Arts Portfolio

Arts and Sport Division

Ms Karen Gosling, General Manager, Collections and Governance Branch

Mr Peter Young, Acting General Manager, Arts and Regional Branch

Ms Megan Morris, General Manager, Sport and Private Sector Support Branch

Ms Caroline Greenway, Acting General Manager, Film and Digital Content Branch

Mr Kevin Isaacs, General Manager, M2006 Taskforce

Australian Sports Commission

Mr Mark Peters, Chief Executive Officer

Mr Michael Scott, Director, Australian Institute of Sport

Mr Brent Espeland, General Manager, Sport Performance and Development

Ms Lois Fordham, General Manager, Business Operations

National Gallery of Australia

Dr Brian Kennedy, Director

Mr Alan Froud, Deputy Director

Broadcasting and Intellectual Property

Mr Rohan Buettel, Acting CGM, Broadcasting and Intellectual Property

Ms Kylie Browne, General Manager, Intellectual Property

Mr Gordon Neil, General Manager, Licensed Broadcasting

Ms Jen Levy, Acting General Manager, Public Broadcasting

Mr James Cameron, General Manager, Digital Broadcasting

Australian Broadcasting Corporation (ABC)

Mr Russell Balding, Managing Director

Ms Sue Howard, Director, ABC Radio

Ms Sandra Levy, Director, ABC Television

Mr Colin Knowles, Director, Technology and Distribution

Mr David Pendleton, Director, Finance and Support Services

Ms Lynley Marshall, Director, New Media and Digital Services
Australian Broadcasting Authority (ABA)
Professor David Flint, Chairman
Mr Giles Tanner, General Manager
Ms Jonquil Ritter, Director, Planning and Licensing
Mr Fred Gengaroli, Director, Engineering and Technology
ScreenSound Australia (National Film and Sound Archive)
Mr Ron Brent, Director
Ms Mary Durkin, Deputy Director
Telecommunications
Mr Chris Cheah, Chief General Manager, Telecommunications
Mr Col Lyons, General Manager, Telecommunications Competition and Consumer Branch
Mr Brenton Thomas, General Manager, Enterprise, Infrastructure and Radiocommunications Branch
Mr Simon Bryant, General Manager, Regional Communications Policy Branch
Mr James Barr, General Manager, Networking the Nation Branch
Mr Richard Thwaites, General Manager, International Branch
Research, Statistics and Technology
Mr David Luck, General Manager
Australian Communications Authority (ACA)
Mr Tony Shaw, Chair
Dr, Bob Horton, Deputy Chairman
Mr Allan Horsley, Member
Mr Geoff Luther, Senior Executive Manager, Radiocommunications
Mr John Haydon, Acting Senior Executive Manager, Telecommunications Group
Mr John Grant, Executive Manager, Spectrum Marketing Group
Mr John Neil, Executive Manager, Consumer Affairs Group
Ms Gill Kempton, Manager, Customer Services Coordination
Ms Anita Tapper, Acting Chief Finance Officer
Telstra
Mr John Stanhope, Director, Finance
Mr Bill Scales, GMD Corporate and Human Resources
Dr Paul Paterson, Director, Regulatory
Mr Darian Stirzaker, Chief, Consumer Sales
Mr Lawrence Paratz, Regional Managing Director, Southern TCW
Mr Anthony Rix, Head of Service, Advantage
Australia Post
Mr Michael McCloskey, Corporate Secretary
Mr Peter Meehan, Chief Finance Officer
Mr Terry Sinclair, Manager, National Logistics
Mr Mel Jackson, Group Manager, Retail
Mr Gary Lee, Group Manager, Letters
Mr Stephen Walter, Group Manager, Corporate Public Affairs
Mr Chris Gosser, Group Manager, International

ICT Industry Division

Dr Beverly Hart, Chief General Manager, ICT Industry Division
Mr Philip Allnutt, General Manager, ICT Industry Development Branch
Mr Michael Sutton, General Manager, ICT Innovations Branch
Mr Simon Pelling, General Manager, Framework for the Future Task Force

Corporate and Executive

Ms Helen Williams AO, Portfolio Secretary
Ms Fay Holthuyzen, Executive Director, Communications
Dr Alan Stretton, Executive Director
Mr Craddock Morton, Chief General Manager
Ms Jennifer Gale, Chief Finance Officer
Mr Frank Nicholas, Acting General Manager, Knowledge and Information Services

National Office for the Information Economy (NOIE)

Mr John Rimmer, Chief Executive Officer
Mr Patrick Callioni, CGM, Strategy and Programs Group
Mr Keith Besgrove, CGM, Regulatory and Analysis Group
Mr John Grant, CGM, Government Services and Info Econ Group
Ms Ann Steward, Principal Adviser, Government Services and Info Econ Group
Ms Michelle Kinnane, General Manager, Channel Development Branch
Mrs Anne-Marie Lansdown, General Manager, Access Branch
Mr David Kennedy, General Manager, Analysis Branch
Mr Ashley Cross, General Manager, eBusiness Branch
Mr Tom Dale, General Manager, Regulatory Branch
Mr Brian Stewart, General Manager, Information Framework Branch
Mr Steve Alford, General Manager, Business Strategies Branch
Ms Robyn Fleming, General Manager, Corporate and Governance Branch
Ms Cathy Tighe, Manager Finance

CHAIR—I declare open this public supplementary hearing of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee considering the budget estimates for 2002-03. By resolutions of 13 February 2002 and 14 May 2002, the Senate referred to the committee the particulars of proposed expenditure for the year ending 30 June 2003 for the Communications, Information Technology portfolio and the Arts and of the Environment and Heritage portfolio. The Senate also resolved that a supplementary hearing should be held on 20 November with 22 November nominated as a spillover date, if required. I welcome the Minister for Communications, Information Technology and the Arts, Senator Alston. I also welcome the portfolio officers who are appearing today. Minister, would you like to make an opening statement at this point?

Senator Alston—No.

CHAIR—Before we move to questions, I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. I also remind officers that they will not be asked to express a personal opinion on matters of policy and shall be given reasonable opportunity to refer questions asked of them to superior officers or to a minister. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind

you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

I will call the agencies in accordance with the agenda which is being circulated. We begin today's hearing with Telstra and Senator Lundy will open the questioning.

[9.10 a.m.]

Telstra

Senator LUNDY—Did Telstra contribute financially to the arrangements that saw Foxtel acquire the pay television rights to the NRL?

Mr Scales—Our arrangements with Foxtel, of course, is that we are 50 per cent owners of Foxtel. To my knowledge we did not contribute any direct amount. I will refer that to John Stanhope to see if he knows anything about that.

Mr Stanhope—What Bill says is correct: the relationship with the NRL is through Foxtel.

Senator LUNDY—That does not really answer my question. I understand that it was Foxtel that acquired the rights, but I am asking you whether Telstra contributed financially to the arrangement.

Mr Scales—Could you give us a bit more explanation about what you mean by 'contribute financially'?

Senator LUNDY—Maybe you should just interpret the question in the broadest possible terms and tell me what involvement at all Telstra had in the arrangements that saw Foxtel acquire those rights.

Mr Scales—The only reason I ask for a bit of elaboration is that you would probably be aware that we are sponsors of the NRL. We have a sponsorship arrangement with the NRL which we entered into because we felt there were very good commercial reasons for doing so. My reason for asking for elaboration was to try to differentiate the issues around normal sponsorships and those arrangements with the other part of your question. What I was really trying to do was answer your question as honestly and accurately as I could, and I needed that elaboration so that I could do so.

Senator LUNDY—In relation to the sponsorship, was there any part of that sponsorship that relates in any way to Foxtel's acquisition of the pay TV rights for the NRL?

Mr Scales—No, not to my knowledge.

Senator LUNDY—In terms of Foxtel's arrangement to acquire those rights, can you provide me with any detail, to your knowledge, that involved Telstra in either those discussions, negotiations or any in-kind or cash contribution they made to that deal?

Mr Scales—Unfortunately, I am not in a position to answer that in the detail that you are asking me to do it. I will certainly take that on notice and find out that information for you. Again, to my knowledge, Telstra was not involved in those negotiations between Foxtel and the NRL. As I say, Telstra has an arrangement with the NRL which is a sponsorship arrangement.

Senator LUNDY—How much is that sponsorship worth?

Mr Scales—I do not know the answer to that.

Senator LUNDY—Could you take those questions on notice and get back to me with the full details? Can you also either answer now or take on notice the details of NRL Internet

rights that Telstra either owns or has come to an arrangement with Foxtel and how that relates to either the sponsorship or the purchase of the rights for pay TV?

Mr Scales—We are quite happy to do that. Some of these arrangements, of course, could be commercial-in-confidence, but we will certainly investigate them and see the extent to which we can provide you with that information.

Senator LUNDY—The last thing I want is to get another pile of answers to questions on notice saying ‘commercial-in-confidence’. I think these questions are pretty straightforward and the Senate committee expects at least some factual data in return. These matters are of public interest, and the Senate committee—

Senator MACKAY—And there are new Senate standing orders, aren’t there, Senator Lundy?

Senator LUNDY—There are new Senate standing orders that you should get briefed on and then we would probably have a far more efficient estimates round. I may come back to that, Chair, but I will now defer to my colleague Senator Mackay.

Senator MACKAY—Has Telstra done any modelling on the new 2002 price control effects on Telstra’s bottom line?

Mr Scales—I will refer that to Mr Stanhope.

Mr Stanhope—Yes, we have. We have to comply with the price control regime that is now in place, which is a CPI plus 4.5 per cent regime on a basket of products that comprise about \$7 billion of our revenue. Within that new price basket we also have the capacity to raise access by CPI minus four per cent. By virtue of the fact that one goes up four per cent and the bundle of other products, which includes calls, has to go down 4.5 per cent, the arithmetic of a 0.5 per cent difference on what we have to deliver there will be price reductions to customers.

Senator MACKAY—What is the impact on Telstra’s bottom line?

Mr Stanhope—It is probably around \$100 million. We have to comply with the cap—0.5 per cent on the basket that mainly comprises calls. The whole basket is \$7 million, which includes basic access. Just doing some numbers off the top of my head, the rest of the basket is probably—

Senator MACKAY—Don’t you have any modelling available to you? Do you have any information in front of you rather than off the top of your head?

Mr Stanhope—I have the information.

Senator MACKAY—Do you have this information in a hard copy format?

Mr Stanhope—In the office, yes.

Senator MACKAY—Okay, then let us see what you have got in your head.

Mr Stanhope—It is a fairly simple calculation. If you have CPI minus 4.5 per cent over a basket of products and you are only allowed to raise access fees by four per cent, then there are benefits to customers.

Senator MACKAY—So the impact on Telstra’s bottom line is around \$100 million, approximately?

Mr Stanhope—Yes.

Senator MACKAY—Can you get back to us with a sharper figure?

Mr Stanhope—Yes, certainly.

Senator MACKAY—Was the September quarter increase in fixed line rental revenue of \$32 million attributable to the August line rental increases?

Mr Stanhope—It depends whether you are talking about September 2002 or September 2001. Rebalancing has occurred on a couple of occasions, so there is a flowthrough effect of access price increases over a couple of price increases. So it is not just attributable to the 1 August increase.

Senator MACKAY—What else is it attributable to?

Mr Stanhope—I cannot remember the dates exactly, but there were price increases in the prior financial year which related to the rebalancing that we are allowed to do under the price control regime.

Senator MACKAY—To what extent was the increase contributed to by the August line rental increases?

Mr Stanhope—I have some accurate information. For example, on 1 August HomeLine Complete had a monthly line rental increase from \$19.90 to \$21.90, so there was a two dollar increase over the customers who were attached to HomeLine Complete. For two months it would have amounted to around \$10 million or so.

Senator MACKAY—That is one aspect, but what about the aggregate in relation to line rental increases?

Mr Stanhope—HomeLine Plus and HomeLine Budget have all had similar price rises, so the actual price increase in the quarter still would have been fairly small—about \$10 million or \$15 million.

Senator MACKAY—In aggregate for two months.

Mr Stanhope—Yes.

Senator MACKAY—What is the projection?

Mr Stanhope—I think the access price increases are around \$90 million to \$100 million annualised.

Senator MACKAY—The \$150 million that was spent on Access for Everyone—is that existing expenditure?

Mr Stanhope—You are talking about the welfare package.

Senator MACKAY—Yes. That is the name of it, isn't it—Access for Everyone?

Mr Stanhope—Yes.

Senator MACKAY—That is existing expenditure, is it not, or is it new money?

Mr Stanhope—The \$150 million was the welfare package that we initially put into place. It has been extended somewhat recently to lower the cost of 'in place' from about \$33 to about \$29. It has also reduced the rent, which was \$21.90, to \$19. 'In place' has gone down from \$59—

Senator MACKAY—Sorry, Mr Stanhope, I am apprised of those details. The question I asked is: is it existing money or is it new money?

Mr Stanhope—It is part of the \$150 million concession package.

Senator MACKAY—That is not my question. Is it new money or is it existing money?

Mr Stanhope—No, it is not new money.

Senator MACKAY—So where did it come from? It was, presumably, rebadged or rephased, or whatever term is used.

Mr Stanhope—It is not rebadged. There is a new calling plan, that we will introduce first quarter next year, that will be part of the total package that we provide. We have provided to the low-income health care card holders that lower ‘in place’ price. We have provided the lower rental per month; it is down to \$19.90.

Senator MACKAY—Yes, I understand all that. What I am asking is: it is existing money, so presumably it was allocated elsewhere to begin with. Was that out of the general Telstra pool, or did it come from a program?

Mr Stanhope—Yes, and it will be part of us meeting our price control caps.

Senator MACKAY—It will be profit derived from that.

Mr Stanhope—When you say ‘profit derived from it’—

Senator MACKAY—It is increased revenue for Telstra, so will it be funded out of the increased revenue for Telstra?

Mr Stanhope—But the welfare package does not increase our revenue. What I was explaining to you before is that in the CPI minus 4.5 per cent price control regime many things occur in a year that ensure that we comply, and this is part of it.

Senator MACKAY—So the answer is no; it is not new money. Why did Telstra decide not to reduce any local call costs on HomeLine Plus and HomeLine complete when it introduced its new August prices, with the substantial increases in line rentals on those packages?

Mr Stanhope—It was a whole package of changes in pricing, including the introduction of lower STD calls and specials that we run from time to time, for example, one cent Saturday. It was a package of price changes that, to reiterate my previous point, ensures that we do meet the price control regime.

Senator MACKAY—I understand that.

Mr Stanhope—The bottom line here is that there have to be price reductions, and we have to meet them. As you would be aware, we submit annually to the ACCC how we have met our price control obligations.

Mr Scales—I might be able to help here. Of the \$150 million packages we are talking about, a lot of it was reordering. I think one of our previous Senate estimates discussions covered this issue also, in the sense that we found that some of these packages were not being targeted at low-income earners. For example, some of the packages were based primarily around the total amount of the bill. We found that people like me, for example, who have a small holiday home would get a rebate. That indicates it was not targeted clearly, as I am not a low-income earner. So there was a reordering of some of those programs to ensure that they were appropriately targeted.

If I am interpreting your question correctly, there was around \$10 million—it might be slightly more; it might be slightly less—of new money. There was a reordering so that we could make sure that we had an appropriate targeting of those programs. I would make one additional comment to that. We developed this particular set of programs in conjunction with those organisations that were in the welfare sector. You may be aware that we spent quite some time with ACOSS and a number of other similar organisations in trying to ensure that we were appropriately targeting these particular packages.

Senator MACKAY—I am aware of that. I am also aware that the ACA seem to have a different view to some of the others. Just on that, is it true that the small holiday home problem that you have referred to still exists with the HomeLine Budget low line rental package? My point is that it is not means tested.

Mr Scales—To my knowledge, it is means tested. It was for that reason we changed those packages around. People are able to obtain these benefits in the normal ways by which low-income earners are tested.

Senator MACKAY—Are you sure it is means tested? Do you want to seek advice on that?

Mr Scales—I will seek some advice before we finish. But it is important to describe the intent of what we are trying to do here, as distinct from whether there are some people slipping through the gate. The intent here was to be very strictly targeted and to make sure that the normal processes for screening for low income were actually applied to this program. But I will seek some advice.

Senator MACKAY—We are extremely short of time, so if I interrupt more than usual it is because of that. Mr Stanhope, while Mr Scales is seeking advice on that, I would hypothesise that it is hard to argue that rebalancing is occurring when local call costs as a discrete entity are not reducing in line with line rental increases. What is your comment on that?

Mr Stanhope—There is more to calling than just local calls; there are national long distance calls and international calls. When you take all three PSTN and call products into account—local, national or long distance and international calls—there will be and has to be, as I was making the point before, a rebalancing across those products. So they are captured in the basket.

Senator MACKAY—Do you know what proportion of the market, for want of a better term, is local, what proportion is STD and what proportion is overseas?

Mr Stanhope—We manage this price control regime throughout the year. Included in the calculation for whether or not we meet the price cap control regime are all the specials, all the discounts—

Senator MACKAY—That was not my question—and I understand Telstra's contention about basket of goods et cetera. You made a statement in relation to local calls versus STD versus international. What proportion of that market, for want of a better term, is local, STD and international?

Mr Stanhope—Local calls comprise about a \$2 billion product and national—

Senator MACKAY—In percentage terms of the aggregate?

Mr Stanhope—We are talking about a \$7 billion basket—about 25 per cent.

Senator MACKAY—So 25 per cent is local. What is STD?

Mr Stanhope—It is about the same size product—

Senator MACKAY—So it is 25 per cent, so 50 per cent is international?

Mr Stanhope—Yes. And international is about a \$500 million product.

Senator MACKAY—What is its percentage?

Mr Stanhope—It is a bit less than 10 per cent.

Senator MACKAY—So the local call market is not insubstantial—that is my point. In regard to the 30 per cent charge for HomeLine Budget plans, why was 30c used as the local call cost? Where did that figure come from?

Mr Stanhope—Again, it was part of a basket.

Senator MACKAY—Why did you choose 30c?

Mr Stanhope—It was just balancing across the basket of prices.

Senator MACKAY—Did you wake up one morning and think that it should be 30c or was there any modelling?

Mr Stanhope—We thought that the market would be able to bear that price and we were looking at competition. We set these prices in a commercial environment anyway. Whilst we have a price control regime, we also have competition.

Senator MACKAY—So 30c was set because that is what you thought the market would bear. Would that be a fair comment?

Mr Stanhope—Yes. Customers are able to take a variety of plans to offset call fees, access fees—

Senator MACKAY—Because of the massive competition that exist in telecommunications!

Mr Scales—Senator, could I just make a couple of additional points. First, an elaboration on the earlier point: my colleagues are checking on the issue about low income. As I mentioned, the health card is the means by which people can qualify for these plans. To the extent that the health card represents a low-income person, then it applies.

Senator MACKAY—That is the criterion, if you like.

Mr Scales—That is correct. We have to try to find a way by which we can practically manage these and find a way by which we can screen high-income from low-income earners. As you know, none of these is the perfect measure to do so, but that is the clear intent. If I could also make a slight elaboration on a point that Mr Stanhope made: the intent of what we were trying to do here was to structure a plan so that for those people who made relatively few calls but who needed to have access to a telephone line we reduced the access rental cost, and then we slightly rebalanced these other per call costs. That was the way by which we were able to rebalance those. Again, to go back to the point I made earlier, this was not done in isolation from the people who have a concern about low-income earners.

Senator MACKAY—Thank you—that clarifies it. I want to go back to the HomeLine Budget plan. Is that open to everybody?

Mr Scales—We will seek some advice on that just to make sure that we accurately answer.

Senator MACKAY—Thank you. Are there any plans to increase the local call costs again under the HomeLine Budget plan, given the new price controls which allow Telstra some largesse in relation to local calls on special budget packages?

Mr Scales—We do not have any plans to increase that.

Senator MACKAY—Is that quite unequivocal—no plans? Does that mean ‘not at this stage’?

Mr Scales—It always has to be at this stage. That has to be implied because clearly 12 months down the track who knows what will happen. But the answer is unequivocal that we have no current plans.

Senator MACKAY—Is that in relation to not just HomeLine Budget but, given the new price controls which do allow a degree of largesse, are you planning on increasing more generally than beyond HomeLine Budget?

Mr Scales—I am always loath to answer unequivocally no for a company the size of Telstra, but I have no knowledge of any desire within the company to make any changes in our pricing in that area. We do not have any current plans for that.

Senator MACKAY—At what approximate monthly line rental fee for standard plans such as HomeLine Complete and HomeLine Plus will Telstra be satisfied that it has overcome the so-called access deficit?

Mr Scales—I might ask John to also make some comments around this. As a general point, the ACCC, in some of the commentary that you would be aware of, even have a view about whether the access arrangements, broadly defined, are adequate to ensure from their perspective that there is both an encouragement of Telstra to develop the network and have a strong and effective network and at the same time encouragement for people to use that network. Let me just see if John has further elaboration on that.

Mr Stanhope—I will ask Paul Paterson to come to the table. He is an expert on the calculation of the access deficit and also is aware of the HomeLine Plus conditions.

Dr Paterson—The product HomeLine Budget is open to everyone. It is a choice for the customers as to whether they take that product. It is a product designed to be attractive to people who want to be on the network so they can receive calls and make occasional calls but who are not heavy users of the network, not heavy call makers.

Senator MACKAY—Okay, I have got that point. Now what about in relation to the other one that I asked about?

Dr Paterson—I will need to ask you to repeat the question, if you do not mind.

Senator MACKAY—At what approximate monthly line rental fee for standard plans such as HomeLine Complete and HomeLine Plus will Telstra be satisfied that it has overcome what it terms an access deficit?

Dr Paterson—The access deficit represents the difference between the cost of providing basic access and the revenue received. The ACCC's estimate of the cost of providing basic access—

Senator MACKAY—That is not my question. We are very short of time. I am sorry to be rude.

Senator Alston—Just to be clear, it is the ACCC that has identified the access deficit—

Senator MACKAY—Yes, I know that.

Senator Alston—and recommended that progressive action be taken.

Senator MACKAY—Yes.

Senator Alston—So whatever Telstra's view is does not matter in that sense. If you are going to fix the problem of the access deficit and get your interconnect prices down by about a third, you need to gradually rebalance. They said over a five-year period.

Senator MACKAY—I agree with that entirely. I am just asking at what point does Telstra believe the access deficit as determined by the ACCC will be fixed.

Dr Paterson—It is some point above \$32. The ACCC has estimated \$32. We, quite frankly, think that is an underestimate of the cost. As well, costs are likely to increase over time, at least by CPI as general costs go up.

Senator MACKAY—How much do you think the ACCC has underestimated by?

Dr Paterson—It is hard to know, quite frankly. For a specific part of the network, it is hard to say just how much that is.

Senator MACKAY—If you have the figures you must be able to ballpark it. Is it underestimated by \$1, \$10, 5c?

Mr Scales—I think these access arrangements and the costs of access are not easy to calculate. That is why Dr Paterson is trying to give you an accurate reflection of it, knowing the difficulty of these sorts of calculations. They are very difficult. Our general view would be that it could be as much as 10 per cent.

Senator MACKAY—That is a straight answer.

Mr Scales—But it is very difficult. It is a really difficult thing to calculate.

Senator MACKAY—That is a straight answer. That is the best way to go. Have you got any more information on this holiday house problem that we talked about earlier?

Mr Scales—Which one was that?

Senator MACKAY—You took a question on notice in relation to—I forget the term you used—the holiday house problem?

Senator Alston—It is low users. That is the real problem—people who only make a relatively low number of calls who were previously getting the benefit. Now the benefit is going to low-income earners. When you talk about new and old money, as far as those low-income earners are concerned, it is new money. It might be redirected from low users, and that is why it was poorly targeted, but the benefits are new for those low-income earners.

Senator MACKAY—I understand, but I do not know whether it has been fixed. I asked Mr Scales and he was going to seek advice.

Mr Scales—To our knowledge, it has been fixed. We would be very happy to take any particular examples that you might have so that we can have a look at it. The intent was to make sure that this was very well targeted.

Senator MACKAY—That is fine. Just check it.

Mr Scales—My answer was correct.

Senator MACKAY—What price do you consider generally is appropriate for monthly line rentals? Have you looked at that?

Senator Alston—Whatever view Telstra might have or whatever wish list they might operate under, the current regime, which is a three-year price capped determination, will have to be reconsidered at the end of that period. In other words, in order to accommodate even the ACCC's five-year estimate of effectively achieving line rebalancing and curing the access deficit would require further government action at that time. So Telstra will not have an independent capacity to simply put up line rentals if it feels like it, unless the government decides down the track that there should not be any more price caps.

Senator MACKAY—Now to the COT issue. I refer to the *Sunday* program, which I am sure everyone in this room has seen, with Ms Ann Garms and the events of recent weeks. In Telstra's opinion, does the so-called Eureka document relate to the Fortitude Valley exchange?

Mr Scales—As you would be aware, the ACA did a review on this very issue and, I think, put to bed so many of those particular claims. The ACA report, from our point of view, accurately reflected the true situation for Ms Garms. It showed quite clearly that while she might have interpreted that particular—

Senator MACKAY—I am sorry, Mr Scales, I have to interrupt. We are really short of time. My question was: in Telstra's opinion, does the so-called Eureka document relate to the Fortitude Valley exchange?

Senator Alston—Telstra has always maintained it did not and that is the matter we referred to the ACA.

Senator MACKAY—I appreciate your view, Minister. What is Telstra's view?

Mr Scales—We do not believe it did. The reason I was trying to give a slightly elaborated answer was that the ACA report described why that was not the case—why it did not apply.

Senator MACKAY—It is not Telstra's view? The *Sunday* program made allegations that Telstra had a deliberate strategy of using legal professional privilege to overcome freedom of information provisions. What is Telstra's view in relation to that?

Mr Scales—Telstra have a very open view of our freedom of information requests and we certainly do not hide behind legal privilege in any way.

Senator MACKAY—The *Sunday* program alleged that Telstra had a deliberate strategy of using legal professional privilege to overcome freedom of information provisions. Can you confirm or deny these claims?

Mr Scales—I know you are not going to like me doing this, but I really have to say that we were offended by that program.

Senator MACKAY—That is fair enough.

Mr Scales—We were incredibly offended by the program because, quite frankly, we think it defamed many of our people. We believe it was not a true representation of the situation within our company. We felt that it completely misunderstood the intent and the values of the people within our company, including the chief executive and all the people who are trying to run the company in a fair and reasonable way. We felt that that program had no credibility.

I can tell you categorically that there is no intention to hide behind any form of legal privilege to stop people from getting what they are legally entitled to. In fact, I can go even further than that and tell you that within the company we hold the question of privacy very highly; we hold the question of people's rights very highly. We make sure that the rights of not only our people but also our customers are upheld. We will face up to any concerns but we will not put up with these sorts of slanderous comments that come through programs like that.

Senator MACKAY—Are you intending to take legal action with regard to the defamation claims?

Mr Scales—We are not intending to take action. We believe that the appropriate thing has happened. There has been an inquiry. In our view it has completely exonerated this company and has completely upheld the values which we hold dearly, but we are not going to take it any further. We think that the program itself has been the loser.

Senator MACKAY—So basically you are not planning to take further action.

Mr Scales—No, we are not planning to take any further action.

Senator MACKAY—The *Sunday* program also alleged that Telstra tapped Mrs Garms's phone and passed on information regarding her calls to their lawyers—we are not responsible for the *Sunday* program, we are just asking questions—providing a letter which seems to provide strong evidence that this in fact did occur. Is it true?

Mr Scales—No, it is not true. If I can refer back to the point I previously made, the ACA report looked at these sorts of issues and made it clear that we had not done any of those things. It is reasonable, by the way, for us to try and ensure that a line is operating effectively and we have good processes in place to ensure that is done at the same time as protecting our customers. Again we take that very seriously. Those accusations are clearly wrong.

Senator Alston—The matter was referred to the DPP in 1995 and the DPP found there was no basis for taking the matter further. Mrs Garms asked the Attorney-General and me to review that decision in 2001, and the DPP was asked to reconsider it and reaffirmed the original decision.

Senator LUNDY—I could not understand the last part of your sentence.

Senator Alston—Mrs Garms asked us to go back to the DPP and ask him to reconsider his earlier decision in the light of what she regarded as new evidence. The DPP reconsidered and reaffirmed the original decision.

Senator LUNDY—I recall that as part of the *Sunday* program there was some concession on behalf of a Telstra representative that phones were tapped for the purposes of assessing their technical operability or quality—

Senator Alston—What was said in the program—

Senator MACKAY—Just get them to answer Senator Lundy's question, Senator Alston. We have got a very limited time.

Senator LUNDY—There was some reference to that in the program. Can you explain to the committee the basis on which you do in fact tap customers' phone calls?

Mr Scales—I suppose my body language represents my concern about the word 'tap'. It is the pejorative nature of the context behind the word 'tap'. We do not tap people's phones.

Senator LUNDY—What other term? Record what they—

Mr Scales—The inference in the word 'tapping' somebody's phone is that we have done something illegal. We do not do that. As I mentioned earlier, where a customer has a complaint and we are required to test that line which requires us to log into that line to ascertain whether there is a fault or not, we do it and we have strict protocols around it. Remembering of course that those things go back to the very early nineties, my understanding of it is that we did exactly that. We did try and ensure that we understood what was the nature of this particular fault that Ms Garms was complaining about. We would do that, quite frankly, for any customer who complained to us about a fault. We would try and find the best method of determining the nature of the fault so that we could find an appropriate fix. This was no exception.

Senator LUNDY—The key point in this question is that that information about either a recording of the phone calls or the technical data about the phone service was then passed on to Telstra's lawyers. Did that occur?

Mr Scales—To the extent that it was part of any deposition that was required to defend a particular case, there would have been a requirement for people to talk about how they went about certain things. If that is an area that is new information that you are bringing to us, I suppose we would need to have more understanding of it. But all of these issues were, as you know, reviewed, debated and discussed not only in the more recent ACA report but in many of the other inquiries that have gone on around these issues and similar issues.

Senator LUNDY—I will ask you that again: if there was information recorded about the phone calls made by Mrs Ann Garms in relation to assessing the level of the fault, was that

information passed on to Telstra's lawyers perhaps for defending Telstra in the allegations or could it have been passed on to the lawyers in accordance with—

Mr Scales—I will take some advice on that just to make sure that I can answer you as accurately as I can. As I tried to allude to before, if it were part of the normal discovery process, then there would have been discussions with the lawyers as part of the discovery process.

Senator MACKAY—Was it or wasn't it?

Mr Scales—Our understanding was that it was part of the discovery process.

Senator MACKAY—And therefore passed on to the lawyers?

Mr Scales—As the senator said, it was a passed on to Mrs Garms, as well as being part of that discovery process.

Senator MACKAY—No, that was not the question. Was it passed on to the lawyers? The answer is yes, isn't it?

Mr Scales—Yes, it was passed on to lawyers and it was passed on to Mrs Garms's lawyers.

Senator LUNDY—Through discovery?

Mr Scales—Through the discovery process—as the normal part of the legal process.

Senator MACKAY—I understand that Telstra engaged some 45 communications experts around Australia to prevent COT cases obtaining legal representation. Is there any veracity in that claim? How many did you engage?

Mr Scales—Let me try, to the extent that I can, to separate out the question. I do not know the exact number of people that we would have contracted to address a number of the issues that related to the so-called 'casualties of Telecom' cases at the time, but there would have been many and the reason is that we were taking very seriously many of those concerns. So, while I do not have the exact number as to whether it would be 45, it would not surprise me if there were a large number.

Senator MACKAY—The effect of the engagement of this expertise was to stop COT cases obtaining legal representation—is that correct?

Mr Scales—That is certainly not my understanding.

Senator MACKAY—Why did you engage around 45 experts.

Senator Alston—I am not sure whether you are on the same question. Senator Mackay, are you saying that they engaged 45 firms of lawyers? Mr Scales might be talking about whether there might have been ultimately 45 complainants.

Senator MACKAY—I am not sure whether they were lawyers or not—communications advisers/experts is what I am advised.

Senator Alston—Whatever.

Mr Scales—No, we would have contracted to a range of experts in this area to try and understand the nature of the complaints. That is quite separate to the second part of your question, which implies that we were doing it simply to try to stop various members of the community from bringing claims against Telstra. To my knowledge, that was not the case.

Senator MACKAY—What were they doing, then—just trying to understand the nature of the cases et cetera?

Mr Scales—Sure, and we would do that all the time.

Senator MACKAY—Yes, I know: Telstra is very litigious.

Mr Scales—I am sorry, I do not want you to misinterpret my words and I am sorry if I gave you the wrong impression. We would have hired experts in a range of areas to ensure that we fully understood the nature of the particular technical problem—that is what I was trying to allude to. So it would not surprise me if we had a number of technical experts that were involved in trying to understand that. Quite frankly, we would hire more than that even today to understand some of the technical issues.

Senator MACKAY—I am sure that is right.

Mr Scales—On EME issues, for example, we are trying to hire the very best people that are available to understand what might be the implications around that. We are trying to link in with some of the best knowledge around the world, particularly in the OECD and a range of other places. This is not unusual.

Senator MACKAY—You can leave it there. How many documents did Telstra provide to the recent ACA inquiry into the so-called Eureka document? How many documents did you provide to the ACA inquiry?

Mr Scales—I cannot answer that. We will have to take that on notice.

Senator MACKAY—I would prefer that you did not. Can we ballpark it—we had a major inquiry very recently?

Mr Scales—Just let me check and see if we can give you an answer to that. We will try to make a telephone call and see if we can get a ballpark understanding of that. It would be a huge amount, I would think, given the nature of that inquiry.

Senator MACKAY—Can Telstra provide the committee with a summary of these documents?

Mr Scales—A summary of the documents which we have provided to the ACA?

Senator MACKAY—Yes.

Mr Scales—If you ask us to do that, we will do our very best to give you a good summary.

Senator MACKAY—If Telstra were to be fully privatised, would it still be subject to FOI?

Senator Alston—That would be a matter for government and legislation. Telstra would not have any say in it.

Senator MACKAY—What is the government's view?

Senator Alston—It is not an issue that we have looked at.

Senator MACKAY—So you do not know. You are not sure; you have not made a decision yet.

Senator Alston—It is entirely hypothetical. We have not even got to the stage of being satisfied about the adequacy of services, which is a condition precedent to introducing legislation. You need to get legislation through before you actually—

Senator MACKAY—I am only too aware of the legislative processes; you are right.

Senator Alston—I presume you have not changed your mind to make it a bit easier for us.

Senator MACKAY—Absolutely not. Generally, is a private company subject to FOI?

Senator Alston—No, generally not. Just to be clear, at the moment people like Mrs Garms have the ACA, they have the ACCC—

Senator MACKAY—It was a general question.

Senator Alston—and they have the Telecommunications Industry Ombudsman. So there are a lot of people who can actually investigate specific complaints. If you ask me about the effectiveness of FOI, what this case shows you is that you can drown on FOI. You can get a million documents presented to you, you have to pay an arm and a leg for lawyers to trawl through them and you might not get what you want. If you are a media mogul you can afford that, but I do not think it is very effective for the average citizen. It is much better to go to the TIO and say, 'Here's my issue.' They have got the power to go straight into Telstra and get to the bottom of the problem.

Senator LUNDY—Can you give me an update on what is happening with respect to the Boulding family following the tragic death of Sam Boulding earlier this year?

Mr Scales—As we have discussed on previous occasions, that was one of those events that shook the company like almost no other in living memory. There are a number of elements to what has happened since that tragic event, as you quite rightly described it, not the least being that we have put in place quite elaborate processes to meet the needs of priority customers. I am quite happy to go into that if you wish me to, but I would rather not delay you with that.

Senator LUNDY—If you could take that on notice, to itemise the activities that have occurred in relation to that.

Mr Scales—We can give you that. Is that sufficient to answer your question?

Senator LUNDY—I also want to know what contact or assistance Telstra has been able to provide the Boulding family.

Mr Scales—We have had continuous but appropriate contact with the family for almost 12 months now. We are dealing primarily through the family's lawyer, partly at the family's request but also because the family has clearly indicated that it really wants to be left alone. As we have made public, we want to come to an appropriate arrangement with the family in a way that meets their particular needs.

Senator LUNDY—Do you mean compensation?

Mr Scales—Yes. There have been ongoing discussions around that and we are meeting the timetable that the family believes is appropriate.

Senator MACKAY—I want to move on to the Estens report. To what does Telstra attribute the increase in CAN faults—customer access network faults—by around 10 per cent from 1997-98 to 2000-01?

Mr Scales—Are you likely to have a number of issues around the Estens report?

Senator MACKAY—Yes.

Mr Scales—I will ask some of my colleagues to come up who have been heavily involved in that, if that is okay.

Senator MACKAY—That would be very useful.

Mr Scales—We may call other people from time to time given the broad ranging nature of this particular report, but I will ask Mr Paratz if he can address that question.

Senator MACKAY—Mr Paratz, I am dealing with this iteration of the Estens inquiry. I understand the bound volume has different pagination. The version that I am dealing with has a table outlining CAN faults on page 68.

Mr Scales—If you give us the table number, that might help us.

Senator MACKAY—It is table 2.9.

Mr Paratz—I am the Regional Managing Director for Telstra CountryWide, southern region. When we look at Telstra's reliability performance, the Estens report in fact reported very favourably on our service performance and the improvement both in repair and in response—

Senator MACKAY—Mr Paratz, I am sorry but I do not need the editorial; we are really pushed for time. We have organised this very tightly around ministers et cetera. I know I appear rude by interrupting, but we are really pushed; I just want answers. To what do you attribute the increase in customer access network faults by around 10 per cent from 1997-98 to 2000-01, shown on table 2.9?

Mr Paratz—I think the earlier commentary I was making was very important because the measure of the faults is really the impact on customers.

Senator MACKAY—Yes.

Mr Paratz—I think what we see reflected here is the fact that, over that period of time, there has been growth in the number of customers. But, importantly, customers are using the access network for a much wider range of uses. In 1997-98 use of the Internet would have been very low, use of fax machines—

Senator MACKAY—So you attribute it to an increase in Internet use; is that right?

Mr Paratz—No; what I am saying is that customers—

Senator LUNDY—In other words, line drop-outs; it is pretty clear.

Mr Paratz—I am saying that demands on the access network are increasing. Accordingly, you would expect that, because customers are using the network more and because they are using it more intensively, they would be reporting more faults. I think the important thing is that the response of the company to those faults has been an extremely positive one, and that is also noted in the Estens report.

Senator MACKAY—Yes, I understand. This is estimates; I am sure the minister adequately represents Telstra's view in the chamber. Your contention is that more people are using the customer access network; therefore, the fault rate is increasing?

Mr Paratz—The fault rate actually comes from reports; it is customers saying, 'I'm trying to do something and I believe there is something here that needs to be looked at.' That is what a fault report is.

Senator MACKAY—I understand; so the more people use the network the more they complain about it?

Mr Paratz—I think that is reasonable: when you use something more intensively you are more likely to have issues, and of course those issues will require investigation. That is what the report is saying.

Senator MACKAY—So you put it down to more people using the network?

Mr Paratz—No.

Mr Scales—Senator, just to keep it in context: the Estens report does indicate a 'slight upward trend in the number of CAN faults'.

Senator MACKAY—I know what the report says; I am quoting from the table.

Mr Scales—Yes, I know that but I suppose we are trying to give a context to it. The explanation being given by Mr Paratz is not unreasonable, given that the term used here is

‘slight upward trend’ and given that we have extensive increased use of the network. It seems to be a reasonable explanation.

Mr Paratz—It is also interesting to note the wording above the table, which states:

... the impact of a number of natural disasters and extreme weather conditions ... need to be taken into account in assessing this data.

Senator MACKAY—We will come to that. To what does Telstra attribute the massive increase in customer access network faults in the New South Wales country south? They increased by around 50 per cent from 1997-98 to 2000-01.

Senator Alston—It says ‘apparent’.

Senator MACKAY—You can apply whatever caveat.

Mr Paratz—When we look across the network we obviously see a range of performance. Issues come into that, and climatic conditions are an important part of that: lightning conditions—

Senator MACKAY—Acts of God.

Mr Paratz—Certainly there is a level of lightning activity, bushfires, rainfall, lack of rainfall—it is a harsh physical environment out there, and practical effects come into play. We would expect to see variation across a table like this, so the fact that there is variation is not in itself remarkable.

Senator Alston—It is not conceded by Estens that it has in fact been of that magnitude. It says:

The apparent exception to this is southern NSW, where the fault rates may have increased by 50 per cent ... but this is unclear because of the change to Telstra’s methodology.

Senator MACKAY—Bingo! Do you understand that? What is the change in Telstra’s methodology?

Senator Alston—Estens is saying that we cannot tell; it may be of that order, and if you want to assume that then Mr Paratz can explain why. But you cannot take it as a given; that is all I am saying.

Senator MACKAY—But you have just quoted from the report which said ‘maybe due to changes in Telstra’s methodology’. I am asking the question, Minister, that is all.

Senator Alston—No, he is not saying that. He is saying that you cannot be sure that there has been a 50 per cent increase.

Senator MACKAY—Has there or has there not, Mr Paratz?

Senator Alston—It says:

... the apparent exception to this ... is where the fault rates may have increased ...

Senator MACKAY—Mr Paratz, has there or has there not been a 50 per cent increase?

Mr Paratz—The data is on the table and there is little more I can add other than to say that this is the recorded data.

Senator MACKAY—So the answer is yes, is it not?

Mr Paratz—No.

Mr Scales—From our perspective, we know that there are parts of our broad continent where we have more difficulty with faults. This particular part of the country is one of those areas. It is subject to the sorts of things that Lawrence Paratz was talking about—that is,

floods, fires and a range of other things. If I also go to the other reports which have been done at another time, we have recognised that we need to be looking at many of these areas on an area basis, so that we can more fully understand some of these regional differences and address them. If I can get back to the intent within the company, we recognise that there are variations across the nation, and that is almost a truism. We also recognise—and Mr Paratz can go into some detail about this, if you wish—that we need to provide resources to ensure that we understand the details of those differences and that we address them. Mr Paratz may want to give you some detail about the \$187 million-worth of investment.

Senator MACKAY—We do not have time. Provide it on notice; give us any document you like in writing. I really do appreciate your offer, but we do not have time to go into that.

Mr Scales—I am trying to answer your question as fully as I can.

Senator MACKAY—I understand.

Senator LUNDY—Can you tell me which big towns are in New South Wales country south region?

Mr Scales—Which large accounts are in that area?

Senator LUNDY—Yes, large areas.

Mr Scales—Lawrence might be able to help us with that.

Senator LUNDY—Just give us a thumbnail sketch of where we are talking about so that people have an idea where they can expect an incredibly high fault rate.

Mr Scales—We do not necessarily accept the point you are making. I am sure you would expect me to say that.

Senator LUNDY—It is in the Estens report—the figures.

Mr Scales—No, it is not.

Senator MACKAY—It is the table, for goodness sake! Mr Paratz has already conceded that. Let us move on.

Senator LUNDY—You cannot just say it is all a bit ambivalent; you do not really need to believe the data that has been published.

Senator MACKAY—Telstra has agreed. Give up!

Senator Alston—If you are asking whether there has been, Estens says ‘there may have been’.

Senator LUNDY—That is a very fine point, thank you.

Senator MACKAY—Refer to the chart, table 2.5.

Senator Alston—A fine point: whether you are guilty or may be guilty?

Senator LUNDY—What areas are being affected?

Mr Paratz—The boundaries of the New South Wales country south region—I do not have a map with me to define it—are exactly what you would expect. You take New South Wales, you excise the metropolitan area and take the southern part.

Senator LUNDY—So it is the southern part of New South Wales.

Mr Paratz—It is essentially the southern part of New South Wales. That is the area that is referred to, but we have to come back to the earlier points which really are about the materiality of this and the fact that underlying this is a customer response which ensures that,

where issues affecting customers arise, they are being addressed more rapidly than ever and, in addition, the \$187 million program that Bill referred to is focused on those faults.

Senator MACKAY—We did not ask you about that. We are very short of time. In regard to Telstra's communication to the Estens report that natural disasters and extreme weather conditions need to be taken into account—this is on the subject we are talking about—and in regard to the increased CAN fault levels, which is Mr Paratz's contention, does Telstra provide detailed comparative data on these weather changes?

Mr Scales—We do that when we report to the ACA and the ACA takes those issues into account when it reports on a quarterly basis.

Senator MACKAY—What sort of information do you provide to the ACA?

Mr Scales—It will be detailed information around those sorts of events that you have spoken about—bushfire, flood or other natural disasters that might occur in any of those areas.

Senator MACKAY—Did Telstra provide comparative weather data to Estens?

Mr Scales—Can I take that question on notice? I will get some information for you while we are still here. I think the answer to it is yes, but I will get that checked. Presumably, it will depend very much on the extent to which the Estens questioning went in that direction. As a normal part of us explaining some of these variations, we would have indicated those sorts of issues. Whether we gave them the exact weather data is another matter. I will find that out for you.

Senator MACKAY—Is the data that is provided to the ACA retrospective, or is there only prospectivity to it?

Mr Scales—Generally, it is retrospective. The officers of the ACA grill us quite substantially on some of these issues and, not surprisingly, they do not just take on face value what we say to them; they get independent verification of the points that we make. I will check to see to whether anyone can help me to answer that question for you. If you want, I can give you a response to the question that you asked earlier about what information we provided to the ACA inquiry.

Senator MACKAY—Yes, thank you.

Mr Scales—We provided access to 130 boxes of documents. We understand that the ACA officers took away copies of just short of 100 documents considered to be relevant to the issues which they thought were at hand.

Senator MACKAY—Instead of a precis, maybe a list may be more appropriate for the committee.

Mr Scales—A list of the documents?

Senator MACKAY—Yes. Then we can determine what action we take from then on. Doing a precis of 100 documents could be—

Mr Scales—That is why I made the point earlier. My expectation would be that we would have made available many, many documents.

Senator MACKAY—Could you give us a list of what they were, rather than trying to precis the contents?

Mr Scales—Okay. I will see if I can find out the other information about whether we provided specific weather information to Estens. Dr Paterson may in fact know that.

Dr Paterson—I will chase that up and we will get it during the proceedings.

Senator MACKAY—I refer to Telstra's new work force management data base, FuturEDGE—which the minister now knows a little about—which you say in the Estens report will fix the problems associated with your work force management. What are the problems and how will FuturEDGE fix them? Here again I refer to my iteration of page 74 of the Estens report.

Mr Scales—I am going to ask Anthony Rix, who is a bit of an expert in this area, to answer these questions. But, while he is coming to the table, I will make a couple of general points around that issue.

Senator MACKAY—As long as you stop as soon as he gets to the table.

Mr Scales—I will. As you can see, I am trying to give him time to get to the table and to make sure that things move on a bit.

Senator MACKAY—In the Senate we call it a filibuster.

Mr Scales—I would not want to describe it like that. What we are trying to do with lots of these data systems within the company is to ensure that they do a range of things. Some of these data systems give us the ability to dispatch people to various tasks right around the nation. Sometimes they also give us the ability to register a whole range of concerns that many of our people would have when they are meeting a customer's needs.

Senator MACKAY—Where is this officer? You are not just sitting there waiting for your boss to finish, are you?

Mr Scales—That is it. These are multifaceted systems which we are applying, but Anthony can give you some details.

Mr Rix—The replacement of our core service system will be called FuturEDGE. It will not just replace what is known as our dispatch or work force management system; it will become our web base service system for the future. It will replace a number of core systems and legacy systems that we have in place. I will give you some details of some of the initiatives that we are putting in place and some of the areas in which FuturEDGE will give us further capability to manage and organise our work flow.

Senator MACKAY—Just to guide your answer, I remind you, Mr Rix, that the first part of my question was: what were the problems and what will FuturEDGE fix?

Mr Rix—We did not see that there were any significant problems, other than updating our technology, which is something that we continually do and have done for many years. Back in 1995, we introduced a system called Director, which was a dispatch system. Since that time it has given us many benefits, particularly around productivity. But, at the same time, it did not integrate across all of our systems, which are more than just dispatch—it is customer information and being able to access and view customer information. So there were no actual problems; it was an upgrade of our technology and more integrating our systems to keep in touch with the needs of our customers into the future. Perhaps I could talk about the functions.

Senator MACKAY—To summarise, if I may, Telstra is saying that there are no significant problems.

Mr Rix—That is correct. We do not see any significant problems.

Senator MACKAY—Okay. Then what is FuturEDGE proposing to fix if there are no significant problems?

Mr Rix—FuturEDGE is more a web based system. We are looking at being able to have more view and capability across all of our systems. It will look at having higher first call resolution and diagnose, so it will integrate our work force management systems and our core dispatch systems, along with our customer bases. So it will give us better customer information at the first point with all our consultants, it will improve the customer experience by providing things like self-care or self-help, it will give us productivity improvements by the recording of more information and giving our field staff more data and more customer data so that they can more adequately provide service.

Senator MACKAY—Could I just interrupt. I am a bit confused. The Estens report says:

Telstra has recognised that its workforce management databases, Service*Plus and Director, have contributed to some of the problems discussed in the TSI report—

which is Besley. It continues:

To that end Telstra has advised that it is developing ...

And then we go into what you are saying. What problems was Besley referring to and what problems have been revisited in Estens?

Mr Scales—Maybe I could intervene for a moment. To put this into context, this is what we might describe as our continuous improvement program. We are looking at all of these every day, and we will find—to use your word, not necessarily ours—problems about a whole range of things that we would think are not working as effectively as we want them to work. The old dispatch system had elements which did not enable us to communicate as effectively as we would want with our field staff. When we put that in place it was a very sophisticated program. But, over the two to three years that it has been in place, we have learned about its faults. We have learned that we can improve it. Anthony is trying to describe the way by which we go about thinking about these things. We look at it, we say, 'It is not meeting our purposes,' and then we improve it—and will improve it again.

Senator MACKAY—I understand that. I am just saying that both Besley and Estens indicated that Telstra had recognised there were difficulties and that there were problems. Are you articulating the problems now?

Mr Scales—Yes, that is right. One of the problems—as you would be aware from some of the other discussions—is that some of our field force were saying that our old Director system was not giving them sufficient information to meet our customers' needs. That worries us.

Senator MACKAY—Fair enough.

Mr Scales—So what we would do in those circumstances is find the best system that we could to address those issues. My guess is that after a couple of years of this particular system we will find it also does not meet our high standards, so we will try something else. This is a continuous process of improvement within the company.

Senator MACKAY—I understand that. Mr Rix, in 30 words or less, how is the FuturEDGE system going to address the concerns that commenced in Besley and revisited in Estens—very briefly.

Mr Rix—As I have mentioned before, it will give us capability from an end-to-end perspective. It will give us an understanding of all customer information, it will link the skill set of our people to the appropriate jobs, it will give us information around our cable plan records, and it will give us the opportunity to improve and bundle jobs from a complexity perspective. That is not 30 words or less, but what that means is being able to not just manage every individual task but bundle tasks together so that we are meeting the entire customer

need. It will give us an opportunity to view all of those orders across all of our systems. So, from wherever you are sitting in the process chain, you are able to access a particular order at any time and view where it is actually up to.

Senator MACKAY—That is a fairly extensive explanation. Could you put it in writing? You have got a document; you could just give us that to save time.

Mr Rix—These are my notes, but I am more than happy to give you in writing what you require.

Senator MACKAY—That would be good. We must move on.

Mr Rix—Certainly.

Senator MACKAY—On page 77—I have a more up-to-date version; I am operating off two iterations of Estens, and the one I am now dealing with is the bound one—Estens referred to what we call ‘seal the CAN’. I will quote from the bound version, page 77:

Advice from Telstra is that in almost all joints where it has been used, the gel continues to be an effective sealant.

Is that correct?

Mr Scales—Anthony may be able to answer this or Lawrence, who will be able to give you a bit more detail. We understand—this will not be exact—that in about 97 per cent of cases that is true. But clearly there are some areas, particularly where there are high levels of humidity, where there are some concerns about it. Lawrence might want to cover that issue.

Mr Paratz—Thanks, Bill. Your summary there is spot-on. The use of gel in the CAN is a practice that was introduced. It is commonly used around the world. We always try to use the best available techniques at any time. We have discovered in practice that in a very small proportion—about three per cent—of instances—

Senator MACKAY—I am sorry; I am going to have to interrupt you. We do not have time for this.

CHAIR—We just want simple straight answers.

Senator MACKAY—I want simple straight answers. Thank you, Chair. If this were budget estimates, I would be able to engage, but I cannot. We just do not have time. Does Telstra continue to regard the sealant that was used there as an effective sealant in almost all joints where it has been used?

Mr Paratz—Yes, we do.

Mr Scales—Senator, I have an answer to the question that you asked me earlier about whether we provided Estens the detail of weather events. Yes, we did provide that.

Senator MACKAY—Retrospective presumably, not prospective.

Mr Scales—No, not prospective.

Senator MACKAY—It is possible to provide prospective weather.

Mr Scales—Yes, I am sure that is right, but the weather we provided is another matter. My understanding of it is that we provided past information.

Senator MACKAY—Can you get us a copy of the information you provided to Estens, if we do not have it, which we may do. How much of the \$187 million regional spend announced on 1 July will be spent on fixing problems associated with the use of the sealant gel in the network?

Mr Paratz—The \$187 million is focused directly on the basis of faults actually occurring. So it is not that we are going out there and targeting a particular thing, saying, ‘Let’s get rid of something.’ It is absolutely on the ground looking at the performance that customers are experiencing. If it turns out that a particular instance of gel, due to physical arrangements, is causing customer faults then it will be fixed under the \$187 million, but the \$187 million is not focused on a blanket replacement of gel or anything else.

Senator MACKAY—It is not going to go very far if you are going to look at every single fault in Australia. Presumably there is some targeting.

Mr Paratz—As we have mentioned, not all joints are causing faults. In fact, the vast majority are not. So the evidence that there is an issue to be resolved is in the customer experience. We are tracking that at the micro level down to the 10-pair range, and if there is an issue it will be fixed.

Senator MACKAY—Okay. So does Telstra have any idea how much of the \$187 million that was announced will be used for the sealant gel issue?

Mr Stanhope—The \$187 million will not be used for the maintenance or repair of the joints.

Senator MACKAY—So the answer is none.

Mr Stanhope—We estimate that fixing the problematic joints where they are subject to moisture will cost us about \$75 million. We have a two-year program over which we will do that. It may extend into a third year and it may extend to \$100 million or \$110 million. But it is not part of the \$187 million.

Senator MACKAY—Thank you for that straight answer. That is good, because that is precisely what Mr Roger Bamber said today—it is confirmation of that. Mr Paratz, what program is the spend under? Has it got a name?

Mr Scales—This is the \$187 million?

Senator MACKAY—Yes.

Mr Paratz—The \$187 million is for the Regional Network Task Force, often called RNT. There are several elements. About \$66 million is in the access network discussion that we are having here; about \$60 million is in core network, and there are some other components for some batteries, power and so forth. So there are elements to that RNT program.

Senator MACKAY—Good. Does the \$75 million that Mr Stanhope referred to come out of the \$187 million?

Mr Scales—No, I have already said that.

Senator MACKAY—So it is over and above?

Mr Scales—Yes.

Senator MACKAY—Where is that money coming from?

Mr Stanhope—It is a different type of expenditure. It is not capital expenditure; it is maintenance expenditure.

Senator MACKAY—It is more under recurrent, is it?

Mr Stanhope—Yes.

Senator MACKAY—So it is not out of the \$187 million. How many joints does three per cent cover?

Mr Paratz—I have not got that figure to hand—

Senator MACKAY—How many joints are there approximately?

Mr Paratz—I do not know. Mr Rix, have you got an account on that?

Mr Rix—Could I take that on notice for a couple of minutes, please?

Senator MACKAY—For a couple of minutes, yes, you can. What did Telstra spokesperson Adam Redman mean when he told *Sky News* on 14 October that the product was at the end of its life cycle?

Mr Scales—Which particular product are you referring to?

Senator MACKAY—The gel sealant.

Mr Scales—Yes.

Senator MACKAY—That seals the CAN.

Mr Scales—I understand that. I am just trying again to give you an appropriate answer. I will have to ask him what exactly he meant. It is hard to answer for him. What he could have meant was that that particular form of remediation is not what we currently use. We use different forms of remediation now. I expect that was the reason why he answered in that way.

Senator MACKAY—I think he was talking about the 3M encapsulant.

Mr Scales—We use various means by which we seal the CAN at the moment. That is what he might have been referring to. But I will check with him as to what his exact interpretation of that was.

Senator MACKAY—Broader than Mr Redman, does Telstra think the product has come to the end of its life cycle?

Mr Paratz—We continually review the processes for maintaining the CAN, the work practices that are used. We learn things; we change things.

Senator MACKAY—Just please answer the question, Mr Paratz.

Mr Paratz—I think the answer is that, given that 97 per cent of the product is operating very satisfactorily, it would be hard to sustain that it is generally at the end of its life cycle.

Senator MACKAY—Right, thank you. So Telstra's answer is no. How extensive is the damage? Has Telstra done any work on that?

Mr Paratz—Our experience is that the damage caused when this occurs is quite modest in length, probably in the order of about two feet or so, and it is readily repaired.

Senator MACKAY—Two feet in the whole of Australia?

Mr Paratz—No, in each instance.

Senator MACKAY—Okay. And how many instances are there?

Mr Paratz—That is the question that I think my colleague is getting some numbers on.

Mr Stanhope—That expenditure that I referred to, Senator, will cover about 100,000 cable joints.

Mr Scales—The other thing that we want to add to this to make it a fulsome answer is that it does not necessarily mean there is a fault in the system, even though there might be degradation of the gel. We should not necessarily see that as suggesting that there are faults there.

Senator MACKAY—No. This is a very flawed process. I am not disagreeing with you. We just have no time. And I think the chair would be happy if you organised a briefing with Telstra and the committee if you want to provide more fulsome answers. I do appreciate the difficulties, but this is—

Senator Alston—Could I just tell everyone that fulsome means ‘flatteringly insincere’.

Senator MACKAY—Yes, that is right. The PM made that mistake, didn’t he?

Senator Alston—A lot of people make it and I suspect over time the word will change its meaning. But it apparently means ‘flatteringly insincere’.

Senator MACKAY—Right. You might want to correct John Howard. I think he was that first one to use that. Were you the one who drew it to his attention? Okay. I think Shakespeare is right on lawyers. Is it true that plastic bags have been used to cover up some cable joints left exposed to the weather, as has been alleged?

Mr Rix—In some cases, as temporary repairs, yes.

Senator MACKAY—How many cases are we dealing with, do you think?

Mr Rix—I could not give you an answer on that here at this moment, but I could certainly take that on notice.

Mr Scales—It may be that we cannot give you an accurate answer on that as well. I am sorry to do this to you, but the process is that, if we send somebody out to look at an issue, we give them the ability to make whatever repairs are necessary at the time. If they decide to wrap it in a plastic bag and tape and a whole range of other things until such time as they can get back there to give a complete repair, we may not necessarily have the complete details of every one of those. I do not want to again mislead you by giving you an answer that might not be absolutely correct.

Senator MACKAY—I understand. Let me rephrase it. How many instances is Telstra aware of currently where plastic bags have been used?

Mr Scales—We will get you the answer to that but there will be a couple of caveats around the answer, that is the only point I wanted to make.

Senator MACKAY—I understand. Is it still Telstra’s intention to take legal action against 3M, or was it ever Telstra’s intention to take legal action against 3M?

Mr Stanhope—No, never—never was and it is not now.

Senator MACKAY—Are there any similar problems experienced with this sealant in the USA?

Mr Paratz—We are still doing the technical and chemical investigation so I think we could probably give you a more useful answer on that subsequently.

Senator MACKAY—Right. What is the result of your preliminary investigations?

Mr Paratz—As I say, at the moment we have our technical people going through understanding the chemistry in Australia and understanding experiences overseas. We need to understand the influences of other factors—humidity, moisture and so for—so it is really just preliminary to answer that question. We have not formed a view on it.

Senator MACKAY—Well is Telstra aware of any difficulties in the USA with this?

Mr Paratz—We have not got a view on that. I just do not have an answer for you today on that.

Senator MACKAY—In the *Australian* article it was claimed that it was not until November last year that management told maintenance staff not to use the sealant in cables where there was moisture. Is that correct?

Mr Rix—I would have to take that on notice as well and give you an answer as soon as I can.

Senator MACKAY—‘On notice’ means some time today; is that correct?

Mr Rix—That is right.

Mr Scales—We were investigating this for some time because we were trying to understand the nature of these sorts of faults. So at a particular point in time—and it could have been November—

Senator MACKAY—How long were you investigating it for?

Mr Scales—We would have been, not particularly with this fault but with a range of faults—but my general point was in trying to answer your question, I do not know the answer; we will get back to you on that—

Senator MACKAY—Okay. Can you describe for the committee what the link is between cable air pressure and heavy rainfall?

Mr Paratz—Certainly cable air pressure does not cause rainfall so there is no linkage there. But it is probably useful to talk about the purpose of air pressurisation. In the larger cables in the network it is the usual practice to introduce a permanent air pressurisation system. That has several functions. The first is: if there is any damage to the cable, that causes a leak. The fact that you suddenly see gas starting to flow allows you to know that there is something wrong along that cable and be proactive about the repairs. It also actually allows you, in a sophisticated way, to detect where the fault is and often locate it, so you can go and look for the damage.

The other one is: if there were any moisture around—and there may not be—the air exiting the cable helps to stop the moisture going into the cable, and in that sense it protects the cable. So coming back to the immediate question then, there is a linkage if the cable were actually immersed in water, if it had a fault at that point and if the gas pressure had fallen to zero, then there is an increased possibility of moisture entering the cable. If all those things occur simultaneously.

Senator MACKAY—Okay. So is it the case that insufficient air pressure enables water to get into telephone cables?

Mr Paratz—In terms of my answer I just gave you, the answer to that is clearly yes if those things are present.

Senator MACKAY—Right. And then that causes obviously problems with the cable’s function?

Mr Paratz—It is obviously preferable not to have water in cables.

Senator MACKAY—Is it the case that heavy rainfall in late January this year caused this type of cable problem?

Mr Paratz—I am sure my colleague Anthony will have some detailed information on this. The pressurised part of our network is very effective in preventing the sort of effect we have just been discussing. Other parts of the network have thinner cables, very small cables, which are not pressurised—and they would be pressurised nowhere in the world, by the way.

Senator MACKAY—So what proportion of the network is pressurised?

Mr Paratz—The pressurised part is what is called the main cable network; it is basically the fat cables that leave the exchanges.

Senator MACKAY—We know. What proportion of that is pressurised?

Mr Rix—I do not have an actual figure on exactly how much of the main cable is pressurised.

Senator MACKAY—A half, a quarter, 10 per cent, 90 per cent?

Mr Rix—Certainly most of it. I would suggest well in excess of 50 per cent, and probably closer to 80 per cent.

Senator MACKAY—This happened in late January. We all recognise that. There was a difficulty in terms of rainfall, and that resulted in a mass service disruption declaration. Is that correct?

Mr Rix—That is correct. During the month of February, coming off the month of January this year, the bushfires in New South Wales caused us to have a mass service disruption; then we got the February rains, and again we did have problems with the network during that period of time.

Senator MACKAY—Thank you. What does Telstra do about low air pressure in cables, where it occurs?

Mr Rix—We monitor them through what we call CPAS, which is a monitoring system for looking at the amount of air pressure in each of the cables. Where that falls, we send out a team of people or an individual, depending on the situation, to either put a bottle on it—a gas bottle—which is to build the pressure back up for putting it into a program of work so that we are then able to fix that cable, if required, in the future.

Senator MACKAY—What is the optimum pressure on a cable?

Mr Rix—The optimum pressure is 40 kPa.

Senator MACKAY—Are you sure that is the optimum pressure?

Mr Rix—That is the standard that we have set within Telstra.

Senator MACKAY—Since when?

Mr Rix—I will just refer to my notes.

Mr Scales—While Anthony is doing that, it is important to note that, if there is loss of pressure, it does not necessarily mean that there is a fault in any of our customer services. I think it is important to distinguish between the potential for loss of pressure and any faults.

Senator MACKAY—I understand that. I am just interested in what the optimum pressure is and what standard Telstra is actually applying.

Mr Rix—I do not have the information with me with regard to when we used 40 kPa as the standard.

Mr Scales—I think it also gets to the heart of what are the specifications of the particular equipment which we are using and also of the particular cables we are using.

Senator MACKAY—I understand.

Mr Scales—So we will just need to look at those specifications. If the intent of your question is to try and understand what is the maximum pressure that a cable can stand—

Senator MACKAY—No, it is not. The question is this: what is the optimum, what is sufficient—

Mr Scales—The normal and appropriate?

Senator MACKAY—Not what Telstra sets, which we know is 40 kPa. What is the optimum? We have been advised it is 70. Is that correct?

Senator LUNDY—That is what you have said—that you used to pressurise your cables to 70.

Mr Scales—We will take that on board and try to understand—

Mr Paratz—I think we will be able to supply some information about the pressurisation standards.

Senator MACKAY—Our understanding is that Telstra used to apply 70 and now applies 40.

Mr Paratz—I think the question will come down to—and I note in your question you refer to optimum—

Senator MACKAY—Telstra's previous standard.

Mr Paratz—I think the question really is whether the standard is adequate to achieve the objective, rather than 'optimum'.

Senator MACKAY—Let me rephrase it—Telstra's previous standard of 70 and its current standard of 40.

Mr Paratz—We will provide you with some information on that, and the question will come down to maintaining a positive pressure inside the cable for alarm and moisture control purposes. In that sense it is a question as to adequacy rather than optimum.

Senator MACKAY—That is what is in contention. So we can have a copy of the specifications that you are referring to, both in relation to the previous standard of 70 and the current standard of 40 kPa, and when it was introduced.

Mr Scales—But you will probably also get an explanation about why it has changed.

Senator MACKAY—That is all right; you are allowed to do that.

Mr Scales—Because clearly these things change in the light of our understanding and knowledge about the way in which technology operates.

Senator MACKAY—That is okay; we will let you do that.

Mr Rix—I have an answer to an earlier question, which was with regard to when staff were informed to stop using the gel. I think you quoted November, from an article.

Senator MACKAY—Yes.

Mr Rix—It was in April 2002 that we told our staff to stop using it completely. Prior to that, our staff had been told to use gel only where there was no evidence of moisture.

Senator MACKAY—No evidence of moisture?

Mr Rix—No evidence of moisture in either the joint or the cable.

Senator MACKAY—How does that fit with the vagaries of the weather?

Mr Rix—The reason we seal it is to stop any moisture going into the joint. So once it is sealed, it provides protection from any further moisture getting into the cable.

Senator MACKAY—But if we are in the middle of a drought, for example—some parts of Australia are in the middle of a drought—there would not be any evidence of moisture.

Mr Rix—That is correct.

Senator MACKAY—But there could be in a normal weather pattern, or am I misunderstanding this?

Mr Scales—No. The point that is being made is that if we think there is moisture in the cable then we will replace that part of the cable to remove any concerns about there being the potential for moisture. If we apply the gel to a moist cable, it will institutionalise the problem. That is the point that was being made by Mr Rix.

Senator LUNDY—So, if there is moisture around the cable, that is a reason not to use the gel. Is that what you are saying?

Mr Rix—That is correct.

Mr Paratz—Under our previous guidelines.

Mr Rix—In regard to the drought, it is not just precipitation that can cause the problem. Humidity, for example, can cause some moisture in the current joint. Prior to our sealing, if we find any evidence of any moisture, we had instructed prior to April not to use that particular seal the CAN practice.

Senator MACKAY—Back to this pressure issue. How many locations are there in the cable that currently need gas bottles to maintain air pressure?

Mr Rix—I do not have the number of bottles, but I can certainly get that answer for you.

Senator MACKAY—One, 10, 100 million—how many are you talking about?

Mr Rix—I would be reluctant to try to answer that; I do not have the information, but I can certainly get it for you.

Mr Scales—Senator, can you give us some idea about what is troubling you about this issue, so we can help.

Senator MACKAY—The issue that is troubling us is that Telstra is using bottles to maintain air pressure on the majority of its cables.

Senator LUNDY—As opposed to fixing the problem.

Mr Scales—That is very helpful. No, it is not about not fixing the problem; it is a means by which we identify a problem and, from time to time, come to a temporary fix and then get a permanent fix to an issue.

Senator MACKAY—‘Temporary’ being the operative word.

Mr Scales—Yes, but we will do that on a regular basis. We will try and make sure that, if we cannot put in place an immediate complete fix, we put in place a temporary fix to make sure that we do not undermine the service provided to our customers. If the nature of your concern is the process that we are using to ensure the reliability and integrity of our cable system, then we would be very happy to provide you with an understanding of that, rather than take each of these segmented matters and not get to the heart of your question.

Senator LUNDY—In terms of the use of bottles, what is the average time that you use compressed air to maintain the pressure before a permanent fix is made on the cable that has sub-level air compression in it?

Mr Scales—Rather than handle a specific question that may not meet your needs, we will give you a sense of how we maintain the integrity of the cable system.

Senator MACKAY—You can do that when you come before the committee, say, in the two-hour session we have with the references committee on the sixth.

Senator LUNDY—If you could bring that information on the sixth.

Mr Rix—It has always been the practice to use the bottles because it obviously gives us an immediate fix and stops any further deterioration. That has been the process.

Senator MACKAY—We understand that, but we want to know whether the usage of bottles has increased. We are advised that there has been an increase. When you provide the number of gas bottles to us that will indicate how widespread the problem is. There is an inexorable nexus. Has Telstra done any analysis on the number of cables in Australia with air pressure problems? We have established that it is the majority that are pressurised. Have you done any work on that?

Mr Rix—The majority of main cables are pressurised: not to my knowledge but again, as with everything that Mr Scales has said, it is information that we can provide.

Mr Scales—We can do that for the hearing on the sixth.

Senator MACKAY—I understand that, but there are some questions that we want answered now. And the hearing is not in Sydney anymore; you are coming to Canberra, I'm sorry to tell you, because we wanted to spend more time with you so that we could get a lot of information.

Senator LUNDY—We love spending time with you!

Mr Scales—I am sure you do.

Senator MACKAY—So we have switched it to Canberra on the sixth. Just to reiterate: are you saying, Mr Rix, that you are not aware whether or not any work or investigations have been done by Telstra in relation to the number of cables with air pressure problems in Australia?

Mr Rix—I am saying that I do not have that information available, but I am certain that we can get that information for you and that we can get it for you today.

Senator MACKAY—We have been advised in information to the references committee that one in five cables in Australia are without sufficient air pressure to keep cables dry in the event of heavy rain—which hopefully will come some time soon. What is Telstra's comment on that allegation?

Mr Paratz—I think we committed earlier to giving you an analysis of the approach, the standards and the rationale for them, and I would have thought that that would cover that question.

Senator MACKAY—I understand that, but the difficulty is that we have evidence before us from the references committee that alleges that one in five cables in Australia are without sufficient air pressure to keep cables dry in the event of heavy rain—which will happen. Do you think that is just nonsense?

Mr Paratz—We understand that you have that information in front of you and we have committed to go away, find out and then share with you the standards and the rationale behind them that obviously would address that issue.

Senator MACKAY—Do you have any preliminary comments? Is it just complete fantasy or is it potentially true?

Mr Rix—The fault data does not support that comment. Less than six per cent of all faults in our network are in main cables, so it certainly does not support the comment that the main cables are being neglected through lack of air pressure and that they are causing a lot of faults across Australia.

Mr Scales—But we do agree with your comment, Senator, that we all hope it rains soon.

Senator MACKAY—Could you get that information about the cables to us today, if you can. Can Telstra supply the committee with copies of APCAMS reports for all cables in the New South Wales Central Coast, Sydney and Wollongong?

Mr Rix—Yes, we are able to do that. I will find out about that for you.

Senator MACKAY—That may take a bit of time, I presume, unlike some of the other information. I just need two seconds to go through my brief.

Senator LUNDY—I would like to go back to the issue of football rights while I have a minute. Can you confirm that Telstra owns the Internet rights to the AFL? I am talking about the AFL now not the NRL.

Mr Scales—I am a bit worried about the word ‘owns’.

Senator LUNDY—Has got the licence rights, or whatever.

Mr Stanhope—I would suggest that we find out exactly the legal position of ownership—

Senator LUNDY—It might be wise.

Mr Stanhope—and we will let you know during the hearing.

Senator MACKAY—In the *ACA Telecommunications Performance Monitoring Bulletin* for the June 2002 quarter Telstra were reported as having just 86 per cent of phone faults fixed in time in urban Australia and only 83 per cent in urban New South Wales. It is my contention that these figures were poor in comparison with figures for regional and remote. What does Telstra attribute these figures to?

Mr Scales—I will ask Anthony Rix to address the question in detail, but again if we refer to the executive summary of the ACA report, it notes that the June 2000 quarter was generally characterised by continuing high levels of performance across both customer service guarantee and non-CSG indicators. The ACA was making the very general point that these were high standards, but I will ask Anthony if he can answer the very specific questions.

Mr Rix—I apologise, but do you mind repeating the question.

Senator MACKAY—In the *Telecommunications Performance Monitoring Bulletin* of the June 2002 quarter, Telstra were reported as having just 86 per cent of phone faults fixed on time in urban Australia and only 83 per cent in urban New South Wales, where Senator Campbell lives. These figures were poor in comparison to the figures for regional and remote Australia. Why is that happening?

Mr Rix—I would just like to reiterate the continued performance improvement—and there has been now for many quarters—

Senator MACKAY—No, no, no.

Mr Rix—Whilst I appreciate that that is not answering your question—

Senator MACKAY—It is not answering my question.

Mr Rix—in June this year—and we have touched on it—during January, February and March in urban Australia, during periods of bushfires through to floods, it certainly took us time to recover, particularly in Sydney, where the majority of our customer base is. Certainly we felt that the amount of work that we had at that particular time and the variation due to the weather conditions had caused us to recover more slowly than we would have liked.

Senator MACKAY—I understand. Can you give the committee the comparative weather data for the periods concerned?

Mr Rix—We would be happy to supply that.

Senator MACKAY—Do you think there is any nexus between the reported cuts in the number of Sydney based customer fieldworkers and the particularly poor fault rectification performance in urban New South Wales, or is it all due to acts of God?

Mr Rix—Whilst the number did decrease during that quarter, it must be noted that that is only one quarter and we had had continual improvement over many, many years. We do not react on just one quarter's worth of data. Clearly there is one particular issue that caused that blip in the data. We have since then improved that performance, and as of now we are running at 90 per cent and above. It needs to be recognised that that was one quarter and that over a sustained period of time in Sydney and across all our urban areas we have improved and continue to improve.

Senator MACKAY—So it is Telstra's contention that there is no nexus between the reduction in staff and the fault rates? Is that correct?

Mr Scales—That is our contention. The facts show that there is no linkage there or no causal effect there. The ACA does not make any comment about that, but the facts show—

Senator MACKAY—No, I agree, it does not.

Mr Scales—But what it does show is that there has been a continuous improvement in our performance. It highlights it in that exact report that you are referring to.

Mr Rix—I could add something. In 1998, since we started making submissions to the ACA with regard to these reports, we were below 80. Obviously we have moved up to around 90. But over some of the quarters they do move around a bit. Predominantly due to the weather conditions, we often see areas where we have dropped slightly, but we pick that up next quarter. That has been consistent over the last four years.

Senator MACKAY—Can Telstra offer an explanation of why there has been such a dramatic increase in related faults for Tasmania, the home state of Senator Harradine and me, as reported on page 34 of the ACA *Telecommunications performance report 2000-01*?

Mr Rix—I am just seeking to get a copy of that.

Mr Scales—Senator, which page of the particular report?

Senator MACKAY—Page 34 and it is table 3.9 of the ACA *Telecommunications performance report 2000-01*.

Mr Scales—Can we take that one on notice? We need to have a look at that and make sure that we are going to answer that accurately for you.

Senator MACKAY—Do you want to borrow my copy?

Mr Scales—Sure, why don't we have a look at it and see if we can answer it for you now. It is certainly our preference to answer your questions now, as you can imagine, so we will do our best.

Senator MACKAY—And save all those trees.

Mr Scales—That is right. Lawrence will have a look at that and we will get back to you on that one.

Senator MACKAY—I am just wondering if there are any answers to various questions that Telstra have—how are you doing with the responses to the questions?

Mr Scales—We have given you a number of responses as we have been going through.

Senator MACKAY—Are there any that are outstanding, or do you want to wait until after we have had a break?

Mr Scales—You can understand why we are a bit cautious right now given the current potential litigation.

Senator MACKAY—The chair is suggesting we take a break for a cup of coffee. Would that assist Telstra?

Mr Scales—That would be fine; it would be very helpful.

Proceedings suspended from 10.56 a.m. to 11.06 a.m.

CHAIR—Senator Lundy has the call.

Senator LUNDY—I wanted to see if you had some responses with regard to my questions.

Mr Scales—Senator, maybe I can read out what we think are the questions you have asked us that we are trying to find the answers to, so that we have got them all covered. You raised a question about Tasmania and about why it was that in the ACA report of 12 months ago there was such a discrepancy in terms of elements of the fault performance. We are trying to find out. That looks strange to us and we do not have an immediate answer to that. It may be that we have to go back and look in detail—

Senator LUNDY—This is a question that Senator Mackay asked?

Mr Scales—That is correct. We are looking at that.

Senator LUNDY—Perhaps you could repeat that for Senator Mackay.

Mr Scales—I am going through the questions which we think are still outstanding to make sure that they are the ones that you also think are outstanding.

Senator MACKAY—Thank you.

Mr Scales—On the issue around Tasmania, thank you for the report. We have looked at that. That looks unusually high. We do not immediately understand the reason for that.

Senator MACKAY—There are no droughts or flooding rains in Tasmania at the moment.

Mr Scales—It could easily have been simply one event that somehow distorted those numbers. As you know, our general performance in Tasmania is something we keep a very close watch on.

Senator MACKAY—I'll bet you do.

Mr Scales—Our view is that it is moving in exactly the direction we want it to be. We cannot find an immediate answer to that, but we will try and do what we can to get the answer for you—if not today, then as soon as possible.

Senator MACKAY—So sometime before the end of this week.

Mr Scales—Yes, I think we can certainly get an answer to that particular question before the end of this week. On the bottles issue, I think the questions around the air bottles were

around how many bottles. We are trying to get that and we may be able to get that for you in the next few minutes. We have got somebody trying to dig that up. You also asked what was the increase over the last 12 months. We are trying to find that out as well. Remember that these are quite detailed issues. Quite frankly, we have to find the person who buys the damn things. We will try to get to those as quickly as we can.

Senator MACKAY—And the 70 kPa versus 40 kPa?

Mr Scales—That is right; I was going to come to that. There was also another one, which was how long a bottle stays on the cable. We will try and find that out as well. As you can imagine, given the level of detail here, we have got to find the right group that will help us with that. There were a couple of questions on the cable itself. There was one that you have just referred to, but in addition to that I think you asked us whether we have done a study about cable pressurisation. Again we are going to try to find out, and hopefully we can get back to you.

Then there was a series of questions about the AFL and NRL. There are two things here, so I hope you will be a little patient with us. Given the circumstances and the announcements of this morning, we have to be a little careful about what we say, legally. Given the potential for litigation, we just have to be little careful about that. But we are going to do our very best to provide you with as fulsome an answer as we possibly can.

Senator MACKAY—Don't use 'fulsome'.

Mr Scales—Sorry, I should not use that word. We are going to do our very best to provide you with an answer that will address your concerns as soon as we possibly can. It would also help us—if I could pick up on the point I made earlier—not only if we could talk about these questions in an oblique way but also if you could give us the reason behind the questions; that would help us to frame our answer, and we might even be able to elaborate a bit further on some of your questions.

Senator MACKAY—What Senator Lundy and I were saying is that we have Telstra captive for two hours on Friday, 6 December, through the references committee, and we intend to go into these issues in great deal at that point.

Mr Scales—I was particularly referring to the AFL-NRL question. On that particular issue, we could go in a particular direction and answer your question, but it may not get to the heart of your question. If you could help us by framing your question in terms of what the end result is that you want to get out of us, we can then try to frame our answer in such a way as to give you those answers in a fairly full way.

Senator LUNDY—I would particularly like to know what role, involvement, communication or contact Telstra had with any of the parties involved in the Foxtel acquisition of the pay television rights for the NRL or the AFL and what the nature of that contact, conversation, communication or involvement was. I do not know if I can be any more specific or broad than that.

Mr Scales—That is helpful—thank you.

Senator LUNDY—In addition to that, what I am concerned about is the relationship between what I have described as Telstra's 'ownership of Internet rights', particularly of the AFL—I do not know if that is the case with the NRL as well—and what role that has in relation to Foxtel's pay TV rights.

Mr Stanhope—I hope this answer addresses that question. Telstra has licence agreements directly with the AFL and the NRL over a six-year period, 2001-06, to transmit delayed replays of certain matches via the Internet.

Senator LUNDY—Sorry, is this Telstra?

Mr Stanhope—Yes.

Senator LUNDY—So that Internet arrangement does include the broadcast of—

Mr Stanhope—To transmit delayed replays of certain matches—so it is specific—via the Internet. It excludes free-to-air TV, pay TV, pay per view and non-Internet interactive pay TV. It is very specific to the Internet. That is with the NRL, and it is a 2001-06, six-year, licence. With the AFL, it is again a licence agreement directly between Telstra and the AFL for 2002-06 for the exclusive right to web cast AFL matches and AFL participating club portals.

Senator LUNDY—In terms of those rights to web cast, what relationship will Telstra require with third parties and other parties, including Foxtel, to actually make that happen? Is it contingent upon a relationship with any other provider?

Mr Scales—No, it is not. In fact, it is more contingent upon the relationship with the clubs, because we will be helping the clubs to make the best use of that arrangement in a business sense, which will require us from time to time to even assist them with content and with technology for video streaming and so on.

Mr Stanhope—In fact, the arrangement with the AFL is to develop, manage and operate an AFL portal and participating clubs' portals.

Senator LUNDY—How does Telstra source the actual digital content of the games that you are licensed to web cast?

Mr Scales—Let me give you an answer, and, if it turns out that that answer is not completely accurate, I will get back to you. My understanding is that we source it through the AFL, in our arrangement with the AFL. The reason I was slightly hesitant is that there may be some other arrangements particular to the clubs; the club might want to sell to their members the rights to, for example, practice games or games that might be associated with training and so on. If that turns out to be not completely accurate, we will correct it.

Senator LUNDY—Thanks for that. I would like to move on to issues in relation to Telstra's ownership of the HFC cable associated with the Foxtel network. Can you tell me whether or not it is possible for Telstra to use some of the bandwidth available on that cable for purposes outside what they currently lease to Foxtel?

Mr Stanhope—My understanding is that that is the case. We are now right in the middle of negotiating a new joint venture agreement, subsequent to the ACCC decision about allowing the bundling and so forth to go forward. The precise detail of that joint venture agreement and how it is established finally I cannot give you, because the discussions have not yet been completed. I would be happy to do so at a later stage, when it is finalised. As you can understand, that decision was fairly recent. Now the joint venture agreement has to be remodelled to put that in place.

Senator LUNDY—Outside any content sharing deals within that agreement, is it Telstra's intention to use any of that excess bandwidth on the HFC cable for other purposes—for providing, say, Telstra-only bundled services?

Mr Stanhope—Again, it is going to depend on the outcome of that agreement. As a general strategy, the company wants to put as much application and content on all its broadband access mediums—satellite, ADSL and so on as well as cable. It would depend a

little bit on how this agreement and joint venture agreement turns out over the next few days as to how much—

Senator LUNDY—Have you guaranteed Foxtel a set amount of the bandwidth of that HFC cable in the context of the Foxtel-Optus agreement or any other binding agreement?

Mr Stanhope—Again, I cannot give you an answer. I know that is frustrating, but it really—

Senator LUNDY—I just find it ludicrous. You are full bottle on this stuff; you have been working on it for the last three months and you cannot give a simple answer.

Mr Scales—I think the point Mr Stanhope is trying to make is that we are right in the middle of negotiations. That is the dilemma. There are a number of dilemmas for us in trying to answer these questions. The first one is just that—that we are deep in negotiations with the other joint venture partners around all of these issues. The second dilemma is that you are asking us to discuss very high-level strategy in a very public forum. We are in a very aggressive, competitive market, as you would well know. It is difficult for us to be able, in the way in which you are asking, to discuss all elements of what may or may not be a particular strategy of the company going forward in this area. Also, as you would be well aware, there is some potential legal action around some of these issues.

Senator LUNDY—I am trying to get away from the matters involved in the court action. I am trying to ask questions in relation to that proportion of the cable or the bandwidth on the cable that is not involved in those agreements and precisely what your strategies are with respect to the rival services.

Mr Scales—Let me try to answer in as general a way as I can and hopefully meet your objectives. It is not our intention to try to limit the extent to which Foxtel can be a very viable company. So to the extent that we need to provide Foxtel with capacity we will do so. It is not in our interests to do anything other than that. When it is all said and done, we own 50 per cent of the business, so why would we do that? I think we can answer that with a great degree of alacrity but if we go beyond that and start to move into an area where you might say ‘What are you going to do with the balance of the capacity?’ that becomes much more difficult for us.

Senator LUNDY—Can I ask you if you intend to provide voice-over IP services.

Mr Scales—All of those issues are ones which we are considering almost weekly, but it does not necessarily mean that we will use that particular medium to do so or that we will ever do so. It is true that we would—and you would expect that we would—consider the products that might fit within that broad framework that you have described. Whether there is a market for those sorts of products, what the price in those markets might be, whether there is a good business case—all of those issues are very high level strategic issues.

Senator MACKAY—I have a couple of other issues for Telstra and then Senator Lundy has a number. I am interested in the capex budget and the continuing decline in the capital expenditure budget, including around a \$300 million decline in spend on property, plant and equipment in 2001-02. How much of this decline relates to reduced expenditure on Telstra’s general telecommunications network? Where are the savings being derived from?

Mr Scales—John will answer that question in detail for you.

Mr Stanhope—A lot of our spend on properties has declined because we do not own a lot of our properties any more. With regard to capital expenditure on land and buildings, when

there are fewer of them, we are not upgrading airconditioning plants or doing fit outs and so on. A lot of our capital expenditure reduction in that area is because there are fewer of them.

Senator MACKAY—How much of the capex budget decline is due to sell.

Mr Stanhope—I do not have a precise number.

Senator MACKAY—You have made the allegation; I am interested in what the actual figures are.

Mr Stanhope—I am trying to give you the reasons; I do not know the precise number.

Senator MACKAY—I guess the first question comes back to what proportion of that \$300 million decline in capex on property, plant and equipment is due to properties that have been sold and then what proportion is beyond that?

Mr Stanhope—I was talking about the property part. The plant and equipment part results from greater efficiency in buying from vendors. We have put our corporate sourcing group and our vendor management group together and we are buying cheaper. A couple of hundred million dollars of our capital savings is from buying better from vendors.

Senator MACKAY—What does that mean?

Mr Stanhope—It means that they are selling us the plant and equipment for lower prices.

Senator MACKAY—Can you give the committee a breakdown of that information, Mr Stanhope?

Mr Stanhope—The breakdown of what component is cheaper, material prices et cetera , yes.

Senator MACKAY—Of both of them—what component is selling, what component is lower prices and how the lower prices have been derived. How it has happened: a detailed breakdown.

Mr Stanhope—It will be across the range of equipment, switching equipment and so on.

Senator MACKAY—Is it planned to reduce capital expenditure investment in the coming years? Is that reduction to continue?

Mr Stanhope—Our guidance to the market is that we will spend about \$3.5 billion in capital expenditure domestically in Australia this year, which is a touch higher than what we did last year.

Senator MACKAY—Is it intended to decline in out years?

Mr Stanhope—We try not to give out outlooks too far.

Senator MACKAY—But you have got business plans to that effect.

Mr Stanhope—We expect it to be around the same level, as a guidance.

Mr Scales—The reason that we are hesitant here is that we have got to keep the market informed about these issues. The market is very sensitive about any comments that we might make about capital expenditure. So please understand why it is that we are very cautious about making any commentary around those issues.

Senator MACKAY—That is right, but also the parliament is very sensitive about Telstra at the moment, so I guess we have got to balance those two.

Mr Scales—That is exactly right.

Senator MACKAY—Can Telstra provide details about what types of jobs went with the further decline in Telstra staffing levels as reported in the 2002 annual report? I do not think you disaggregated.

Mr Stanhope—The annual report will show a staff reduction of about 4,000. I do not have with me the designation levels that was across, but it ranges across a whole number of types of jobs—front-of-house staff, field staff.

Senator MACKAY—You must have some idea of the type of work the 4,000 staff that have gone were doing.

Mr Stanhope—There were technicians, linesmen, clerical staff—

Senator MACKAY—Yes, I know that. Let us not try to be disingenuous. I am after figures. That 4,000—what did they do and who did they work for?

CHAIR—What is the breakdown? How many technicians, how many secretaries?

Mr Stanhope—I do not have that information. We can provide that to you.

Senator MACKAY—When will you get that to us?

Mr Stanhope—I can do that within this week.

Senator MACKAY—I move to my final issue for Telstra before Senator Lundy takes over. Page 16 of the *Telstra Customer Service Charter Performance Review 2002* states:

... 73,000 faults were repaired without customers having to report the fault ...

Do you need some time to find the reference or have you got it?

Mr Scales—We may be able to answer the question without having the reference.

Senator MACKAY—The performance review states:

... 73,000 faults were repaired without customers having to report the fault ...

I am curious: does this claim refer to the CNI database?

Mr Rix—This claim would perhaps be related to the CNI database—that is, potential faults. As we repaired one customer-affecting fault, we often at the time repaired the whole of that cable or the whole of that joint. But it is also referring to our group that does monitoring of the network from the global operations centre and also from our centre in Brisbane. They do monitoring of our electronic equipment. I know we have spoken on this before, but we proactively monitor our electronic equipment so that if there are any reactions that are adverse to the customer we will proactively go out and repair and restore.

Senator MACKAY—I understand. Thank you for that. So the 73,000 faults would be predominantly CNI database based—would that be a fair comment?

Mr Rix—I am really not sure but I could get a breakdown. Obviously, the numbers are available—they have quoted 73,000—so I could get a breakdown of exactly what that is made up of.

Senator MACKAY—With respect to the proportion that are CNI database related, why does Telstra refer to the CNIs as maintenance tasks which are largely routine?

Mr Rix—We have certainly been through this before. We categorise orders by priorities from 1 to 5. The first three of those categories are escalated tickets of work that need work done straightaway, that are a safety issue or that relate to a complaint. All of those are service affecting, they are generated by customers, or there is degradation in the network that needs immediate response—and we do respond to those immediately. When we talk about the CNI

database being a maintenance program, we are generally talking about categories 4 and 5, which are potentially things like broken pits or equipment or whatever. They are the upgrades that we do.

Senator MACKAY—Yes, I know that. I am after categories 1 to 3.

Mr Rix—With regard to the 73,000, I do not have an absolute breakdown, but if there is a relationship with the CNI database the faults would be in those first three categories.

Senator MACKAY—What about categories 1 to 3?

Mr Rix—I am sorry; I do not understand the question.

Senator MACKAY—You are saying that the relationship was based on categories 4 and 5.

Mr Rix—Yes.

Senator MACKAY—Where are categories 1, 2 and 3?

Mr Rix—Categories 1, 2 and 3—certainly that is why we prioritise them in that way. If it is a safety issue, we certainly react immediately and make that environment very safe. If it is a service issue, we respond to that particular customer need and respond immediately to that one.

Senator MACKAY—I understand, but some of those 73,000 faults that were repaired must have been categories 1 to 3. They were not all category 4 and 5.

Mr Rix—No; I certainly agree.

Senator MACKAY—So some of them must have been safety related et cetera.

Mr Rix—Exactly right.

Mr Scales—We would encourage that, by the way, and we again need to—

Senator MACKAY—What, safety related faults?

Mr Scales—No. We would encourage our people to report anything that they would regard as—for example, using what you have just mentioned—a safety related issue. We would want to make sure that that was given high priority. In fact, with regard to that whole system, to some extent we are encouraging an increase in the numbers. We want people to come back and report to us where they believe there are issues that we need to add to that queue so that we can resolve issues as they emerge.

Senator MACKAY—I understand entirely. But what we are on about here—and Mr Rix knows this very well—is the ones that the customer is not aware of. That is the issue. That is what is contended in the annual report. Is the CNI database all technician reported?

Mr Rix—The majority of it is.

Senator MACKAY—Can we have a state breakdown of those figures—73,000?

Mr Rix—Certainly—of the 73,000 faults that were repaired without customer input?

Senator MACKAY—Yes. We might actually put some more detailed stuff on notice. Going back to our old debate, we will put that on notice. Thank you, Chair.

Senator LUNDY—I will go first to the issue of SCADS and the use of SCADS technology. I still cannot remember what SCADS means, but I know you provided me with the answer to the question on notice. I understand it is a multiplexing technology used in regional exchanges that allows ISDN.

Mr Scales—I will get Lawrence Paratz to come up to answer any of your questions.

Senator LUNDY—Thank you.

Mr Paratz—As you corrected stated there, the SCADS is a small device which is used predominantly in rural or low customer density areas. It is usually fed by optical fibre and services a small number of customers.

Senator LUNDY—My understanding is that SCADS technology does not support ADSL. Is that true?

Mr Paratz—The short answer is yes, it does not support ADSL. But that in itself is not surprising. It is a technology that was put out there for voice. For customers who are in an area served by SCADS, the question really is how they get access to high-speed Internet. That brings in a range of solutions, including ISDN, ADSL and satellite. But, importantly, we are increasingly finding options to deploy ADSL more pervasively—

Senator LUNDY—Yes, I am going to spend plenty of time on that. In relation to SCADS, it has been alleged to me that the maximum dial-up Internet connection speed through SCADS technology is either 26 kilobits per second or—someone else has told me—28.8 kilobits per second. Can you tell me what the maximum dial-up speed for an Internet connection through SCADS technology is?

Mr Paratz—Using a V90 modem—of course, it will depend on the modem—probably the answer I would have given you is 28.8, so it is of that order.

Senator LUNDY—Can you tell me whether Telstra is still installing SCADS technology in rural exchanges in Australia?

Mr Paratz—To be honest, I would have to take it on notice as to whether we are actually using that technology. We will get that answer for you later.

Senator LUNDY—My understanding is that Telstra is promoting the installation of SCADS in rural exchanges to try to pacify customers concerned about slow Internet connection speeds through those exchanges. So it would be helpful if you could make that query now and provide an answer very shortly.

Mr Paratz—Yes; I am sure our people will supply us with an answer shortly.

Senator LUNDY—Can you tell me whether ISDN is available through SCADS technology?

Mr Paratz—I think we are going to have to get a detailed brief on SCADS and its capabilities. We will get that information. It might assist us if you could give us the series of questions on SCADS, and then we will get the full information for you.

Senator LUNDY—Can you also take on notice, because I understand you will need to collect the data, a request to specifically identify the rural exchanges and any other exchanges that have SCADS technology, and the number of customers and lines—whatever your data provides—that those services supply?

Mr Paratz—Yes, we can certainly do that. One of the very strong features of SCADS is that, because it is fed by fibre, in areas with a lot of lightning and high soil resistivity it significantly improves the reliability of service to customers. So that has certainly been one of the major drivers in the deployment of SCADS: underlying reliability.

Senator LUNDY—Can you tell me whether SCADS technology carries the data mode of operation and all of the enhanced digital services in those rural exchanges?

Mr Paratz—When we talk about the data mode of operation it is really a discussion around the core fabric—the core network—and its ability to carry IP.

Senator LUNDY—I am probably expressing it incorrectly; my question was really about the digitisation of exchanges and the ability of the exchanges to have what used to be advanced digital features, like call waiting and all those sorts of things. Does SCADS support that?

Mr Paratz—SCADS itself is in line with the general FMO program, which is the future mode of operation—

Senator LUNDY—So it does not?

Mr Paratz—which was the digitisation of all the exchanges and the core transmission. Since then of course there have been progressive demands, and new things have come into the marketplace. We will give you a complete analysis of the capability of SCADS, including the ability to support those services; you will see that it will support some of those, and there will be some others you will ask us questions about.

Senator LUNDY—I am certainly interpreting that answer as meaning that SCADS does not support the advanced digital services. Unless you are prepared to refute me categorically, I think we can assume that that is the case.

Mr Paratz—I think it is reasonable that we tell you what it does support. We were talking about advanced digital services; it is a bit of a moving feast.

Senator LUNDY—Just answer the question, and then we can move on. We are short of time, a point Senator Mackay has made all morning. This comes back to my key question: are you still installing SCADS as a response to customer complaints about the reliability and speed of Internet connection through dial-up?

Mr Paratz—We will give you information on that.

Senator LUNDY—I turn to ADSL. First of all, I want to deal with some answers to questions on notice that I asked in June. Telstra said that 84 per cent of customers were connected to ADSL enabled exchanges. I would like to clarify some of that information. Can you tell me how many exchanges Telstra has in Australia?

Mr Paratz—There are around about 5,000; in fact, I think it is a couple of hundred over that: about 5,200.

Senator LUNDY—Can you tell me, also in percentage terms, how many of those exchanges are ADSL enabled in that they are able to provide an ADSL service to either a Telstra customer or a customer of another carrier?

Mr Paratz—The number is about 800, with about another 100 by the end of this financial year. So, on an exchange percentage, you have 900 out of 5,000-odd.

Senator LUNDY—I am not very good at maths—what is that?

Mr Paratz—That is approaching 20 per cent.

Senator LUNDY—Less than 20 per cent.

Mr Paratz—Approaching 20 per cent.

Mr Stanhope—But 75 per cent of lines are ADSL equipped.

Senator LUNDY—I am just looking at the straight statistics, because I found that the answers to questions on notice a little confusing. When you say that 84 per cent of customers were connected to ADSL enabled exchanges, that reflects—well, you tell me—that the ADSL exchanges are the ones with the highest volume of customers connected?

Mr Paratz—Exchanges vary tremendously in the number of customers they serve. For instance, a central city exchange could easily serve 20,000 or more customers; a small rural exchange might get down to 10 or 20 customers; and so forth. That is a fairly steep gradation of that distribution. So, as we equip ADSL and as we do that where there are viable volumes of customer demand, it is fairly natural that that occurs at the larger exchanges, which are in city areas and in urbanised areas in regional Australia.

Senator LUNDY—Sure. I think I was very generous in making the point for you, rather than making you explain it. Can you tell me where those 800—soon to be 900—exchanges are located in Australia? I thought I asked this question last time and I got this absurd response citing commercial-in-confidence, which I know must have been an oversight on the part of Telstra, because that sort of information is pretty straightforward. So I would like to ask you again to provide me with a map of Australia showing exactly where the 800—soon to be 900—ADSL enabled exchanges are, so I know where the ones that are not enabled are.

Mr Paratz—Okay, we can certainly supply you with that information. Obviously, I cannot recite 800 or 900 names now, but I can characterise it for you. ADSL has a reach of about 3½ cable kilometres, so it is the areas where, within the 3½ kilometres, you would find a critical mass of customers who have shown an interest, or we assess are interested, in taking up ADSL. What that means in practice is that there is ADSL coverage pervasively through metropolitan areas, pervasively through regional urbanised areas and in areas elsewhere in regional Australia where there are significant population densities.

Senator LUNDY—You said that 84 per cent of exchanges are ADSL enabled and then provided an answer to a question on notice that 75 per cent of that 84 per cent have access. Does that figure reflect the fact that not everyone connected to an ADSL enabled exchange can get ADSL? This goes to your point about distance from the exchange.

Mr Paratz—Yes, that is right. Of course, the 84 per cent is 84 per cent of lines as opposed to exchanges, by way of clarification.

Senator LUNDY—Given that we know there are 1.3 million lines—or is that customers?—on pair gain, does that 75 per cent figure include a calculation of customers who are prevented from accessing ADSL because they are on a pair gain?

Mr Paratz—I would expect it does. We can confirm that for you.

Senator LUNDY—Are there any other technical reasons why a customer may not be able to access ADSL, even if their exchange is ADSL enabled?

Mr Paratz—The primary qualification issues—they are the ones you have mentioned—are ones of distance and interposing electronics. You will have seen yesterday that we made some announcements about some very significant initiatives by the company—

Senator LUNDY—I am going to come to that, Mr Paratz, so I would rather you just stick to the precise questions that I am asking.

Mr Paratz—I think it is important, because it actually mitigates the impact of pair gains.

Senator LUNDY—I am going to come to that issue. If there are other technical reasons, I would like to know them, and then I am going to ask you what you plan to do about them.

Mr Paratz—Okay. You have identified the technical reasons—distance and interposing electronics.

Senator LUNDY—There are no others?

Mr Paratz—There are no other primary ones.

Senator LUNDY—So, there are distance and interposing electronics. Can you describe the latter in a little more detail?

Mr Paratz—Between the point of generation of ADSL at the exchanges we have talked about and the customer, there are a variety of devices—and this is something we have discussed on occasions—including certain classes of pair gain systems which are not transparent to the ADSL signal.

Senator LUNDY—Can you explain to me the availability of—I do not know if I am using the right terminology—ADSL ports or a maximum number of ADSL services you can provide within a given exchange? To me that is clearly a limiting factor, yet you have not exactly mentioned the physical infrastructure as being a barrier, which it clearly is.

Mr Paratz—Ports are installed in modular groups and there are a couple of different modules. Obviously on the day you install that module there are zero customers connected to it. As you connect customers in response to demand, that progressively fills and we actively monitor those. The process is to monitor that occupancy so that it is what we call relieved, which means you need to put in another module before you achieve a run out. That is the process used generally, not only for ADSL but also for telephone lines and all the things which are entities in telecommunications. You install in a modular way, you monitor capacity and occupancy and you take further investment decisions as required. That is exactly the process we use.

Senator LUNDY—Can you tell me then why you have not identified the physical limitation of the number of ports in ADSL enabled exchanges as a potential barrier to connectivity?

Mr Scales—Lawrence was trying to address the question you asked about the technical barriers. We could put a number of other barriers in place.

Senator LUNDY—Well, you could put—

Mr Scales—Excuse me, Senator. We could be talking about, for example, issues about whether we have got the right sort of people trained. We could be talking about whether we have sufficient resources to be able to do that. They are all, in a technical sense, constraints about how we might move in this direction. But what Lawrence was really trying to address, as I understand it, and in quite an honest and open way, was your question as to what are the technical constraints in this regard. We can certainly talk to you about whether there are other constraints which might be physical in nature, like buildings, if you wish us to do that. We can talk about the skill level of our people; we can talk about whether there are sufficient resources available. We can do that.

Senator LUNDY—Well, let us talk about the physical constraints then. I find this quite offensive. I am trying to ascertain just how many of your customers out there—who are pretty frustrated when they cannot get ADSL—are getting the run-around by Telstra when they ring up and say, ‘You’ve told me my exchange is ADSL enabled. I know I am not on a pair gain. Now you are telling me I can’t get ADSL.’ I want to know why. If it is because there are not enough ports in the exchange, then let us hear about the limitations on the number of ports in the exchange and what Telstra’s plans are to do something about that.

Mr Scales—Senator, thank you very much. I hope you will not mind me saying that we are also offended by the suggestion that we do not want to answer your questions. We are trying to do our very best to answer your question as honestly as we possibly can, and that is what we are doing. We will certainly provide you with this information. I was simply trying to give

an explanation as to why it was we did not include buildings, which seem to be, quite frankly, a relatively minor issue. We are quite happy to include buildings if you wish.

Senator LUNDY—It is more the number of ports and the availability of ports. I know the size of buildings does have an impact on that.

Mr Scales—That is exactly right, but we do not regard that as a constraint. If you are defining, in the context of constraint, whether we can relatively easily build another building, the answer is that that is not a constraint.

Senator LUNDY—Much to my regret, I am not a lawyer; I ask generalised questions that are presented in layman's terms on behalf of frustrated constituents. You can either deal with that or you can ignore it at a semantic level and answer half the question. We are wasting time. I would rather go back to Mr Paratz and hear the answers.

Mr Scales—We are certainly not wanting to ignore you—far from it. We are trying to answer your questions, and we are trying to answer them as honestly as we can. But what we do need is a degree of precision so that we can answer them appropriately. Lawrence was trying to answer as honestly as he could. If you want us to include buildings, we will certainly do so.

Senator LUNDY—Mr Paratz.

Mr Paratz—In regard to the proposition that the modular effect that I spoke about before is a barrier, we have told you what are the barriers. Modularity is not a barrier. All that is required is to install extra modules. You are now asking a separate question. Presumably from your constituency you have found an instance where a set of orders came in in the time before we could install another module. That is not a barrier to ADSL, because there are processes in place to augment those ports. We have never failed to augment ports. That is not to say that there has not been an instance where customers came in while we were in the process of augmenting and we said, 'We are out of stock today, but the stock will be available in the future.' That is quite a reasonable and proper outcome.

Senator LUNDY—Do you lease ADSL ports to other carriage service providers or ISPs?

Mr Paratz—There is a wholesale ADSL product and they make use of our infrastructure, yes.

Senator LUNDY—So is it the case that, if you have a given number of ADSL ports in an exchange, Telstra will choose to lease blocks of those ports to other carriage service providers or ISPs?

Mr Paratz—No, it is not a fact that we would choose. We take orders at the wholesale and the retail level. They are handled in a scrupulously and meticulously appropriate manner which connects those orders as they occur. Obviously from time to time we get more or fewer sales on the wholesale or the retail side, and we respond accordingly.

Senator LUNDY—In a scenario where all of the ports are utilised and a Telstra customer connected to ADSL changes their ISP or carriage service provider, in changing their service provider could they be prevented from getting ADSL from that new service provider because all the ports are taken and Telstra will not transfer a port allocated to their services to a new carriage service provider in those circumstances?

Mr Paratz—You would really have to give us the details of the scenario. Our relationship at the retail level is with the individual customer. At the wholesale level it would be with the alternative supplier of ADSL.

Mr Scales—Paul Paterson may be able to help you with this one, Senator. I will ask him to come to the table.

Senator LUNDY—I would like to read out a point that might help you answer this question. This is, apparently, an extract of a letter from Telstra to a former BigPond customer. It includes the sentence:

Also, Telstra lease a certain number of ports to other ISPs and if that ISP requires further ports, they need to contract Telstra directly ...

That implies that that ISP is not able to transfer the existing port from that former BigPond customer to that new ISP and that that is in Telstra's control. In fact, the allegation—what I am getting to—is that Telstra prevents that occurring. So between the wholesale and retail management of ADSL ports within exchanges customers cannot change their carriage service provider for ADSL without in some circumstances risking losing that service.

Mr Scales—Senator, I will ask Paul to intervene. That is certainly not our intent.

Senator LUNDY—I am not saying it is your intent. But is this happening? I have been told it is.

Mr Scales—Paul can answer this. I do not believe it is happening. It is clear that we do provide, and are required to provide, a wholesale service. From the letter that you have just read out, it seems to me that there is a degree of caveat in that to ensure that the customer is aware that, if the ISP runs out of capacity, then they will be required to get more capacity and therefore will need to come and talk to us about how to get more capacity. I would not read too much conspiratorial into that—

Senator LUNDY—You can't blame me.

Mr Scales—Paul should answer the question. We want to do everything we can, by the way, to either have a customer with us or, if they do not want to be with us, to have them with somebody who is one of our wholesale customers. That is in our interests.

Dr Paterson—What we are talking about here is churning a customer from Telstra to another provider, or any sort of churn in industry. Obviously with the new product the initial focus was on take-up all round rather than churning. So there has not been a lot of industry focus on this. We did have in place an interim arrangement which required customers to surrender their port as they moved onto another, and in that case there might have been some instances where they actually lost their port. When we realised this was an issue, we changed the procedure so that that does not occur. So the customers do not run the risk of losing their port in moving, or churning, to another service provider.

Senator LUNDY—So when I get complaints I can send them that extract from *Hansard* and get them to call you directly if they are having a problem.

Dr Paterson—Let me say that what I have said is how the process works.

Mr Scales—Yes, we would like you to do that, Senator. For obvious reasons: we do want to know when our customers have some concerns, and we will do our very best to address them.

Senator LUNDY—Fine. In terms of the response by the ACCC, if you like, to the complaints I raised with regard to pair gains more generally, can you describe to me the action Telstra has taken—that the ACCC has said you will be taking—to further inform customers in a proactive way about the use of pair gains and the effect on both their access to ADSL and also their Internet connection fees?

Mr Scales—I will ask Darian Stirzaker to address this issue and to give you a reasonably complete answer on this.

Mr Paratz—While Darian is coming to the table, I have some factual information for you on the earlier question. We are installing SCADS at the moment, fed by optical fibre, as I said, and SCADS is fully ISDN capable.

Senator LUNDY—Can you take on notice to provide me with the information on where you intend to install SCADS?

Mr Paratz—Yes, we will get that information for you.

Dr Paterson—Before Darian answers the question, perhaps I could contextualise the ACCC's concerns and then he could follow through with the detail on the response.

Senator LUNDY—I do not think we have got time to do that. I have read the decision. I understand the context, so please proceed to answer the question.

Mr Stirzaker—Within our front of house groups, apart from a very extensive set of communications to them about pair gains and what they are, through our information systems, we have instituted five scenarios, which could be narrow band, ISDN or ADSL, where a pair gain system could influence it. In light of the discussions we had with the ACCC, we have refined our scripting at front of house to make it clear to customers that there could be an issue. We are able to identify if there is an incidence of a pair gain system. We are able to communicate that up front. We have addressed a number of web sites throughout the various touch points for the customer to equally inform them of those issues.

Senator LUNDY—Does the Internet assistance program—or IAP—web site that Telstra provides the support for, the content for, now contain extensive information about Telstra's use of pair gains?

Mr Stirzaker—I believe that the IAP web site has been updated—'extensive' is a relative term—to make that information available. I believe that the people within the IAP—and Mr Rix or Dr Paterson could help me—also communicate that to customers.

Dr Paterson—Yes.

Senator LUNDY—With respect to Telstra's use of pair gains, we have quite a lot of information now about the different types of pair gains and where they are likely to be used. Is Telstra as yet able to provide detailed information about what type of pair gain is used in relation to what specific exchange around the country?

Mr Stirzaker—Personally, I would not know. I am sure we can, particularly through the extensive revamp that Mr Paratz talked about through our monitoring centre up in Brisbane. I am sure we could take that on notice and get it for you.

Senator LUNDY—I look forward to receiving that information.

Senator CROSSIN—I am here in relation to the specific issue of incidents that have occurred in the Northern Territory recently. Are you able to provide me with information on areas where the pair gain system is used in the Northern Territory?

Mr Stirzaker—I would have to go back to our provisioning people and get that information for you. Any specific area within the Northern Territory?

Senator CROSSIN—I am interested in all of the Northern Territory, but specifically west of Katherine.

Mr Stirzaker—I would have to take that on notice. I do not have that sort of information with me.

Senator CROSSIN—Thank you. On ABC radio last week, your manager of CountryWide up there said that pair gains are used in areas of high demand to shorten service delays. Is that a statement that would now agree with the decision of the ACCC?

Mr Scales—I will ask Mr Paratz to add to some of those questions.

Mr Paratz—I guess my comments would be more ones confirming Darian's comments there. Pair gain systems themselves are not directly related to any particular exchange or exchange type. They are used on an as-required basis. We have previously supplied the Senate with a body of numerical information, but we could provide further details, if that were of use.

Senator CROSSIN—I am not after the technical explanation; I am actually after specifically where pair gaining is used in the Northern Territory.

Senator LUNDY—I would urge you, Senator Crossin, to ask for technical information as well, because Telstra like to play semantics with questions.

Senator CROSSIN—I see. I will ask for that as well.

Mr Scales—Is your concern about whether it is capable of providing voice information?

Senator CROSSIN—No. My concern is this. I want to know how extensive the use of pair gaining is in the Northern Territory. After months and months of discussions with Telstra in the Northern Territory, they finally admitted to me in my office that pair gaining was operating in west Katherine, despite the fact that they had denied that for months. I am now after, perhaps, from you an answer as to the extent of where it may well be occurring in other areas in the Northern Territory.

Mr Scales—It is an appropriate technology to be used all around Australia, but we will find out the detail for you—in some circumstances.

Senator LUNDY—In relation to dealing with body corporates—

Senator CROSSIN—I am sorry. I just asked a question. I do not think I had my previous question answered. My question was this: is pair gain used in areas of high demand to shorten service delays?

Mr Paratz—Pair gain is used as a method of provision, and it has a number of benefits. One of the benefits is that it does at times assist in rapid provision of service. That is one of the desirable attributes of pair gain. It is not the sole and only reason that it would be deployed.

Mr Stirzaker—To come back to Senator Lundy's comment about the technical nature of it, not every pair gain system is actually a blocker—or causes it. There are certain ones which are continuing to be used for providing service and also are currently capable of providing higher-speed data—narrow band or ISDN—or, based on the announcements made just recently, ADSL.

Mr Paratz—In fact, some pair gains improve data rates.

Senator CROSSIN—They have not found that to be the case in the Northern Territory.

Senator LUNDY—We have not found those yet.

Senator CROSSIN—We have not found any of those in the Territory either, I have to tell you.

Senator LUNDY—We do not hear about those.

Mr Paratz—You do not hear about those?

Senator LUNDY—No, we do not hear about those. I now want to ask a question in relation to body corporate developments—for example, high-rise towers—where Telstra would install some type of mini-exchange. My understanding is that in many circumstances it is RIM technology that is installed into large buildings, particularly residential developments. The particular case I am referring to—you would be familiar with it—is the Pymont towers, where RIM technology was used for residential developments. Can you describe what Telstra's practice is or whether you install a RIM to developer specifications in the construction of high-rise or high density residential developments?

Mr Paratz—In reference to the particular Pymont towers instance, we would generally install equipment which was current for the time.

Senator LUNDY—So it is Telstra's spec, not specified requirements by the developer per se?

Mr Paratz—We would find a number of arrangements out there. There are instances where developers have had special requirements to support their particular objectives for their development, and discussions can be had around that. If it is not of that nature, if it is standard provisioning, then we would provision using standard methods.

Senator LUNDY—Which would be a RIM.

Mr Paratz—Which may be a RIM.

Senator LUNDY—It was in that case.

Mr Paratz—That RIM would be the RIM that is in use at the time. Next year, for instance, the standard RIM will include features that the RIM this year does not include. So it is very much the case that the technology that is deployed is the technology that is available and relevant at the time.

Senator LUNDY—So what advice are you providing now to developers in those discussions about the use of RIMs? Are you telling them that it prevents access to ADSL now? What sort of proactive approach are you taking to ensure that you do not keep dealing with swags of irate Telstra customers because they cannot get broadband?

Mr Scales—Whenever we enter any arrangement like that, we sit down with our particular client and try and understand their needs.

Senator LUNDY—The client may not necessarily know but you know. That is my point.

Mr Scales—But again it is not in our interest to have an unhappy client. I am slightly bemused by the nature of your questioning because it is as though you assume that we want to create unhappy clients.

Senator LUNDY—It is as though I assume that when you are negotiating with a client, say, a developer, you know more about the impact of a RIM than your client does. Your client might say a RIM is fine because it costs less. I want to know if you are offering up the information that that could lead to problems because it prevents access to ADSL.

Mr Scales—The answer is that when we sit down with our clients we go through all the possible scenarios. We cannot make up their mind for them about what particular technology they will use, but we certainly go through each of those technologies with them.

Senator LUNDY—Could I suggest that when you take those options you make part of your portfolio a clipping of the news story about how the customers felt about the RIM being used in the Pymont Towers?

Mr Scales—Thank you, Senator. That is helpful advice.

Senator LUNDY—I think it makes the point that Telstra are the partner in those negotiations. They have that information at their fingertips and are very well versed on the response to customers in certain circumstances, whereas the property developer in either high-rise or high-density areas like outer metropolitan zones is not likely to really understand the implications.

Just going on to a couple of other regions, Gungahlin here in the ACT is a region of great concern to me. It currently finds itself excluded from accessing broadband for a whole range of reasons, primarily because of the extensive use of RIMs in that area and the fact that the cables are underground, which prevents the inclusion of Gungahlin in TransACT's business plan. I have read a lot of material and note with interest references in Estens and other places to Telstra's claim that they will be rolling out mini ADSL devices suitable for use in RIMs—remote integrated multiplexes—as early as 2003. Is that the case? Also, can you describe it to me in more technical detail? Is this a smaller bank of ports that can fit physically into the RIM box? What are you talking about, and what is the time line?

Mr Paratz—That is actually a very competent summary you have given of the minimux device.

Senator LUNDY—Is that what it is called, a minimux device?

Mr Paratz—Yes. The RIMs that you talk about, when they were installed they were state of the art. ADSL was not on the horizon, so it is not surprising that it is not there. The minimux is a device which physically will be located inside the RIM cabinet. It generates the ADSL capability, and so for customers who put their hand up and say, 'I want ADSL,' they will be served effectively for the ADSL component from that minimux device. That device has no shortcomings or shortfalls in comparison with ADSL from the exchange. In fact, all you are doing is taking a piece of the exchange, putting it in a separate package and moving it out to the RIM location.

We have purchase contracts in place for that technology. We are planning to trial it, as you always do with new technology. Because of some of the issues you raise, we are intending to trial it in Gungahlin to get some experience in a typical area where there is demand for ADSL and there is a RIM that is of that previous generation. That is scheduled for next year. Obviously we will pursue these technical trials with all energy. Very much as Mr Scales has said, our objective is to maximise penetration of ADSL, and that is why we have sourced the minimux device and are pursuing it.

Senator LUNDY—How many ports do these devices have? How many ADSL account customers can you have?

Mr Paratz—Again, it is a module and you just keep stacking modules up.

Senator LUNDY—Hang on; there is a physical constraint on the size of the RIM box. Give me some realistic assessments.

Mr Paratz—That is part of the trial. We have a couple of approaches in mind—firstly, to look at the number of modules that will fit in the box. Some ideas which are to be trialed may increase those numbers.

Senator LUNDY—What are the numbers?

Mr Paratz—There are a number of different designs of RIM cabinets out there, so that will all work out. The typical penetration of ADSL demand that we would design as an upper limit is probably around 25 per cent, and that is much higher than the penetration—

Senator LUNDY—You still have not told me a number. Is it eight, 50 or 80?

Mr Paratz—Each module supplies 24 ADSL services. Your next question will be: how many modules go in the box? As a result of the physical trials we will be able to establish that. Our clear intent is to get enough modules into the box or into, if necessary, some adjunct housing, which we are trying assiduously to avoid, to ensure we meet the market demand.

Senator LUNDY—On an average RIM box, like those in Gungahlin, how many modules—that is, how many lots of 24 ADSL ports—can you insert?

Mr Paratz—RIMs vary in size and in cabinet—

Senator LUNDY—I know; you have said that. I want the average.

Mr Paratz—It is material. We are intending to get to the point where we can accommodate up to 25 per cent.

Senator LUNDY—Answer the question.

Mr Paratz—I am answering the question.

Senator LUNDY—No, you are not. Is it four modules?

Mr Paratz—There are 24 per module. If there are 100 customers on that RIM—

Senator LUNDY—No, that is not what I want to know.

Mr Paratz—you need one module. If there are 200 customers, you need two modules.

Senator LUNDY—How many can physically fit in an average RIM box?

Mr Paratz—That is what the trial is about. We are looking at a couple of different work practices—

Senator LUNDY—I could get my measuring tape, write down specifications and go and have a look. Don't be absurd. Answer the question.

Mr Paratz—We have some options to take some stuff out of the cabinet.

Senator LUNDY—You have to take some stuff out to put it in.

Mr Paratz—I am answering this question very fulsomely.

Senator LUNDY—No, you are not. You are avoiding it assiduously.

Mr Paratz—No, I am not.

Senator LUNDY—Even the minister is amused.

Senator Alston—I am amused at the use of the word 'fulsome'. He may mean what it says—and in that case you should be very worried.

Mr Paratz—Our intent is to get into or adjacent to the RIM cabinet the number of modules required to meet the demand at all those locations. That is our objective. That is what we are doing the engineering trials for. That is unambiguous.

Senator LUNDY—That is good; that is the answer I would expect from the question I would have asked following the question that I am still trying to get an answer to. How many can fit in an existing RIM box?

Mr Scales—We will come back to you on that as quickly as we can.

Mr Paratz—There are many different RIM boxes; there are many different power configurations—there is no single numerical answer.

Senator LUNDY—If you could take it on notice—if you are going to be funny about it—and get back to me with the details of exactly the specifications of every RIM box in Gungahlin, how many modules that could physically fit in them if you moved everything out that you could, and how that relates to what you think demand will be in Gungahlin because they are screaming for access to broadband services.

Mr Paratz—We are absolutely screaming to try and provide those.

Senator LUNDY—They are also not the only community in the country, but they happen to be in my electorate, which is why I am focused on trying to get some answers on behalf of the residents of Gungahlin. I might come back to ADSL and pair gains, but I would like to go to a slightly different issue and that is in relation to Telstra's strategy in rural and regional Australia. I was quite concerned to read an article in the *Australian* yesterday, which was headed 'Telstra's push in the bush: 9c calls'. The article describes Telstra's efforts to do deals with the Riverina Development Board, undercutting previous offers by GMTel in the Shepparton area. Minister, it appears that Michael Cosgrave, the telecommunications commissioner for the ACCC, said that this may constitute predatory pricing. What is the government's view of this behaviour by Telstra of aggressively undercutting what would otherwise appear to be highly competitive regional telecommunications solutions to some of the problems that the bush and the regions are facing?

Senator Alston—I would not want to pre-empt the outcome of the ACCC's investigation, and we have had discussions with Mr Cosgrave. But, having said that, I think we are also very concerned to maximise competition at all levels. We think that is ultimately in Telstra's best interests; otherwise they will be at risk of a future Labor government many years down the track wanting to bind them hand and foot on the basis that they are the only game in town. We also think that competition actually delivers very good outcomes for consumers and that it often leads to an increase in volume which offsets the loss of revenue from market share. Therefore, I think we will be looking very carefully at the broader implications of this strategy. It may make sense from Telstra's point of view, but I think we would be concerned if it effectively meant that no-one else was able to survive. Those are matters that I expect the ACCC will be taking into account in their assessment. Whilst Telstra, like any other company, can plan to dominate the landscape, we have to be concerned about the wider implications for competition.

Senator LUNDY—Minister, because I know you are very familiar with the detail of the Estens report, is the issue of Telstra's alleged predatory pricing in the regions canvassed at all in the Estens report?

Senator Alston—I do not recall that. That would not be a major focus for Estens in the sense that if Estens was looking at adequacy of services, on the face of it you might say that this is a very positive step forward. People are going to get 9c phone calls when they were getting 15c calls previously. So Estens would not be concerned about adequacy of services issues. The wider issue, particularly in the short term, is how long this will last. If Telstra end up being the only game in town, why would they continue to offer rock-bottom prices?

Senator LUNDY—It is all about perpetuating the monopoly, isn't it? That is the allegation that has been made.

Senator Alston—It is understandable behaviour on Telstra's part, but whether that amounts to a desirable competitive landscape from the country's point of view is a question we would like the ACCC to give us advice on in the first instance.

Senator LUNDY—Your advisers are flicking through the report: is there anything in there about this issue? The minister is shaking his head.

Senator Alston—I do not recall it, and they are confirming it.

Senator LUNDY—That is my understanding.

Senator Alston—There have been a couple of other examples of Telstra courting local councils in recent times, and they may be courting other key elements of regional Australia, so I think we might need to look at all of those.

Senator LUNDY—I do know that Estens talks about strategies to aggregate user demand with the view of stimulating competition. In that context the issue is raised. But Estens does not reflect on Telstra's strategic response to where that is actually occurring, so I guess I am putting to you that that is a gap in the consideration of services in the bush in the future if Estens is identifying a strategy—which has been talked about for a long time now. I know that I have talked about the opportunities for aggregating demand, particularly in relation to driving broadband out into the regions in a more cost-effective and affordable way. But this strategy is directly counter, already, to strategies that Estens is putting forward. So what is the government going to do about it?

Senator Alston—I do not think that is right. I think it is fair to say that even a demand aggregation strategy would not necessarily deliver more competitive outcomes because it might simply enable Telstra to be persuaded that there is a business case. In other words, if every local community—

Senator LUNDY—But Telstra already has the business. I think the key is that Telstra is not a normal competitor in the sense of stimulating alternative business cases and creating the justification for that. Telstra already has those markets locked up. It has 98 per cent of the rural and regional telecommunications market—or thereabouts. It has an effective monopoly.

Senator Alston—I do not think there is any doubt that they are overwhelmingly dominant in terms of market share overall and proportion of revenues. In a sense, we suffer from the same problem that has afflicted the telco industry worldwide where, for one reason or another, a lot of competitors have gone out of business. The difference in Australia is that Telstra did not borrow or overborrow to purchase a 3G spectrum and Telstra is in a much healthier position than say AT&T and BT, France Telecom and Deutsche Telecom. What you find around the world is that no-one has the stomach anymore for being a competitive national carrier. No-one has the financial capability to roll out networks other than in particular areas, so you become a niche player. Even our tier 2 companies here, I think, would be fairly intimidated at the prospect of going head to head with Telstra.

That becomes a broader issue. As far as Estens is concerned, you can satisfy yourself on an ongoing basis if you said, 'Telstra is going to offer 9c calls. We will mandate that for ever and a day.' To me, that is a suboptimal outcome because we still think facilities based competition is healthy. It is in everyone's interests, including Telstra; otherwise they end up just having licence conditions, price caps, and everything else imposed on them and there is no incentive to improve your productivity level. So what you do—

Senator LUNDY—With all due respect, Minister, Telstra do not seem to view it that way. I put to you that according to this article, in addition to this offer of ultra cheap calls, they are also offering a community development fund worth up to \$100,000, and another \$100,000

contribution to the salary of a project officer if it secures the contract with the 20 councils on the Riverina Development Board. Isn't that just exercising sheer weight of the monopoly, the sheer size of it, to do over local competitors?

Senator Alston—But if you look at it from the local community's point of view, if they end up getting never to be repeated offers or sensational progress in services that would not otherwise have been there, you have to say that is a good outcome for consumers in the short term. And, as I say, you could mandate so that it remains a good outcome in the long term. Is that good for competition? By definition it is not a competitive outcome. You can still ensure the same consumer outcomes, but in a very second best way.

That is what happened when Telecom were the only game in town. As we know, they fixed your phone when they were good and ready and it is just a constant battle to intervene. Therefore, we are concerned to ensure that there is a reasonable level of competition. Local telcos have probably made a bit of difference in the US, and there are signs of life here. We would be concerned if they are effectively put out of business because Telstra is undercutting those players to such an extent that they could not possibly compete now. As I say, that is a matter for the ACCC in the first instance. We will await their report with interest.

Senator LUNDY—It sounds to me like you hope they do conclude that it is predatory pricing. It certainly looks that way.

Senator Alston—I do not know that you should jump to that conclusion. As I say, if you look at it from the consumer's point of view or ask your local constituents, they would probably think this is terrific. It is not an either/or. You cannot just say 'competition at any price'. You cannot will a whole range of wealthy and viable competitors to be offering huge discounts. What tends to happen, if there are only two players in the game, is a cosy duopoly. These are difficult issues. It does not follow that, simply because a regional telco managed to get a few contracts, somehow that is going to change the world either. They will probably sit just below Telstra or just around Telstra and hope that they pick up the local vote.

Senator LUNDY—I would like to move to another issue. Again, I am looking at an article from the *Australian* today titled 'Bush nets \$10m off Telstra'. I think this \$10 million has been out there and circulating previously but it is described as a 'one-off package aimed at fulfilling one of the main recommendations of the Estens inquiry into regional services'. Clearly it relates to the availability of ADSL. Also, there are references to the need to lift Internet connection speeds to, at the minimum, the benchmark of 19.2 kilobits per second. Can you tell me what that \$10 million is going to be spent on and if in fact it is going to be spent on the 24 port modules for ADSL to be inserted into RIM boxes at various times around the country? Can you give me details about the timing of that?

Senator Alston—On the 19.2 kilobits, Estens recommends that a licence in addition be imposed on Telstra.

Senator LUNDY—Do you support that, Minister?

Senator Alston—Yes, I think it makes a lot of sense. Telstra have already agreed to meet that level. They are doing it voluntarily without any serious, adverse impact.

Senator LUNDY—So you are admitting that the Estens recommendation is just a bit of icing?

Senator Alston—No, it is locking it in, which is very important.

Senator LUNDY—You could have done that months ago if you had wanted to, but you chose the soft option.

Senator Alston—We are very satisfied if we get an outcome which delivers a minimum 19.2. I do not think any country in the world has anything like that, so to us it is a big step forward. Estens is really saying, ‘Make sure it doesn’t disappear.’ If you do not have equivalent CSG standards, for example, Telstra in a sense could meet it 90 per cent of the time, so you end up with a fairly unhealthy outcome; whereas, if you impose a licence condition, systematic breach attracts a fine of up to \$10 million. There is a much bigger incentive for Telstra to ensure that they meet that standard universally.

Senator LUNDY—Could you briefly describe what you intend to spend that \$10 million on?

Mr Scales—Lawrence will go over that, but to clarify an issue around so-called predatory pricing, I understand the ACCC advised us yesterday that they did not find that to be predatory pricing in that particular circumstance.

Mr Paratz—The \$10 million covers some of the things we have already discussed. To give you a summary, \$3 million refers to the rollout of 100 additional exchanges of ADSL.

Senator LUNDY—Is that the extra 100?

Mr Paratz—Yes—remember I said the 800 would be going up to 900. These are budgetary estimates. Five million dollars covers things including transferring of customers impacted by pair gain to a copper pathway to bypass the pair gain system.

Senator LUNDY—That is in which scenario—complaints based transfer or getting them off 15 and 16 pair gains?

Mr Paratz—No. If a customer rings in and says, ‘I would like to have ADSL. I see my exchange is ADSL enabled’, and that customer happens to be on a pair gain system—they might be one customer out of many in the street or the area—we will, where possible, put in place arrangements to bypass or eliminate that pair gain system—that is, case by case, where practically and physically possible.

Senator LUNDY—So you have a \$5 million pair gain remediation fund?

Mr Paratz—Let me continue, please. Within the \$5 million is the ability to transpose, where physically possible, developing a new demand register, which will help us to track demand at a customer level to help us to deploy ADSL equipment more effectively, more responsively and more rapidly.

Senator LUNDY—How much are you spending on that bit?

Mr Paratz—My notes here do not decompose the aggregate figure.

Senator LUNDY—Could you provide me with a breakdown?

Mr Paratz—As well, in there is the further development of a high-speed ISDN based service to get high-speed data out to customers beyond the physical reach of ADSL. Then, in addition—and this is the topic you and I have just been discussing—there is \$2 million for the RIM replacement device and pilot of the minimux. That is the discussion you and I had just a little earlier. So in aggregate, if you put that together, you see a range of initiatives there which address the major impediments to further deployment of terrestrially based high-speed Internet.

Senator LUNDY—When the IAP was announced, Telstra said that they would provide up to \$38 million to ostensibly get people up to 19.2 kilobits per second for dial-up Internet access. I know there was significant underspend with respect to that \$38 million. You had

spent, I think, barely \$2 million of it last time we spoke in June. Is this \$10 million a reallocation of the underspend in the IAP funded money?

Mr Paratz—Of course, the amount of \$38 million or up to \$38 million that you refer to was over a three-year period. The success of the IAP has actually been that to a very large extent customers have been able to resolve their narrow band issues using the educational process rather than technical support help of the IAP.

Senator LUNDY—Can you just answer the question, please?

Mr Stanhope—No.

Senator LUNDY—The answer is no?

Mr Stanhope—That is correct.

Senator LUNDY—Is that \$38 million over a three-year period still available for that purpose?

Mr Stanhope—If it is needed.

Mr Paratz—If it is required, yes.

Senator Alston—It is for 19.2. ADSL is not 19.2.

Senator LUNDY—I know. But, because there has been an underspend, I am just asking very practical questions about whether Telstra will diminish that pool of money—

Mr Stanhope—The answer is no.

Senator LUNDY—In order to prop up these other problem areas.

Mr Stanhope—If we need to spend any more on the Internet assistance program, we will; therefore, this \$10 million is additional spend.

Mr Paratz—The commitment to the IAP is performance based.

Mr Scales—I am going to have to correct the comment I made earlier. The reference that I made to the ACCC was wrong; it was another case.

Senator LUNDY—I thought it might be.

Mr Scales—Yes. I am sorry, I did not mean to mislead you. Please accept my apologies.

Senator LUNDY—Has the ACCC made a decision?

Mr Scales—No, not yet. It is still looking at the issue.

Senator LUNDY—The minister looked very surprised when you said that.

Mr Scales—No, I do not think so. I apologise if I have in any way misled you.

Senator Alston—They have not even given Telstra an informal quote.

Senator LUNDY—Thank you for that. I thought you might require an opportunity to clarify that. Can you provide me with a full breakdown—preferably today; I am sure it is not that difficult to go away and get the details—of all of the elements of that \$10 million fund and also tell me how customers with complaints, given that many of the actions you have described will be complaints initiated, can access this fund—so that I can start sending out emails to everyone who has complained to me so that they can come and see you?

Mr Paratz—We can certainly give you the breakdown; there are only three lines in it. In terms of accessing the fund, the answer is that this will be built into our general processes. So as customers order ADSL—

Senator LUNDY—That is not much; it does not provide any comfort, I think.

Mr Paratz—If customers apply for prequalification for ADSL and these moneys need to be spent to achieve a situation where they can get ADSL, they will be spent. It is not a matter of a customer actually chasing the money; the customer applies for ADSL.

Senator LUNDY—Please take on notice the question and just do the best you can with the most efficient way to deal with customer complaints about their lack of access to ADSL, their complaints about Telstra's use of pair gains or how they can bypass them.

Mr Paratz—Yes.

Senator LUNDY—Can you confirm that Telstra is no longer ordering pair gain technology—or, if necessary, break that down into what types of pair gain technology you are ordering or not? What are your stocks of pair gain components? Are you still installing them out there in the real world?

Mr Paratz—I can certainly confirm that we still are ordering pair gain technology—and we can have an interesting debate about what is and what is not pair gain technology. Pair gain technology is an extremely valid way to provide service. We are increasingly sourcing pair gain systems with increasing capability to support ADSL, ISDN and so forth. So you can reasonably expect that Telstra will continue to use contemporary pair gain into the future. The short answer to whether we are continuing to order it is yes. We can give you a response as to which types we are ordering and satisfy you that the older types are no longer being ordered.

Senator LUNDY—In the last round of estimates, I think it might have been Mr Stanhope—I cannot remember for sure—who said that you are gradually replacing the older types of pair gain. I think the answer was in response to a question about the 6/16 and 6/15 type pair gains. Is there a program of removing those types of pair gains?

Mr Paratz—We do not have a program in the sense of, 'Here's a technology; let's go and eliminate it by a certain date.' We manage the development of our network on a case-by-case, rolling basis. In the course of that, we will progressively eliminate those technologies. The short answer to whether there is an explicit program is no.

Senator LUNDY—In terms of your program to create ADSL enabled exchanges, you have now on the record the fact that you intend to have at least 900 exchanges out of some 5,200 exchanges ADSL enabled. The only other option for primarily regional and rural customers is satellite. How do you justify advertising so extensively Telstra's broadband services when clearly a huge proportion of regional and rural customers will not in the foreseeable future be able to access an ADSL service or what you generally characterise as a broadband service? They do not get it. They do not understand it, and it is frustrating. I am just trying to reconcile this with how you promote it.

Mr Paratz—There are multiple options for getting high-speed Internet. ADSL is one of them; cable modem is another.

Senator LUNDY—But cable modem is not an option for the people we are talking about in rural Australia.

Mr Paratz—Not in rural Australia, you are quite right. Let us complete the set.

Senator LUNDY—Please put it into context.

Mr Paratz—ISDN provides high-speed data, as do one-way and two-way satellite.

Senator LUNDY—Just to clarify: when you advertise broadband—this is the flavour of what Mr Scales was trying to get me to ask—does Telstra think of those options as broadband?

Mr Scales—Yes. When we think about broadband, we think about an outcome but we do not necessarily think about the technology that drives it.

Senator LUNDY—So, as far as Telstra is concerned, when you advertise broadband you are thinking ISDN, which is 128 kilobits on two channels?

Mr Scales—That would be one of the technologies, but we also think about satellite technologies. We then try to match the need of the customer with the technology that would best meet that need.

Senator LUNDY—What is the unsubsidised installation cost of satellite broadband?

Mr Scales—Lawrence can go through the details of those. We can do it for each of those if you want to talk about them.

Senator LUNDY—That point is that, when broadband is advertised, you do not get a sense that it is advertising a service that is going to cost hundreds of dollars to install—which is how you would categorise the satellite broadband service—nor do you get the impression that it is the ISDN service, which is not new—it is not Telstra's new broadband service—and there is nothing else. Does that not mean that, at least for rural customers, the advertisement saying, 'Try Telstra's new broadband services,' is misleading?

Mr Scales—We think they are far from misleading. There are a number of advertisements, as you know. There are some that are trying to almost explain what broadband is so that people can understand it in some detail.

Senator LUNDY—Because of aggregation of television networks your advertisements do not discriminate among the customers they go to. The advertisements that are shown in densely populated metropolitan areas are the same advertisements that invariably reach customers out in rural and regional Australia. So you cannot really differentiate.

Mr Scales—No. I was not differentiating between customers; I was differentiating between advertisements. We have different advertisements for different objectives. We have one lot of advertisements that are as much as anything else about helping people to understand what broadband is. Then we have a separate set of advertisements that try to describe what might be the best for each of those individuals. Of course, many of these advertisements—this is not particular to Telstra—are invitations for people to come in and understand more about a service or product. So we are no different from other companies in that regard. Did you want us to answer a question for you about the actual cost?

Senator LUNDY—For the satellite installation non-subsidised area?

Mr Scales—Yes.

Senator LUNDY—Yes. That would be helpful.

Mr Paratz—I think we should provide a table. It is quite a complex table, with different charges for different areas, and I think that is something we should supply.

Senator LUNDY—All of that is on your web site, as far as I understand. I really wanted you to answer the question to illustrate my point, which is that it is not comparable to the monthly charges for an ISDN, say.

Mr Paratz—The installation cost for satellite services is \$600 or \$800—a number like that.

Senator LUNDY—Thank you; that is the point. I will go back a step. I was asking about SCADS before. Can you tell me what a DCRS20 system is and whether or not it carries ISDN services and ADSL?

Mr Paratz—I am going to have to ask you to clarify that because we have DRCSs and we have DCS20s; we do not have any of those animals. So which one are we talking about?

Senator LUNDY—Whatever.

Mr Paratz—Ask me the next question, and then I can infer what it is we are talking about.

Mr Scales—If you ask the next question and we see the notes, we will be able to clarify it for you.

Senator LUNDY—I do not know what I am talking about. I did not know what SCADS was and I do not know what the DRCS or whatever is.

Mr Scales—Ask whoever it is to tell us and then we can get back to you.

Mr Paratz—Ask me the next question, and I will work out what it is.

Senator LUNDY—Do they carry ADSL or ISDN?

Mr Paratz—On the assumption you are talking about DCS20s the answer is no, they do not.

Senator LUNDY—Neither?

Mr Paratz—Neither of those. Again, they are a voice era device. They have actually been a very good device in the network; they have been very reliable and—

Senator LUNDY—Where do you use DCS20s?

Mr Paratz—DCS20s are largely used in small, minor rural areas. They have been a very good device. At the moment we are actively looking at the plot to go forward with those. They are an area where they in themselves do not provide ADSL; they are probably not upgradeable to do it—

Senator LUNDY—They do not provide ISDN either?

Mr Paratz—Not easily. So we are actively looking for a solution to that at the moment.

Senator LUNDY—How many do you have?

Mr Paratz—It is in the order of 1,000; I think it is just under 1,000.

Senator LUNDY—Can you tell me precisely where they are located?

Mr Paratz—They tend to be in what are characterised as minor rural areas, so they are in areas of low population density. They tend to be in rural New South Wales and rural Victoria, not in the more remote areas.

Senator LUNDY—Could you take on notice to provide me with a description of the exchange names and the locations of the DCS20 systems?

Mr Paratz—We can certainly do that.

Senator LUNDY—Could you also provide any detail you have about the program to upgrade them? Has Telstra allocated any funding to removing those systems and at least upgrading them to something that has some hope of providing a broadband or higher quality Internet connectivity service?

Mr Paratz—As I said, we are at the moment looking at a technology search for a way to provide a long-term solution for—

Senator LUNDY—So you are not going to just replace them with SCADS?

Mr Paratz—Let us complete our technology investigations before we form a view on the solution.

Senator LUNDY—If you replace them with SCADS they could get ISDN but not ADSL, right?

Mr Paratz—Noted.

Senator LUNDY—Mr Paratz is nodding.

Mr Scales—You asked a question earlier about how people might access the scheme with regard to ADSL.

Senator LUNDY—Please be really brief, because I have lots of questions I would like to move on to. I would be happy if you could just provide that in writing to the committee later today.

Mr Stirzaker—We are actually quite pleased to be able to say that the announcement came out yesterday and we will now be working through our front-of-house teams to bring them up to speed on taking orders, so it will be through the normal telephone numbers into a call centre. I am more than happy for you to promote as many customers as possible who want to talk to us about buying ADSL, because that is a condition of how—

Senator LUNDY—I certainly would not be referring customers to you who have serious complaints about the state of your network.

Mr Stirzaker—If they are interested in acquiring ADSL—that is a very key point—then we would walk them through the processes that we need to put in place to deal with it. I must stress that there is a delay on when things like the minimux technology will become available. We are also enhancing our held-order case management for these through our speciality group. So it will be a normal call centre function.

Senator LUNDY—Can you also take this on notice: in terms of the slowness of the rollout of the minimux modules, what implications does that have for alternative carriage service providers or ISP who also have requests from their customers who are on RIMs for access to those? How will you proportionally allocate those ADSL ports to other purchasers of wholesale ADSL from Telstra? I think you understand what I am trying to say.

Mr Paratz—The simple answer is that we will not proportionally allocate them. The process is a very clear one and it is one that we have to be incredibly scrupulous about. The stock of ADSL, no matter how it is provided, is provided and then it is sold, either through wholesale or retail channels, and it is entirely possible, for instance, that our wholesale competitors might sell 100 per cent of the capacity, in which case 100 per cent of it would be used by them—and any other scenario.

Senator LUNDY—Will it, though? Do they then say to Telstra, ‘We know you’ve got a plan to put some of these things in this RIM box out in Campbelltown. We have 17 customers who want one. That means we want 17 of the ports when you install the first module.’ Is that how it will work? Or will you say, ‘No, we’ve got a list of 24, so sorry, but you are going to have to wait until we install our next module before you even get a look in’?

Mr Paratz—No. They place orders on us and those orders are filled. There is a very strict and auditable process to ensure that they are aware of the availability of the ports at the same time as Telstra itself becomes aware of them.

Senator LUNDY—Is that order process and waiting list part of the records that Telstra must provide to the ACCC under the record keeping rules? Is it auditable by the ACCC? This is a really critical point in competition.

Mr Scales—The answer, in the very general sense that you ask it, is yes. As you would understand, the point you make is a very sensitive one. ISPs and other people that we are involved with on a wholesale basis are very concerned to ensure that they are not disadvantaged. Internally, we have quite substantial protocols to ensure that there are not only very strict Chinese walls between the way in which the company operates but that, at the same time, we are ensuring at a very high strategic level within the company that the wholesale group has sufficient resources available to it to be able to take its place alongside every other part of the well-resourced part of the company.

Senator LUNDY—But let me put it to you: I heard earlier that Telstra are the ones that monitor the demand, that you will be monitoring the demand for ADSL in areas and that that will help you prioritise where you install the new modules in the RIMs. If Telstra Retail is monitoring demand, how is that information passed on to Telstra Wholesale, and how do your competitors express the demand to Telstra Wholesale with the view of getting enough modules put in? It might be the scenario that Telstra are not getting the feedback about the demand. Do you understand what I am saying? It is a really important issue.

Mr Scales—I do, and I think it is a very important point. I think the flow of information is a bit different from the way you have described it. Telstra Retail communicates internally with those parts of that company that are involved in looking at all of the capital expenditure that is involved.

Senator LUNDY—But that is my point.

Mr Scales—The second part of that, however, is that Telstra Wholesale, because it is not able to be involved in those sorts of discussions, because of the appropriate protocols that apply, go the other route back to customers. The other thing that is happening, of course, with wholesale customers is that they are doing their own analysis of what the demand might be and they are taking risks in the marketplace. That is getting fed back also through Telstra Wholesale into the capital expenditure program. So the direction is not retail to wholesale; it is retail to the capex—

Senator LUNDY—And wholesale to the capex?

Mr Scales—It is wholesale to the capex, with the appropriate protocols to ensure that we do not, firstly, contravene the law.

Senator LUNDY—Indeed.

Mr Scales—Secondly, from a much higher strategic perspective, we also want to create a fair amount of competitive tension between our wholesale division and our retail division—very much so.

Senator LUNDY—Mr Paratz, have you worked out how many of these modules you can fit into an average size RIM box?

Mr Paratz—No, I have not had advice on that.

Senator LUNDY—Can you please pursue that? We have about 10 minutes to go. I would like the answer to that before we leave. I really need to move on. I would like to go to the general issue about line drop-outs. Is there any relationship with DCS20s or SCADS or otherwise and line drop-out rates? The Estens inquiry placed a lot of emphasis on this area. Line drop-outs cost customers a lot of money. You get the benefit from that. What are you

doing about reducing the number of line drop-outs for Internet users who still use a dial-up connection?

Mr Scales—You are still talking about data transmission, aren't you? You are not talking about mobiles or anything like that?

Senator LUNDY—No, I am still talking about—

Mr Scales—That is fine; I just wanted to get clarity on that. I might just wait until Lawrence has finished.

Senator LUNDY—While you are doing that I will move on. I would like to ask a general question about Telstra Enterprise Services. I read in an article—I have not questioned the minister about this in question time—that Telstra intend to subsume Telstra Enterprise Services. For those who are not aware, Telstra Enterprise Services provides the IT and telecommunications services for the minister's very own department, the ACCC and other members of the group 5 clustered IT outsourcing contract. Are you going to subsume Telstra Enterprise Services?

Mr Scales—Yes, we are.

Senator LUNDY—When?

Mr Scales—We are doing it right now. We have had the full integration of Telstra Enterprise Services in train for about two months. We are doing it for a number of reasons—partly strategic, in that it is a very competitive part of the market and we want to concentrate on those parts of the market where we believe we can be most effective and provide our customers better services. We are also doing it for efficiency purposes. We think that there are quite substantial efficiency benefits in combining some of TES's capabilities and facilities with other parts of Telstra Retail, which has almost competed head for head. We are certainly doing that.

Senator LUNDY—Can you tell me whether or not Telstra are of the view that the subsuming of Telstra Enterprise Services will present probity challenges and issues, given that it will in fact be Telstra that provide IT and telecommunications services to the very departments which manage both the competition environment in telecommunications and indeed the regulatory environment—at least from a policy perspective in DCITA?

Mr Scales—We do not see any conflict there.

Senator LUNDY—Perhaps I could put it to you in a different way. We know that Telstra has a technical capability to monitor services in case there are complaints and faults. What if that monitoring of faults involves sensitive information or information that Telstra, in particular, should not be anywhere near as far as the services provided to government departments go? I cannot put it any blunter than that.

Mr Scales—I can understand the point. It is not dissimilar of course to the situation we face almost every day with commercial customers. We have a whole group of commercial customers that are competing with each other on a regular basis and we have to have the appropriate protocols in place to ensure that there is not any transmission of information from one part of the company to another. If I am getting the correct interpretation of your question, you are appropriately concerned as to whether we might pick up some information—for example, out of Prime Minister and Cabinet—and then transfer that information for commercial gain to some other part of the company or similarly within the department itself and use that to gain, for example, a regulatory framework. We simply would not allow that to

happen. It is not an arrangement which even enters our mind because it is quite contrary to the way in which we operate and to the principles under which we operate.

Senator LUNDY—I presume that what you are describing as Chinese walls within your company is audited on a regular basis?

Mr Scales—Our auditors ensure that from a broad governance point of view that applies, yes.

Senator LUNDY—Is there a probity auditor specifically looking at the integrity of Telstra's Chinese walls and is there a report that we could get access to?

Mr Scales—Yes. Our auditors are looking at those things all of the time. If I can put it in its broadest context, this is a serious risk to the company. This is not just a question of whether the appropriate probity should apply. When we look at the potential risks, there are a number of risks that we take incredibly seriously. One would be the issue around privacy, and it impinges upon this. Another would be the issue of commercial confidentiality. If we in any way breach that, clearly customers will not deal with us. So it is a very serious risk to the company. It is in our interests to get those things right.

Senator LUNDY—But if Telstra Enterprise Services is subsumed—I was dubious about the assurances that the minister gave, even with that company being a fully owned subsidiary—there is no way for you to demonstrate a level of probity that I think would satisfy the perception that there is a conflict in the government allowing Telstra to perform that work. I note particularly that this contract was first awarded to a company called Advantra, of which Telstra had only a 50 per cent ownership. The ownership circumstances have changed progressively since then and now we are talking about a wholly owned subsidiary soon to be a fully subsumed entity. Doesn't that change things and doesn't that really beg the question that Telstra should get out of those contracts as soon as possible?

Mr Scales—No, we do not think it changes things from our perspective. As I mentioned, these are the things we are dealing with on a regular basis. But, in addition to the point that you made, my colleagues have appropriately given me a bit of prompting around the way in which we can do what you are suggesting—that is, listen into a fault, then get some confidential information and then use it.

Senator LUNDY—You have done it before.

Mr Scales—For example, there is a whole protocol around that, which includes making sure that it is consistent with the agreed privacy arrangements, the Privacy Commissioner, the TIO, consumer reps, the fact that it can only be for 20 seconds—all those things.

Mr Stanhope—There is a specific privacy audit that does happen inside Telstra and it does address the customer relationships and the customer privacy aspects, which include, obviously, a major customer contract such as the group 5 you have described. As TES is being absorbed into the company we are going through a process of asking the customers if they are prepared to assign these contracts to Telstra from TES.

Senator LUNDY—Can you tell me whether the department and the ACCC have said yes to that request?

Mr Stanhope—No, that is not the case. They have not. If that is their final position then we will have to leave and we will leave a legal entity in place for that contractual arrangement.

Senator LUNDY—I hope the minister is listening to this. I would like to think that he would share the concern, if nothing else, about the perception that it gives to industry and to

the confidence of the industry and citizens and customers of Telstra. There is a potential conflict there.

Mr Stanhope—There is another aspect that comes from what I just said. All the other customers are not concerned with the transfer of TES into Telstra.

Senator LUNDY—All the other customers?

Mr Stanhope—Yes, because they have assigned their contracts—

Senator LUNDY—And who are they?

Mr Stanhope—There is a whole list.

Senator LUNDY—Good. Could take it on notice to provide me with the list. In fact, while you are there, could you provide me with a list of all of the government contracts that Telstra has—or TES—in federal, state and local government, the start date, the duration of the contract and a general description of the services it is providing.

Mr Stanhope—Yes, again, provided it does not breach contract. If there is a clause in the contract, we will seek the permission of the customer.

Senator LUNDY—I do not want the contract.

Mr Stanhope—I understand that.

Senator LUNDY—I want information about the contract. There is absolutely no basis in which you can claim commercial-in-confidence of that information.

Mr Stanhope—We will read the contracts.

CHAIR—We have reached one o'clock, which is our scheduled adjournment time for lunch. The committee will resume at two o'clock. The Australian Broadcasting Authority will be called at two o'clock. We plan to hold a short private meeting of the committee before two o'clock.

Mr Stanhope—Chair, I am sorry, could I just interrupt. I have some details of that \$10 million.

CHAIR—You can provide that, but then we really do have to adjourn.

Mr Stanhope—Senator Lundy, the breakup of that \$10 million is as follows. There is \$3 million, as Mr Paratz described, for the upgrade to make the 100 exchanges ADSL capable. The \$5 million is split this way: \$1 million for transferring customers to alternative copper pathways; \$500,000 for developing a new demand register to track variations in demand; \$1 million for new high-speed ISDN based service; and about \$2½ million for ADSL held orders process and small network upgrades to get around blocking. Finally, there is \$2 million for RIM replacement or the minimux installations trial.

Senator LUNDY—I also have some additional information. I mentioned before the issue of other ISPs being unable to access ADSL ports in exchanges. The letter says:

Telstra BigPond is unable to action your request to release the port you are currently on to the ISP you have selected. The reasoning behind this is there are currently Telstra customers waiting to connect to ADSL in that exchange.

That implies that Telstra is giving preference to its own waiting list over and above the needs of competitors at the wholesale level. Is that the practice?

CHAIR—You will have to give a yes or no, because the committee has passed its suspension time and we really cannot go on. People have made other commitments for this hour.

Mr Scales—That is not the general practice.

CHAIR—Thank you very much.

Mr Scales—Chair, do you want us to come back?

CHAIR—No. As far as I understand it, you have now completed your appearance before the committee. Following lunch we will be calling—slightly out of schedule—the Australian Broadcasting Authority, then we will be going back to Australia Post, the Australian Broadcasting Corporation, the Australian Communications Authority and then, finally, the Department of Communications, Information Technology and the Arts.

Senator LUNDY—We will be placing further questions on notice.

CHAIR—I thank Telstra representatives for appearing this morning.

Proceedings suspended from 1.03 p.m. to 2.03 p.m.

Australian Broadcasting Authority

CHAIR—We welcome the Australian Broadcasting Authority and Professor Flint. It is always nice to see you, Professor Flint, and Mr Tanner and the other officers who are here.

Senator HARRADINE—I take it that the six-monthly report on *Online content co-regulatory scheme*, which was tabled in parliament several months ago, is prepared by the ABA?

Prof. Flint—Yes, it is.

Senator HARRADINE—That is a very useful document. I want to follow up a number of questions I put on notice the last time we were here. One question I raised was: which ISPs provide effective filtering software to families free of charge? Amongst the response, you made this statement:

The ABA is monitoring developments in filtering technology generally and understands that more accurate and effective products are likely to be available in the near future.

I am wondering whether they have come to light and whether you can expand on that answer.

Mr Tanner—Unfortunately, Andree Wright—with her very specific up-to-date knowledge—is not here today. My understanding is that those products are not yet available but that the ABA will presently be giving an update on its best understanding in its submission to the current review of schedule 5 of the Broadcasting Services Act, which I think will very soon be lodged. Would you permit me to confirm that answer once I am able to check with the staff who prepared that report?

Senator HARRADINE—Thank you, Mr Tanner. This document—the six-month report on online content—was to December 2001. Could you provide information as to how many complaints had been received since the end of the period of this document? Do you have those?

Mr Tanner—The only figures I have here in my brief are for the whole life of the scheme, so I will have to take that question on notice.

Senator HARRADINE—Would you?

Mr Tanner—I would be happy to do that.

Prof. Flint—We do have information to 31 October this year. We can break that down and provide that.

Senator HARRADINE—That would be helpful, thank you. In answer to my question about the Internet content regulation scheme being effective or otherwise, you indicated that the objective of the scheme is to provide a means for addressing complaints about certain Internet content, to restrict access to certain content that is likely to cause offence to a reasonable adult and to protect children from exposure to Internet content that is unsuitable for children. I do not know about other honourable senators or the ABA, but I seem to constantly get complaints about inappropriate content on the Net. I am particularly getting complaints from single mothers who work, in the case of stores, until six o'clock, that there is more and more of this material appearing. Is that your experience as well? I do not suppose you will know until you are able to give the answers on complaints.

Mr Tanner—As I have only the numbers for the whole length of the scheme, I cannot look at the gradient of the trend in complaints. I suppose the gradient might also tell us some other things. It may tell us that the industry has been successful in promoting the existence of the hotline.

I can certainly tell you whether there is an upward trend in our complaints. I am not sure what conclusions I would draw from that because obviously up to a point an upward trend can be a healthy sign that concerned people are becoming aware of our role. It is probably also relevant to remember that Internet use is rapidly increasing as well. Certainly when people begin using the Net, before they have a large knowledge of the issues around how to manage it, they can become quite anxious about these sorts of issues and want information. That is one of the reasons why the ABA takes the view that the community education function is a key part of any Internet content regulation scheme.

Senator HARRADINE—In regard to your general responsibility for guidelines for broadcasting, do you have regular discussions with, for example, the OFLC about the review of its guidelines?

Mr Tanner—The ABA was closely involved in the review of the guidelines. The ABA is the peak body for classification issues that affect broadcasting, which means that if the ABA is to respect the parliament's clear intention in the Broadcasting Services Act that the classification symbols for television should be broadly consistent with classification symbols more generally, it is imperative that we work very closely with the OFLC, and we have. We have worked very closely with them through their review.

Senator HARRADINE—Unlike ABA reviews, their reviews are conducted in private. There is no public review. Submissions are made but the submissions are not on their website. I guess that the ABA will continue its practice and when reviews are required to be undertaken you will not only invite submissions from the public, which will be then publicly displayed on your website, but also conduct public hearings.

Mr Tanner—The body with the document which primarily—to the extent that we are concerned about commercial television—contains the guidelines for broadcasting at the moment is the FACTS code. I think the ASTRA code for pay simply incorporates the OFLC guidelines direct. The FACTS code has its own guidelines that are very similar in meaning to, but somewhat divergent from, the OFLC guidelines.

The ABA's role in the review of the FACTS code, which is obviously going to be a place where there should be public scrutiny of the guidelines for television, is to register the code, having satisfied itself of certain matters—the most important of which is that the code provides appropriate community safeguards. What I am getting around to saying is that the issues of what the appropriate guidelines are for free-to-air television need to be canvassed as part of the FACTS code review, which is now ongoing. So FACTS has a responsibility here.

FACTS is going to have to consult with the public on the course of its code review. So the ABA will not be running that as a major public process; it will be waiting for a FACTS code to be lodged with it for registration.

Senator HARRADINE—But once that is lodged with you for registration, then that is made public, is it not?

Mr Tanner—I would expect so. I will have to take that on notice if that is all right. Offhand, I am not sure whether that is our routine practice when we receive a draft code.

Prof. Flint—I would add that the process of developing the code is highly consultative. FACTS do not stand back and then suddenly one day produce a code. We have discussions regularly as to what we think are areas of concern, and put that to them, but we also try and make sure that they have conducted the proper public consultation—which I am sure they will—which requires advertising on television, showing what the proposed changes are and saying where to go if you want to put in a submission. We need to be satisfied that that consultation has taken place, but we also want to be satisfied that they have taken into account those matters on which we think there is concern either from the members or because the public have come to us and said, ‘We think there ought to be concentration in a particular area.’

Senator HARRADINE—Do you do monitoring of material that goes over free-to-air broadcast?

Prof. Flint—I think we are, if I may say, more reactive to complaints, but we also do research. The research, for example, into violence is something that we have our staff or consultants do to provide us with community attitudes. I think it would be fair to say that the ABA itself does not exercise a regular monitoring role, believing that the public can tell us what is happening. We also take notice of what is reported as matters of concern. For example, if there is a matter where it is suggested that a particular station has invaded the privacy of somebody, that quite often gets reported in other media. Members may see it themselves, and that becomes a matter on which we may have some discussions. It is unusual for us to open our own investigation. We do have guidelines about that, but normally our investigations are reactions to complaints.

Senator HARRADINE—What is your budget for advertising the hotline and advertising that the ABA would welcome responses, complaints and suggestions?

Mr Tanner—We do publicise our online scheme and role in a variety of ways, but I would have to take the exact figure of the budget on notice.

Prof. Flint—I think we also have to note that the complaints process is so graduated that the complaints go first to the broadcasters and not to us. The complaints we receive are those of persistent complainants—people who are unhappy with the results they have and then decide to come to us.

Senator HARRADINE—Where do you make these advertisements? I must say that I have seen very few of them.

Prof. Flint—The advertisements I was referring to were those by FACTS in relation to their own code. When FACTS are about to review the code or there will be a big change—or just in relation to their complaints scheme—they put on advertisements. They are mainly on television—sometimes in the press, but mainly on television. I think we are also talking about two different schemes—one in relation to commercial broadcasting, which requires the complainants first to go to the broadcasters, and the Internet scheme, where the complainants come straight to us.

Mr Tanner—I may have been talking at cross-purposes earlier. The ABA has a budget and takes very seriously its role of community education and also raising awareness of its hotline in the area of Internet regulation. It does not have a similar community awareness role directly in relation to broadcasting regulation, but we do look to the industry associations and the industry to promote the co-regulatory scheme.

Senator HARRADINE—So there is no regular monitoring.

Prof. Flint—In relation to commercial broadcasting?

Senator HARRADINE—Yes.

Prof. Flint—No, there is no regular monitoring. In the sense that we have a program for that, that we have people whose job it is to spot—watch commercial television or listen to radio—no, there is not. I do not think that was ever the intention of the Broadcasting Act.

Mr Tanner—I think you would have to say that our resources in 1992 ongoing reflected the philosophical intention of the legislation that it be regulation by exception, and heavy reliance is placed on complaints as a mechanism for picking up breaches. The ABA does monitor things on a one-off basis when it has an area of concern, but it certainly was not ever resourced to do wide-scale monitoring of a wide range of issues, as that role is seen as being performed through the ability of complainants to compel the ABA to investigate potential breaches of the code and the conditions of licences.

Senator HARRADINE—But for overall monitoring, do you think that is a role for the NetAlert so far as the Internet is concerned?

Mr Tanner—One of the challenges of the Net, obviously, is the vast amount of material on it. It is not quite clear what kind of monitoring you have in mind.

Senator HARRADINE—For example, how many reports of children being approached online by paedophiles have been received by the ABA? You must know that particular statistic.

Mr Tanner—The ABA's largest role in law enforcement to combat paedophilia is in its role as the body that handles complaints about illegal Net content. Quite a substantial part—not more than half, but certainly a substantial part—of the complaints we receive about Net content relate to crime sites, particularly child pornography sites. Obviously we handle those—they are generally overseas hosted—by liaising with overseas law enforcement bodies to ensure that those crimes are solved. As we do not have a formal role in relation to some other types of activities of people that use the Internet—such as people forming relationships via email, having met in chat groups—dealing with the exact sort of complaint you are referring to has not been a major area of activity for us. I can certainly take the question on notice and see if we have received such complaints, but really our primary role in relation to illegal material on the Net is in relation to cached material, such as web sites, which people complain of to us.

Prof. Flint—Certainly the largest number of cases where we have taken action are in relation to pornography, child pornography and paedophile activity. We have an aggregated list before us of where action has been taken, and they certainly stand out as more than 50 per cent of cases where action has been taken—usually in relation to overseas sites, where the Federal Police have been informed and we hope that they have then informed the corresponding police in the countries involved.

Senator HARRADINE—I see. Utilising an Australian ISP?

Mr Tanner—If we were dealing with local material, it would be a matter for Australian police.

Senator HARRADINE—That is right. But this material that is coming from overseas would have to be somehow hosted somewhere along the line by an Australian ISP, wouldn't it?

Mr Tanner—It would be accessed via an Internet service provider.

Senator HARRADINE—Yes.

Mr Tanner—It is also possible if that service provider used some sort of a proxy server that it would be temporarily stored on that equipment. I do not know that that is automatically the case, though. It is a little bit like using the phone line, I think. You have to use Telstra's phone line to ring up an American number and you may get offensive material over that and Telstra is the conduit for that material.

Prof. Flint—We can find that out from the experts and let you know as to how that material was accessed.

Senator HARRADINE—Thank you. I think you have agreed to take on notice the question about the developments in filtering technology which may be available through the code to ISPs and to their customers.

Prof. Flint—Certainly.

Senator HARRADINE—Thank you. I think I will need to await the further addition of these statistics that you have provided to us and also I await your responses on other matters. Thank you.

Senator MACKAY—Professor Flint, can you give us a bit of a time line of the ABA's response after the announcement in March 2002 of Alan Jones's move from 2UE to Macquarie? Particularly, could you detail any activity by the ABA late October/November?

Prof. Flint—Certainly. We have from time to time spoken to Macquarie and we have asked whether there is anything to notify and in fact towards the end of October we did receive a notification because of an interest which arose and we have registered that. We have commenced an investigation, which is in the nature of an audit, and that is to ascertain over the period whether there was anything which should have been notified to the ABA. We have no suspicion of anything not being notified but this is we think an appropriate thing to do as a matter of public interest and for audit purposes. That is in process. We have obtained cooperation from 2GB and we expect in a relatively brief time to complete our investigation and to report on that.

Senator MACKAY—Thank you for that. Could you take me through the processes and protocols that the ABA went through to arrive at the terms of reference for the inquiry into Alan Jones's ownership of Macquarie?

Prof. Flint—Yes. We had begun, as statutory agencies often do, by an informal approach for further and better information. The board then decided that that should become a formal investigation, which under our practice requires terms of reference. Our general counsel then consulted with the Australian Government Solicitor—because we wanted to make sure that it was correct—and counsel were briefed and they produced draft terms of reference. Those draft terms of reference came to a board meeting. During that meeting, they were amended. As a practice of being proper or model litigants, which is part of the Attorney-General's brief to all agencies, and in accordance with the practice of the ACC and other agencies, the terms of reference were shown as a courtesy to the radio station. The radio station objected to some

of those by way of an injunction because we would not concede changes that they required. That injunction came before a judge of the Federal Court. It seemed that some of those could be settled. A meeting was held between representatives of the station and the ABA and their lawyers.

In my view, litigation often is a waste of public money. If it can be settled, it should be settled. It was settled by some minor changes to the terms but without in any way changing the thrust of the investigation. It was settled on terms that the costs of the ABA would be paid. Those terms were produced to the judge who allowed 2GB to withdraw their application for an injunction.

There was an intervention by a media organisation seeking access to the various documents. They were given access to the affidavit of the solicitors for radio station 2GB which described the process. They were not given access to certain documents which were commercial in confidence or those which form part of the settlement. The judge, accepting the proposition that it is in the interests of the good administration of justice that parties be encouraged to settle, decided it would not be in the interests of justice to have matters revealed which were part of the terms of settlement. Our position in that application was not to oppose the application by the media organisation but to submit to the decision of the court—that we thought was the proper one for a statutory agency to take.

Senator MACKAY—In the interests of expedition, you were saying there was consultation regarding the terms of reference and there were some alterations made as a result. Is that correct?

Prof. Flint—We showed the terms of reference. This is a practice which other agencies follow—for example, the ACCC, who have never been enjoined as a result of that. The injunction was a surprise to us. Some minor changes were made not as a result of negotiation before but negotiation after the injunction was taken out with a view to saving a day in court, a lot of public expense and also avoiding danger. Even though you have a view that you have a very good chance of winning, there is always the possibility that you will be surprised. You find that you lose a case in court and you go down with costs which are taxpayer-generated funds. In my view, it was not worth that because the changes which were proposed in no way whatsoever—even the most minuscule way—changed the course of the investigation or the consequences of any findings in that investigation.

Mr Tanner—The central point is that the changes were simply not substantive.

Senator MACKAY—I heard what Professor Flint said. What were the changes?

Prof. Flint—I am afraid that we are subject to an agreement not to divulge those and the judge would not divulge those. I would be in difficulty, perhaps in contempt, if I were to answer your question.

Senator MACKAY—On what date did the ABA consult with other parties, and who were they?

Prof. Flint—I cannot give you the precise date, but it was very recently and it was just before the terms were to be released. They were shown as a matter of courtesy—more so that the person receiving the terms of reference and the subject of the terms of reference could see what was being proposed and would not be taken aback by the terms of reference.

Senator MACKAY—On what date did that occur? Can you recall when it was, Mr Tanner?

Mr Tanner—I think it was the Friday before last.

Prof. Flint—Can we take that on notice and give that to you, Senator?

Senator MACKAY—I would prefer not, actually, if it is possible. I am interested in with whom the consultations occurred.

Prof. Flint—The terms of reference were sent by our general counsel, and I think she sent them to the solicitors Gilbert and Tobin.

Mr Tanner—It was not a consultation; it was a courtesy advance copy.

Prof. Flint—It was not intended as a negotiable point. It was intended as a courtesy.

Mr Tanner—The purpose was not in any way to allow them to clear or to comment on the terms of reference. But when they received them, they took us to court on the spot. We found ourselves in court later that day. That is the context in which last week we were talking about settling or proceeding.

Senator MACKAY—And subsequent to your being taken to court, there were consequential changes made to the terms of reference—is that correct in terms of the time line?

Prof. Flint—Yes. There was an injunction. We had a hearing, I think, on one day; it was stood over to a Thursday. In the interim, we were approached by the solicitors for 2GB about a conference. That conference was held, and at that conference we came to an agreement to amend the terms slightly. That was put to the members of the authority and approved. Then the judge was informed of the settlement.

Senator MACKAY—Let me try to get this clear. As a courtesy—or whatever appropriate term was used—the solicitors from Macquarie were apprised in advance?

Prof. Flint—Certainly.

Senator MACKAY—Subsequently, the injunction came—unexpectedly, from what I understand—and then there were some changes to the terms of reference; is that right?

Prof. Flint—The injunction was preceded by a request for us to change them. We said, ‘No, we cannot change them. They are the terms agreed by the board.’ We were told that an injunction would follow. An injunction was sought from the duty judge, and we were in court.

Senator MACKAY—When did the ABA tick off the terms of reference?

Prof. Flint—The original or the changed terms of reference?

Senator MACKAY—Let us go to the original and then the changed.

Prof. Flint—I do not have the precise dates in front of me, but we can provide them.

Ms Ritter—It was at the ABA meeting of 7 November in Canberra.

Prof. Flint—Thank you. That is so—yes.

Senator MACKAY—So that was when the original terms of reference were ticked off. When were the amended terms of reference ticked off?

Prof. Flint—Last Wednesday we amended the terms of reference.

Senator MACKAY—That was for the ownership inquiry?

Prof. Flint—Yes.

Senator MACKAY—What about the Telstra payment inquiry?

Prof. Flint—There have been no changes to those terms.

Senator MACKAY—When were those terms of reference ticked off by the ABA?

Prof. Flint—Again, that was at the ABA meeting in Canberra on the 7th.

Senator MACKAY—In relation to apprising the stakeholders, we have talked about Macquarie. Were Telstra one of the stakeholders who were apprised prior to the finalisation of the terms of reference?

Prof. Flint—No. The inquiry really is into a radio station.

Senator MACKAY—I think you were saying it was your solicitor who contacted 2GB's solicitor. Is that right?

Prof. Flint—Yes. Our general counsel.

Senator MACKAY—Who is that?

Prof. Flint—Ms Jacqueline Gleeson.

Senator MACKAY—Was that on the 7th or prior to the 7th?

Mr Tanner—Jacqueline Gleeson had previously been assisting in the conduct of informal investigations into the same matter, so she already had established a working relationship with the solicitors for the parties, in this case Gilbert & Tobin. I understand that before the terms of reference were settled there was a request to be allowed to clear any terms of reference for a formal inquiry, which the ABA, through Jackie, rejected. However, there was a subsequent request from the solicitors to be given very short advance warning of the terms of reference, as I have already discussed. That was assented to, and that occurred before the meeting on Thursday the 7th. That was, if you like, the background for why the terms of reference were dispatched, very shortly before they were intended for release by the ABA, to Gilbert & Tobin.

Senator MACKAY—When you say prior to the meeting on the 7th, was it a few days or a few weeks?

Mr Tanner—I believe that the particular request was made on the Monday of that week.

Senator MACKAY—What date is that?

Mr Tanner—It would be the 4th.

Senator MACKAY—And that apprising occurred on the 4th because of the request from Macquarie's solicitors. Is that right?

Mr Tanner—No, there was no apprising. The terms of reference were not settled until the board met and settled them on the Thursday. I may have misunderstood you. The issue which was discussed earlier was an issue of principle. The request from the lawyers, as I understand it, was that they be able to comment on any draft terms of reference. That was rejected. They then asked as a courtesy to be given advance notice of the content of any announcement of an inquiry. That was assented to, and that is the decision that resulted in their seeing the terms of reference shortly before they were in fact promulgated.

Senator MACKAY—So you think that was the 4th.

Mr Tanner—I believe that the discussion occurred on the Monday, which I think is the 4th, between our general counsel and a solicitor with, I believe, Gilbert & Tobin. I will have to check this account and narrative with Jackie.

Senator MACKAY—That is fine. In terms of the courtesy copy, that was then forwarded on the 4th?

Mr Tanner—No, because there was nothing to forward. The ABA met, considered and settled terms of reference on the Thursday. When it was ready to be released, which was

around the middle part of the Friday, I understand that the investigating team, shortly before it dispatched the papers to our media area to be promulgated publicly, sent an advance courtesy copy over to Gilbert & Tobin. There were just a few minutes separation.

Senator MACKAY—The request was made on the 4th.

Mr Tanner—The request from the lawyers to us for a courtesy copy of the terms of reference of any announcement when it was made was made on the 4th.

Senator MACKAY—And rejected?

Mr Tanner—No. There were two requests made on the 4th. The first request, as I understand it, was a request to be able to comment on the terms of reference.

Senator MACKAY—That was on the 4th.

Mr Tanner—I understand that was on the 4th, and that was rejected. They then said words to the effect of ‘Could we have a courtesy copy of anything you are going to release so that we are primed for the media, we know what we’re going to be rung up about et cetera?’ That was agreed to.

Senator MACKAY—That request was made on the 4th as well.

Mr Tanner—I understand that occurred on Monday the 4th.

Senator MACKAY—Okay. And you were saying that the courtesy copy was sent just a few minutes prior. When was the courtesy copy sent?

Mr Tanner—The courtesy copy was sent in the middle part of Friday. On Thursday, the ABA met, decided on what terms it wished to conduct the investigation and settled the terms of reference. On Friday, that was ready to be released, with a covering news release, I expect. A courtesy copy of that was sent to Gilbert & Tobin very shortly before it was forwarded to our media area to go out. There were some delays between when it left our investigation area and when it was actually ready to be sent out by our media people. During that small gap, what actually occurred was that we—

Senator MACKAY—They took out the injunction, was that it?

Mr Tanner—were advised that we were being taken to court.

Prof. Flint—Senator, if I may say so, I fully support the action taken by general counsel as a courtesy from a statutory agency. It is the practice, I believe, of the ACCC, who, as I say, have never been enjoined in this matter. It was meant so that the recipient did not get such a surprise, so that they could prepare themselves for the media. To have an investigation into ownership and control is a serious matter. As I say, it was undertaken more for the purposes of audit than anything else, but we thought it would be fair, given, in particular, that they had cooperated from the beginning.

Senator MACKAY—Would that be normal practice, from the ABA’s perspective?

Prof. Flint—I gather that we have never done it before. We so rarely have a formal investigation of a station.

Mr Tanner—The point really was that it was not the application of the policy. It was a decision in response to a request that was considered to be a reasonable request.

Senator MACKAY—Between the 4th, when the initial request was made, and the 8th, when the advance copy of the terms of reference were promulgated—or given—were there any discussions at the legal level in relation to terms of reference?

Prof. Flint—There would not have been, I am sure, discussions with the solicitors about terms of reference before they were produced to the ABA board.

Mr Tanner—Yes.

Prof. Flint—What we had told the solicitors was that we were moving to a formal investigation.

Senator MACKAY—Just let me double-check my brief here and make sure that I have covered everything. Thank you, chair, that is it for me.

CHAIR—As there are no other questions for ABA, we thank Professor Flint and the officers for appearing.

[2.48 p.m.]

Australia Post

CHAIR—I welcome the officers from Australia Post. I just remind you that—

Senator Alston—Mr Chairman, I would like to say something that I think Telstra might have said previously. In relation to the issue of potential predatory pricing in the Riverina—and probably more generally—which the ACCC is looking at, if Telstra said today that they have not been contacted—you remember they said they had been given some advice and then—

Senator MACKAY—I think that was with Senator Lundy.

Senator Alston—Mr Scales corrected the record and said that no, they had not. I am told that the fact is that the ACCC has been in touch, but only to seek more information. That is consistent with saying that they have not been given any sense of what the ACCC is likely to do, but they have in fact been in touch.

Senator MACKAY—Thanks, Minister.

CHAIR—Thank you very much, Minister.

Senator MACKAY—I want to briefly talk about the announcement made last week in relation to postal reform, if I may. I ask Australia Post: why were the reform proposals regarded as necessary?

Senator Alston—By the government?

Senator MACKAY—Okay. Minister, why were they regarded as necessary?

Senator Alston—For example, on document exchanges the document exchange itself is exempted from the Post monopoly, but carriage between the customer and the document exchange is technically still within the monopoly—whereas in practice it has been condoned or allowed for at least 20 years, to my knowledge. All this is doing is regularising that situation. It is necessary because there is always an element of uncertainty, particularly if others might want to get into the business. There are a few players there. Uncertainty is never a very helpful basis for building or expanding a business.

Senator MACKAY—What was the basis of the uncertainty?

Senator Alston—It was that, technically speaking, carriage between the customer and the document exchange was not allowed in law, even though it was allowed in practice.

Senator MACKAY—Where was it occurring in practice?

Senator Alston—Australia Post can tell you better than I can, but I know from my own personal experience that it was happening in the Western District of Victoria 20-odd years

ago. I imagine it was happening right around Victoria—certainly in the suburbs—and I have no reason to think it was not happening in other states as well.

Mr McCloskey—I think we would have been aware that AUSDOC, which is the main document exchange group, had over time extended the practice that had grown up of exchanging documents and other items of DX mail between their members to include picking it up from and dropping it off to those members.

Senator MACKAY—Where was it occurring on the widespread basis the minister referred to?

Mr McCloskey—It would have been occurring through any of the document exchange centres and through the customers that those particular centres served. I might ask our group manager for letters, who might have more specific information.

Mr Lee—The practice has been occurring across cities and in country towns; it represented an extension of the service the document exchanges provided to their customers. It was not simply a matter of picking up letters; a document exchange provides an exchange service for a variety of documents. They might be letters that would fall within the reserve service; they could equally be large, four-ring binders or other documents that were traditionally exchanged between members of a document exchange. The extension was really at the request of the customers, and it was simply a matter of collecting those DX bags as they were at the end of the day and delivering them to the exchange. In fact, they often added a further service, which quite outweighed in volume the DX, where they collected postal mail as well and delivered that to Australia Post.

Senator MACKAY—So you are saying there was an ambiguity because some of the articles fell within the reserved service?

Mr Lee—Some of those articles within the bag could have been within the reserved letter service: under 250 grams, less than \$1.80 per piece.

Senator MACKAY—And you are saying that this was essentially at the request of customers? Who do you mean by customers?

Mr Lee—The customers of exchanges.

Senator Alston—Professional bodies. I know from my own experience that down at Hamilton in the Western District all the law firms had regular pick-ups from AUSDOC of letters, bulk mail and parcels. They were taken down to AUSDOC in Melbourne and then distributed, as was also said, for purposes of aggregation to qualify for the bulk discount. It is probably more attractive now than it was 20 years ago in that regard, because we put some changes through a few years back, but there was always an element of aggregation available.

Mr Lee—Senator, the legislation as it stands today would require an office such as the senator's to separate their non-reserved pieces, over-250 grams items and three-ring binders, allow AUSDOC's courier service to pick them up, and then personally walk those pieces that might fall within the reserved service down to the document exchange.

Senator MACKAY—What proportion of the business, for want of a better word, would fall within the definition of reserved service?

Mr Lee—Do you mean of the document exchange business?

Senator MACKAY—Yes.

Mr Lee—We do not know the answer to that.

Senator MACKAY—So you have no empirical data in terms of why you made this decision. It was just on the basis that items that fell within the reserved service may have been caught up in the legislation.

Mr Lee—Sorry; which decision?

Senator MACKAY—The postal reform decision.

Senator Alston—No, they didn't. Post have not made this decision, but they accept it because, as I say, they have effectively condoned it over many years and it has not been any significant threat to their business. I think their position is now—on their understanding of what we have intended, and we have explained the legislation to them in great detail—that they have no reason to believe that any of the proposals will have an adverse effect on Post. So this is essentially peripheral stuff. Unless you are actually inside the document exchange business you would not know how much mail is collected in that way. Suffice it to say that Australia Post has been a very successful organisation which has continued to generate increasing profits. They have not noticed any significant downturn in mail, because it has been incremental over that period anyway, except to the extent that people might be turning to electronic mail, and that could just as easily effect the document exchange business.

Senator MACKAY—I take it, Minister, that this was a policy decision emanating out of government.

Senator Alston—Made by government, yes.

Senator MACKAY—Made by government. And the postal group were happy to go along with it, effectively.

Senator Alston—They would tell us if they thought that it was likely to be a significant threat to their business—and they have told us quite the opposite.

Senator MACKAY—Mr Lee, I presume you are publicly prepared to agree with the minister.

Mr Lee—Absolutely prepared to agree.

Senator MACKAY—So you do not accept that that there may be some detriment to Post in relation to the promotion of other postal competitors?

Mr McCloskey—Within the DX amendments, Senator? As the minister has said, based on our understanding of what is intended, we have no reason to believe that any of the proposals will have any adverse effect on Post.

Senator MACKAY—What impact will it have on Australia Post, for example, in terms of its revenues—any?

Mr McCloskey—Senator, until we actually see the terms of the draft legislation, we will not be able to pass any judgment on that, but our expectation is that it would have no impact on our revenue.

Senator Alston—Even then you would not know. It is speculative. You have to see how it plays out in practice. But there is no reason to think that all of a sudden you are going to have document exchanges springing up all over the place. This is basically legitimating what has been occurring in the marketplace for several decades. Any other player would be a bit like Telstra. You would be in awe of taking on someone like Australia Post. They essentially have been able to see off GoMail, which was the major mail aggregator. Anyone else contemplating this would know that Australia Post had an infinity capacity to more than compete effectively.

Senator MACKAY—When is the bill going to be introduced, Minister?

Senator Alston—Early next year, I would hope.

Senator MACKAY—When will Australia Post have the capacity to look at the implications of the legislation on its operations? When it is introduced?

Senator Alston—They have had an opportunity to do that already, because we have explained the detail of the proposal to them and they are proceeding on the assumption that the legislation will reflect that, and so are we. Obviously, when the legislation is drafted, they will have another opportunity. I still do not think that would be the ultimate test. The test would be whether it is likely to take business away.

Senator MACKAY—That was not my question. It is very difficult—and I think Mr McCloskey has highlighted it—for Australia Post to make comment in terms of, say, revenue implications, without having seen the draft legislation. That is what he said.

Senator Alston—I do not think he has said that. I think what he said was ‘from our understanding of the proposals’. That is always the case in principle. You could explain a proposal to someone and it would frighten the pants off them, or they could say, ‘That sounds all right to us.’ Sure, everyone wants to see the detail, and, if the detail fundamentally departs from the briefing, I suppose they will say to us, ‘That is not the same proposal.’ Short of having the draft, which neither of us has, all they can do is to make an in-principle statement, and we are more than happy to proceed on that basis.

Senator MACKAY—Minister, in the press release you put out on 14 November, you refer to the legitimisation of the current activities of document exchanges. Presumably you mean all document exchanges?

Senator Alston—I do not think there are all that many. AUSDOC would be the major one.

Senator MACKAY—Yes.

Senator Alston—Yes, it applies to the breed of document exchanges and mail aggregators.

Senator MACKAY—Take a member organisation like AUSDOC: will the legislative exemption that has effectively been given be beyond the terms of the current Australian Postal Corporation Act? I think the answer is yes, isn't it?

Senator Alston—Technically, the act does not allow a practice that has been occurring for several decades, and that is why we are looking to make this change. Post has never sought to enforce the strict letter of the law, but there is always the possibility. Given the way large corporations sometimes act, if they thought someone else was likely to get into it, they might gently point out to them that this was technically against the law. We just want to clarify that so everyone knows where they stand.

Senator MACKAY—By clarifying or changing the law.

Senator Alston—By regularising the practice.

Senator MACKAY—Regarding disputes about bulk mail arrangements, how will the expanded power of the ACCC work, as stated in your press release?

Senator Alston—They are essentially an independent body. So rather than having an unequal bargaining power between an access seeker and an access provider, you have the third party umpire make the ultimate adjudication. That is the way that interconnection works in the telecommunications sector, and I think it works fairly effectively. Probably the major complaint in telcos is that it can take too long, but in principle it is an arbitration that occurs if

negotiations fail. In most instances, you would expect that both parties will be sensible, because they know that ultimately a decision could be imposed on them.

Senator Mackay—With respect to the new accounting transparency standards for Australia Post, will there be any cost to Australia Post on the implementation of those?

Mr McCloskey—We would not think so. We already internally operate accounting separation across our various activities for internal business monitoring purposes. In fact, in our recent price application before the ACCC for an increase in the basic postage rate, the ACCC confirmed that it was fully satisfied with the integrity of our cost revenue and asset allocation process. On that basis, we would not think that it would impose any undue cost on Post.

Senator MACKAY—In relation to this broader issue, Minister, it would seem to undermine the reserved service. Do you think it does?

Senator Alston—No. As I say, this is a practice that has been going on for a long, long time, so it is not likely to do much more than operate at the margin. The reserved service still enables Post to generate very significant profits—something like \$275 million last year. I do not know what these document exchanges would generate by way of profits, but very little, I would think, on a relative basis.

Senator MACKAY—Do you know?

Senator Alston—No. I will ask whether anyone knows what the revenue of AUSDOC is.

Mr Lee—That part of AUSDOC was in the order of \$80 million. It is our view that the intention of the legislation is, as the senator has said, to legitimise the existing practice—that is, not to legitimise another end-to-end business mail carrier. Document exchanges will continue after this to operate in the way that they have. That is why we remain very comfortable that it will have a minimum impact on our business.

Senator MACKAY—I think it is an incursion into the reserve service, or a change to the reserve service.

Senator Alston—But it is not in practice.

Mr Lee—It is not a change in practice.

Senator Alston—It is business as usual.

Senator MACKAY—So we will not get this legislation prior to—

Senator Alston—Prior to Christmas? No, you can sleep soundly.

Senator MACKAY—When next year can we expect this? Do you have any ideas? We have another estimates round in February.

Senator Alston—I do not know whether or not it is being drafted now.

Senator MACKAY—It is not being drafted now?

Senator Alston—We expect it to be introduced in the first session.

Senator MACKAY—What developments have occurred since the last hearing we had with Australia Post with regard to the WTO negotiations?

Mr McCloskey—There have been no developments in that area from a Post perspective since the briefing that we provided to the committee back in August.

Senator MACKAY—I have a question for the minister, if I may.

Senator Alston—You may.

Senator MACKAY—There is some ambiguity about the implication of WTO GATS negotiations in respect of overseas organisations competing with Australia Post reserved services. Perhaps you could clarify the situation for me.

Senator Alston—What do you say is the ambiguity?

Senator MACKAY—Can you assure us that the current WTO GATS negotiations will not result in overseas organisations competing against Australia Post reserved services?

Mr Thomas—Senator, could you repeat the question, please?

Senator MACKAY—It was really a question to the minister, but obviously he can be advised by you. Can we get an assurance from the government that the current WTO GATS round of negotiations will not result in overseas organisations competing with Australia Post reserve services?

Mr Thomas—I think we discussed this at the last Senate hearings.

Senator MACKAY—I know. I am after the minister's response.

Mr Thomas—The negotiations round is still continuing. We have received some requests from various countries, which—as I think as we discussed at the last Senate estimates—have to remain confidential because of the confidential arrangements between various countries. At this stage, however, we do not envisage that any of the documents that are in the public domain suggest any change to our current reserved mail arrangements.

Senator MACKAY—In the public domain?

Mr Thomas—As we discussed at the last Senate estimates hearing that we had on this, it is difficult for me to comment on the actual requests between the different countries, because we have been advised by the Department of Foreign Affairs and Trade that they are confidential country-to-country negotiations.

Senator MACKAY—I guess that is why I am asking the minister.

Senator Alston—If they are confidential they are confidential.

Senator MACKAY—No, my question is not that. It is this: will you give an assurance that the current WTO GATS negotiations will not result in overseas organisations competing with Australia Post reserved services?

Senator Alston—I would need to know what the nature and extent of the requests were before I gave you any sensible response because I simply do not know what the negotiations involve. They may not deal with the question at all.

Senator MACKAY—They do.

Senator Alston—Do they?

Mr Thomas—The negotiation round is still continuing, as perhaps you are aware. It is difficult to say at this early stage of the negotiation round as to where they will actually finish up at the end of the day. At that stage, I imagine government will have to make a decision on their position.

Senator MACKAY—Just reappraise me as to when the government will be making a decision.

Mr Thomas—This is a matter that really relates to the Minister for Trade and the Department of Foreign Affairs and Trade. The process, I understand, will continue for at least another three years as part of the overall WTO response.

Senator MACKAY—Yes, but at what point does government come into the equation in terms of making a decision?

Ms Thomson—I think you did actually ask that question at the last hearings as well.

Senator MACKAY—Yes. The minister was not there, though.

Mr Thomas—My understanding was that the proposal was that the committee was going to contact the Department of Foreign Affairs and Trade about the input from parliament in that process.

Senator MACKAY—Right. But at what point will Minister Alston be able to inform the parliament of the implications?

Senator Alston—I do not think I will be making any unilateral statements.

Senator MACKAY—Among others.

Senator Alston—Obviously, the first official statement will be made by the trade minister, I would think.

Senator MACKAY—But at what point would that be?

Senator Alston—I suppose when he has reached that stage. I do not know. In a three-year continuum it may not be until the end.

Senator MACKAY—I refer to an article in the *Australian* on 24 October. When delivering the Australia Post annual report, Graeme John was quoted as saying:

I wouldn't be surprised if the regulatory regime in which Australia Post operates is changed.

I just wonder whether Post knows what he was referring to?

Mr McCloskey—He may have been referring to the changes that were announced by the minister last week.

Senator Alston—We had been consulting with Post for a period of months beforehand, so he would have been aware of that.

Senator MACKAY—You are saying 'may'. What did that refer to?

Mr McCloskey—I am assuming that that was what he was referring to. I really do not know.

Senator Alston—I do not think he wrote his speech.

Senator MACKAY—All right. Could you take it on notice, perhaps, and check with him?

Mr McCloskey—Yes. I am happy to do that.

Senator MACKAY—Moving right along, when is the postal industry ombudsman going to be established?

Mr Thomas—I might be able to respond to this as well. The Department of Communications, Information Technology and the Arts has issued a discussion paper on the postal industry ombudsman. We have asked for submissions on the discussion paper by the end of this month. The next stage will simply be assessing those submissions, taking them into account and then providing some policy advice to government. We envisage that this will take certainly the first part of next year.

Senator MACKAY—I am wondering why the department discussion paper in this matter raises a possible alternative of self-regulation.

Mr Thomas—The discussion paper examines a number of different alternatives as part of the process, and certainly that is one of them.

Senator MACKAY—I understand the government's election commitment was to establish the postal industry ombudsman on the basis of the Telecommunications Industry Ombudsman, not merely to look into the way the department is operating. The department, I understand, as a response to that, has issued this open-ended discussion paper, which does, as you say, canvass the issue of self-regulation. Given that we are talking about a fairly clear election promise, what was the point of the breadth of the canvassing in relation to the discussion paper?

Mr Thomas—All right. In relation to the government's election commitment, it did say that it would operate in a similar fashion to the Telecommunications Industry Ombudsman, the TIO. As you are aware, that is an industry operated organisation.

Senator MACKAY—So is that the reference to self-regulation?

Senator Alston—No, self-regulation is what happens now.

Senator MACKAY—Right, but I come back to the original point: the 2001 election promise was to have a postal industry ombudsman, but the department has issued a discussion paper that canvasses self-regulation, which is the status quo; are you going to do it or not?

Senator Alston—That is our commitment. I do not think it is a rearguard action; I think they are simply putting the base case on the table. I cannot recall, but I think the discussion paper makes it plain that our preference is for an ombudsman. Maybe it is just there in case people want to demonstrate that an ombudsman could not possibly work and the status quo should be maintained.

Senator MACKAY—So you will not be continuing with the current situation of self-regulation then?

Senator Alston—As I said, our clear election commitment was to establish an ombudsman. It would only be if it could be overwhelmingly demonstrated that that was a dead duck that you would stay where you are. Certainly, I am not aware of any basis for thinking that we might want to change our minds.

Senator MACKAY—All right. What is the time frame?

Senator Alston—If the discussion paper is expecting a response in the first half of next year, then I suppose we will be making a decision in the same time frame.

Senator MACKAY—Some time next year?

Senator Alston—No, the first half of next year.

Senator MACKAY—So we can expect an announcement by the government in the first half of next year?

Senator Alston—I think so.

Senator MACKAY—In relation to franchising, what is the outcome of the four pilot study sites that have been running for the last few years?

Mr Jackson—The four trial franchise sites that we have had operating for over two years now are continuing to operate. They are continuing to develop, grow and successfully perform. The interim franchisees in those outlets are very happy with the outcome at this stage and are in fact seeking our advice as to when they can actually take them over as a permanent operation.

Senator MACKAY—On a commercial basis?

Mr Jackson—Yes.

Senator MACKAY—The Ernst and Young report that was provided to the committee at its Melbourne hearings had a number of criticisms of the pilot and recommended corrective, remedial action. What has Australia Post done in relation to those recommendations?

Mr Jackson—We have taken those on board and we have done further research. We have received further advice to come up with a business model that probably answers those criticisms and probably makes it a reasonable commercial proposition.

Senator MACKAY—Is that available to the committee?

Mr Jackson—There are a series of discussions we have had with advisers in the franchise industry. I am not sure whether there are any comprehensive written reports as such, but there would be certain documents that would support the changes that we have made in the model.

Senator MACKAY—Okay, basically what I am after is this. The Ernst and Young report made some criticisms and suggested some remedial action. Can I have a bit of paper that tells me what Australia Post has done with respect to that?

Mr Jackson—Yes, we could summarise that.

Senator MACKAY—What type of financial return is Australia Post expecting out of this investment?

Mr Jackson—In terms of the total program?

Senator MACKAY—Both the pilots and the total program.

Mr Jackson—It is not quite firm, but, for the trial sites, I believe it is in the order of percentage returns in the low teens. Obviously, when the program starts to roll out, we will have sales of licences, so there will be those returns as well. The trial sites have not had any sales of licences as such. So the ongoing returns from the business—

Senator MACKAY—No, I understand but you must have some projected financial return.

Mr Jackson—We are redoing the numbers right at the moment, as a matter of fact, in terms of the overall program, taking account of potential licence sale values etc.

Senator MACKAY—What is the answer to my question?

Mr Jackson—We do not have a final figure. We are hopeful of going forward in December and having a paper developed on that.

Senator MACKAY—You revised your original estimates recently. Is that correct?

Mr Jackson—Yes.

Senator MACKAY—What were the original estimates?

Mr Jackson—We did some indicative estimates in the order of \$50 million over a period of 10 years.

Senator MACKAY—You are revising them upwards.

Mr Jackson—Probably slightly downwards, but not to any significant degree, we believe. We have done a review of our transfer prices, so we have had to take that into account in terms of the franchise program.

Senator MACKAY—Can you take that on notice in terms of the revised figures?

Mr Jackson—Yes.

Senator MACKAY—Is it intended that this program of franchised outlets will eventually be used to convert corporate post offices into this new contract format? Is that the way things are heading?

Mr Jackson—Yes. Predominantly, the franchise model will be for conversions of corporate outlets. We also envisage that some licensees who may wish to sell their licence on a volunteer basis will in fact sell it, and we would rebadge it as a franchised Post shop. But they would be in the minority.

Senator MACKAY—So the answer is yes in terms of the corporate post offices.

Mr Jackson—Yes.

Senator MACKAY—How many corporate post offices will be involved in that transformation and what are the staffing implications?

Mr Jackson—We are looking—as a three-year horizon—in the order of about 100. We have a target of about 150 outlets, and we would be saying that about 100—give or take some either side—would be corporates and that perhaps licensed would be in the order of 50 or below. Staffing implications for that would probably be on average maybe four staff per outlet.

Senator MACKAY—Does that include the licensees?

Mr Jackson—No, purely the corporates.

Senator MACKAY—So 4,000-odd?

Mr Jackson—No, 400. We do not have a detailed knowledge of the licensees' staffing.

Senator MACKAY—There are approximately 7,000 jobs in Post's retail division. Is that correct?

Mr Jackson—I thought it was a bit more—about 8,000.

Senator MACKAY—You are saying that, out of that aggregate, 400 jobs are in jeopardy for the full life of the program.

Mr Jackson—Yes. Current planning is on a three-year horizon with those 150 all up.

Mr McCloskey—I assume, subject to any correction, that the franchisee would employ staff in those outlets.

Mr Jackson—They would be replaced under another badge.

Senator MACKAY—I understand that. I am basically talking about corporate post offices. Is it planned to extend beyond three years? Or is that dependent on the mega 10-year plan?

Mr Jackson—There is quite an amount of work to do over three years to roll 150 out. We have not set our sights beyond that at this stage. It is likely that it could proceed further down the track after that, but we do not have any details of it at this stage.

Senator MACKAY—Thank you.

CHAIR—That is the end of your appearance here today. Thank you for appearing.

[3.26 p.m.]

Australian Broadcasting Corporation

CHAIR—We welcome the ABC to the hearings. It is good to see you all again for another little round of estimates. Senator Tchen has a couple of questions and then we will go to Senator Lundy.

Senator TCHEN—Mr Balding, welcome back, this time in your proper capacity. I congratulate you. I notice that there has not been any complaint about your management in the press or from Friends of the ABC, which is quite an achievement.

Mr Balding—Thank you.

Senator TCHEN—I wonder whether you could talk to us about the complaint resolution procedure you have set up recently. I have a specific case which I would like to refer to you after that.

Mr Balding—We have recently strengthened our complaints handling system. We did that so as to provide a much more transparent and independent process. The detail of that enhanced process was recently emailed to all members of parliament and senators, outlining the process. In general, we believe that our new system is as good as, if not better than, any other public broadcaster's complaints processing system. Essentially, all program complaints are channelled through a single unit, which is Audience and Consumer Affairs, for assessment—rather than assessment in the first instance by the program units themselves. We have established the position of complaints review executive, independent of the program makers.

Senator TCHEN—Is this process working yet?

Mr Balding—It is being gradually phased in over the next few months. It is working in that the complaints go to Audience and Consumer Affairs. They are liaising with the program areas, but where there is a serious complaint, a complaint of breach of editorial policies, that complaint can be referred to the complaints review executive, or where the complainant has had a response back from the ABC and the complainant is still not completely satisfied with the ABC's response, we can refer that to the complaint review executive for further independent review.

Senator TCHEN—The reason I want to ask this question is that I had a case brought to me by some of my constituents which I think graphically demonstrates the unsatisfactory situation that you described earlier about a complaint being directed to the program manager. This complaint was brought to me by Mr Ralph Zwier and Ms Ronit Fraid. I have all the details here, which I will pass to you later. Subsequent to their bringing this to my attention, I wrote to Mr John Tulloh, head of your international operations, whom these people had dealt with before—as I said, unsatisfactorily. I wrote to him on 7 November and so far I have not heard from him at all.

Mr Balding—On 7 November?

Senator TCHEN—Yes, 7 November. I also sent a copy to Mr Murray Green and I have not heard from him either.

Mr Balding—I am more than happy to take that on board and follow that through for you.

Senator TCHEN—Thank you very much. If it takes two weeks to reply to a member of the Senate, I think it might take longer to reply to a member of the public.

Mr Balding—We try not to differentiate.

Senator TCHEN—Even so, two weeks is a fair time in which to get an initial response back.

Mr Balding—Let me follow that through for you.

Senator TCHEN—Thank you. I also have a number of questions—which I will put on notice because they are fairly complex—to do with the ABC-FFC accord television

documentary called *Victim/Seasons of Revenge*, which the ABC commissioned from a Ms Janet Bell. There are a number of questions here that I am happy to put on notice.

Mr Balding—We are happy to take those on notice. We have previously answered a number of questions on notice about that program. I think the last time I addressed Senate estimates we also answered a question on that, but I am more than happy to take them on notice and provide further answers.

Senator TCHEN—We are fairly limited as to time, so I will put them on notice. Finally, a question I have asked before: does the ABC have any plans—I am sure you have plans, but I hope they are imminent plans—to extend the NewsRadio service to places outside the capital cities? I know you have done that for Newcastle and a number of other cities, but what about the rest of Australia? I know you used to get this question regularly from Senator Newman, and I just wanted to let you know that, although Senator Newman has retired, you will continue to get those questions!

Mr Balding—You may be aware that the ABC is at the moment in the process of completing our triennial funding submission to government. I envisage that that submission will be forwarded to government before the end of this month. There are a number of priority areas that we will be outlining to government that we will be seeking funding for. The extension of NewsRadio and Triple J to all population centres of 10,000 or more will be identified in that triennial funding submission.

Senator TCHEN—Thank you very much, Mr Balding. I am delighted to hear that.

Senator Alston—I think Senator Tchen is really suggesting that NewsRadio is so important that you might be able to absorb that one and delay the other two perhaps.

Senator TCHEN—I think Senator Newman's interest in NewsRadio, and mine as well, is that NewsRadio is basically a fairly straightforward broadcasting service. It just delivers news—without excessive commentary.

Mr Balding—Senator, obviously the ABC supports your views there. We will be arguing that it is an issue of equity of access for all Australians to have the same access to all ABC products and services. It is unfortunate that a wonderful service like NewsRadio does not have the spread and is not available to all Australians—as with a lot of the other ABC networks and, to a lesser extent, Triple J. There are also a number of pockets throughout Australia in which Radio National is not accessible, and we are looking to address that in the triennial funding submission.

Senator Alston—It is Australians' inalienable right to editorial-free content.

CHAIR—Mr Balding, I would like to congratulate you, too, on your proposal to extend NewsRadio. Of course, NewsRadio carries the parliament broadcast, which means that the people of Australia get to hear what is actually going on over here.

Mr Balding—Did the minister note the chair's comments?

Senator Alston—I did. I think he was proceeding on the basis that you were going to do it anyway!

CHAIR—Anyway, that is good to hear.

Senator LUNDY—I may come back to a few of those issues. Let me start with some broader questions relating to your triennial funding. Is the current level of triennial funding sufficient to sustain the current output of the ABC?

Mr Balding—No, we do not believe so, and we will be setting that out in the triennial funding submission. We believe that, without additional funding, the ABC has come to the limit of its comprehensiveness with its current programs and services. We will be identifying that very clearly in our triennial funding submission. The areas that we will be arguing for will be made public once the government has had a chance to consider the submission. But it is clear that, as I said in a recent address to the Melbourne Press Club, there are no more rabbits left in the hat; the ABC needs additional funding in order to continue the comprehensiveness and the quality of the service that it has been providing.

Senator LUNDY—In terms of that funding, have you established a level of annual government appropriation that you are seeking?

Mr Balding—No, we have not as yet; we are still finetuning that.

Senator LUNDY—Can you confirm that the existing government appropriation for 2002-03 is \$808 million?

Mr Balding—Yes, it is.

Senator LUNDY—What was the equivalent real level of funding in 1995-96?

Mr Balding—Mr Pendleton might have that information.

Mr Pendleton—Can we come back to that and I will find it in the meantime?

Senator LUNDY—Yes. I am also seeking confirmation that funding to the ABC increased each year from 1992 to 1996 and then decreased each year or period covered by triennial funding agreements from 1996 through to 2002 in real terms. If you have a table there that you are prepared to table for the committee, that might be a very efficient way to convey the information.

Mr Balding—It might be easier if we extract a summary from that table. It is a very complex spreadsheet.

Mr Pendleton—I think we have provided that on notice.

Senator LUNDY—I suspect that is why I am seeking confirmation.

Mr Pendleton—Yes. The 1995-96 total appropriation of \$522.24 million is equivalent to \$601.1 million.

Senator LUNDY—Thank you. What about the funding issue between 1992 and 1996 and then, comparatively, decreasing from the period—

Mr Pendleton—Between 1992 and 1996?

Senator LUNDY—I am sorry, increasing each year from 1992 to 1996 and then decreasing.

Senator Alston—Mark Armstrong was complaining to me each year that it was declining, because they were not matching CPI.

Mr Pendleton—I think you will find that there was a progressive decrease in funding. The relative funding in that period has decreased down to 1997-98 and 1998-99 and then has increased beyond that period, in real terms.

Senator LUNDY—You have already mentioned some priority areas in relation to funding—being, I think, NewsRadio and Triple J. Is there adequate funding to support the ABC's multichannelling ambitions?

Mr Balding—At the moment, the ABC, as part of the digital take-up and the drive to provide incentive for take-up, has launched two multichannels, as you may be aware. The funding for those multichannels has been provided as a one-off source of funding. There is no current identified ongoing source of funding to maintain those multichannels beyond the end of the current financial year. We will be including in the triennial funding submission what I believe is a very compelling argument to fund digital content for the ABC's multichannel, which we believe will be one of the key drivers to accelerate the take-up of digital.

Senator LUNDY—I will come back to the question of digital. Thank you. Are there any potential savings in the next triennial round that you have identified?

Mr Balding—Savings in what area?

Senator LUNDY—I am asking you whether there are any areas you think you can get savings from.

Mr Balding—If you are thinking about productivity savings and efficiency savings, no. The ABC over the last three or four years—five years now—has had a very hard look at its productivity and efficiency. Following the cuts of 1997, the ABC had a major review of its programs, had a major review of its administration and overheads and had significant savings. As part of the triennial funding submission, the ABC will be including an output pricing review report. That output pricing review report will clearly demonstrate that the ABC has improved its efficiency, has improved its productivity and, benchmarked against other international public broadcasters, is performing very well. In respect of savings, we do not believe there are any significant savings to be found. There are always savings when you look at it from the point of view of what you do, and you can do things better. We are always looking to do things better, to do things more cost-effectively. But we do not believe that there are any major significant savings to be found. We have gone through that exercise, and we will be arguing that to government.

Senator LUNDY—Following the Bali explosion, can you give me an outline of what role Radio Australia played in assisting both Australians and Indonesians with up-to-date information on that event?

Mr Balding—I will pass that question over to our director of radio, Sue Howard.

Ms Howard—Radio Australia did actually broadcast specifically to Indonesia after the Bali raids, both in English and in Indonesian. During that time they increased their coverage into Indonesia to keep people in Indonesia fully informed of the Australian perspective on the information after Bali.

Senator LUNDY—So you temporarily increased the number of hours you were broadcasting into Indonesia?

Ms Howard—We actually increased some programs specifically in Indonesian to Indonesia, yes, some hours.

Senator LUNDY—Are you able to quantify that—with the benchmark being, I guess, your normal or standard?

Ms Howard—I am just looking for it here. I might have to take that on notice. I do not think I have the actual numbers of broadcast hours here.

Senator LUNDY—I am interested in the specifics, so the number of hours broadcast in Bali or Indonesia—in that area—that increased on a temporary basis in the days and weeks following the bombing.

Ms Howard—By all means. Just so that you know, we broadcast as well as by short wave into 13 local stations, I think, in Indonesia, including one in Bali. But, as I said, I will take the number of hours on notice.

Senator LUNDY—In the context of the cuts to Radio Australia, did those cuts compromise Radio Australia's ability to transmit into Indonesia through this period?

Ms Howard—The biggest cuts were in 1997 when the shortwave coverage was cut quite drastically. Since that time, Radio Australia has worked quite hard, as I said, to broadcast through local arrangements with radio stations, but it does not meet the coverage that we held before 1997. We have not managed to achieve those levels—that is absolutely true.

Senator LUNDY—Can you give an outline of the transmissions to Indonesia in 1996 compared with today—that is, not the temporary circumstances?

Ms Howard—Again, I will have to take that on notice. I do not have that number here. We have recovered about 20 per cent of the transmission capacity above the cuts we took in 1997 through local retransmission arrangements, but I cannot give you those comparative figures right now.

Senator LUNDY—Okay, you can take that on notice. Has the closure of the Cox transmitter in 1997 and its replacement with the different transmission services meant that the strength of Radio Australia's signal in some areas has been weakened?

Ms Howard—Severely reduced, yes.

Senator LUNDY—What would be the cost to the budget of restoring Radio Australia's output to its level prior to the 1996-97 funding cuts?

Ms Howard—Again, I will have to take that question on notice. I do not know what the costs would be.

Senator LUNDY—I think you will be very interested. I go back to a general question about ABC funding. Does the ABC prefer general operation funding to tied funding for areas such as digital or transmission?

Mr Balding—The corporation obviously prefers untied funding and the allocation of funding is obviously the prerogative of the ABC board. Where there are specific circumstances, specific purposes such as funding provided by the government for capital expenditure in respect of digital rollout, I do not see any problem with that.

Senator LUNDY—There has been a growing trend towards the tied funding model, hasn't there?

Mr Balding—No. It depends on what period of time you want to have a look at. The tied funding received from the government in recent times has been primarily in respect of the digitisation, the capital for the digital rollout, along with the specific money for both analog transmission and now digital transmission. Three or four years ago, the ABC did not receive money for transmission. It was provided for through the National Transmission Agency prior to the sale of that agency to NTL.

Senator LUNDY—Can you give me a very brief update on the progress of your multichannelling arrangements?

Mr Balding—We have two multichannels at the moment, a kids channel and a youth channel.

Senator LUNDY—ABC Kids and Fly?

Mr Balding—ABC Kids and Fly. I will ask Lynley Marshall, our director of new media, to give you an update on where that is at with the trends.

Senator LUNDY—No, I wanted to ask you what type of services you would multichannel if the current genre restrictions were removed.

Mr Balding—That is the problem: the genre restrictions are hampering us—along with funding, obviously. Again, for a number of months now, to assist with the digital take-up, we have been arguing for funding for digital content but we are also arguing for those genre restrictions to be lifted to enable us to do national news, some drama and sporting events. At the moment we cannot do drama, we cannot do sport and we cannot do national news, along with some other genres. I think it is a little bit restrictive and it is a lost opportunity for the national broadcaster and for the community of Australia.

Senator LUNDY—You have anticipated my next question well. Have you had any discussions with the minister or the minister's office regarding these issues and the removal of those genre restrictions?

Mr Balding—We have put that to government through a number of mechanisms—through our comments with respect to the committee of inquiry into the broadcasting services amendment and through the datacasting review—and I have at times mentioned it to the minister. I have also said it publicly a number of times.

Senator LUNDY—Indeed.

Senator Alston—The pressure has been remorseless.

Senator LUNDY—Clearly—and I was going to ask you what your response to all this pressure is, particularly in relation to the lifting of the genre restrictions.

Senator Alston—Do you mean the ones that you supported when the bill went through the parliament?

Senator LUNDY—I keep remembering what happened, I think it was in about June or July this year, when Channel 9 had too much sport. They had so much sport that they were showing all sorts of sport at really strange hours. My question is really in the context of, I guess, the rights to a lot of sport being purchased by one of the free to airs but opportunities perhaps existing in a multichannel format for the ABC, if those genre restrictions were lifted.

Senator Alston—What—to show sports no-one wants to watch?

Senator LUNDY—That is not the point. You may want to give a subjective view about what people want to watch—

Senator Alston—Are you talking about tier 2 sports?

Senator LUNDY—but the truth is that they will decide if the rights are worth purchasing or pursuing.

Senator Alston—They can do that now.

Senator LUNDY—Not in a multichannel format.

Senator Alston—No, not in multichannel.

Senator LUNDY—That is the question. What do you think of the ABC's view that a lifting of the genre restrictions on multichannelling to allow broadcasting of, for example, sport, news, drama—

Senator Alston—So they can show tier 2 sport? I do not think that would be a major driver of the uptake of digital television.

Senator LUNDY—So you think it is a good idea?

Senator Alston—I am saying that I do not think it would be a major driver of the uptake of digital television, which is the basis on which they are asking for more money.

Senator LUNDY—So you do not think it is a good idea?

Senator Alston—I am just saying that if you are talking about marginal sports, the way you will drive take-up is to have mainstream sport—high action, popular sports.

Senator LUNDY—It seems that the ABC still has some lobbying to do.

Senator Alston—You were asking me. I do not think the ABC is saying precisely that.

Senator LUNDY—What are the current pay TV retransmission arrangements for the ABC with pay TV companies?

Mr Balding—We have retransmission arrangements with all the pay TV operators. The one that we have not covered at the moment is in respect of Foxtel satellite. At the moment, Foxtel cable does not carry our multichannels, whereas Optus and Austar do.

Senator LUNDY—With respect to retransmission, is that legislatively guaranteed?

Mr Balding—No, it is not. It is an agreement. It is a contract between the parties, but it is not enshrined in legislation. That is one of the things that I have also been advocating publicly in respect of the ‘must carry’ provision. At any point in time, people can undo agreements and contracts but, if it is in legislation, only the parliament can undo them.

Senator LUNDY—What are the circumstances regarding ABC Kids and Fly and pay TV?

Mr Balding—At the moment they are carried on Optus, Austar and TransACT.

Senator LUNDY—Is that because you have been unable to reach commercial arrangements with Foxtel?

Mr Balding—In respect of Foxtel, I believe satellite does not have the capacity—it is a capacity issue. With cable, I believe it is also in respect of capacity.

Senator LUNDY—Is that what they have told you?

Mr Balding—I believe so. There is a commitment, though, from Foxtel that, once they digitise, they will take the multichannels.

Senator LUNDY—That was my next question: what impact does the Foxtel Optus content sharing arrangement have on the ABC in terms of carriage of your content, both your multichannels and your prime screenings?

Mr Balding—As I just outlined, we have current retransmission agreements, and there is a commitment from Foxtel that they will carry our multichannels once they digitise the cable. I am saying that is fine for the short to medium term. What I am more concerned about is the future and the long term for the public broadcaster. We have been arguing quite consistently that the public broadcaster should have a ‘must carry’ provision across all platforms for all its services. Companies come, companies go, ownership of companies changes and agreements tend to be unwound.

Senator LUNDY—Do you think that ‘must carry’ should have legislative groundings?

Mr Balding—I believe it should be legislative; that way, only the parliament can undo it.

Senator LUNDY—In relation to the Foxtel Optus agreement, my understanding is that, if there is existing carriage on their analog services, that service will begin as soon as the digital service is up and running. But, if it is not up and running, there is in effect an access holiday

for alternative service providers for a period of six months or up to 100,000 subscribers for alternative channels. Do those provisions impact on the ABC, or is the ABC guaranteed to get on that digital network as soon as it is up and running?

Mr Balding—I will refer that to Lynley Marshall.

Ms Marshall—Our current agreement means that when Foxtel digitises its cable our multichannels will be carried.

Senator LUNDY—Immediately?

Ms Marshall—That is my understanding.

Senator LUNDY—Would you clarify that and come back to the committee?

Mr Balding—Yes.

Senator LUNDY—In terms of mandating that retransmission and the ‘must carry’ provisions, does the ABC have a specific view about the legislative mechanism that should make that possible?

Mr Balding—Not really, but I presume it would be in the Broadcasting Services Act somewhere.

Senator LUNDY—Minister, do you have a view on that?

Senator Alston—‘Must carry’ is normally used in the context of carrying networks, not just government owned networks, so you would really be considering the commercials as well. I hear what Russell says about companies changing, but I think the reality is that the commercial imperatives will always be there. They generally operate on the basis that it is in their mutual self-interest: it adds to the pay TV company’s offering to be able to carry a bunch of free-to-air channels and obviously it suits the free-to-air to be carried. So, even though there is no current agreement with the commercials, again, I think there is nominal consideration involved because of that mutual interest.

Senator LUNDY—Given that the justification presented to the ABC, at least on the Foxtel analog cable, is that there is not enough room, do you think there is scope to legislate for ‘must carry’ on a digital cable network? Would that be the mechanism that would be introduced?

Senator Alston—I think the difficulty with satellite is that it is essentially targeted at regional areas where you have a number of different markets and you may need to put it on to quite a number of transponders. I think Austar is negotiating some retransmission agreements right now, so there may not be the technical problems that people think. In a digital environment you have the potential in cable for hundreds of channels, so there would be much less concern that somehow they would want to turn off the ABC and SBS. That certainly would not happen on the basis of capacity constraints, and—given that there is a guaranteed market out there for the national broadcasters—I would have thought it would be in the interests of the pay TV operators to carry them. I can understand that legislative certainty is desirable if you want to be carried; I think the commercials are arguing for that, too. We will have a good look at that.

Senator LUNDY—Mr Balding, I have a couple of questions about board appointments. Mr Kroger has indicated that he does not intend to continue on the ABC board when due for reappointment next year. Can you tell the committee exactly when his term expires?

Mr Balding—His term expires on either 5 or 6 February. I will have someone look it up in the annual report.

Mr Pendleton—It is 5 February.

Senator LUNDY—Are there any other board members up for reappointment next year?

Mr Balding—No, I think the next one is in about another 12 or 18 months.

Mr Pendleton—August 1999 is the next one.

Mr Balding—It will be five years after that.

Senator LUNDY—So August next year is the next one?

Mr Balding—No, 2004.

Senator LUNDY—Minister, what is the government's current policy on ABC board appointments?

Senator Alston—We are all in favour of them!

Senator LUNDY—All of the time?

Senator Alston—Well, most of the time. It depends how they play out, I suppose.

Senator LUNDY—Have you approached anyone or sounded out anyone to replace Mr Kroger?

Senator Alston—Mr Crosby tells me he is not interested, so that has saved us a bit of time. Otherwise, no, I think we are still giving consideration to the matter.

Senator LUNDY—Will you ensure that future board appointments are based on merit and not political leanings?

Senator Alston—Since 1996, they have been.

Senator LUNDY—That is a very subjective viewpoint, I guess.

Senator Alston—You would not pretend otherwise, would you?

Senator MACKAY—We would contend that pre-1996 they were.

Senator Alston—Do you think they were pre-1996? I think the unions had the majority on that board.

Senator LUNDY—Minister, do you still think the ABC is biased?

Senator Alston—I do not believe in sweeping statements.

Senator LUNDY—It has never stopped you before!

Senator Alston—I suppose there is always an exception, but it depends how provoked I am. In this context, I certainly would not accuse the ABC of having anything like that generic bias, but there are always concerns about programs. A lot of people have concerns about a recent *Sunday* program, and I share Telstra's angst on the matter. Does that mean that Channel 9 is irredeemably biased? No. So there will be programs on the ABC that people can take exception to. Mr Balding and I—

Senator LUNDY—But you have made the generalisation in the past. Are you backing away from that now?

Senator Alston—I do not know that I have made that generalisation.

Senator LUNDY—I think you probably have.

Senator Alston—You think I probably have and I think I probably have not, so we are square.

Senator LUNDY—Are you prepared to say that you do not believe that the ABC is biased?

Senator Alston—I have told you. I do not think there has ever been any suggestion that the ABC as an institution is biased. The concern is about particular programs, and I do not think anyone pretends they are perfect. The ABC would not bother setting up a complaints regime if it thought it was not ever going to get complaints. There are occasions when complaints are upheld. That is a fact of life. It does not mean that the organisation is somehow of malicious intent. It is a highly subjective area—we all know that—but there can certainly be occasions when the selection of talent or the selection of story, with hindsight, might be seen to have presented a one-sided view. That can be said of any news media, I think.

Senator LUNDY—I have some final questions on the TV coverage of netball. My understanding of the situation is that the ABC have recently reconsidered their policies in relation to advertising. Ms Levy, could you outline what those changes were, what the motivation was and where the situation is now with Netball Australia and their sponsorship arrangements that were in place? I understand that the ABC's decision to change their policies on advertising did impact upon that.

Ms Levy—The ABC has editorial policies which are reviewed regularly and changed appropriately through the consultation process with the staff and the board. The process of evaluating the appropriateness of signage and advertising on the ABC is a matter for us to be concerned about at all times across all genres of program, not just sport. Recently, we were concerned to ensure that each sporting body did not intentionally or unintentionally place us in breach of the act. This included signage brought to an event that made it difficult for our cameras not to dwell on it, giving additional benefit to sponsors of an event. This caused us some concern.

Netball Australia went on record saying—at least, in the press they were reported as saying—that their sponsors required television coverage. So, naturally it is of concern to us that we behave appropriately and our sporting bodies and all other organisations recognise the particular responsibilities of working with the ABC. Each sporting organisation was contacted and their contracts include a requirement that they comply with our editorial policies. That requirement is there. We sought information on their particular sponsorship arrangements and we have in every instance, excluding netball, had discussions with each of the sporting bodies to ensure their understanding of our editorial policies and their cooperation and collaboration with us in order to ensure that we can have a satisfactory outcome. Netball Australia has not sought that opportunity.

Senator LUNDY—Thank you for that explanation. Are you familiar with the report *An illusory image: a report on the media coverage and portrayal of women's sport in Australia*?

Ms Levy—No, I am not.

Senator LUNDY—It was a report that this government launched back in 1996 detailing the role that all stakeholders could play in improving the coverage and, I guess, sponsorship opportunities for women's sport. It did include roles that the different media organisations could play, given the immense inequities in the coverage of women's sport in this country and how difficult it makes it for women's sport, in particular, to get the sort of sponsorship deals necessary to sustain and grow their sport. Perhaps you could take it on notice to provide to the committee the ABC's formal response to the recommendations contained in that report—the author was Murray Phillips.

Ms Levy—Might I add, Senator, that women's basketball have reached agreements with us and are on air. We do not, of course, have any problem at all with women's sport.

Senator LUNDY—I would still be interested in your response to the recommendations of the report titled *An illusory image: a report on the media coverage and portrayal of women's sport in Australia*, because we are looking at systemic inequities in relation to the coverage of women's sport in this country, as we are around the world. Thank you. That is all I have. I will be putting questions on notice.

CHAIR—That concludes our questions to the Australian Broadcasting Corporation. Thank you for appearing today.

[4.10 p.m.]

Australian Communications Authority

CHAIR—I welcome the ACA to the table.

Senator MACKAY—I refer to the June quarter Telecommunications Performance Monitoring Bulletin and the ACA's accompanying press statement called 'Carrier performance stays on track'. Can the ACA confirm that Telstra's urban fault rectification performance declined to 83 per cent, meaning 17 per cent of phones in urban New South Wales were not fixed within the customer service guarantee time frames? How can the ACA in any way regard this as being interpreted as 'staying on track'?

Mr Shaw—My colleague is looking for that reference, Senator, so that we can respond.

Senator Alston—You are drilling down to a lower level. If you take the high-level areas, the performance was consistently over 90 per cent. Fault clearances on time national were 88 per cent; urban, 86; rural, 93; and remote, 97. It tells you they are doing better in rural.

Mr Neil—I can confirm that urban fault performance was at 83 per cent. The statement made in the press release referred to the industry overall—Telstra being a major part of it but not the sole player. The reference is to performance, including connections, which has been continuing at a very high level. Telstra had already given us an explanation for the decline in urban performance in New South Wales, in particular in March, and why it had not improved as much as they had hoped in June. They had given us assurance and additional data that, as was indicated earlier today, they were moving back towards 90 per cent performance. The statement made in the press release took into account all of that information.

Senator MACKAY—A bit of a bold statement, I would have thought, given that you have confirmed today the declining 83 per cent et cetera. I think I have made my point. I note that the ACA's executive summary attributes Telstra's continued poor performance in urban New South Wales partly to bushfires and flooding from the March quarter continuing to affect the June quarter performance. Exactly what bushfires and floods occurred in urban New South Wales in the March quarter? How and why was the effect still being felt in the June quarter from the ACA's perspective?

Mr Neil—The major bushfires referred to in the March quarter were those which occurred in the Sydney area in January, if my memory is correct. I do not have the details in front of me. Telstra gave us information and briefed us on the implications and the difficulties they were having in effecting repairs, particularly in the early part of June quarter, and catching up with work on that basis. They gave us, as I indicated earlier, further information to make clear that their performance was improving going forward in the latter part of that quarter and in successive months. On that basis, we accepted their explanation for the trough in performance carrying over from March to June.

Senator MACKAY—All this information that Telstra is providing you with so that you put out press releases like ‘Carrier performance stays on track’ and you accept their explanation on the effects still being felt in the June quarter, I am curious as to where it is in this document.

Mr Neil—That document is the annual report. It is nowhere in that report. That document you are holding up is the section 105 report from last year.

Senator MACKAY—Where is it more generally? Where is this information that Telstra is providing you? Where can I get access to that?

Mr Neil—We publish a quarterly report which summarises reports that are provided to us by Telstra and other carriers. We do not publish the reports they give us necessarily. The reports you get are the annual report that we produce, which is a summary of the year’s performance, and we produce four quarterly reports which detail CSG performance.

Senator MACKAY—So Telstra is providing you and satisfying you, I think is the term you used, in terms of overall performance, satisfying you in terms of the flow-on consequences of the bushfires of January still impacting in the June quarter, but nowhere can the public get access to this information that Telstra is providing you.

Mr Neil—We do not publish the detailed information, no. We publish our assessment of the situation based on information provided us by Telstra.

Senator MACKAY—You do not accept that there is a bit of subjectivity and value judgment there?

Mr Neil—Of course there is. We make value judgments, if you want to put it that way, or objective assessments, to put it my way, all the time. We are making judgments; it is a question of judgment. We take the information. Some of information is objective data. Percentages are detailed here, overwhelmingly all in the 90 per cent area. I think they adequately support the statements made in the press release. You have picked on a particular performance area, albeit in a large state, one that we have noted and have been monitoring with them. They have given us explanations and we accept those. If the performance does not improve next quarter, we will be pressing them again. But at this stage they have given every indication, including here earlier today, as I heard one of our officers say, that they are back approaching 90 per cent in that area.

Senator MACKAY—Why shouldn’t the ACA produce the information that it gets from Telstra?

Mr Neil—We can produce scads and scads of information presumably, but what is the level of public interest in it? We have to produce a report. We can produce a 60-page report every month or we can produce a 30-page report every month. It is a question of our judgment of what is going to be useful to the general public, to the parliament and to the minister. If the minister wants more detailed information, he of course has access to it. But it is really a question of what information is in the public interest.

Senator MACKAY—That adds to my contention that there is an element of subjectivity. Can you provide that information to the committee?

Mr Shaw—We are putting out the percentage figures as to what performance is. There is no subjectivity in relation to that. It is an assessment of what that might mean that is subjective, and anyone else can make their call, as you have today, about whether you think it is good, bad or indifferent performance.

Senator MACKAY—It is not me that mentioned the term ‘advised’ or whatever terms were used previously. ‘Satisfied’ I think is the term that was used in relation to the ACA. All I am asking is whether the committee can have the information which the ACA got from Telstra that led it to the contention that it was ‘satisfied’ with the performance. Can we have it?

Mr Shaw—We can provide some dot points on the reasons why we came to that assessment—

Senator MACKAY—No, can we have the information Telstra gave to you?

Mr Shaw—But that is because we are making a judgment here as to what we think is good, bad or indifferent performance. If you go back in time, with the figures we used to provide we very seldom made that call. It is only recently, in the last year or two, that we have actually been putting some value on top of the figures to make a judgment and pass our assessment as to whether we think that performance is getting better or worse or whether it is adequate.

Senator MACKAY—I think you have made my point for me. Have Telstra provided comparative data on weather and flooding events in urban New South Wales over the last few years so that the ACA can thoroughly assess these claims by Telstra?

Mr Neil—In providing their reports to us on a quarterly basis they provide us a report that usually includes information about weather events which may have affected their performance through the period. They do not provide, so far as I am aware, direct comparisons as to what the weather events were. They provide it on a quarterly basis—these were the weather events, these were the things that were affected—and they relate them generally to their mass service disruption notices under the CSG.

Senator MACKAY—It is therefore not comparative, or is it comparative?

Mr Neil—They do not provide a comparison between this quarter to the last quarter and this quarter to the same quarter of the previous year or those sorts of comparisons. They provide us with a commentary on the weather events which influence their performance.

Senator MACKAY—And it is retrospective, not prospective, obviously.

Mr Neil—All the data they provide us is retrospective in that it relates to the previous quarter. We publish it generally within three months of the expiry of the quarter.

Senator MACKAY—No, we just had a conversation with Telstra, but I digress. We note that the June quarterly report states that pay phone availability remains high at 99 per cent, but a recent report by the ACA on pay phones states that only 82 per cent of pay phones enabled successful calls to be made by both coin and phone cards. Which figure is correct: 82 per cent of calls successful or 99 per cent availability? Are they there but they do not work?

Mr Haydon—The pay phones study looked at two different attributes of measurement. The 82 per cent is what the ACA investigation of the actual pay phones demonstrated when they visited the pay phones. The much higher figure relates to Telstra’s in-house testing technique, which involved remote testing, testing the line and the capabilities that could be seen from a remote site via the line. So they were looking at two quite different capabilities.

Senator MACKAY—In terms of the ACA’s perspective, you would contend that your figure is correct, presumably; otherwise you are relying on Telstra’s information.

Mr Haydon—Correct. The ACA’s assessment was an actual assessment of individual phones. It was also a sample. You must appreciate that it is a sample and not a complete set.

Senator MACKAY—Obviously you stand by the 82 per cent figure?

Mr Haydon—Yes.

Senator MACKAY—With respect to network performance connection rates, I note that ACA say in their June quarterly report that no carriers report a network loss of over one per cent. Is that correct? How many carriers has the ACA asked this information of, and who are they?

Mr Neil—I would have to take on notice the particular carriers that we asked that question of. I do not have the information with me directly.

Senator MACKAY—When you take that on notice, can you give us the names of whom you asked?

Mr Neil—Sure.

Senator MACKAY—We are trying to get answers to questions on notice in quickly—by the end of the week. Is that feasible?

Mr Neil—That should not be a problem.

Senator MACKAY—Does the ACA independently audit, test or verify carriers' claims on network loss?

Mr Neil—No.

Senator MACKAY—Anecdotal evidence—and in the absence of anything else, that is all we have to go on—seems to suggest that many carriers have connection faults or network busy problems exceeding one per cent. How do you know that this is not the case?

Mr Neil—As I say, we do not do any specific checking. My understanding, going back, is that the numbers on network loss have traditionally been extraordinarily low. We only now require them to report on an exception basis. The reports we get are truly exceptions. Very, very few carriers report network loss. I am not personally aware of the anecdotes that are you referring to. It is not an issue that has been raised with the ACA in any large way at all.

Senator MACKAY—Would you know? You do not do any independent audit, testing or verifying. You just rely on the carriers, don't you?

Mr Neil—To some degree. But there is no huge complaint about a degree of network loss. I have had one inquiry that I know of about this issue in 18 months.

Senator MACKAY—Try being a member of parliament.

Mr Neil—I think it is reasonable to base your approach to auditing these matters on some sort of assessment of likely event that happened.

Senator MACKAY—Why don't you do survey of members of parliament and see how far you get with that?

Dr Horton—Just to add to the conversation we are on, there is a standard—or code, if you like, of end-to-end network performance. In a worldwide sense, less than two per cent is something that you would not worry about. What we get reported does not alarm us to the extent that we would like it audited.

Senator MACKAY—Is the ACA absolutely confident of the reports carriers provide to it on network loss—just to complete that line of questioning? Are you confident?

Mr Shaw—I could not see any reason to doubt—

Senator MACKAY—So the answer is yes; is that right?

Mr Shaw—that the figures they are providing us with are appropriate.

Senator MACKAY—How do you define network loss with respect to network performance?

Dr Horton—The number of calls that may drop out as a percentage of total calls.

Senator MACKAY—Do you have a set of criteria that you use?

Dr Horton—There is an international standard.

Senator MACKAY—Which is used by the ACA?

Dr Horton—Yes, we adopt whatever international material is available. But the code itself is created by industry, and we register the code.

Senator MACKAY—Can you get me a copy of that?

Dr Horton—Yes.

Senator MACKAY—Can you provide to the committee all carriers' performance with respect to network loss over the last four quarters?

Dr Horton—No.

Senator MACKAY—Why?

Dr Horton—There are something like 81 carriers licensed, and we do not receive all that information from them.

Senator MACKAY—How many do you receive it from?

Dr Horton—Probably about eight is what we might be able to get some information on.

Senator MACKAY—So eight out of 81?

Dr Horton—Yes.

Senator MACKAY—Can you provide the committee with the eight carriers' performance that you get with regard to network loss over the last four quarters?

Dr Horton—If it is eight. Whatever the number is, we can provide that information.

Senator MACKAY—And who they are?

Dr Horton—Yes.

Mr Neil—I should repeat that we get reporting on an exception basis, and so we will not have a complete set of data for any network loss for any carrier if they have not reported because it has been below one per cent.

Senator MACKAY—Thank you.

CHAIR—I thank the witnesses for appearing. I call the department.

[4.26 p.m.]

Department of Communications, Information Technology and the Arts

CHAIR—I welcome the department. Senator Lundy will be asking questions.

Senator LUNDY—First, I would like to go to issues relating to the cost of the Estens inquiry. Can you provide a breakdown of the full cost of the department's involvement in the Estens inquiry?

Mr Bryant—I headed the secretariat for the Estens inquiry. The overall cost of running the inquiry in terms of goods and services was about \$160,000. Some of the bills are still coming in, so that is pretty approximate. In relation to the staffing costs, the staffing support provided

through the secretariat was 13 full-time staff and one part-time staff member; total staffing costs were again approximately \$190,000.

Senator LUNDY—Is that in addition to the \$160,000?

Mr Bryant—Yes. So the total cost—again pretty close to the mark but not exact—is \$350,000.

Senator LUNDY—What was the travel budget?

Mr Bryant—The travel costs amounted to approximately \$32,000.

Senator LUNDY—Is that in addition to the \$160,000 and the \$190,000?

Mr Bryant—No, that is included in the \$160,000.

Senator LUNDY—Were any officers of the department assigned specifically to either assist with writing the report or prepare the drafts and write the actual report?

Mr Bryant—That was one of the key roles for the secretariat, to prepare draft material for the consideration of the panel.

Senator LUNDY—So officers of the department actually did all the drafting work? That was their role?

Mr Bryant—Yes.

Senator LUNDY—How many people were involved in that process, and for what period?

Mr Bryant—The actual writing processes, as opposed to general support through the secretariat? As I said, there were 13 full-time staff and one part-time staff member over the—

Senator LUNDY—It seems an extraordinarily large number of people. Why was it?

Mr Bryant—There was a lot of work to do. If we go back to the TSI inquiry in 2000, that ran for a period of six to nine months and we had approximately the same number of staff.

Senator LUNDY—How much did that one cost again?

Mr Bryant—I will have to take that on notice.

Senator LUNDY—Yes, it was a lot. So far we are looking at about \$350,000 for Estens.

Mr Bryant—That is correct. Generally speaking the tasks involved in the secretariat were organising meetings, taking notes, producing draft material for the consideration of the committee, organising travel, dealing with the media and so forth.

Senator LUNDY—How much money was paid to Mr Estens, Ms Bennett and Mr Braithwaite for their roles on the Estens inquiry?

Mr Bryant—The overall payments to the panel members were of the order of \$52,000. That was based on Remuneration Tribunal determination for part-time office holders category 3, and that amounted to \$460 per day for the chairman and \$410 per day for committee members. Obviously, that included time for meetings and also undertaking the business of the inquiry. That was for actual sitting fees. There were payments for travel allowance as well that amounted to \$52,000.

Senator LUNDY—So travel allowance was \$52,000.

Mr Bryant—No, the sitting fees plus the travel allowance.

Senator LUNDY—Was that in addition to the \$160,000 and the \$190,000?

Mr Bryant—No, that \$350,000 is the total cost.

Senator LUNDY—I am just trying to get a feel for this. Essentially, that whole process was supported, with the draft prepared by officers of the department, with the front end being the committee, being the public face of the inquiry. Is that a fair reflection on the process?

Mr Bryant—No, the committee was very actively involved in the preparation of the report itself, obviously.

Senator LUNDY—But they commented on drafts prepared by the department.

Mr Bryant—And they required changes, they had their input and they guided the overall direction of the report.

Senator LUNDY—Well, predictably. That makes it pretty clear.

Mr Bryant—For your information, there were eight meetings of the committee, five in Canberra and three by teleconference over that period to consider the development of the report.

Senator LUNDY—Minister, does the government agree with Estens recommendation 8.1 that Telstra should be required to maintain an ongoing local presence in regional, rural and remote Australia provided that is compatible with Telstra's commercial interests? Do you agree with that?

Senator Alston—Yes, I have heard some comment on the conjunction of those two expressions. But I think the emphasis is much more on the former than on the latter. In other words, they are insisting on having a local presence. They have to have a local plan. A local plan should take into account or have regard to Telstra's commercial interests, but it does not, in any shape or form, provide an excuse not to maintain a local presence. On that basis, I would think it is acceptable.

Senator LUNDY—From your comments, you imply that with that qualification—this concept 'provided that is compatible with Telstra's commercial interests'—it is almost as though Telstra came through this report at the tail end and put in these qualifications. Did they? Did Telstra have a look at the draft before it was published?

Mr Bryant—No, they did not.

Senator LUNDY—How did that kind of qualification get in there? Was it Dick Estens's belief that everything is qualified by Telstra's commercial interests?

Senator Alston—No, I am only speculating. I have no idea why they put it in there but I presume—

Senator LUNDY—You do not agree with it?

Senator Alston—I am sorry?

Senator LUNDY—You do not agree with that sentiment?

Senator Alston—I am saying that, to the extent that the plan should take account of Telstra's commercial interest, I can understand the sense of that. You do not want them to do things that are outrageously uneconomic; on the other hand, if it is marginal you might expect them to do it. But by and large they will say to you that it is in their interest as a sort of national brand carrier to be there in spades. They would say they are making money out of regional areas these days. I do not think in practice it is going to make much difference.

Senator LUNDY—The way that reads and the way it is certainly being interpreted is that Telstra's commercial interests were a prime factor in the consideration by the committee or the drafting forces behind the report. That seems to be completely counter to the way you are

trying to present this report: that somehow it is about services to the bush and improving them. You say you are not allowing that to be compromised by the coalition's conflict because of the privatisation agenda to look after Telstra's commercial interest. I want to know how you could reconcile the conflict.

Senator Alston—There are always potentially conflicting obligations. One is that Telstra is the designated universal service carrier, which means by law it is required to provide these services in regional areas. So I cannot really see how it can 'get out of town' consistent with that. On the other hand, by law Telstra is required to operate commercially so in theory it should not have to do any of that. You put those two together and what Estens says is that it should be broadly compatible with that. He is not saying, 'If it is not commercial, they don't have to do it.' He is saying, basically, 'Have a look at whether it makes commercial sense for them.' I think you will find it does. But to the extent that it does not, probably the USC overrides that anyway.

Senator LUNDY—Given that the coalition is committed to a privatisation agenda, how will you stop Telstra neglecting regional markets if that eventuates?

Senator Alston—They are not now. I do not see any motivation for them doing that in the future, but it is the same old story. It has nothing to do with ownership; it has everything to do with legislative intent. If the parliament took the view that Telstra was walking away from obligations which no-one else would meet, then it would clearly be an unacceptable situation. Whether you fund it by the USO levy or whatever else, you would ensure that those services continued to be delivered. I do not think it is a matter of concern in real life to think that Telstra would not want to do that.

Senator LUNDY—Another curious finding in the report was finding 2.6, that rising regional customer access network faults are reasonable. Do you think rising customer access network faults are reasonable?

Senator Alston—Sorry, 2.6? Recommendation or finding, did you say?

Senator LUNDY—Sorry; finding.

Senator Alston—It says:

In most regions faults per 100 services ... have increased slightly, but overall fault levels remain broadly consistent with historical levels, and are reasonable. The evidence suggests there continue to be localised pockets of particularly fault-prone services ...

That is why they made that specific recommendation about poorly performing exchange service areas and Telstra having to provide the government with a strategic plan to address those.

Senator LUNDY—But again it kind of reinforces the point that the findings are weak. You read it out yourself: a rise in faults in some areas.

Senator Alston—No. It says:

... have increased slightly, but overall fault levels remained broadly consistent with historical levels ...

Senator LUNDY—It just becomes a big qualification, doesn't it?

Senator Alston—No.

Senator LUNDY—The report is characterised by these qualifications. Services are declining and this report tries to dress it up.

Senator Alston—It is no use saying, ‘Take a snapshot; they were bad; that means they’re always bad.’ You know that the trend line will vary. If the trend line is going upwards—and it has been unequivocally if you look at the ACA quarterly figures—you will get the odd fluctuation. That is acceptable if the trendline is broadly upwards. And that is what he is saying. There are some pockets where you continue to have problems, and that is what the network reliability framework is designed to address. If you have a network that in some instances is 50 years old—part of the can is—you are probably going to find that you have pockets of problems, which is what Estens says need to be addressed.

Senator LUNDY—Is the government going to improve the standard telephony service to 19.2 kilobits per second in response to the Estens recommendation?

Senator Alston—We have not made a formal decision, but the requirement to mandate 19.2 as a licence condition is, I think, a very sensible one. I do not know that that would become part of the USO.

Senator LUNDY—Why wouldn’t it?

Senator Alston—Because it is not a cost. The USO is essentially a way of funding otherwise uneconomic services by imposing a levy on other sectors of the industry. Here, Telstra have voluntarily committed to 19.2 and not suggested for a moment that it involves any additional cost.

Senator LUNDY—But how will it be enforced if it is just a—

Senator Alston—By law.

Senator LUNDY—licence condition?

Senator Alston—That has the same effect as by law. If they breach a licence condition, I think in theory they can lose their licence. Certainly you can prosecute for a breach of licence condition.

Senator LUNDY—Are you likely to do that? Is it your intention to do that?

Senator Alston—I could not envisage a situation where someone of the magnitude of Telstra would thumb their nose at a licence condition. But if they did, if there was a systematic breach, then they would be liable to a penalty of \$10 million. But the house would have fallen in before then; you would have everyone screaming for blood. Again, I do not think it is real life to imagine that they would not comply. Certainly, they understand why it is desirable to provide that minimum guarantee, because that gives you Internet browsing, chat and email, which are the three most popular services.

Senator LUNDY—It barely gives you that.

Senator Alston—Well—

Senator LUNDY—Have you ever used the Internet at 19.2 kilobits per second? It is not very fast, although it is an improvement on 9.6.

Senator Alston—But that is only a minimum. It might not be the optimum or it might not be what you or I might expect, but those things are commercially available. But for people who have only ever been able to get 9.6 or even 2.4, then 19.2 is suddenly quite a significant improvement. Again, it is only a baseline figure. It is not saying that that is all they will ever get.

Senator LUNDY—Another aspect of the report describes Telstra’s \$187 million in 2002-03 network expenditure as ‘remediation’. You described it in a press statement as money for

‘upgrades’. Can you clarify whether it is in fact remediation money or upgrading money? The connotations of both descriptions are vastly different.

Senator Alston—I am not sure they are vastly different.

Senator LUNDY—They are vastly different. Remediation means fixing problems; upgrading means it is some kind of future investment.

Senator Alston—If it is a poorly performing network and you remediate it, you make it better; you have upgraded the service. If you are saying—

Senator LUNDY—That is just about spin. It is your spin on talking up Telstra’s response, as usual. That is the only way it can be interpreted, Minister.

Senator Alston—It is not the only way. I have just given you another interpretation. You might prefer your claim.

Senator LUNDY—I can spend all night just picking through how you have put the positive spin on things.

Senator Alston—You suggested that there is a world of difference. I am saying that I am not sure there is.

Senator LUNDY—Can you tell the committee when the government intends to formally respond to the Estens inquiry?

Senator Alston—Yes. As soon as possible.

Senator LUNDY—When?

Senator Alston—That is a matter for my colleagues. We take collective decisions on important issues. We have started our cabinet discussions, and we are working our way through. But we are on the case.

Senator LUNDY—While you are on that case, you could perhaps tell us what the government’s actual policy is with respect to the further privatisation of Telstra. What hurdles are you setting that will have to be cleared before you proceed with privatisation from your perspective?

Senator Alston—We have to be satisfied that the services are up to scratch, and we are in the process of determining whether we are satisfied.

Senator LUNDY—What are the benchmarks for that service being up to scratch? That is a pretty loose hurdle you are setting for yourself; it is pretty open to all sorts of interpretations, is it not?

Senator Alston—I know. They were the precise terms of reference given to Estens.

Senator LUNDY—Up to scratch?

Senator Alston—Whether the service levels were generally adequate, I think, was the more formal way of describing them. The Prime Minister has his own unique form of language which ordinary citizens can understand.

Senator LUNDY—Do you think the Estens report assessment of regional telecommunications has given the government comfort in its plans to privatise Telstra?

Senator Alston—I think, overall, it is a very positive assessment, but it does involve 39 recommendations and obviously they have to be addressed. But the main two that relate to present performance, which are the licence condition and the poorly performing exchange service areas, are ones that I think are eminently doable, and from then on most of it is really

about the future. The future does not really relate to whether present service levels are adequate. The future relates to how you might ensure they continue to be adequate. Therefore, a lot of those recommendations have to be considered quite separately from our precondition.

Senator LUNDY—You have identified two things: the licence condition—up to 19.2—and fixing the exchange faults. Is that latter one correct?

Senator Alston—Yes, requiring Telstra to provide a strategic plan as to how they are going to very quickly address the problem of poorly performing exchange service areas, which is the network reliability framework.

Senator LUNDY—Is the strategic plan the hurdle or is the implementation of the strategic plan and assessment of the outcomes your hurdle?

Senator Alston—They are the two key recommendations that relate to the present.

Senator LUNDY—I am just trying to work out what your policy is. If those two things are met—

Senator Alston—Our policy is perfectly clear. It is not to say one thing before the election and then do something else afterwards. It is not like the Commonwealth Bank, for example.

Senator LUNDY—Clarify your policy.

Senator Alston—I have.

Senator LUNDY—I am just trying to work out what your policy is.

Senator Alston—Our policy is that if we are satisfied that service levels are up to scratch, then we are in a position to go to the next stage. Presumably that would mean introducing legislation—and depending on how you behave—and if that legislation were to be approved, then the matter of sale would be a question of timing. You may not proceed further even if you had legislative authority.

Senator LUNDY—In terms of the exchange reliability, is the strategic plan your hurdle or is the implementation and reporting back on the strategic plan your hurdle?

Senator Alston—Recommendation 2.9 states:

To immediately target the worst performing Exchange Service Areas (ESAs) in regional, rural and remote Australia, the government should require the Australian Communications Authority (ACA) to identify those ESAs as soon as possible after the Network Reliability Framework commences in January 2003. Telstra should then be required to provide a formal undertaking to the government on its strategy for raising the performance of these ESAs. Telstra's strategy should include specific timeframes and commitments of funding ...

Senator LUNDY—You have identified that recommendation.

Senator Alston—Recommendation 2.9.

Senator LUNDY—So it is two recommendations out of Estens, and, if they are satisfied, you reckon that gives you the green light to privatise.

Senator Alston—We are still working our way through, but it seems to me they are the two key recommendations that you would need to consider when you are looking at the present adequacy of service levels. There may be some others.

Senator LUNDY—You conceded that those two relate to the 'now' situation as opposed to the future?

Senator Alston—That is what I am saying: generally, there are other recommendations which are desirable, and there may be others—perhaps pay phones—that you might say are current issues. But I am saying there are two key recommendations for the future.

Senator LUNDY—I hear what you are saying, but it is also pretty clear that it is about the here and now; it is not about ensuring a future-proof network.

Senator Alston—Future-proofing is nonetheless something that Estens did consider.

Senator LUNDY—Clearly, you are not going to require it as part of your prerequisites for the privatisation hurdle.

Senator Alston—We are going to respond to all of the Estens recommendations. To the extent that Estens is talking about the future, as he does, there is Chapter 9, ‘Sharing benefits into the future’—

Senator MACKAY—Is that the executive summary? Have you read it?

Senator Alston—As you know, apart from being preoccupied with issues relating to the *Sunday* program, which I thought you would spend most of that first day on, I not only have read all the recommendations and findings and the supplementary material but also dipped into the report quite extensively. What I had not done was focus on things which I thought were second order, like your Service Plus and Director.

Senator MACKAY—Telstra clearly did not.

Senator Alston—Particularly as the report itself says that they are pretty much yesterday’s problems and have been replaced by something called FuturEDGE. Are they the main game? They might have been the main game for you, but they are certainly not for me or Estens.

Senator MACKAY—You are a little defensive about this, Richard, I must say. I was being somewhat facetious.

Senator Alston—You keep making the allegation that somehow I had not read the report. That is outrageous. I am sure you would not want to say that outside parliament.

Senator LUNDY—Going back to the concept of future services, clearly much of the detail focused on in Estens, and the complaints—the gravity of the issues was not necessarily reflected in the findings or the recommendations—is about Internet connectivity and about the availability of broadband in the future. Yet what you have just described as a notional hurdle for this government at this point to allow you to go to the next step in privatisation does not go anywhere near those issues of the availability of broadband or improving access to the Internet at meaningful speeds.

Senator Alston—But I am saying to you that we are not simply going to say—

Senator LUNDY—It is not a condition of privatisation, is it?

Senator Alston—No, but we are not going to say, ‘Because there are some elements of Estens that relate to the future, we won’t worry about those. We’ve satisfied our own standard.’

Senator LUNDY—But it is not going to stop you privatising—that is the point.

Senator Alston—No. We are not going to go to that next stage before we have addressed all of the Estens recommendations, which will include future proofing. If we are satisfied—

Senator LUNDY—Now you are changing your story.

Senator Alston—No, I am not.

Senator LUNDY—You are.

Senator Alston—I am saying that to be satisfied you need to look at the present. Are service levels adequate? You can go to the future as well, as Estens has done, and we will be responding to all of those recommendations. Strictly speaking, you might satisfy this committee by only addressing the questions.

Senator LUNDY—I think you have illustrated perfectly for people in rural and regional Australia that your benchmark is about the here and now—it is not about future proofing—and you are going to use a couple of recommendations in the Estens report to justify the next step to privatisation. It confirms what Labor has been saying about this report.

Senator Alston—Labor said it was a whitewash—

Senator LUNDY—It confirms our view of the shallowness of your requirements leading up to privatisation.

Senator Alston—which means it gave us a big tick. That is what Labor has been saying—it was a whitewash. Labor does not say, ‘This report found a lot of serious problems.’ Labor says quite the opposite; Labor says it is a whitewash.

Senator LUNDY—As I said, it raises a lot of serious issues, but the findings and the recommendations are weak.

Senator Alston—Because they did not accept your view of the world.

Senator MACKAY—Telstra cannot even waterproof the network, never mind future proof it.

Senator Alston—If you have a 97 per cent success rate, you are not doing too badly. I am sure you would settle for that.

Senator LUNDY—What is happening with the ABA’s antisiphoning report which you have been sitting on since about August? Don’t you have to resolve that by the end of the year?

Senator Alston—That is one of the very many important issues that we are currently addressing.

Senator LUNDY—Doesn’t that have to be considered by the end of the year?

Senator Alston—Antisiphoning?

Senator LUNDY—Yes.

Senator Alston—Not to my knowledge.

Senator LUNDY—That is the advice we got at a previous estimates round—that it was at least the government’s intention to consider that before the end of the year. The extension was—

Senator Alston—Yes, we extended it for a year.

Senator LUNDY—Reading my notes, it was in August 2001 that you extended it for a year.

Senator Alston—No. That is when we extended it, but it was for a year through to 2005 or 2006, wasn’t it? It was 2005. The current list remains until then anyway, so there is no dramatic urgency. Having said that, we have a report from the ABA. I have said a number of times that I think the list is too extensive. If you look at the UK, for example, there are a lot

fewer sports named on their list. So there is scope for some pruning. How you go about that is still a matter for ultimate determination.

Senator LUNDY—I would now like to turn to Telstra price controls. In the Senate last week, you dismissed the accuracy of a departmental document on the 2002 Telstra price controls by John Street, entitled ‘TIM’. The report states that Telstra will gain around \$170 million from the new price controls. What is the department’s view of John Street’s analysis?

Senator Alston—You cannot ask them to express an opinion on an internal unit. That is the ultimate peer assessment, isn’t it? All I did was point out that the CRU itself said that this was a simple model and in some respects naive. It did not take account of a number of facts. It certainly did not take into account the \$150 million welfare package. It therefore was not a reliable basis for the sort of criticism that you want to mount.

Senator LUNDY—The model did not suit you, so you just discarded it. Has the department done any more modelling since then?

Senator Alston—You do not need to, really, because—

Senator LUNDY—You just believe Telstra?

Senator Alston—No, you believe LIMAC. If five major welfare organisations say this is good news for low income earners, I would have thought you would accept that. But you seem to have written off the welfare organisations—the way your latest leadership contender Mr Tanner carries on that all these welfare groups are an absolute disgrace.

Senator LUNDY—Just going back to the modelling, why haven’t you done more modelling?

Senator Alston—What do you need to model?

Senator LUNDY—If you wanted to throw out John Street’s model, has the department done more modelling—

Senator Alston—We do not want endless modelling; we want to get on with things.

Senator LUNDY—to establish for your own peace of mind—

Senator Alston—I sleep very well, I can assure you. It has not been troubling me in the slightest. Once we got the welfare groups signed up, I slept pretty well indeed.

Senator LUNDY—You really did not care about the facts, did you?

Senator Alston—That made it crystal clear to me that the concerns of low income earners had been adequately addressed. You do not need to agonise about the sorts of things that keep oppositions preoccupied.

Senator LUNDY—Senator John Cherry stated that Telstra will lose \$115 million from the new price controls, which will go straight to consumers. Does the department agree with this analysis? If so, can you substantiate it by showing us some modelling?

Ms Holthuyzen—My understanding is that the calculations that have been done demonstrate that consumers are better off by \$100 million a year under the new price arrangements.

Senator LUNDY—By \$100 million?

Ms Holthuyzen—Yes.

Senator Alston—\$115 million.

Senator LUNDY—Senator Cherry said \$115 million.

Ms Holthuyzen—That might include the extra \$10 million that Telstra—

Senator Alston—Maybe we should require him to table his model in the Senate.

Senator LUNDY—Clearly it is a very significant debate. Senator Cherry stood up and said that \$115 million for new price controls will go straight to the consumers. Are you telling me that the department has not even tested those claims and done modelling of their own?

Senator Alston—We could ask Senator Cherry to give us his model.

Senator LUNDY—No, I think it is up to the department to try to contribute to this debate by providing the facts.

Senator Alston—We have no reason to quarrel with that unless it might be on the light side.

Senator LUNDY—Perhaps I am wisely relying on their data in the past. You seem to discard it when it does not suit you. I am asking the department if they are able to substantiate Senator Cherry's claims.

Senator Alston—His figure is not our figure.

Senator LUNDY—It is not your figure?

Senator Alston—I would have thought ours was higher than that.

Senator LUNDY—So you do not agree with it—you think it is more?

Senator Alston—Probably.

Senator LUNDY—You would expect so? Do you have any modelling beyond John Street's document?

Senator Alston—I do not have any here, no.

Senator MACKAY—Hang on—does the department have any modelling?

Ms Holthuyzen—We undertook some calculations based on the assessment of the price caps and how they play out to consumers. I said it was \$100 million, but it was apparently \$112 million.

Senator LUNDY—\$112 million?

Ms Holthuyzen—That was the benefit to consumers.

Senator LUNDY—So that was following the John Street paper?

Ms Holthuyzen—No. That takes into consideration the changes and takes into account the rebalancing of line rentals and the price decreases.

Senator LUNDY—When was that done?

Ms Holthuyzen—I think that was done at around the time that the price cap arrangements were being finalised.

Senator LUNDY—How does that compare to the original modelling that showed that \$170 million—

Ms Williams—The original modelling really was a very plain model which did not take into account any of the things like the low income package, allowance for inflation and benefits of reducing the access deficit. It was very much a Communications Research Unit model, which, unfortunately, this particular thing was plugged into, and it did not take into account real life. So, really, you are not comparing like with like.

Senator LUNDY—Ms Holthuyzen, you said that you then produced another model, which showed \$112 million. Did you provide that to Senator Cherry? Is that what he is referring to?

Ms Williams—Ms Holthuyzen is actually plugging in the sorts of things that I mentioned were real life and were not plugged into the CRU model.

Senator LUNDY—I want to go back to trying to work out whether the department was involved in establishing Senator Cherry's claim in the chamber that the figure was \$115 million. Did you provide information from the department to Senator Cherry?

Ms Holthuyzen—No, we did not.

Senator LUNDY—Did you, Minister?

Senator Alston—No. It sounds as though we have two independent sources agreeing with each other. That is about as good as it gets, isn't it?

Senator LUNDY—It is not new money anyway, is it? Telstra have already told us that, today or previously.

Senator Alston—What we told you was that this sort of silly new money versus old money line was what Senator Mackay was running the other day, thinking that she had a smoking gun.

Senator LUNDY—It is not new money anyway.

Senator Alston—The issue is whether there is new money for low income earners, and the answer is yes.

Senator LUNDY—The answer is no.

Senator Alston—No, it is yes. It comes from low users.

Senator LUNDY—The answer is no.

Senator Alston—No, you do not want to know this. Low users—people who only use a telephone occasionally—were getting the benefits. They no longer will; those benefits will go to low income earners. To the extent that that is a transfer of money, it is not new money. But is it new money for low income earners? It sure is: they were not getting it previously.

Senator LUNDY—You just keep saying that, Minister, and maybe someone will believe you.

Senator Alston—I know. Some people do not want to know.

Senator LUNDY—Chair, I am very conscious of the time. It is going to be necessary to place questions on notice.

Senator Alston—I think we should move on to sport, myself; what do you think?

Senator LUNDY—In terms of the department, I want to ask some questions in relation to the operation of the Broadcasting Services Amendment (Online Services) Act. Is that part of this outcome or is it the next one, under the IT portfolio?

Ms Holthuyzen—What is the particular issue, Senator?

Senator LUNDY—I wanted to ask questions in relation to NetAlert, seeking information about a tender for filtering solutions that has been issued by the department. Is that you?

Ms Holthuyzen—Yes.

Senator LUNDY—Can you tell me if a tender has been issued for a filtering solution for the Internet, what that tender is all about and how it relates to the online services act review?

Mr Neil—We have released a tender. It relates to the review of the online content scheme, which the minister is required to cause to be conducted by the end of this year.

Senator LUNDY—Can you give me specific dates with respect to the review first, please?

Mr Neil—The minister must cause the review to be conducted by 31 December 2002.

Senator LUNDY—That is in the act, isn't it? It is a requirement of the act.

Mr Neil—Yes.

Senator LUNDY—When did the review begin?

Mr Neil—We have been doing the review for some months now.

Senator LUNDY—You could take on notice when it began.

Mr Neil—Yes; certainly.

Senator LUNDY—Could you advise me, very briefly, on the nature of that review and with whom you have consulted?

Mr Neil—We released a discussion paper and invited comment on the review. The consultation paper was released on 27 September this year; it is on our web site. We have now received some 20-odd submissions to that review. They closed a couple of weeks ago, and we have allowed extensions for some people to deliver their submissions late. We are now examining the submissions and hope to report to the minister in the next couple of weeks in a preliminary manner on the nature of those submissions.

Senator LUNDY—Does that review include the operation of NetAlert?

Mr Neil—It does include the operation of NetAlert; yes. They are also one of the submitters.

Senator LUNDY—Can you provide any advertisements to the committee? Did you place any advertisements promoting the review in regional papers and newspapers around the country?

Mr Neil—No. Normal practice is that we post it on our web site, and we advised key stakeholders.

Senator LUNDY—Who did you advise, specifically? I am asking in the context that I have had concerns raised with me by constituents: they had no idea this review was occurring; it was not advertised at all.

Mr Neil—It was not widely advertised, no. We rarely widely advertise this sort of exercise.

Senator LUNDY—You have not done one before, have you?

Mr Neil—No, we have not done one on online content. We are doing a couple of others on other issues. Perhaps I can take that on notice and give you precisely whom we formally notified. But certainly NetAlert was one and some of the other involved bodies. Obviously, the ABA was formally notified.

Senator LUNDY—Did NetAlert originally get some \$4.5 million?

Mr Neil—That is right; \$4.5 million over four years.

Senator LUNDY—What major projects have been initiated by NetAlert since its inception?

Mr Neil—NetAlert has established a hotline. It has established an information database and a web site for interested people. It has done some wide advertising. It did a series of ads

in the *Women's Weekly*. It has done a number of regional forums, promoting its role and its message. It jointly funded and was involved in a filter study with the ABA which it released earlier this year. That study was on the performance of different sorts of filters and their role in managing people's use of the Internet.

Senator LUNDY—What were the key findings from that report?

Mr Neil—The major finding was that different filters could play a different role. You needed to select the correct filter, depending on what you wanted it to do. Some filters were better at some things than others were. For young children, you would use a white sites type of filter. For adults or older children, you might use a black sites filter.

Senator LUNDY—Can you provide the committee with a copy of that report?

Mr Neil—Certainly.

Senator LUNDY—Did that report specifically recommend the release of a tender for a filtering solution for the Internet in Australia?

Mr Neil—Are you referring to our current tender?

Senator LUNDY—Yes, I am. Did that report recommend that?

Mr Neil—No.

Senator LUNDY—Is this tender that you have put out something off the department's own bat?

Mr Neil—No. It comes out of the requirements of the review. The act specifically requires us to look at the development of filter technologies in the intermediate period.

Senator LUNDY—Perhaps now is the appropriate time to provide the committee with a copy of the tender notice.

Mr Neil—Sure.

Senator LUNDY—Can you do that now?

Mr Neil—I do not have it with me, but I can give it to you—

Senator LUNDY—Could you organise for that to be brought up here now?

Mr Neil—Yes.

Senator LUNDY—What is the purpose behind that tender? What are you trying to achieve with it and what is its value and so forth?

Mr Neil—We are responding to the requirements of the legislation in terms of the review—

Senator LUNDY—I will come to that in a moment. It seems to me that the legislation requires a continued exploration of filtering technologies but it does not specifically say that you must release a tender.

Mr Neil—It asks us to advise, in our review, on the development of filter technologies and implications for the Net.

Senator LUNDY—So why have you used the release of a tender as the mechanism to do that?

Mr Neil—Where the department is conducting the overall review, the department does not have the technical expertise to assess the development of filter technologies.

Senator LUNDY—But it has not stopped you from engaging that technical expertise previously. Why have you used the mechanism of putting a tender out to the market for filter technology for the Internet in Australia to try and gauge the technical capability?

Mr Neil—No, we have not asked for filter technology; we have asked for advice on the development of filter technologies in the last three to four years and their relevance for the sorts of programs that we administer.

Senator LUNDY—What is the actual description of the work that you want done?

Mr Neil—I will get you a copy of the tender documents; that is not a problem.

Senator LUNDY—What are you hoping to achieve with respect to that report or that tender process?

Mr Neil—The requirement is that we address the act and the terms in the act. One specific requirement in the act is that we address the development of filter technologies, and we do not feel capable of doing that ourselves.

Senator LUNDY—Just let me clarify this. This is a tender for a report on filter technology, not filter technology per se.

Mr Neil—Exactly.

Senator LUNDY—That is good. That is better.

Ms Holthuyzen—That is what I was going to say—it will be fed into the report.

Senator LUNDY—It was very unclear to me, because it has not been widely promoted. I hear about tenders going out on filter technology, and my primary reason for asking it in this context is: why did that pre-empt the outcomes of the review? But I think those questions have been pretty much addressed.

Am I able to direct to the department questions about the proposed legislation currently before the parliament in relation to FOI exemptions for ABA decisions?

Mr Holthuyzen—We might have to take that on notice. I am not sure of the details.

Senator LUNDY—I do not know if it is useful to ask the questions, but I am interested in the department's view on the legislative proposal to excise the ABA from FOI provisions relating to access and dissemination of Internet content. I missed the ABA before, so I am just trying to come back to a couple of questions.

Mr Neil—I can explain the broad intent, but I am not able to give you detail. It is being carried through a separate act, but we are certainly involved and cooperate with the ABA in preparation of that provision. It relates to the FOI provisions in relation to URLs or sites which have been identified by the ABA under the online contents scheme as refused classification or X sites for which there has been a takedown notice or, if they are overseas sites, they have been subject to police notification or have been listed for filters. There was a court case—an AAT exercise—where they had refused a group access to those URLs, and the AAT supported that decision but it was felt necessary to amend the FOI Act so that it was clear that those URLs would not be made available.

Senator LUNDY—Are you able to either provide the information or take on notice how many FOI requests the ABA received in 2000-01 and 2001-02 for documents relating to its administration of offensive Internet content?

Mr Holthuyzen—We can pass that on to the ABA.

Senator LUNDY—It is probably just as easy that I place the questions on notice.

Mr Holthuyzen—We will pass it on to them and get them to answer it.

Senator LUNDY—I would also like to know from how many different applicants, how many were granted in full, in part or refused, and so forth. If you could take those on notice and I will put the rest of the questions through the ABA. Anything else I have for you will go on notice.

CHAIR—I thank the department. Answers to questions on notice must be in by 13 December.

[5.16 p.m.]

Information Technology

CHAIR—I welcome the officers from IT and hand over to Senator Lundy.

Senator LUNDY—I have questions about the Framework for the Future committee. Perhaps it would be helpful if I save the questions for the Framework for the Future Committee for the Broadband Advisory Group, but I think that is handled by NOIE. Is that correct? But Framework for the Future is the department? My main focus will be on the industry development aspects of ICT in relation to the outsourced contracts and so forth, if that is helpful. Given the time, I will be putting lots of questions on notice. Perhaps we could turn to the Framework for the Future Committee first. Could you describe where that process is at? I understand the committee is still conducting consultations with the industry and they are proceeding. When does the Framework for the Future Committee plan to report to government?

Dr Hart—At this stage, the steering committee is due to conclude its proceedings by the end of the year.

Senator LUNDY—And the process then is to prepare a report for the minister, is it not?

Dr Hart—It is.

Senator LUNDY—Do you have a time frame for the preparation of that report or a handover date to the minister?

Dr Hart—We are still trying to work to that end of the year timetable.

Senator LUNDY—So you hope to have the report to the minister by the end of the year?

Dr Hart—At this stage, yes.

Senator LUNDY—You are working on that?

Dr Hart—Yes.

Senator LUNDY—The minister is not at the table, but I did want to ask him some questions about the timetable for the response to the Framework for the Future report. What working groups are operating under the Framework for the Future Committee?

Dr Hart—There have been two main working groups: a mapping working group and a foresighting working group.

Senator LUNDY—Underneath those working groups, are there subcommittees?

Dr Hart—No.

Senator LUNDY—So they are the two main—

Dr Hart—Yes.

Mr Pelling—The whole process is being overseen by a high-level steering committee, which is chaired by the minister. Those two working groups report to the steering committee. So they are, in effect, what you might have been thinking about in terms of the subcommittees.

Dr Hart—No, there is not another layer beneath the working groups. There is the Framework for the Future Committee and two working groups.

Senator LUNDY—The minister chairs the Framework for the Future Committee?

Dr Hart—Yes.

Senator LUNDY—That is what I thought. What about the barriers to SMEs working group? Is that anything to do with the Framework for the Future?

Dr Hart—Yes, that is one of the inputs that the AIIA has had into the process. The AIIA has been represented on the mapping group. They have done a number of reports that have been inputs to that group.

Senator LUNDY—The AIIA is hosting working parties or organising working parties. What is the process?

Dr Hart—It is a member of the working group and, through its public policy group, it has been facilitating discussions on the issues that have been raised in the committee and producing a number of reports.

Senator LUNDY—Can you give me a list of the work that the AIIA is doing?

Dr Hart—We certainly can on notice. I am not sure we can recall them all. There has been a series of road maps. There has been some work on venture capital. There has been the one you mentioned about facilitating SME access.

Mr Pelling—There was a road map on accessing international markets. Probably, the easiest thing to do is get you a list of the series of reports that the AIIA provides.

Dr Hart—A comprehensive list.

Senator LUNDY—I appreciate that but the date we have set for getting answers back on notice is some far distant point after the new year.

Dr Hart—We could probably do it now.

Senator LUNDY—It would be very helpful if you could get someone to organise that information and bring it to the table now. It is straight factual information.

Dr Hart—We can easily do that. We can make a phone call.

Senator LUNDY—That would be very helpful, thank you. Minister, in terms of the Framework for the Future Committee, what will be the process once you receive the report from that committee which, as we have just heard, is hopefully going to be by the end of the year?

Senator Alston—It depends entirely on what is in it, I suppose.

Senator LUNDY—Do you plan to formally respond to the recommendations—presuming there are some?

Senator Alston—It depends entirely on what is in it.

Senator LUNDY—I suggest to you that you are going to respond regardless of the nature of the recommendations.

Senator Alston—I might say, ‘This is top secret. We recommend you don’t release it.’

Senator LUNDY—Are you serious?

Senator Alston—I am saying, wait and see what is in it.

Senator LUNDY—Hang on! You have touted this as being the big blueprint exercise for the future of the ICT industry. It has taken you seven years to get here and you are still reinventing blueprint plans for the ICT industry.

Senator Alston—Constantly reinventing.

Senator LUNDY—Are you seriously suggesting that you are not going to even release this report?

Senator Alston—We will have a look at it when we get it.

Senator LUNDY—So you could keep it secret and not act on any of the recommendations?

Senator Alston—No, we could easily respond to all the recommendations, if there are any.

Senator LUNDY—You are chairing it. Are there recommendations or is it a secret?

Senator Alston—I have not decided what to recommend to myself yet.

Senator LUNDY—It makes a mockery of the whole exercise. You are talking about high-level people who you have recruited to participate in a very important process and now you are seriously suggesting that you might not do anything with it. Come on!

Senator Alston—I did not say that at all.

Senator LUNDY—You are. You are sitting there saying you might not release it. You might not do anything.

Senator Alston—You are asking me whether we are going to publicly release the document. That is a completely different issue as to whether we are going to respond to what—

Senator LUNDY—I have asked you several things. Do you want me to run through them again? First of all, is it your understanding that this report will in fact contain recommendations?

Senator Alston—It is going to set priorities.

Senator LUNDY—So it will. It will have recommendations and priorities.

Senator Alston—Priorities.

Senator LUNDY—The government should do this first, second, third and fourth.

Senator Alston—No. It will give us a sense of where we think the industry is going, put Australia's place in context, give us a basis for ensuring that we are on the right track.

Senator LUNDY—Minister, the expression 'framework for the future' implies a course of action. When this was first announced and you recruited high-level members of the ICT community and so forth, there was clearly an implication that this was about establishing a blueprint for the future. That implies that recommendations, prioritised or otherwise, would be made. Are you telling me that it is conceivable that this committee will not have anything of meat and substance to put to the government?

Senator Alston—I do not think you should insult the members of the committee. These are people—

Senator LUNDY—It is your structure.

Senator Alston—from here and overseas who are—

Senator LUNDY—Your structure is going to not lead to any decisive recommendations.

Senator Alston—That is not right at all.

Senator LUNDY—That is what you are hedging about.

Senator Alston—I am saying it is going to give us priorities. It will tell us where we think industry is going, what are some of the strategic concerns, what are the key global trends and what are some possible directions we should take. In other words, we will have a good sense of where we think we are placed. That does not necessarily have to involve a series of recommendations in the way you are suggesting.

Senator LUNDY—That just sounds like a big fat consultant's report. You can commission that from anyone. Why have you gone to extraordinary lengths to involve so many industry stakeholders?

Senator Alston—To make sure we are on the right track, to make sure we understand what is happening in the rest of the world, to look at global trends—

Senator LUNDY—But you have done that before. You have done that on a number of occasions; you have commissioned many reports over the life of this government.

Senator Alston—No, we haven't. Nothing like this.

Senator LUNDY—It seems that this is becoming another one of those. Though I was quite sceptical at the time, you certainly implied this had far greater status in laying out a plan, a road map. We have just heard about the road maps that have been prepared by the AIIA, and all of that implies that a course of action is being prepared.

Senator Alston—It depends on where you think Australia is at as to whether you think you need to make specific recommendations. You may decide that what we are doing at the moment has us pretty well placed but we ought to take account of what we think are likely to be global trends. Does that mean a particular immediate course of action? Not necessarily. But it will give us a comprehensive view of where we are at, where the industry is at and what are the likely new issues that will arise, whether it is open source or Web services. There are a whole set of layers, in a sense. I think it will give you a picture of the industry that we have never had before. The foresighting and mapping groups have done an enormous amount of work and consulted very widely, so there will not be any excuse for not knowing what is going on out there. Does that necessarily mean that they will tell us we have got it comprehensively wrong? No. It gives us a basis for taking future action.

Senator LUNDY—Will it be made public, given that so much taxpayers' money has been spent on preparing it? If it is not made public you have exploited the time and effort of all those people for a big fat blueprint for Liberal Party policy development. So why don't you guarantee that it is going to be public, and you have got some sort of justification for going through the exercise.

Senator Alston—They are not interested in publicity for the sake of it; they are interested in ensuring we are on the right track.

Senator LUNDY—I am sure they are absolutely motivated by their commitment to their sector and their belief that this committee provided an avenue to make a difference.

Senator Alston—That is why they have been heavily involved and why they have participated and why they believe they are offering us high-level advice. That is advice that we will value greatly.

Senator LUNDY—Can you provide the assurance now that you will make this document public, if it is going to be so valuable?

Senator Alston—Let us have a look at the document and see what it says. There may be parts of it—

Senator LUNDY—This is unbelievable.

Senator Alston—That is your role to run that line. I know that.

Senator LUNDY—It just seems to have gone from being the government's big flagship announcement at the world congress that you are going to set up this committee; you recruit all those really important stakeholders in the industry, you set up working parties, road maps and all the rest of it. Now you are at least giving the very strong implication that you may not even release it publicly.

Senator Alston—I am not going to pre-empt decisions that we might take down the track. It depends entirely on what is in the document.

Senator LUNDY—I am outraged.

Senator Alston—You are paid to be outraged; you are in opposition. That is what opposition is all about: jumping up and down.

Senator LUNDY—Why don't you make it public? You have spent taxpayers' money on it.

Senator Alston—To get the right outcome, not to get a free publicity headline. I know the publicity might make your day, but we are more interested in making sure that we have got all the environment properly mapped, and we have.

Senator LUNDY—Only one conclusion can be drawn if it is not made public, and that is that it is an absolutely devastatingly scathing report of your will neglect.

Senator Alston—I am sure you will come to that conclusion well before we make any decisions.

Senator LUNDY—Not necessarily, Minister. But you really do make it hard for anyone to have any faith in your processes and the work that you ask people to do for you through exercises like this.

Senator Alston—I think you should wait and see.

Senator LUNDY—What is happening with the review of the BITS-funded incubators?

Dr Hart—There is a mid-term review. We are in the process of letting a consultancy on that with a view to testing how the program is going.

Senator LUNDY—My understanding is that at some future point—and you might like to clarify that with me—their original round of funding concludes.

Dr Hart—Yes, it does.

Senator LUNDY—Will that be at the end of next year or at the end of this current financial year?

Dr Hart—It is a five-year program.

Senator LUNDY—So it will be at the end of this current financial year?

Dr Hart—The financial year 2003-04.

Senator LUNDY—Do they have funding for 2003-04?

Mr Allnut—Yes, they do.

Senator LUNDY—In the lead-up to that period, is the government considering whether ongoing funding is appropriate, given that some of the incubator models are structured so that they will require some ongoing funding?

Dr Hart—That is not the purpose of the consultancy. Part of the normal evaluation process is to look at how the program is being administered with a view to really laying some groundwork for a full evaluation at the end of the program. So it is not linked to future decisions about the ongoing life of the program.

Senator LUNDY—Minister, is it the government's intention to do a review in enough time to assess whether ongoing funding for existing BITS incubators is to be made available from the point at which their current funding runs out.

Senator Alston—I do not think any of the existing BITS incubators have any expectation that they will get ongoing funding. Whether you want to replicate the program down the track is another matter. But I do not think anyone went into this exercise on the basis that we would have rolling funding. It was a one-off program. We provided funds to get them up and running.

Senator LUNDY—I may be wrong, but my recollection is that when we previously discussed the different models that were funded, they did vary, which was a good thing because it allowed you to have a look at what works and what does not. Some of them did not have a model that allowed them to be self-sustainable after the five-year period. Are you seriously suggesting that the program will just come to a shuddering halt, notwithstanding that fact?

Senator Alston—A mid-term review, I suppose, gives you a basis for considering whether you might want to provide additional funding for any particular aspect. But at this point in time no-one should be proceeding on the basis that we are going to provide additional funding.

Senator LUNDY—I am not suggesting that they are, but I am curious about the future of this program.

Senator Alston—If there are those who say to themselves, 'We can't possibly be viable in the longer term without additional government funding,' then they will be living in hope—but I am not sure that it is a well-founded hope.

Senator LUNDY—The essence of my question is: is this current review, this mid-term review, asking these kinds of questions establishing what incubators have that expectation?

Senator Alston—I do not know whether anyone is entitled to have that expectation. We can do an assessment. If we find that they have that expectation, we would like to know on what basis. I would have thought the expectation was quite to the contrary—that, after five years, they should be self-sufficient. If they are, to us that is success. If they are not, it is disappointing; but it is not a justification for giving them additional funding. You would be funding failed models rather than successful ones.

Senator LUNDY—As I said, my recollection may be incorrect, but my understanding of some of the models is that, when they were granted the funding, it was not claimed that those models were going to be self-sustaining in five years. Is that correct?

Dr Hart—No. The program was established on the basis that it was a five-year program and that was it, and they were expected to be self-funding. In the context—

Senator LUNDY—So you are saying that my recollection is wrong? It might be, so just say it if that is what you think.

Senator Alston—Put it this way: the money came out of that \$178 million that was set aside for three programs. There was never any suggestion there would be more money.

Senator LUNDY—I am not saying that.

Senator Alston—There is no basis on which anyone could say, ‘We hope at the end of the five years we will get more.’

Senator LUNDY—I understand that.

Senator Alston—If they have got a model that says they will not, then they have to live with the consequences of that.

Senator LUNDY—This is what I am trying to get to. If in fact you did fund a model that says they will not be sustainable as part of it—

Senator Alston—I do not think we would have given them money if they said that.

Senator LUNDY—You tell me. As I said, it was my recollection that some models were not self-sustaining.

Dr Hart—The program left scope for a variety of models, but it was always on the basis that it was a one-off funding initiative. It has been repeatedly made clear to the incubators that that is the premise on which they should proceed. In the context of the tech rec and so forth and the limited availability of venture capital worldwide, there have been some concerns raised and claims made that the program perhaps should be extended. The other side of that is that they have been doing relatively well in attracting capital relative to the government’s contribution. So there has never been any suggestion that the program will continue at this stage.

Senator LUNDY—But is that one of the considerations in your mid-term review?

Dr Hart—No, it is not.

Senator LUNDY—There is no basis upon which any of those BITS incubators at this point in time can expect funding after the end of the program?

Senator Alston—No.

Senator LUNDY—I would now like to turn to the industry development aspects of the IT outsourcing contracts specifically. In particular, I would like to know whether the ID reports for each of those contracts have been provided to the department within the provided time frame. I would like the due dates of each of those reports for each of those contracts and the date upon which the department received those individual ID reports.

Mr Allnut—We do not have that information with us, but we can provide that to you. We did provide an annual report on 19 August for the previous financial year’s results.

Senator LUNDY—We did identify industry development as part of the brief in preparation for this estimates, so I am disappointed that you do not have that detail. Do you have a copy of that annual report at your disposal?

Mr Allnut—I do not have one with me.

Senator LUNDY—Can I suggest that you get one very, very quickly because we have got about 25 minutes and I want to go through it in detail.

Dr Hart—We can certainly arrange for that to happen.

Senator LUNDY—With respect to an Audit Office report released a few weeks ago into the health bid, some mention was made of the out of scope ID components of the health

tender. I would like to know what the out of scope ID component was of the IBM GSA bid—in particular, the out of scope ID component that was nominated just prior to IBM GSA's final bid having been received?

Dr Hart—That is another one we will have to take on notice.

Senator LUNDY—Can you tell me, without the report in front of you, how many of the IT outsourcing vendors complied with the requirement to provide an ID report on time?

Dr Hart—My memory tells me that there was only one that was delayed, but we would have to check that from the information that we have requested.

Senator LUNDY—We will have to cross-reference those dates. With respect to specific information about the involvement of Australian IT companies and SMEs in government agency contracts, what capacity does the department have to collate that information?

Dr Hart—Collect the information?

Senator LUNDY—Yes.

Dr Hart—We have ongoing contact with all the companies as part of our ongoing monitoring of those arrangements.

Senator LUNDY—So are you able to provide this committee with information relating to the involvement of SMEs in each of those contracts and the value, duration and nature of those contracts?

Dr Hart—Yes, we can.

Mr Allnutt—We can give you an overall figure.

Senator LUNDY—I do not want an overall figure; I want figures for the companies themselves and for the value of their contracts.

Dr Hart—We can probably provide that information.

Senator LUNDY—I want to place on notice a detailed request for all IT contracts for this department specifically—the nature, duration and so forth of those contracts—with a view to getting a very clear picture of this department's ICT contracts. I will be placing those on notice. Do you have that document yet?

Dr Hart—No.

Senator LUNDY—Because I do want to ask specific questions about it. Perhaps I should start with some general questions then. What is the government or the department doing to increase the involvement of ICT SMEs in outsourcing arrangements, and what are you doing to remove the barriers to SMEs participating in IT outsourcing contracts?

Dr Hart—There is quite a significant follow-through from the impediments initiative that we have talked about at previous estimates. We have been working closely, in a working group with the AIIA—with the industry—to remove a lot of those barriers that were identified in the impediments review. Perhaps Philip can run through some of the things that we have been doing, including the initiatives which are really directed at removing those information barriers so that both parties, the buyers and the sellers, are aware of each other and of the opportunities that are coming up, and some of the harder issues that we are beginning to tackle together with the industry—if you would like some more detail.

Senator LUNDY—Yes, thank you.

Mr Allnutt—There are a number of initiatives that the working group is looking at. It is a joint working group with the government and industry, including the AIIA and the ACS.

Senator LUNDY—Is this the group that is also under the auspices of Framework for the Future?

Mr Allnutt—No, it is a separate working group.

Senator LUNDY—It is a different one?

Mr Allnutt—Yes. This is a specific working group looking at SME involvement in ICT contracts. It is looking at a wide range of issues. One is the development of a guide for ICT SMEs to help them understand the process of selling to government. That guide is being developed by the industry and the government jointly, through the working party. The department is setting up an information unit within the department which would be a one-stop shop to help SMEs gain access to information about selling to government. A range of seminars and briefing sessions are being held to look at a range—

Senator LUNDY—How do you get invited to those?

Mr Allnutt—They are organised jointly by the working group. The AIIA has taken responsibility for advertising those programs.

Senator LUNDY—Do you give them any money to do that?

Mr Allnutt—We do not give the AIIA money for that. We have been providing some funding for the working group for other working group activities. Those seminars are held on a cost recovery basis by the AIIA.

Senator LUNDY—Is that all?

Mr Allnutt—Those are the main activities of the group that are under way at the moment. We are also looking at some of the more longer term issues that need to be addressed but cannot be immediately fixed.

Senator LUNDY—Like what?

Mr Allnutt—For example, the possible development of common use RFTs and contracts by government departments. If you have common contracts and RFTs, that would facilitate SMEs participating in contracts. We are looking at the possibility of developing those and we are looking at the endorsed supply arrangements, industry development arrangements and the way in which the ESA works. That is an example of ones which have been scoped by the working group at the moment.

Senator LUNDY—What are you doing about requiring agencies and departments to involve SMEs? You have talked about all of the SME matters and how you can get them to learn how to tender and smooth that process. What are you doing from the other perspective?

Mr Allnutt—The seminars and the work with the agencies involve a number of themes informing SMEs about future government purchasing requirements of agencies. So we are involving the agencies in telling SMEs about their future purchasing plans, bringing SMEs to agencies to give agencies a better understanding of their capabilities—

Senator LUNDY—How do you do that.

Mr Allnutt—Through seminar methods.

Senator LUNDY—That would be effective.

Mr Allnutt—The working group has on it people from the Commonwealth, the department of finance, NOIE and the department of communications, but we are also liaising with other government agencies, involving them in the seminars and in the work of the group as appropriate.

Senator LUNDY—So the activity is still seminar and education based?

Dr Hart—To give an example of that, the best way you can lead is where there have been some positive outcomes. At one of the seminars, the secretary of Vets Affairs came along and was very strong in promoting the successes that they had had in using local companies. It is that kind of initiative that we are trying to build on. We are working within an environment where responsibility has devolved under the Public Service Act and the FMA Act, so we have to work within those constraints. We are doing what we can within the decentralised system to maximise opportunities for people to know where there are some success stories and to recognise where they themselves might benefit from using similar companies.

Senator LUNDY—Minister, is the government considering more definitive action to ensure that SMEs have increased opportunities to tender for government work? At the moment the strategy seems to be focused around education and trying to bring the different parties together. Given that we have gone from having partnerships for development to specific requirements of IT outsourcing contracts and then to a sort of SPIDA proposal which fell over and that the Framework for the Future Committee was set up by you to start addressing some of these problems, there is nothing really definitive coming out of it. I just want get an idea of whether the government is taking a step back fundamentally from any requirement of stimulating SME involvement and whether you are happy just to let it be a case of educating the different parties and having opportunities for them to get together in order to get to know each other's capability. It just does not seem a very tangible point of intervention in pursuit of an outcome that you have at least said you want to try and achieve.

Senator Alston—I think our starting point was that, if you impose obligations on major corporations which do not make sense to them, all you really do is provide them with a good reason to go elsewhere. So you might as well try to accommodate them as much as possible but free up the system much more. Where you have large contracts—contracts over \$20 million—it makes sense to impose conditions because it is worth their while coming here to get those. Where you have something less than that, you make it plain that you would like them to involve SMEs. However, you do not want SMEs to be given guaranteed preference irrespective of performance; you therefore want to ensure that SMEs have every opportunity to compete. So the facilitation package we announced involved dealing with a list of inhibitors and trying to ensure that SMEs understood what they needed to do in terms of insurance, tendering, general information and maybe networking, and in that way remove a number of the impediments. You then assess it over time and see what the result is. We would not be terribly impressed by multinationals who say thanks very much but do not do anything for SMEs, and we have made that plain. So there is an expectation there, but not the straitjacket that previously existed.

Senator LUNDY—Has the annual report on the ID components of the IT outsourcing been made public? Is it on the web site? Is it public; is it on the web site?

Mr Allnutt—It is on the web site, yes.

Senator LUNDY—I might get it quicker than you guys if that is the case. On the 'Contract specific requirements and major ICT acquisitions' page on the department's web site there is a section on mandatory minimum SME participation requirements: hardware, 10 per cent; services, 20 per cent. What is the mechanism by which the department measures and enforces those requirements? What is the process if you find that requirements are not met? I am interested in the first instance in how you measure that.

Mr Allnutt—That 10 per cent and 20 per cent component is a requirement that applies to Commonwealth contracts over \$20 million. The responsibility for implementing that rests with individual agencies, and so it is their responsibility to ensure compliance with that.

Senator LUNDY—Do they report back to you?

Mr Allnutt—There is no formal reporting requirement for agencies; nevertheless, they consult with us in developing—

Senator LUNDY—Does that mean I ask you the question on what the results were? Or do I have to ask every individual agency and department, which I am very happy to do? Or do you have a consolidated report?

Mr Allnutt—The program and that particular requirement only began on 21 June. It is our intention that we keep a monitoring brief on how the agencies are implementing that.

Senator LUNDY—So you will ask them for that information at a point in time?

Mr Allnutt—That is right: that is our intention.

Senator LUNDY—At what point in time? What is the time frame? What is the nature of the information you intend to ask them for?

Mr Allnutt—We would be seeking their advice—

Senator LUNDY—Financial year aggregation?

Mr Allnutt—Probably financial years; we would also expect to be consulted at the time they negotiate or put out their request for tender and then negotiate, although there is no formal requirement for them to do so.

Senator LUNDY—What is the formula you use for establishing the 10 per cent and 20 per cent? Is it still SMEAVA? Minister, I thought you would be overly familiar with that term: SME Australian value added. It is a very complex formula; Mr Sutton knows all about it.

Dr Hart—Yes, it is.

Senator LUNDY—That is your formulation?

Dr Hart—Yes.

Senator LUNDY—Can you provide the committee with the full extrapolation of that formula and explain how you arrive at SMEAVA as a measurement for SME involvement in this context?

Dr Hart—We will provide further information on that; I cannot give it to you now.

Senator LUNDY—That is fine. I think it previously took Mr Sutton years to get it all out in the end—not quite years, but it is pretty complex. Can you also provide me with a list of the fields of data that you will be requesting from agencies and departments in relation to ICT contracts?

Dr Hart—As Mr Allnutt said, it is at the beginning of the program—

Senator LUNDY—Just tell me if you have not worked it out yet.

Mr Allnutt—No, we have not determined that.

Senator LUNDY—I might put a question on notice in anticipation of that work being done, and you can provide me with that detail. Minister, do you think 10 per cent and 20 per cent respectively for hardware and services is an appropriate level of SME participation, or do you think it should be more?

Senator Alston—If we thought it was inappropriate we would not have set those levels. We have done it to try and strike a balance between what we think is reasonable and what might otherwise be onerous but still getting an outcome that benefits SMEs. To some extent these numbers are arbitrary, but it seemed to us to be a burden that industry could bear and it is a sufficient level to make it attractive for SMEs.

Senator LUNDY—Do you have any strategy or plan for contracts under the value of \$20 million, given that they are, I suppose, arguably more likely to be accessible by SMEs? Do you have a process for establishing or encouraging Australian SME involvement for contracts under \$20 million?

Senator Alston—That is where the inhibitors approach comes in.

Senator LUNDY—So that is what you are doing in that area—

Dr Hart—The threshold was decided with a view, as you say, to the fact that below that threshold the contracts were more accessible, but, nevertheless, there is the facilitator initiative which is assisting. There is also a crossover with the F3 initiative to the extent that that process has been looking at issues that are relevant to SMEs, as it has with multinationals.

Senator LUNDY—I am at a bit of a loss because you have described the working party under this initiative and breaking down SMEs, and I had it in my mind that they were one and the same—that that was auspiced under the Framework for the Future.

Dr Hart—The impediments review were before the Framework for the Future was conceived, and the response to that impediments program has been a natural flow-on from the findings.

Senator LUNDY—I can understand why there is similar work, but I distinctly remember—maybe my memory is going—that when the minister announced Framework for the Future he referred to the defunct SPIDA issues—that is, the former strategic partnership issues—onto the Framework for the Future context. That is why I thought there was a stronger relationship there. Can you please tell me where on your web site I can find that annual report?

Mr Allnut—I do not have the web site address with me, but I imagine it would be under the orange coloured segment.

Senator LUNDY—Yes, I am there, in information and communications technology, procurement and industry development, and I cannot see any link through to that report.

Mr Allnut—We will have a hard copy of the report for you in ten minutes.

Senator LUNDY—Well, that is no good, because we are finishing in about one and a half minutes. Can you tell me where it is on the web site?

Mr Allnut—I do not know the exact pathway to it. It may be under the ICT section under publications.

CHAIR—We are close to six o'clock, which is our suspension time.

Senator LUNDY—I will get this group to come back for a brief time after dinner, and I will follow through with these questions, and then we can move on to sport.

Ms Williams—Could I also say that I have got Senator Lundy's request for tender for the online content review.

Senator Alston—My office tells me that they did have some contact with Independent senators as well as the Democrats about that price cap issue.

Senator LUNDY—Yes, I thought that was the case. Thank you for that. To make that very clear, the minister's office did provide those figures to the Democrats for the purposes of the debate about price controls.

Senator Alston—At least they were persuaded.

Senator LUNDY—We suspected as much, Minister. We figured it was only a matter of time before you tried to correct the record.

Senator Alston—You had a cunning plan, did you?

Senator LUNDY—A cunning plan indeed. I will look forward to getting that information between now and resumption at seven o'clock.

Proceedings suspended from 6.01 p.m. to 7.05 p.m.

CHAIR—We are still with IT.

Senator LUNDY—With respect to the industry development progress report dated 2000-01, why did it take until 14 August this year for that to be made available?

Mr Allnutt—The reason for the delay in getting the report was that two reports from two of the outsourced contractors came in significantly late and then they needed to be audited. They came in late and then the auditing process took additional time.

Senator LUNDY—When were they due and when did they come in?

Mr Allnutt—They were due I think at the end of August 2001. I do not have the dates with me of when they came in.

Senator LUNDY—Was it last year or this year?

Mr Allnutt—I think it was this year but I am not sure.

Dr Hart—I think it was after the last estimates—if we can think when that was—because we did not have the report then.

Senator LUNDY—Yes, I remember asking about it then. That was in June. They are almost 12 months late?

Mr Allnutt—Yes.

Senator LUNDY—Then you had to audit them?

Mr Allnutt—Yes.

Senator LUNDY—And it took you obviously that period of time—some time after June until 14 August—to do that and publish the report?

Mr Allnutt—That is right.

Senator LUNDY—What sanction is available under the terms of their respective contracts for late submission of their industry development report?

Dr Hart—I do not think there are any sanctions.

Senator LUNDY—That is certainly my understanding. There is nothing you can do about it when they are late except delay your report.

Mr Allnutt—It is part of contract management to put pressure on the contractors to fulfil their obligations, even if there are not specific obligations—

Senator LUNDY—And that is not your responsibility, is it?

Mr Allnutt—That is right.

Senator LUNDY—That is the responsibility of the agencies and departments.

Mr Allnut—Yes.

Senator LUNDY—Do you have any contact with them on these matters to try and get them to apply pressure?

Dr Hart—Yes, we do, and we did keep asking for the reports.

Senator LUNDY—Which of the two contractors were late?

Mr Allnut—IBM GSA and Ipex.

Senator LUNDY—Were they both that late—after June?

Mr Allnut—I cannot tell you the exact date they came in. IBM GSA had given us a draft report on time, but it was not an audited report. So the delay in their report involved—

Senator LUNDY—Did you find any irregularities with their draft report which required them to go back and do it properly?

Mr Allnut—No, I do not believe so. It was a formal requirement to provide the formal auditing.

Senator LUNDY—I will come to the detail of the report. My understanding was ideally that the government would get this report out late last year, probably a month or two after the due date, so I think you could argue it was probably 10 months late at the point of making it public. Can you tell me why the minister does not appear to have made any public announcement or issued a press release on this report being made available? I have had a look through the web site and I cannot see any press releases relating specifically to the release or publication of this document.

Dr Hart—We kept you informed at the last estimates about the delay and the reasons for the delay. There were process reasons over which we had no control.

Senator LUNDY—That is not my question, though. My question is: why didn't the minister do a press release when this report was made public on 14 August?

Dr Hart—That would be a decision for the minister.

Senator LUNDY—Would it be because some of the results are not so impressive?

Dr Hart—I think it would be because he saw that it was a process that was going through the appropriate steps and that there was little to be gained by intervening until the information had been received.

Senator LUNDY—I do not think that really is a response to the question I asked. The minister certainly found time to put out separate press releases for the awarding of CSC and Pitney Bowes for their achievements under the former PFD arrangement, which is the old industry development arrangement that they are trying to close off. But he could not find the time to put out a press release about the tabling of an industry development progress report that was much awaited—it was about 10 months late. Is that because he had something to hide? I am sorry he is not here to respond to that; I do not expect you to. That is the only interpretation that can be drawn.

Ms Williams—Excuse me, but it is very hard for us. I do not think we could take that interpretation. There were a lot of things. You set priorities on what you put press releases out about. I do not know what was going on at the time but there were probably a number of other things which took priority.

Senator LUNDY—Indeed. Why bring attention to a bad story? Can you tell me why there do not appear to be any links on the web site directly to this report? In fact, the only way I was able to find it was by using the search engine.

Dr Hart—That is a fair question. I think the web site is evolving and the cross-linkages are perhaps not as good as they should be. As the web site improves, hopefully those kinds of cross-linkages will be there.

Ms Williams—We are putting some effort into the web site, but it does need upgrading. Our apologies; it will be improved.

Senator LUNDY—I have to say again I am forced to conclude that you are trying to hide this report because even on the very page which talks about strategic industry development in IT there is no reference and no link to either the previous report or the current report.

Dr Hart—I do not think that you will find that is peculiar to this particular report. It is a problem with the cross-linkages more generally.

Ms Williams—I can assure you there was no attempt to try and hide it. We just need to upgrade our web site.

Senator LUNDY—Yes, clearly. The report refers to all of the major contracts that have the ID requirement under the IT outsourcing program. But I want to turn particularly to the report for the health group and, indeed, IPEX, where the reports are not quite so glowing; there are a couple of qualifications in there. In particular, it states with regard to IBM GSA's in-scope achievements that:

IBM GSA achieved a difficult AVA target and delivered a strong result in providing significant business opportunities to SMEs under this contract. Regional employment was predominantly in Canberra.

Yet under the out-of-scope achievement, it says:

However, IBM GSA has not yet fully implemented initiatives one, two and ten to provide marketing support and technical assistance to three local SMEs.

Does this mean they have failed in their obligations to provide commitments to industry development to local companies? Surely that means they get an F for 'fail'.

Mr Allnutt—There are two aspects to the ID obligations. There is the in-scope achievements, which are the activities they perform as part of delivery of the contract itself, and on the in-scope achievements, they met the targets.

Senator LUNDY—I acknowledge that on the in-scope. The point is made that they delivered all of that. I note interestingly that regional employment under all the categories is all in Canberra. I think there are very few non-Canberra regional employment targets met. But I am really interested in the out-of-scope achievements here because, clearly, IBM GSA have failed to achieve their out-of-scope targets. I guess just to rub salt into the wound to SMEs out there who are interested in these issues, it is the three out-of-scope commitments that relate directly to SMEs and that support SMEs. What has been the department's response to this and what can be done to pull IBM GSA into line?

Mr Allnutt—As you say, there are three initiatives of the 10 initiatives that have not been fully implemented. The process provided for under the contract is that, when they fail to reach a target, you initially discuss the matter with the company and try to have the matter addressed.

Senator LUNDY—Have you done that with IBM GSA?

Mr Allnutt—Yes, we have.

Senator LUNDY—What was their response? Seeing they still have not fixed it, they obviously refused.

Mr Allnut—This relates to the previous financial year. The next step is to initiate a formal breach process if the matter cannot be resolved. Then, if they fail to achieve the results following the issuing of the formal breach process, the contractual obligations can be invoked.

Senator LUNDY—Did you initiate a formal breach with IBM GSA?

Mr Allnut—Yes, we have done so.

Senator LUNDY—And what has been the result of that?

Mr Allnut—The formal issue of the breach has been made, and the matter is still being negotiated with IBM and with the affected SMEs.

Senator LUNDY—Who are they? Prove Systems, Wizard and Synergy Plus. Negotiations are continuing literally 12 months after these problems were identified, given this report is 10 months late.

Dr Hart—It flows from the late report; the delays flow from that.

Senator LUNDY—That implies that you are not getting very far with IBM GSA. Is that a fair reflection of the situation?

Dr Hart—No, there is good will on both sides to reach some sort of negotiated outcome but it is proving difficult.

Senator LUNDY—It is now November 2002. The picture that I see—and I am literally using this data to inform that view—is that there is some intransigence on behalf of IBM GSA to resolve these issues.

Dr Hart—It takes two to tango. There is a dispute resolution process going on—not a formal one—trying to find some way through those positions.

Senator LUNDY—In other words, IBM GSA are trying to negotiate out of their commitments; there is no other explanation. They either comply, satisfying what they are committed with supplying to the SMEs, or they do not. They have not. Are they trying to get out of or change their commitments in any way?

Dr Hart—There is an attempt to work through the issues that caused the delay in the first place.

Senator LUNDY—So they are trying to squib it.

Dr Hart—There are negotiations going on with both parties to—

Senator LUNDY—They are not prepared to follow through with their original commitments, are they?

Dr Hart—At this stage it is just too early to say what the outcome of that process will be.

Senator LUNDY—It is 12 months after these issues were reported on. Are IBM prepared to honour their ID commitments to these three small- to medium-sized ICT businesses or not?

Dr Hart—I do not think we are in a position to be able to say definitively what the outcome of the process that is under way will be.

Senator LUNDY—When will you be able to?

Dr Hart—We are working it through.

Senator LUNDY—Who is? Are you a party to these negotiations?

Dr Hart—I personally have not been directly involved, but we have certainly been facilitating the discussions between both parties.

Senator LUNDY—Have you put a time limit on resolving this?

Dr Hart—Not specifically, but obviously we are concerned that there will be an outcome as soon as possible.

Senator LUNDY—Will that outcome take into account the commitments dating back to when they were actually implemented? Will there be some compensation for the SMEs given IBM has reneged on their commitments?

Dr Hart—We are just working the details through.

Senator LUNDY—You are obviously not prepared to provide me with any more specific information, but can you take it on notice to provide me with all documentation held by the department in relation to this dispute and the IBM GSA ID commitments.

Dr Hart—Yes, certainly.

Senator LUNDY—Thank you. With respect to Ipex and their commitment, Ipex states that it has three out-of-scope initiatives. It talks about a graduate recruitment program, a technician education program, increased level of exports program and says, ‘Ipex met the strategic investment target; it fell short of its targets for exports and employment.’ Can you comment on that and provide an explanation as to the process with regard to Ipex’s failure to achieve that? It is probably worth noting that the target exports were \$5 million and the achievement was none.

Mr Allnutt—I cannot provide you with details of how those particular targets are being enforced—we would have to take that on notice—but I can say that the general procedure is to first of all discuss it and then issue a breach, and invoke the sanctions as a last resort if that is necessary.

Senator LUNDY—If you could take it on notice to provide all documentation that the department has in relation to the Ipex ID—requirements, commitments—and while you are at it, can you provide all the documentation in relation to all of the ID commitments for the other contracts as well. Going back to the health one, you said that a technical breach process had been initiated; what happens next? Is that something the health group departments and agencies have to consider?

Mr Allnutt—Yes. The responsibility for invoking the sanctions would be that of the health department, as it is their contract. So they would do that.

Senator LUNDY—Have you in fact advised them to invoke sanctions under the contract?

Mr Allnutt—No, we have not, because so far we have formally notified of the breach but we have not concluded the negotiations that would lead to the decision to invoke them.

Senator LUNDY—You might never conclude the negotiations from what I have heard so far. It just makes a sham of the whole exercise, doesn’t it?

Mr Allnutt—The outcome that you really want is one that actually improves the outcome for the SMEs involved—

Senator LUNDY—It is a bit of an all or nothing bet for them, isn’t it? They are really relying on you to bring this process to a head; otherwise, they are going to lose out again, aren’t they? They cannot bring it to a head. You can, but you haven’t yet.

That is all I have. Perhaps we should get Corporate and NOIE to the table now and just finish off IT. While NOIE is coming to the table, I have a couple of questions for corporate services relating to Telstra Enterprise Services, and three questions for the minister. Also, in discussion with Telstra earlier today in estimates, it was made clear that Telstra Enterprise Services is in the process of being subsumed by Telstra as a whole. What is the department's view of this process? Is the department of the opinion that this potentially represents a conflict, with Telstra being the subject of so many of the department's policy considerations?

Mr Morton—Certainly, when Telstra announced the planned integration of TES into Telstra—

Senator LUNDY—When was that, by the way?

Mr Morton—That was on 4 June 2002. When they announced it, we certainly had concerns about the level of risk associated with Telstra's management of data that may contain highly sensitive information in relation to policies affecting Telstra. I think we actually wrote to Telstra on that day, asking them to enter into discussions with us about how we might manage that risk. Since then, we have been engaged in those discussions and are looking to put into place a regime that in our view satisfactorily manages the risks associated with that. We believe we are very close now to a situation where that risk will be managed satisfactorily.

Senator LUNDY—Does that involve the engagement of a probity auditor to oversee that relationship and to audit the Chinese walls or the processes? Telstra certainly claimed this morning that they were putting that in place.

Mr Morton—As part of the process, we did an audit some time ago. In terms of the continuing process, which I think is what you are asking about, we will not have a probity auditor ourselves, but I understand Telstra will be using a probity auditor—from their point of view, to ensure that their processes are in place.

Senator LUNDY—I would have far more confidence in your probity auditor! Has the department considered engaging a probity auditor for that process? I am asking as much because of the perception of a conflict or problem as I am because of my concerns that there might really be a problem with deliberate or inadvertent provision of sensitive information to the wrong parts of Telstra.

Ms Williams—We will certainly be keeping a very close watch on it. It is something we have been concerned about; if it is necessary we will do that. We have not formally got final agreement on the new scheme we will be going ahead with. We will be keeping a very close watch.

Senator LUNDY—Does the fact that it is a group contract—a cluster; a group 5—make it more difficult for you to handle those negotiations with Telstra? Are you able to separate yourselves out as DCITA and pursue your concerns with them separately?

Mr Morton—Certainly we have been able to pursue our concerns separately, but the contract is with group 5; it is not with DCITA.

Senator LUNDY—Is breaking away from that contract before it is due to finish an option for you if you are dissatisfied with the assurances Telstra provides?

Mr Morton—There are two aspects to that. We certainly have step-in rights as a department and we can put into place other arrangements if we are not satisfied with the arrangements Telstra are prepared to agree to. In terms of breaking away from the contract, if

we believe there has been a material breach of the provisions of the contract we can certainly step away from it.

Senator LUNDY—Does Telstra subsuming Telstra Enterprise Services constitute a technical breach and give you an opportunity to step away if you see fit? Are you captured by the contract? Will you have to pay a big price for stepping away or will you cross your fingers and hope the Chinese walls are solid?

Mr Morton—I understand that Telstra changing its business relationship with TES does not of itself constitute grounds for terminating the contract.

Senator LUNDY—Putting aside the assurances, by default you entered into a contract with a company called Advantra, which over time divested itself of its other partners. From memory, they were originally Lend Lease, IBM, GSA and Telstra, with Telstra holding only a 50 per cent share. You now have your IT services fully run by Telstra, and there is nothing in the terms and conditions of the contract that allows you to step out of it without potentially incurring costs. That is an accurate reflection of the situation, isn't it?

Mr Morton—As I say, we have step-in rights in relation to putting alternative processes in place if we believe that the requirements of the contract are not being met.

Senator LUNDY—Yes, but you have to demonstrate some sort of material breach of the contract for that to occur.

Mr Morton—No, not in terms of the step-in rights.

Mr Nicholas—The termination has to be a termination from the group perspective, so the group would have to find reason for termination.

Senator LUNDY—The group is not likely to, because they are not in the same position DCITA is in in terms of the nature of these concerns.

Mr Nicholas—The step-in rights are there—

Senator LUNDY—For the group.

Mr Nicholas—The step-in rights are there for the department if we believe that Telstra cannot provide the confidentiality arrangements et cetera that we seek under the new arrangement.

Senator LUNDY—Is the onus on you to prove that they cannot do it, or it is enough for you to say that you are not of the view that you will be able to satisfied?

Mr Morton—We are currently renegotiating the deed of performance, which sets out our confidentiality requirements. If we do not reach a stage where what Telstra agrees to is acceptable to us, we can exercise the step-in rights.

Senator LUNDY—Is it your call or Telstra's call on that agreement? You say negotiating; that implies that Telstra will have some sort of say. Surely you should be telling them what you require, and if they do not conform they are gone.

Mr Morton—That is exactly what is happening.

Senator LUNDY—I will look forward to hearing the results of those discussions.

[7.30 p.m.]

National Office for the Information Economy

Senator LUNDY—I have a few questions for the National Office for the Information Economy. I had many questions for NOIE, but I will have to place them on notice. However, I

have a few questions on the Broadband Advisory Group. I notice on NOIE's web site, with respect to the terms of reference, there is a series of points on which the Broadband Advisory Group will be providing advice. In the same vein as the questions I asked in relation to the Framework for the Future Committee, can you tell me what your understanding is of the advice being prepared by the Broadband Advisory Group, what shape or form that will take and whether or not it will be made public?

Mr Rimmer—I think the same issues apply that the minister raised earlier. We expect the group will be providing a report but this is subject to what happens at their next meeting. Certainly, we expect to take that report seriously, but we are not prepared to give any commitment in advance of exactly how it will be dealt with.

Senator LUNDY—It is the same answer: it might become public, it might not; it might have recommendations, it might not; it might identify priorities, it might not.

Mr Rimmer—I do not think it is very fruitful to try and conjecture about what will or might happen, but it is a serious process.

Senator LUNDY—That is basically all I needed to know, if it is the same kind of process. I think there are a lot of people who have a different understanding of that. It is my understanding also that the time frame is similar to the Framework for the Future, and that you are hoping to conclude those consultations by the end of the year.

Mr Rimmer—Yes.

Senator LUNDY—Is it your aim that a document be produced—advice or a report—by the end of the year?

Mr Rimmer—Yes.

Senator LUNDY—I note with interest a dot point after the terms of reference that says:

In providing this advice, the Broadband Advisory Group will have regard to current ACCC activities in relation to the development of a competitive broadband market in Australia.

What bearing does that have on the type of advice that the Broadband Advisory Group can provide to the government? To me it perhaps puts a fence around their considerations. Am I interpreting that incorrectly?

Mr Rimmer—I think it means what it says, that they will have regard to it. At the time that it was written, there were a series of pieces of information being sought by the ACCC which would be relevant to the considerations, but it did not constrain their deliberations in any way.

Senator LUNDY—I will put my other questions on notice. Thank you.

Mr Rimmer—Thank you.

Ms Williams—Can I table the list of working group AIIA reports, which Senator Lundy asked for.

CHAIR—Of course. Thank you.

[7.36 p.m.]

Australian Sports Commission

Senator LUNDY—I would first like to go to questions about participation in the Sports Commission's programs. Is Active Australia still the official brand name of the division of the Sports Commission which is charged with participation and sport development?

Mr Peters—We have just undertaken a review of our previous sport development program in which we had a number of sections and we have changed the names of some of these, but

the functional responsibility is there. Mr Espelland could run you through those structural changes, if you wish.

Senator LUNDY—Did you say it has changed its name?

Mr Peters—Yes.

Senator LUNDY—To what?

Mr Peters—That particular section has been amalgamated into another section. I am happy for Mr Espelland to run you through the structural changes. There are now four divisional areas.

Senator LUNDY—I will do that. So Active Australia does not technically exist any more?

Mr Peters—It does not exist as the name of an organisational section; it exists in the names of programs such as the Active Australia schools network, the Active Australia's club network.

Senator LUNDY—Do you still call them Active Australia?

Mr Peters—Yes.

Senator LUNDY—Welcome Minister. Mr Espelland, please give me a succinct fast run-down of what you have done to Active Australia.

Mr Espelland—It is not so much what has been done to Active Australia. We have reorganised the division that I head up to be more NSO-centric to ensure that we still obtain our focus on participation but that our views encompass whole of sport from grass roots through to high performance.

Senator LUNDY—What do you call it?

Mr Espelland—Sport Performance and Development.

Senator LUNDY—Where does Ausport come into it?

Mr Espelland—Obviously, the AIS is a brand for a certain range of functions and activities. Active Australia did not really cover all of the non-AIS activities of the commission. Ausport will do that and be in effect its trading brand for those particular functions.

Senator LUNDY—Minister, I had a very comprehensive briefing from the officers of the Sports Commission—

Senator Kemp—Excellent.

Senator LUNDY—and the Institute of Sport recently. I noticed the removal of the Active logo and the replacement of it with Ausport. I was not clear about the depth of the change. Can I ask you whether you have supported, encouraged and believed that this walking away from the Active Australia logo is the appropriate thing to do?

Senator Kemp—I do not think we are walking away from Active Australia, but there is some confusion, as I think was mentioned, about the Active Australia logo being very widely used. As far as I am aware, it will continue to be used, but we want to sensibly badge in a better way what the AIS and the Sports Commission are doing—and I think Ausport is a useful way to do it.

Senator LUNDY—And that is a broader suite of programs?

Senator Kemp—That is right. As you know, the Active Australia program is getting more people—young people, particularly, but all age groups—to participate. It is an important part of our policy, and one which I am very pleased to note the Labor Party strongly supports.

Senator LUNDY—What is that?

Senator Kemp—Encouraging more people to take part in sport.

Senator LUNDY—Indeed.

Senator Kemp—I was a bit shocked then, Senator. I thought, ‘Hello; there’s been—

Senator LUNDY—I was not sure what point you were trying to make. It was a bit obscure.

Senator Kemp—I was just showing that it is a bipartisan approach.

Senator LUNDY—Indeed, it is—vehemently so. Can you tell me why you are choosing not to use the Active Australia logo with the AIS, Ausport and Active? What is behind that decision?

Mr Peters—The Backing Australia’s Sporting Ability policy referred to a number of Active Australia programs and put money into the events area and other programs that we have designed to increase participation. At that time, a number of our programs—such as our coaching development program, our official development program, our ethics area, our women’s sport area and our Indigenous area—were not covered under the Active Australia banner. In fact, the Active Australia logo was a cooperation between health departments, education departments and state departments. We actually had requests from state departments asking that, if we were going to move away from some of the previous physical activity areas to concentrate on sport, we relinquish the Active Australia logo so that they could use it for their programs—similarly, with health—to depict more of a physical activity and a recreational approach like the all encompassing one that we have. Active Australia did not cover all the non-AIS programs, and we wanted to badge something that was associated with the sport development program.

Senator LUNDY—So, really, it is genuinely symbolic of the Sports Commission’s stronger focus on sport and its reduction in focus, if you like, on the broader physical activity and health type—

Mr Peters—It is a recognition of the increased focus of, in particular, health on the Active Australia environment, and it has been very pleasing to see.

Senator LUNDY—So you do not see that as your bailiwick any more?

Mr Peters—We are an advocate for a healthy Australia.

Senator LUNDY—I know that. I am not trying to say—

Mr Peters—Sports is an avenue but it is not our core business.

Senator LUNDY—You do not see it as part of your charter or core business. That is disappointing. How much is it costing to change the logo from Active Australia to Ausport? Have you done a costing on stationery, signage and all that kind of thing?

Mr Peters—I do not have the figures. When letterheads et cetera run out, we are looking to replace them. There will be some name cards and that that we may do before the other ones run out, but we are looking to minimise any costs and do it on a gradual basis. We are very conscious that we are still running a number of Active Australia programs.

Senator LUNDY—Is there any formal launch of Ausport planned—to give the minister an appropriate platform to sing your praises?

Mr Peters—Not that I am aware of.

Senator LUNDY—Minister, do you plan to launch Ausport?

Senator Kemp—We have not planned anything.

Senator LUNDY—It is quite a dramatic change.

Senator Kemp—I am not sure it is dramatic; I think it just better badges what we do.

Senator LUNDY—You are rebadging the Australian Sports Commission's logo.

Senator Kemp—We have not planned a huge launch but, because you are always fretful in making suggestions, we will take that on board.

Senator LUNDY—I think Australian citizens deserve to know that the Sports Commission is symbolically changing its emphasis from health and physical activity to concentrate on sport and organised sport per se.

Senator Kemp—We are trying to make what the Australian Sports Commission does more clear. Active Australia is being pretty widely used—that is the advice I have received—by bodies outside the Sports Commission. We support that; we do not object to that. But most people would want to know what the Sports Commission is doing, and I think it is appropriate to have an appropriate badging arrangement. We are not hiding under a bush. The whole point of a badging arrangement is to tell people about it. So it is out there; we are not hiding it.

Senator LUNDY—It has all been pretty quiet. I guess that is why I am asking whether or not you are going to launch it. It just reeks of being a little surreptitious.

Senator Kemp—Let me take that on board.

Senator LUNDY—Thank you. I will look forward to the invitation.

Senator Kemp—We are always happy to ask you, Senator.

Senator LUNDY—I know, and I am eternally grateful.

Senator Kemp—I am delighted to hear that.

Senator LUNDY—They are always glorious functions. Within the Sports Commission, has any funding that was previously earmarked for Active Australia programs now been moved into Ausport programs? Has there been a shift in funding from broader health and physical promotion initiatives within the commission towards more organised sport oriented programs.

Senator Kemp—No. The policy we went to the election on is the policy which remains. Obviously, each year you review what you are doing. Sometimes programs slip; sometimes programs are ahead of the timetable. But, essentially, we have not changed the nature of the funding.

Senator LUNDY—Can you provide a complete breakdown—take this on notice, please—of the allocations of the sports development grants program?

Mr Peters—Yes.

Senator LUNDY—On page 46 of the annual report, which deals with women and sport, it lists the 'Pregnancy in sport' publication, which is most commendable, I have to say.

Senator Kemp—Thank you, Senator.

Senator LUNDY—But is that the only publication for the year specifically about women's sport? Are there any other initiatives that you can point to?

Mr Peters—At the moment the women in sport unit is working with the University of Canberra, following the media report in 1996.

Senator LUNDY—You are actually working on *An illusory image*?

Mr Peters—Yes. As we discussed in the last estimates, there are some key issues that have come out of that.

Senator LUNDY—Can you send a copy to the ABC?

Mr Peters—Actually, after their previous session, they did ask for a copy, which we have organised to send to them.

Senator LUNDY—Excellent.

Mr Peters—It is called 'A fair go for all', promoting diversity of sports media coverage, and it is about improving media reporting of underrepresented groups, which includes women—that is a key one—and also people with disabilities. So it is actually a formal structure to move into the education area. On Monday this week, we also had a consultative group of a number of senior women administrators from around Australia, and male administrators, to look at the issue of dealing with women in sport issues. We are going to run a major conference next year. Also, as part of our future directions conference, we have a section entitled at the moment 'The great debate on using sex to sell women's sport', which is a very current issue about relevancy and where we move to.

Senator LUNDY—Indeed it is.

Mr Peters—One of the difficulties when you look at that 1996 report is that a lot of things have been tried and have not worked. So the idea is to get people, in the fields of women's sport in particular—and that is males and females—to look at how to integrate so that these issues become normal sport development issues and not something tucked out at the side. Our women's sport group are looking at working on these projects across a number of fronts so that we can have some success.

Senator LUNDY—I will look forward to my invitation to that conference.

Senator Kemp—You are going to be very busy with all these invitations, Senator.

Senator LUNDY—I am going to be busy, and I will look forward to seeing you there and hearing your address.

Senator Kemp—I am always there, Senator.

Senator LUNDY—I have a couple of questions about the board. Can you provide an update on changes to the Australian Sports Commission board, Mr Peters or Minister?

Senator Kemp—Last week I issued a press statement in relation to the board. There was one new appointment to the board, Mr John Eales. What happened is that on the same date every member of the board's term expired. We had to deal with that position, and we have appointed a number of people for two years and a number for three years. But I think on my web site—

Senator LUNDY—But that was the only change?

Senator Kemp—The board remains the same, but we have added Mr John Eales, and there is one vacancy on the board at the moment.

Senator LUNDY—When are you intending to fill that?

Senator Kemp—There is no great urgency to do it. We will always look around to see whether there are appropriate people who can make a significant contribution. We think it is a very important board, one which is dealing with sport in a very effective manner. The board, apart from the one vacancy, is full, and everyone now has their terms.

Senator LUNDY—How many women are on the board?

Mr Peters—It includes Michelle Ford-Eriksson, Margot Foster, Pam Tye and Karin Puels, and Helen Williams sits on the board as secretary of the department.

Senator LUNDY—How many are there altogether?

Mr Peters—Eleven. There is one vacancy.

Senator Kemp—There are five women on the board. I would point out that the board is appointed on merit.

Senator LUNDY—I was just checking.

Senator Kemp—We have very talented people there.

CHAIR—You do not have a 60-40 rule?

Senator LUNDY—You have no idea.

Senator Kemp—That was a bit of humour, Senator.

Senator LUNDY—I am trying not to laugh.

Senator Kemp—I thought that was pretty good, actually. It was completely out of order for the chairman, but it was pretty funny.

Senator LUNDY—There have been some changes to the Sports Commission press clips. They are now issued electronically. Is there a reason why that press clip service no longer includes government and opposition media releases?

Mr Peters—I will have to check that. I was not aware. We are certainly looking to use web systems now to electronically get to people. I cannot answer that, but I certainly can investigate it.

Senator LUNDY—Do you put a link to the minister's press releases with that email of your electronic clips when you send it?

Mr Peters—I might take that on notice and check out exactly what happens.

Senator LUNDY—Because, if you do, I would expect you would put a link directly to my press releases, which unfortunately do not appear on the minister's web site alongside his and also are captured by the federal—

Senator Kemp—Senator, I do not think—

Senator LUNDY—You can host them. If I sent them to you when I released them, would you put them on your web site?

Senator Kemp—For you to suggest I should put your press releases on my web site is carrying the friendship a little bit too far.

Senator LUNDY—I thought you might say that. Anyway, what I am more concerned about is that anything the Sports Commission does is even-handed with respect to the goings on in this place, as I would expect.

Senator Kemp—I would expect the Sports Commission to be a very strong and forceful advocate for Australian sport.

Senator LUNDY—‘Bipartisan’ is the key word.

Senator Kemp—You are playing the issue. The chips will fall where the chips will fall, in my view.

Senator LUNDY—Did you have anything to do with this decision?

Senator Kemp—What decision?

Senator LUNDY—About taking the political press clips out of the package circulated by the Sports Commission?

Senator Kemp—No.

Senator LUNDY—Do you deny all knowledge? You should be really cross about it.

Senator Kemp—This is completely news to me. I never noticed it, because in my office we assiduously follow your press statements, so I never feel that I have been deprived of your press statements. Just going to the substantive point, the Sports Commission is there as an independent body to forcefully put the case and to help manage government assistance to sport. I think you would expect it would argue the case as it sees fit. Sometimes that may not help us, sometimes it may not help you, but I think we need to have a body that is effective and that can put the case, and you and I will handle the politics of that.

Senator LUNDY—Indeed. Thank you, Minister, I will keep moving. In what way did the Sports Commission contribute to Support your Sport? Was it a financial contribution, was it in kind or was it tied into using or promoting Reebok?

Mr Peters—This is the Westfield shopping centre proposal?

Senator LUNDY—It is. Sorry, I should have put it into context. It is a joint operation involving the Sports Commission, Westfield and Reebok. I think for every dollar spent at a Westfield shopping centre, you get points for your registered sporting club.

Mr Peters—It is based on the very successful Shop for your School program that Westfield ran.

Senator LUNDY—So this is like shop for your Sport.

Mr Peters—Yes. One of the key issues under BASA was for us to look at opportunities to increase not just participation but participation in sporting clubs. If we can increase the number of those who register in sporting clubs, they pay capitation fees and they generate funds that keep clubs going.

Senator LUNDY—And it will help you to reach your minister’s political promise of one million new participants in sport by 2005, or whatever it was, won’t it?

Mr Peters—We would hope to surpass that figure, because our concern is to have more people participating.

Senator LUNDY—But it is part of driving the membership up so you can meet those targets. I am not being disparaging. I would assume it is part of that.

Senator Kemp—I think that, in the current culture, it is a very hard task to encourage greater participation in sport. We are working hard in a variety of directions to do that. We are competing against aspects of our culture which do not encourage participation in sport.

Senator LUNDY—Thank you, Minister. I will come back to the question, because I am conscious of the time. How many points or dollars were raised through Support your Sport? Has Westfield said that?

Mr Peters—The program is still to be run. It is based on this month and early December. They have come back with a proposal based on similar lines as Shop for your School, except they want to encourage schools and clubs. To date we have over 1,000 sporting clubs registered to participate throughout Australia in this particular scheme. Again, it is something new that we are trying. The success in the first year of Shop for your School was good, but the years after that were quite extraordinary.

Senator LUNDY—So they are yet to report for this first year.

Mr Peters—It has not been put in place yet. This is the first year and it is about to happen.

Senator LUNDY—Will you be making those reports on the program public as they come to light?

Mr Peters—Yes. In all our programs we need to be honest in our assessment of them, because we are breaking new ground in a lot of ways.

Senator LUNDY—Do not get me wrong. I think the lateral thinking in this regard is commendable but, like you, I will be very interested in how it develops.

Senator Kemp—The point that Mr Peters made is a good point. The Sports Commission is breaking new ground here. I think it is very important to explore new ways to bring the message to a wider public. Obviously this will be very carefully monitored to see how successful it is.

Senator LUNDY—Yes. There is always some risk involved in trying something new, and I do not want to give the impression that it is not a risk worth taking.

Mr Peters—As I said, it is happening now. In December we will be able to gauge some sort of understanding. The benefit for us is that Westfield have been doing this for some time with the school program. Your initial question referred to Reebok. Reebok came in after we had finished negotiations, on the basis that they wanted to associate themselves with the participation program.

Senator LUNDY—How much in kind or cash did they put in?

Mr Peters—Reebok have put in around \$650,000 in apparel and in kind, but I can clarify that for you.

Senator LUNDY—How much did Westfield put in?

Mr Peters—They have put in around \$2 million, including marketing and promotional campaigns.

Senator LUNDY—So there is a lot of in kind as well. What about the Sports Commission? What is your contribution?

Mr Peters—Our contribution is \$560,000.

Senator LUNDY—Over what period of time?

Mr Peters—We are reviewing at the end of the year. We have given a tentative commitment of three years, but with all our programs we review them after—

Senator LUNDY—Is that \$560,000 over three years?

Mr Peters—No, it is this year.

Senator LUNDY—So it could be more.

Mr Peters—Yes.

Senator Kemp—We will be reviewing it at the end of the year to see whether it is producing the results.

Senator LUNDY—So the figures you gave me were annual figures?

Mr Peters—Yes.

Senator LUNDY—Last estimates, it was revealed that SportNet cost the Sports Commission about \$1.5 million, and Telstra's investment was about \$6.7 million. On page 38 of the Sports Commission's annual report, it states that an alternative solution for existing SportNet customers was brokered by a third party. What is going on there? After the disaster of SportNet, who is the third party that is brokering the deal?

Mr Espeland—The third party was ASI, which had developed the database for SportNet.

Senator LUNDY—What is ASI? Is that a local software company?

Mr Espeland—It is a national software company.

Senator LUNDY—Is it an Australian SME, by any chance?

Mr Espeland—I would have to check on that, Senator.

Senator LUNDY—I hope so. You get brownie points if it is Australian.

Mr Espeland—It had been part of the partnership arrangement with Telstra and us, and after Telstra looked to withdraw for commercial reasons then it was a question of really providing an appropriate exit strategy for the customers—the 24-odd sports. That was negotiated with the sports by way of a survey conducted by a consultant. Based on that information, a solution was adopted which allowed them to basically take up a number of options. The options actually provide them with an increased benefit from what they were on previously. There were options for web site hosting and a whole of sport approach.

Senator LUNDY—At the last estimates hearings you said that there was a delay in the transition from Telstra to this new ASI based service. You said it would be completed in June. Did that happen?

Mr Espeland—I would have to check the date, but I think we completed in August. There were some last-minute difficulties.

Senator LUNDY—What are the cost implications for the Sports Commission for providing financial assistance to existing SportNet customers and that transition process?

Mr Espeland—Over the period 2001-02 our expenditure has been \$447,000. I would need to look at what was the continuation of SportNet in its previous guise and what was actually the transition costs. I will provide those for you.

Senator LUNDY—Thank you. It was a bit of disaster, the SportNet experiment. It just shows that it does not always go right, especially when Telstra is involved.

Mr Espeland—The commission is still committed to having an understanding of what sports information management architecture needs are and assisting them in looking at various options. We have not dropped the notion; we are still working on it.

Senator LUNDY—I will look forward to pursuing it in more detail at our next session. Has there been a high turnover of high ranking staff at the Sports Commission or the Institute of Sport lately?

Mr Espeland—Not that I am aware of.

Senator LUNDY—I will put the rest of my questions on notice. Thank you.

CHAIR—Thank you, Senator. I thank the sports officers for being here.

[8.04 p.m.]

National Gallery of Australia

CHAIR—I welcome Dr Kennedy and officers from the National Gallery.

Senator LUNDY—Dr Kennedy, I would just like to refer initially to an article published in the *Australian* on 5 October, ‘Fears over building cloud gallery’s party’, and ask some general questions. When is Comcare due to report on the survey of staff taken at the Gallery earlier this year?

Dr Kennedy—That is a report which has been called, after the investigator, the Wray report. That is a matter for Comcare until the report is made available, when I would be happy to answer questions on it.

Senator LUNDY—Do you have any idea whether it will be this year or next year? Do you have a clue on when it is likely to be available?

Dr Kennedy—I think that is a matter for Comcare. I imagine it will be reasonably soon. But really they have to complete their investigations; it is a question for them.

Senator LUNDY—Do you know whether the results of that survey will be made public?

Dr Kennedy—That is a matter for Comcare, I imagine.

Senator LUNDY—It has been noted that the questionnaire asked very pointed questions which suggested or implied that the Gallery has sick building syndrome. Having worked in the building industry previously, I am reasonably familiar with the term. Is the building sick?

Dr Kennedy—I can comment on the article because it was a published article, but I cannot comment on any matters of investigation in the Wray report. The Gallery building is certainly not a sick building. A sick building would be a building that we would have to abandon, and there has been no question whatsoever that the Gallery is in such a category. It is a highly speculative report.

Senator LUNDY—Yes. What has been done in the meantime to protect staff and visitors to the Gallery, along with the Gallery’s collection, from possible or potential adverse effects from sick building syndrome? Have you done anything—

Dr Kennedy—Which syndrome?

Senator LUNDY—Sick building syndrome.

Dr Kennedy—I too am familiar with that term from a building I was once involved with in Dublin. It is a highly emotive term and one that is not in any way applicable to the National Gallery. The National Gallery has a whole series of regimes which make sure that our conditions are appropriate. As you are well aware, I think, we have been subject to quite a number of investigations and reports that we have commissioned ourselves, and ongoing observations of the conditions in the Gallery. If I thought for a minute that there was any challenge to the health and conditions of our many, many visitors, our 280 staff, our 150 guides and all of the people who come into the Gallery, I would take that very seriously and have to take action. I have no evidence whatever of that now.

Senator LUNDY—But that evidence may be presented to you in the form of the Wray report, so what contingency action are you taking now? Are you doing anything at all in preparation for that contingency? You have said yourself that you do not know what that report will contain. Are you just going to wait for it to be tabled and then worry about it?

Dr Kennedy—As I have said, the Gallery has a whole series of regimes and has commissioned quite a number of reports. In tandem with the Wray report investigation, which has taken place, the Gallery has been doing its own investigations. We have no evidence whatsoever on the basis of those—which are additional to what we would normally do—that we have any issues of that kind. We will wait and see what the report says.

Senator LUNDY—Are you going to release a report of your own then to be the counterstrategy to the Wray report? These own investigations—what are you trying to achieve with them?

Dr Kennedy—My sincere hope is that that would not be necessary. I think that what is important for us is to do just what you have said—to make sure that, during a time when there might be such speculation of a highly emotive nature in the press, we assure ourselves, our staff, me myself—everybody who works many hours a week in the building—that it is entirely safe. We have no evidence that it is anything other than that—safe—right now.

Senator LUNDY—Can you give an unequivocal guarantee that the upgraded airconditioning system provides stable conditions for the artworks in the Gallery?

Dr Kennedy—I think, as you would agree, it is inappropriate to give unequivocal guarantees about equipment. It is appropriate to make sure that that equipment is continually in good working order and continuing, on the basis of reports, to be satisfactory. That is what we are doing. We believe that our system is now a very, very good one. It has in fact been accorded honourable mention in awards. We have had our staff brought to conferences internationally to discuss airconditioning. We have the benefit of the—

Senator LUNDY—I am not surprised. I think it has been on their minds for a few years now.

Dr Kennedy—We have had the benefit of the thousand questions that we have been asked here.

Senator Kemp—I think probably we have well covered that.

Senator LUNDY—You should be grateful to us for contributing to your collective expertise.

Dr Kennedy—I know a lot more about airconditioning now than I ever knew before we started this engagement, and it has been most useful.

Senator LUNDY—I am sure you are a better person for it, Dr Kennedy.

Senator Kemp—I am not sure that we could make that statement, but we have travelled a long road with this airconditioning and I would be a bit distressed if I felt that you were about to travel down the same road.

Senator LUNDY—I will be travelling down it for approximately two more questions, so bear with me.

Senator Kemp—If it is only two, I will accept that; it is a good deal.

Senator LUNDY—I do not know whether this has been asked previously; if it has, it will just be a matter of getting the information again. How much has the Gallery spent on the airconditioning, and how much do you still need to spend?

Dr Kennedy—I will ask Mr Froud to answer that question.

Mr Froud—About \$2.3 million has been spent to date. When we were before the Senate previously, we indicated that we expected to spend something like \$2.8 million on the

upgrade of the airconditioning system. We have spent about \$2.3 million at this stage, and we will be now looking at further work. As we have actually worked through with consultants who have been providing advice on our airconditioning system and reviewing the effectiveness of the implementation of the new system, it has invited consideration of some other issues that we were not originally contemplating—to do with air balancing, pressurisation throughout the building et cetera. There will be a second phase of airconditioning work which we will undertake some time next year. We are still at this stage getting advice from our consultants about the total scope of that work.

Senator LUNDY—So that will probably pick up that extra \$500,000?

Mr Froud—I would think, and some more. I think we now would believe that the total amount of expenditure on the airconditioning upgrade and the work on our airconditioning system will exceed our original expectations.

Senator LUNDY—You mentioned balancing issues and other things. Could that relate back to the question that I asked before when I was seeking an assurance about stable conditions? Are you suggesting that there might be some conditions—not necessarily threatening conditions, but unstable conditions in terms of pressurisation and balance? Minister, I was not planning to ask this extra question, but his response provoked me.

Senator Kemp—You are trying to sneak one in, Senator. You have already broken a promise, Senator; I am a bit shocked.

Senator LUNDY—Two questions. I am still on my second.

Dr Kennedy—I will take that question. I would like to assure you that one of the things that has come out of all our discussions is how seriously we take our airconditioning. We are obviously in a highly airconditioned environment. The issue of air balancing is to do with air flows and negative and positive pressure. We have a very big building; it is a large space, and it is a matter of trying to make sure that there are no pockets that have difficulty—and that is a matter of continual monitoring. As Mr Froud told the Senate last time, we have been spending approximately half a million dollars on the maintenance of our system, and we would envisage that we will continue to do that and do additional works as necessary.

Senator LUNDY—Thank you.

Senator Kemp—Thank you. Senator, two questions. Well done.

Senator LUNDY—What is—

Senator Kemp—Thank you, Mr Kennedy, well done.

Senator LUNDY—What?

Senator Kemp—I thought we had finished.

Senator LUNDY—No, I have more questions, but not in relation to airconditioning.

Senator Kemp—You raised our expectations, only to dash them.

Senator LUNDY—I am so sorry.

Senator Kemp—I am just worried about Senator Carr and Senator Wong. They have some important questions to come up, and I am just worried about them being delayed.

Senator LUNDY—The last thing I want to do is delay unnecessarily. What is the progress on a settlement with ex-gallery employee Mr Brian Cropp? Previously we have heard in estimates that that is going ahead with a spirit of goodwill. Is that the case? Is that progressing?

Dr Kennedy—I can advise you that we are in active negotiations with legal representation for Mr Cropp, and I would hope that we could reach a settlement very soon.

Senator LUNDY—Do you have a time frame for the conclusion of that? I note that it has been a long time now that his situation has been in play.

Dr Kennedy—Yes. I did advise the Senate on the last occasion that I hoped it would be completed soon. There was a difficulty in that the then service provider acting for a former contractor, Mr Cropp, became unwell and he then took on legal representation, and we have been working with that legal representation. That is also a matter for Mr Cropp. We would hope to have a settlement as soon as possible.

Senator LUNDY—I will watch closely with a great deal of interest. Have extra costs been incurred by the gallery as a result of the increased cost of public liability insurance?

Dr Kennedy—Not specifically by the gallery at the current time. There is throughout the world of art galleries a very significant cost that has been applied to the management of collections, and Australia is no exception to that. Our own insurance premium has gone up very dramatically indeed. However, the government is considering the matter. Those agencies like ourselves which have highly valuable assets have not the funds to accommodate the proposed increase, and we are therefore in negotiations as to how that might be resolved.

Senator LUNDY—That question is related to an article which was in the *Canberra Times* on 25 September under the heading ‘Priceless old wallpaper torn at NGA’. How did the damage to this 19th century wallpaper occur?

Dr Kennedy—Accidents happen. One does not wish them at any time, but they do happen. In this particular case there were a number of tears in the wallpaper, which is hand painted and is at the entrance to the Australian galleries. This occurred as a result of a contractor being unaccompanied during a weekend and there was a degree of carelessness caused by a ladder penetrating the paper. The paper is now being repaired.

Senator LUNDY—It has been repaired, or it is being repaired?

Dr Kennedy—It has been repaired—very quickly. I would like to just point out that the complexity of art gallery administration sometimes is not known to a journalist. The whole bottom section of this particular wallpaper has been hand painted—as indeed has the whole section over to the far right—by our own conservators. There are a quite a number of figures and the landscape was added by our own conservators. The nature of works of art is that—

Senator LUNDY—It is a mutual work?

Dr Kennedy—Yes, but I would not for a minute say that is to condone damage to an artwork.

Senator LUNDY—Of course not. Are there any other examples of damage that has occurred due to similar accidents? Very quickly, I would like to know what strategies you have put in place to try to ensure it does not happen.

Dr Kennedy—At all times the gallery employs strategies to make sure that, general speaking, contractors are accompanied.

Senator LUNDY—I appreciate that.

Dr Kennedy—There are not any other examples I can think of that I can give you at the present time.

Senator LUNDY—How much is the door costing?

Dr Kennedy—I hope the door itself will be very, very cost efficient.

Senator LUNDY—What about what is around the door?

Dr Kennedy—The project works, which have euphemistically been called the front door, in fact involve a very complex series of additions to the gallery to improve visitor facilities. As previously advised, the total project cost for all our works, which include internal refurbishment works and the new works—which will include a major front entrance with a whole series of visitor facilities; improved access to allow people independently to access the building; new retail; new forecourt; changes to roads; changes to landscaping; a new quarantine store; new art handling facilities; and increased storage for works of art—is approximately \$20 million. None of that money has been expended at this stage on those works.

Senator LUNDY—None of that has been expended?

Dr Kennedy—No. There has been money expended on planning for them, but not on the actual works.

CHAIR—Before you leave that issue, what was the resolution of the matter of the intellectual property rights of the architect of the original building over the change in the design?

Dr Kennedy—We are in positive discussion with our original architect and our managing architect, whereby our original architect is providing us with a statement of principles which detail what he believes are the fundamental principles underlying his building. This will provide a template which will allow not just the current managing architect for the additional works, which include the front entrance, but other architects into the future to know his thinking. We are in a convivial and appropriate situation. It has been tough, it has been frustrating and it has been challenging due to the implications of my rights. We are in a time schedule that will see us having the template next week, having discussions with expectations that they will be complete in the memorandum of understanding by mid-December with a brief by next February.

CHAIR—Is there going to be any cost involved in this in terms of payment to the original architect?

Dr Kennedy—No, the original architect is doing it on a bona fide basis. However, he is using the services of an architect colleague, Angelo Candalepas, who is providing services for which we have paid \$8,000 only.

Senator LUNDY—Page 65 of your annual report shows that your costs are up and your outputs are down and that you have taken \$6.821 million out of your cash savings. Not being an accountant, I want you to explain that to me and tell me what have you used it for?

Dr Kennedy—Mr Froud is an accountant and I am not, so I will refer it to him not knowing whether he can answer that question at the current time or not.

Mr Froud—You mentioned a figure of \$6.82 million. I do not see that on page 65.

Senator LUNDY—It was \$6.821 million.

Mr Froud—You are talking about the difference between the cash position at the end of 2001 and the cash position at the end of 2002. One of the major issues is our building. We have received funding, and we have actually put aside funding to address the building refurbishment requirements. So there is a total of \$42.9 million, which is the project cost for the building refurbishment work, and \$20.7 million of that will be provided by the government by way of a loan. The balance is being provided by the Gallery from accumulated

reserves and funding is being made available for the depreciation of the building since 1 July 1999 with the introduction of accrual accounting. We have been putting aside and accumulating funds with the purpose of applying it on the building. So that has been the major application of those funds. We have spent something like \$4½ million—

Senator LUNDY—I do not understand enough about accounting. Is the \$6.8 million in a different account somewhere?

Mr Froud—No. Looking at that class of financial assets, it means that at the end of 2001 the Gallery's total financial assets were \$25 million of which \$23 million was in cash. At the end of the following year, that class of assets had reduced down to \$19½ million. We converted our assets from cash assets to real property assets. You will see that the land and buildings figure—further down under the non-financial assets—has gone up, while the cash assets have gone down.

Senator LUNDY—Does that mean you spent that money on the building?

Mr Froud—We have taken the money out of the bank and paid it to somebody to enhance the value of our property by doing this refurbishment work. That means that those property assets have increased but our cash assets have gone down.

Senator LUNDY—So what did you do for \$6.821 million?

Mr Froud—The airconditioning upgrade has been a significant component of that. We have spent just over \$8.3 million all together on the building up to the present time, but that has been spread over a number of years—and your question relates to just one financial year.

Senator LUNDY—I want to know exactly what you have spent \$6.821 million on.

Mr Froud—On page 59 of the annual report, if you look halfway down the page you will see 'Cash flows from investing activities'. You will see the cash used for the payments for property, plant and equipment was \$5,022,000. We also spent \$13,298,000 on purchases of works of art. That is in part as a consequence of commitments entered into in previous years where obligations fell due in 2001-02. But this statement of cash flows actually summarises the dollars in and the dollars out. This statement is the statement to refer to in order to have an understanding of the changes in the cash balance.

Senator LUNDY—That \$6.82 million was split between—

Mr Froud—It is the sum of all these, in that there have been funds received and there have been funds applied, and the difference represents the \$6 million in total in terms of the cash funds that we held.

Senator LUNDY—Are you able to nominate in itemised form what you have spent \$6.821 million on?

Mr Froud—Yes. If you like, I will take that on notice and provide that statement, which will actually reconcile to these figures in the published accounts.

Senator LUNDY—It would be good if you could make that really clear in the information you provide.

Mr Froud—Understood.

Senator LUNDY—What is 'payments for shares'? Did you buy some shares? Are you trading on the stock market?

Mr Froud—Yes, we do.

Senator LUNDY—You bought half a million dollars worth of shares? Which company—Telstra?

Mr Froud—The gallery has one benefactor which has provided funds to support the development of the Gordon Darling Australasian Print Fund. The trust deed that accompanied that particular gift provided for funds to be invested in a particular, broader than normal manner.

Senator LUNDY—So it is a conditional donation?

Mr Froud—Yes, this was a \$1 million donation back in 1988—it was over a number of years, but finalised in 1988—with the opportunity for investments, including equities, to be made. That fund is currently valued at closer to \$2 million, and we have spent about \$1½ million from it as well.

Senator LUNDY—So we can cross off ‘shares’ as what you spent the \$6.821 million on.

Mr Froud—Because this is a consolidated picture—the consolidated finances include all money in and all money out—

Senator LUNDY—How are you going to itemise the \$6.821 million?

Mr Froud—As I said, I will take that on notice. I think that if I could provide that to you on notice that would be easier.

Senator LUNDY—I am curious now—and very conscious of the time. Do those shares mean that the gallery will get a dividend and make some money?

Mr Froud—Yes, the gallery gets dividends; that is right.

Senator LUNDY—Are you going to make a habit of buying shares?

Mr Froud—Only on that one fund.

Senator LUNDY—Don’t ask any advice from the Treasurer! He is not very good at it, as Senator Kemp knows.

Senator Kemp—The Treasurer is excellent at it.

Senator LUNDY—How much did he lose? It was \$5 billion, or something absurd.

Senator Kemp—I think we have explained the Labor history and the Labor origins of all that, if you have been following it.

Senator LUNDY—We do not have time now. What have \$146,818 in legal fees been spent on? You can take that on notice.

Dr Kennedy—I think we should take that on notice.

Senator LUNDY—Detail-itemised, if you please. As per my commitment, we will put all the rest of the arts questions on notice and will now move to the environment. Can I say to the agencies that we have not got to or which were significantly foreshortened, we made a great effort today as part of the committee to progress through the items on our agenda. We have all worked very hard to cooperate and to stick to that, but we have a commitment to move to the Environment portfolio now, and we will do that. Thank you.

Senator Kemp—You will brook no complaint at all from me for being speedy, Senator.

CHAIR—I thank the National Gallery and the department for appearing. Senator Lundy has mentioned questions on notice. I remind all the officers here that the answers to questions on notice must be in to the secretariat by Friday, 13 December.

[8.33 p.m.]

ENVIRONMENT AND HERITAGE PORTFOLIO

In Attendance

Senator Kemp, Minister for the Arts and Sport
Department of the Environment and Heritage
Mr Roger Beale, Secretary
Outcome 1: Environment
Ms Anthea Tinney, Deputy Secretary
Dr Conall O'Connell, Acting Deputy Secretary
Sustainable Industries and Atmosphere Division
Mr Phillip Glyde, First Assistant Secretary, Sustainable Industries and Atmosphere
Division
Ms Kathleen Mackie, Assistant Secretary, Atmosphere and Sustainable Transport Branch
Mr Peter Burnett, Assistant Secretary, Government Partnerships, Chemicals and
Biotechnology Branch
Ms Kerry Smith, Acting Assistant Secretary, Industry Partnerships Branch
Approvals and Legislation Division
Mr Gerard Early, First Assistant Secretary, Approvals and Legislation Division
Mr Malcolm Forbes, Assistant Secretary, Environment Assessment and Approvals Branch
Ms Stephanie Martin, Assistant Secretary, Policy and Compliance Branch
Mr Jonathan Miller, Acting Assistant Secretary, Wildlife Branch
Mr Tim Kahn, Director, Environment Assessment and Approvals Branch
Heritage Division (including Australian Heritage Commission)
Mr Bruce Leaver, First Assistant Secretary, Heritage Division and Executive Director,
Australian Heritage Commission
Mr Kevin Keeffe, Assistant Secretary, Heritage Division and Deputy Executive Director,
Australian Heritage Commission
Dr Barry Reville, Assistant Secretary, Heritage Division and Deputy Executive Director,
Australian Heritage Commission
Natural Heritage Division
Mr Max Kitchell, First Assistant Secretary, Natural Heritage Division
Ms Chris Schweizer, Assistant Secretary, Natural Heritage Trust and Biodiversity Policy
Branch
Dr Rhondda Dickson, Assistant Secretary, Natural Resource Management Branch
Ms Alex Rankin, Assistant Secretary, National Action Plan on Salinity and Water Quality
Branch
Parks Australia
Mr Peter Cochrane, Director
Marine and Water Division
Mr Mark Tucker, Acting First Assistant Secretary, Marine and Water Division
Mr Mark Flanigan, Acting Assistant Secretary, Marine Conservation Branch
Mr Theo Hooy, Acting Assistant Secretary, Water Branch
Mr Richard Nott, Director, Coasts and Clean Seas Section

ENVIRONMENT, COMMUNICATION, INFORMATION TECHNOLOGY AND THE ARTS

Strategic Development Division

Mr David Anderson, First Assistant Secretary, Strategic Development Division
 Mr Peter Woods, Assistant Secretary, Corporate Relations and Education Branch
 Mr Dale Starr, Manager, Public Affairs Section, Corporate Relations and Education Branch
 Mr Mark Hyman, Assistant Secretary, International Branch

Policy Coordination Division

Mr Robert Butterworth, Chief Finance Officer
 Mr Patrick McInerney, Acting Assistant Secretary, Policy and Accountability Branch
 Mr Stephen Mayes, Assistant Secretary, Finance Branch

Australian Greenhouse Office

Mr Howard Bamsey, Acting Chief Executive
 Dr Diana Wright, Senior Executive Manager, Sustainable Energy Group
 Mr Gerry Morvell, Executive Manager, Sustainable Energy Group
 Ms Jo Mummery, Executive Manager, Greenhouse Policy Group
 Dr David Harrison, Senior Executive Manager, Partnerships and Market Policies Group
 Mr James Shevlin, Executive Manager, Partnerships and Market Policies Group
 Mr Greg Terrill, Executive Manager, Greenhouse Policy Group
 Mr David Clarkson, Manager, Corporate
 Mr Mark McGovern, Finance Manager
 Ms Jacquie Shannon, Manager, Greenhouse Gas Abatement Program
 Ms Louise Saave-Fairley, Project Manager, Program Evaluation
 Mr Richard Begley, Manager, Emissions Analysis Team

Great Barrier Reef Marine Park Authority

The Hon. Virginia Chadwick, Chair
 Mr John Tanzer, Executive Director
 Mr Andrew Skeat, Acting Executive Director
 Mr John Barrett, Manager, Financial Services
 Mr Michael O'Keefe, Manager, Ministerial and Parliamentary Liaison

Department of the Environment and Heritage

CHAIR—We welcome Mr Roger Beale and officers from the department. We will begin with outcome 1, on the environment. Senator Kemp, I see that we still have you, with your extended knowledge of many portfolios. I am sure that you will be able to guide us all tonight.

Senator Kemp—Indeed. It is a great pleasure to be here in such distinguished company.

Senator CARR—Mr Beale, on page 11 of the PBS there is a list of departmental outcomes by agency. Have any of those appropriations changed?

Mr Beale—I will ask Rob Butterworth, our chief financial officer, to indicate whether there has been any change in those appropriations.

Mr Butterworth—Not as yet.

Senator CARR—There has been no reallocation across programs?

Mr Beale—Between these outcomes? I do not believe so.

Senator CARR—None at all?

Mr Beale—No.

Senator CARR—Have there been any reallocations within subprograms?

Mr Beale—There are always reallocations within subprograms.

Senator CARR—What are the major changes since the last estimates?

Mr Beale—At the time we had our last meeting, I am not sure that we would have had an absolutely detailed breakdown at the subprogram level. We have reviewed our program outlays on a number of occasions during the year to track how we are going, what the pressures are, and to change things at the margin. We have one of those reviews under way at the moment but there are no conclusions from it as yet.

Senator CARR—When was that review due to be concluded?

Mr Beale—It has no particular time to be concluded. It is a process that, as I said, we normally engage in order to have a good look at how we are travelling—how we would reallocate funds at the margin, before the end of the calendar year.

Senator CARR—The department's total appropriations have not changed since the budget?

Mr Beale—No.

Senator CARR—Has there recently been correspondence sent within the department outlining the possible measures to accommodate a reduction in the appropriation?

Mr Beale—No.

Senator CARR—Have you recently prepared an options paper on this topic?

Mr Beale—On the topic of reducing the appropriation? No.

Senator CARR—What about on measures to accommodate a reduction resulting from a zero-based budgeting guideline?

Mr Beale—No.

Senator CARR—Are you familiar with the report that appears in *The Environmental Manager*, issue No. 416, dated 19 November 2002?

Mr Beale—I am.

Senator CARR—Are you saying that report is not true?

Mr Beale—The report, which talks of a 16 per cent unexpected budget cut across the board, is wrong. A number of times during the year, we review outlays at the subprogram level, against pressures, and reallocate within the funds that the parliament has appropriated for us—other than if we vary thing things in additional estimates. We are in the process of just such a review but there is no plan or proposal to cut across the board by 16 per cent.

Senator CARR—Is there any other percentage cut expected?

Mr Beale—No.

Senator CARR—What is wrong with the report? Is it the 16 per cent aspect or the unexpected budget cut aspect?

Mr Beale—The report says an across-the-board cut of up to 16 per cent. We do not have any across-the-board cut. We have the normal process of adjusting outlays at subprogram level.

Senator CARR—Fair enough. The report has just got it wrong and the claim here that a senior public servant has told this publication these things is just not telling the truth.

Mr Beale—I think a senior public servant—and the seniority is always a question of some interest—might have a microcosmic view of the world. Having said that, again, I am not aware of any specific element of a subprogram, either, that has been cut by 16 per cent. Mind you, I have not gone through to look at whether there are very particular or individual elements in our options, but as I emphasised, we are part way through this process, an options paper has been prepared, no conclusions have been reached and I am certainly not going to canvass what the options are.

Senator CARR—Fair enough. I did ask you before whether you had prepared an options paper. Was that question wrong?

Mr Beale—No. You asked me if I had prepared an options paper to put in place an across-the-board cut to accommodate a reduction in the appropriation, and I said the answer to that was, ‘No, I hadn’t.’ I did say that I had prepared an options paper, as I would from time to time during the year, on reallocation between subprogram activities within our parliamentary appropriations.

Senator CARR—Just so I am clear on this: the view you are putting to this committee is that the total appropriations have not been altered in any way?

Mr Beale—That is correct. I will just ask the chief financial officer to confirm that.

Mr Butterworth—There may well be modifications at additional estimates time for a variety of reasons, but at this point the appropriation stands.

Senator CARR—Just refresh my memory: when does this process normally cut in? Is that in February?

Mr Butterworth—I will have to refresh my memory when—

Senator CARR—We will come back at the beginning of February, so that is the period you are looking at for the calculation of additional estimates. Is it possible at that time that you could see a reallocation of department appropriations downwards?

Mr Beale—Let me say that this is a totally separate issue. There have been times in the past when at additional estimates appropriations have been adjusted downwards. They have typically been in circumstances where, for one reason or another, it has been impossible to expend funds under an appropriation. I certainly have no plans to be in that circumstance. In other words, this current exercise is not one that is associated with—

Senator CARR—It is not designed to accommodate that. The downward reallocation would only occur when there is a situation where you cannot actually spend the money. Is that right? Is it when you have been appropriated too much or when you have too much of an underspend? Are they the circumstances we are talking about here?

Mr Beale—We are not talking about these circumstances at all at the moment. I was merely making an observation.

Senator CARR—Yes, but in the past have you seen this circumstance?

Mr Beale—In the past, that would be the principal reason for variations at additional estimates in a downward direction. Variations in an upward direction are usually as a result of some unusual, unforeseen and unavoidable circumstance during the year that requires you to seek additional funds from the parliament.

Senator CARR—But it is possible that, if it is necessary for the government to find moneys for a new program, for instance, there would be a downward reallocation. Could you see those circumstances ever arising?

Mr Beale—That is a very hypothetical question.

Senator CARR—You are an experienced public servant. You have never seen that happen?

Mr Beale—It is certainly not impossible, and I would not exclude the possibility that it had occurred in the past, but it is not a current circumstance that we are facing, and certainly nothing that is related to this story that you have referred to.

Senator CARR—It is just that the same story actually says that other departments are doing the same thing, so they are having a look at their programs in terms of underspends and overspends and the possibility of reallocations. Do you think they are preparing advice on the possibility that they will need to reallocate appropriations for February?

Mr Beale—It is completely outside my competence to comment on what other departments might be doing.

Senator CARR—So you have not been asked to provide advice on a whole of government basis?

Mr Beale—No. As a normal part of the management of the department, I initiated a review part way through the year of how to accommodate changes in pressures within the appropriations that we have. This is a very normal part of our business of financial management.

Senator CARR—There are no requests being made for you to identify possible areas of savings should there be a need for an additional expenditure, say, to send troops to Iraq?

Mr Beale—No.

Senator CARR—The editors of *The Australian Journal of Environmental Management* will have to check their sources again. They say there are two sources.

Senator Kemp—Were the sources named?

Senator CARR—No. That is the nature of these things.

Senator Kemp—What a surprise!

Senator CARR—The Secretary is saying that this report is totally wrong, that the sources who provided this information to the publication clearly cannot be relied upon.

Senator Kemp—They are your words.

Senator CARR—I just wanted to be clear. Is that right, Mr Beale?

Senator Kemp—You have summed it well. You should make your views known to the editor of that publication.

Senator CARR—I think I will be with this transcript. I just wanted to be clear. Is that what you are saying, Mr Beale?

Mr Beale—I am saying that there has been no change, nor am I aware of any proposed change to the appropriations. We are going through the normal process of providing options and advice with respect to allocations and reallocations at the subprogram level. Some of those will be down and some of those will be up. All I can hypothesise is that someone who has been on the downside of that—

Senator CARR—So it is a disgruntled project manager or someone like that, do you think?

Mr Beale—Yes.

Senator Kemp—Who knows?

Senator CARR—Is it the department's view that there is any environmental advantage in using ethanol rather than conventional petrol?

Mr Beale—There is clearly a range of potential advantages through the use of ethanol from an environmental viewpoint. These depend very much on the detailed circumstances. Ethanol does tend to reduce some tailpipe emissions, particularly of carbon monoxide, sulphur dioxide, hydrocarbons and some air toxics.

Senator CARR—Is there any limit to the capacity of fuel ethanol sourced from sugar feedstock to deliver significant benefits to air quality and the reduction of other greenhouse gas emissions?

Mr Beale—That is a very broad question. As I have indicated to you, ethanol can produce some environmental benefits that are reasonably commonly understood to be those that I have mentioned: the reduction of carbon monoxide, sulphur dioxide, hydrocarbons, some air toxics and, under some circumstances, greenhouse gases as well. The extent of greenhouse gas reduction depends critically on examining the nature of the ethanol feedstock, how it is provided and how it is refined—for instance, whether it is from a waste product. In that sense, as with most fuels, there is a range of balancing considerations.

Senator CARR—Would a fair summary of your submission be that you need to have a balanced approach to this?

Mr Beale—You asked me explicitly about the environmental benefits and the circumstances in which those arise. I have listed the benefits and indicated that, from a greenhouse point of view, they depend on the way in which the feedstock is produced. To that extent, not all ethanol could necessarily be called environmentally advantageous. In Europe and a number of other places ethanol can be produced from non-biomass feedstocks, for example. It can be fractioned out in different ways.

Senator CARR—But I take it that the department would hold to the notion that there is a limit to the capacity of fuel ethanol sourced from sugar feedstock using current technology—which is what we are talking about—to deliver significant air quality and greenhouse gas reduction benefits or to provide a cost-competitive fuel source?

Mr Beale—As I have indicated to you, the science says that this is very much situation specific. In other words, it depends on the feedstock; it depends on the nature of the sugar cane fraction that is being used. To that extent, there probably is an absolute limit with current technologies and production levels, yes, that would be so.

Senator CARR—You hold to that view. Have I understood you correctly to say that you would hold to the view that there would be a limit to the capacity? You used the words 'absolute limit'.

Mr Beale—There is a limit to most things.

Senator CARR—You would hold to the view that there is a limit to the capacity. Do you also hold to the view that time should be taken to test the scope of a voluntary approach to reaching biofuel targets before supporting such measures to use the ethanol as are in the current proposal?

Mr Beale—I do not understand the current proposal to which you refer.

Senator CARR—I am referring to the proposal that is presently before the government. Does the department support the idea of a cooling-off period in which to assess the voluntary approach, which I understand is part of the current proposal?

Mr Beale—At this moment—and I think this was announced by the government some time ago—we are conducting a study of biofuels and the market barriers to biofuels, which is in the process of examining the environmental benefits and other possible benefits of biofuel production and barriers to the longer term uptake of these fuels. There is ample time to conduct that review before the end of the 12 months for which the government made an interim decision to provide subsidy arrangements to the ethanol industry. So, yes, we are examining exactly those issues. I do not know whether Mr Glyde from the Sustainable Industries and Atmosphere Division—the environment quality division of the department—can refer you to the public announcements of these tests.

Mr Glyde—This was announced publicly on 10 May this year.

Mr Beale—It was included in the budget statement that was before us at our last estimates hearing. The government will provide \$2.5 million in 2002-03 and 2003-04 to fund a study addressing market barriers to the uptake of biofuels. The study will include consideration of options for vehicle testing as well as examining the issues that you have referred to.

Senator CARR—What is the environmental benefit of using ethanol over conventional fuels?

Mr Beale—I have indicated to you some of the areas of environmental benefit. It is exactly the examination of those areas that we are now engaged in. As we are looking at these barriers to the uptake of—

Senator CARR—Do you expect there to be significant benefits?

Mr Beale—There are some benefits but I would not speculate yet about the outcome. Some people claim very significant benefits, others suggest that the benefits are there but that they are more modest. We are going through the process at the moment.

Senator CARR—When do you think that review will be completed?

Mr Beale—Perhaps I should ask Mr Glyde because I am not quite sure about the details of the timing commitments that were given for this review.

Mr Glyde—The government has asked us to complete the market barriers study by December of this year. The testing of vehicles to run on ethanol will go on beyond that date. I think it is scheduled for completion in mid 2004.

Mr Beale—As these are matters that, as we complete these reviews, would go to Cabinet, I think it would be inappropriate for us to go too much further into the details of what we are doing.

Senator CARR—We are just inquiring what the department's view is. I want to be clear what the position is. I take it that you will have the findings of this review ready in 10 days time. Do you have any indications about that at this point?

Mr Beale—The commitment was to produce the review for the government's consideration before the end of the year. Whether, after it has examined it, the government asks for more work to be done or prefers to move more rapidly towards a conclusion, we will have to wait and see.

Senator CARR—Has there been any action taken on water quality in the Great Barrier Reef lagoon with regard to the department's concerns?

Mr Beale—Yes, there has been a great deal of action. There has been a memorandum of understanding signed between the Prime Minister and the Queensland Premier. Under the framework of that memorandum there has been active work between a range of

Commonwealth departments, the state departments and the community. A draft Productivity Commission report was released only yesterday on aspects relevant to that work. I hope that within a relatively short period of time there might also be a science report between a group of state and Federal scientists released. Dr Conall O'Connell is far more expert in this matter. Dr O'Connell is acting deputy secretary and the head of the marine and water division of the department, and for the Commonwealth has been leading the coordination of this exercise.

Senator CARR—Has there been a scientific study undertaken, Dr O'Connell?

Dr O'Connell—There is a report by a group of scientists which is currently being finalised. It looks at a consensus approach on the issue of water quality entering the reef.

Senator CARR—You say it will be finalised. How long is that going to take?

Dr O'Connell—It is imminent in terms of being finalised, but it has been under preparation during this year.

Senator CARR—Twelve months duration?

Dr O'Connell—I do not recall the exact time frame, but it is roughly about that.

Senator CARR—Will it go to the issue of the clearing of coastal wetlands and rainforests?

Dr O'Connell—I have not got the report, but it will give an assessment of the degree to which the waters entering the Great Barrier Reef lagoon have been impacted by land use.

Senator CARR—Would you agree that the water quality entering the Great Barrier Reef has been adversely affected as a result of the land clearing by the sugar industry?

Dr O'Connell—The report will go to those issues. There is certainly an acceptance that the general changes in land use over a century have impacted upon the water entering the reef.

Senator CARR—When you say 'impacted', do you mean it is an improvement?

Dr O'Connell—No, I do not mean 'improved'. There is increased sediment and increased pesticides and fertilisers.

Senator CARR—Does that affect the Great Barrier Reef, do you think?

Dr O'Connell—The water from the catchment is entering the lagoon. The issue is the degree to which that has been impacting upon the inner reef and the options that are required to correct that.

Mr Beale—It is important to put this in the context of whole of catchment issues. It would be wrong to attribute blame for these problems exclusively or predominantly to the sugar industry. The Productivity Commission's draft report that was released yesterday gave quite a nice summary of the potential sources and likely actual sources of both sediment and nutrient flow into the lagoon waters. I think it pointed to run-off, for example, from grazing operations as well.

Senator CARR—I appreciate that. There is quite a direct link between the clearing of coastal wetlands and rainforests—

Dr O'Connell—There is certainly a direct link between clearing of wetlands, which act as filters for the waters. There is no doubt about that.

Senator CARR—That is often associated with the sugar industry, is it not?

Dr O'Connell—It is associated with the sugar industry and other uses.

Senator CARR—Yes, I agree, but the sugar industry has a significant impact on that.

Dr O'Connell—The sugar industry has significant activities on the coastal area and there has been clearing of wetlands for those purposes.

Senator CARR—What has been the cost to the Commonwealth of mitigation measures?

CHAIR—Senator Carr, before you go on, there are a couple of other senators who have questions on the Great Barrier Reef Marine Park. Would you like me to bring them together?

Senator CARR—No, I would not, thank you. What has been the cost of mitigation?

Mr Beale—We would have to go back because the major expenditure on mitigation arose from the sugar coast rescue package put in place under the previous government at the time when there was a significant expansion in sugar activities. That was perhaps when the most extensive change to wetland systems occurred. We could go back in time and look at that.

Senator CARR—You could go back to 1901, too, I am sure. Perhaps we could look at the last five years. What has been the cost?

Senator Kemp—Senator, I would appreciate it if the officer could be allowed to finish his response before you butt in. It is a courtesy that we should extend to the Public Service.

Senator CARR—And a very reasonable one.

Mr Beale—I am simply saying that the only remediation specifically associated with the sugar industry that I am aware of was the sugar coast rescue package that was put in place following the changes in sugar regulation and the sugar tariff that were made in, I recall, 1994. Since then, of course, this is an issue that we are working on and will continue to work on as a key item under the Natural Heritage Trust, and one of the key issues that Dr O'Connell and the relevant state officers would want to address as part of implementing the MOU that the Prime Minister and the Premier have put in place to address water quality on the reef.

Dr O'Connell—Essentially, the purpose of the MOU is to devise a water quality plan for the catchments for the reef, which would assist the Natural Heritage Trust and the National Action Plan on Salinity and Water Quality direct funding in an appropriate way to ameliorate the water quality issues on the reef. To the degree that you have an interest in the funding spent to ameliorate it, that is essentially the planning process that we are undergoing at the moment.

Mr Beale—As part of that process, there has been extensive work done with the Queensland government aimed at improving the Queensland government's approach to the planning, regulation and management of wetlands. This is all part of the joint work that Queensland and the Commonwealth are doing.

Senator CARR—Is the Greenhouse Gas Abatement Program a possible source of funding for the ethanol production proposal?

Mr Glyde—As the secretary has already mentioned, the funds from the Greenhouse Gas Abatement Program were the source of the funds for the market barrier study—\$2.5 million this year and \$2.5 million the following year.

Senator CARR—That is your own study, isn't it—the biofuels market barrier study?

Mr Glyde—That is correct.

Senator CARR—What was the finding of that study with regard to the proposal for ethanol production?

Mr Glyde—As the secretary has already outlined, that study has not yet been completed. We are still working on it, so I really cannot comment on that.

Senator CARR—But you can comment on the CSIRO study, can't you?

Mr Glyde—The CSIRO study was undertaken by the Greenhouse Office, and again I am not competent to comment on that.

Senator CARR—Can the Greenhouse Office help us? What was the view of the CSIRO study, which was undertaken earlier this year, about the proposal for ethanol production?

Dr Wright—The CSIRO study covers a whole range of fuels and production methodologies. As Roger Beale said earlier, depending on the source of the feedstock and the method of production, either you get a greenhouse benefit or you do not. It is quite variable.

Senator CARR—I appreciate that. We are talking about sugar feedstock in this proposal, aren't we, Dr Wright?

Dr Wright—In the proposal that you have raised, you have raised questions in relation to sugar feedstock.

Senator CARR—No doubt I will be able to take you around the world on the various options that are available to us in the production of ethanol, but the proposal we are talking about here is sugar feedstock. With regard to the CSIRO's research on this issue, what have the findings been? Can you tell me what the impact is in terms of the Greenhouse Gas Abatement Program? Will this proposal, using current technology and sugar feedstock, be able to meet the criteria established under the Greenhouse Gas Abatement Program?

Mr Shevlin—There has been a particular project funded under the Greenhouse Gas Abatement Program to produce ethanol at the Mossman Central Mill in Douglas Shire in Queensland. To be funded under the Greenhouse Gas Abatement Program, that proposal is required to meet all of the normal criteria of the Greenhouse Gas Abatement Program, as would any other proposal for funding.

Senator CARR—It would have to, wouldn't it?

Mr Shevlin—Proposals to be funded under GGAP need to be either capable of delivering a significant greenhouse gas benefit or likely to.

Senator CARR—I appreciate that point. So the proposals actually before the government at the moment that the Greenhouse Gas Abatement Program be considered a source of funding for subsidies for capital equipment for ethanol production or for blending are in fact outside the criteria of the Greenhouse Gas Abatement Program as determined by the CSIRO report. Is that true?

Mr Beale—At the moment the funding that has been provided by the Australian Greenhouse Office has been for a study of the market barriers to ethanol. That study addresses a whole range of issues. It includes examining further studies—studies other than the CSIRO one—on greenhouse dimensions and issues. At this point the government has not made decisions; it made, if you like, an interim decision to provide support for the ethanol industry and it then commissioned a \$2½ million study, if my memory is correct, of a number of the issues you have been raising.

Senator CARR—I am interested to know what the department's view is on these matters. So far you have told me you have a review under way with regard to a biofuels marketing barriers study. You have also indicated to me that you are drawing upon the work of the CSIRO, which is a completed study, is it not?

Dr Wright—Yes. I have a copy here in the room if you would like it.

Senator CARR—Thank you very much; I always appreciate advice of that nature.

Mr Beale—Again, I think that is publicly available.

Dr Wright—It is also on our web site.

Senator CARR—I am sure you appreciate that I am fairly new to this game, so you will have to bear with me for a few moments while we try to go through this issue again. It was put to me that the department's view is that the use of the Greenhouse Gas Abatement Program as a source of funding for capital equipment for ethanol production or blending would produce a situation—according to the current research, as contained in the CSIRO report—that would leave it outside the criteria established under the Greenhouse Gas Abatement Program itself. I wonder how it is that this could be a source of funding, which I understand is the current proposal.

Mr Beale—I think I have indicated to you that at the moment we are at the stage of examining the full range of market barriers to the uptake of biofuels, including their environmental advantages, and examining a range of ways in which ethanol and other biofuels might be funded. As Mr Glyde indicated, that report has not yet been completed. It would therefore be inappropriate for us to speculate on it further. We expect that we have an obligation to take it to government by the end of the calendar year, and it is from that point that the government will consider options for the longer term support of the ethanol industry. I do not think we can go very much further than that.

Senator CARR—I thought Dr Wright just informed us that the CSIRO has also done a report.

Mr Beale—That is only one input to a range of studies that are currently being examined.

Senator CARR—Dr Wright, does the CSIRO report indicate that most ethanol plants using current technology and feedstock grown for fuel production will not meet the current Greenhouse Gas Abatement Program criteria?

Dr Wright—That is a very precise statement. The CSIRO report covers a range of fuels, including ethanol, through a range of production processes and a range of blends. It is a whole of life cycle analysis, so the outcome in terms of greenhouse benefits depends on things like the transportation method and energy source used in the development of the ethanol. If it is renewable energy then clearly you get a better greenhouse outcome. It is very specific to the method of production and the feedstock in the particular circumstance. It is not possible to give such a clear-cut answer to your question.

Senator CARR—Has the department put the view that I have just put to you?

Dr Wright—I cannot answer that question. I will have to defer to my colleagues.

Mr Beale—I think Mr Shevlin had some additional information on the use to which—

Senator CARR—I have asked you a question, Mr Beale. Has the department put the view that I have just put to the officers? Is that the department's view?

Mr Beale—I think I have answered this question on a number of occasions. Mr Shevlin can give you a specific response on whether or not it is possible to use the GGAP funding in an ethanol related way within its legislative framework.

Mr Shevlin—As I mentioned previously, it is definitely possible to achieve a greenhouse abatement objective from ethanol because we have already funded a project to produce ethanol. You also mentioned funding of blending and distribution. We have already funded a

project for blending and distribution under the Greenhouse Gas Abatement Program and that also met the same stringent criteria. In terms of the general question, clearly we can achieve greenhouse gas abatement from ethanol projects. Importantly though, I think many of your questions miss that there are other forms of biofuel, including biodiesel, which are also supportable and have different environmental profiles.

Senator CARR—Has the Greenhouse Office undertaken gas emission studies which support the CSIRO study indicating that most ethanol plants using current technology and feedstock grown for fuel production will not be able to meet the Greenhouse Gas Abatement Program criteria? It is a very specific question. Do you want to take it on notice to think about it?

Mr Shevlin—As far as I am aware—

Mr Beale—Senator, I think it would be a good idea for us to take that on notice.

Senator CARR—In regard to the international experience—I understand you are anxious to take me there, so I will give you the opportunity to do so—what are other countries doing in terms of the capping on ethanol use? Are there any international standards for ethanol use?

Mr Beale—There are a variety of international standards. Brazil, which is probably the biggest user of ethanol, has an E22 standard, under which ethanol proportions can vary at up to 24 per cent. In a number of states in the United States, ethanol is permanent at either an E10 standard, which is 10 per cent by volume, or an E85 standard. An E85 standard is predominantly ethanol, but in that case it requires a specific dual fuel vehicle. In the EU, my recollection is that it is an E5 standard for ethanol—that is, five per cent by volume.

Senator CARR—So how long have you known that there was potential damage to cars—particularly that car warranties could be voided—if there was greater than 10 per cent ethanol use?

Mr Beale—This is a matter of some dispute. In February and March this year, I wrote to the car companies because this matter had been raised and asked if they could provide test data, statistical information—including actual warranty claims information—or other quantifiable, reproducible and testable information in relation to the impact of ethanol at levels above 10 per cent but less than 20 per cent. I think almost all of the car companies wrote back and said that, as a matter of engineering judgment, they favoured a standard at E10, but none of them were able to source data—test data or engineering data—of a reproducible and verifiable kind that dealt with blends between E10 and E20.

This matter was addressed by the ethanol task force which was established by the government. Again, that task force had strongly divergent views—and you will be aware that in New South Wales, ethanol has been supplied at blends of up to 20 per cent for some eight years, and the state government, which regulated fuel standards and still does in relation to ethanol, has not seen any need to intervene—with some of the ethanol suppliers arguing that they had run vehicles over this time at E20, conceding that at 22 to 24 per cent there had been a requirement in Brazil to re-engineer. As a result of that, we have put in place barriers to the biofuels market study—\$2½ million this year and \$2½ million next year—part of which is testing vehicles at E20 to establish the truth of these claims in both directions.

Senator CARR—Fair enough. So basically in February and March, you wrote to the fuel companies—

Mr Beale—No, to the automotive companies.

Senator CARR—Did any of them point out that the use of ethanol above 10 per cent would have the potential to make their warranties void?

Mr Beale—I believe a number of companies said that it could do if it resulted in damage.

Senator CARR—When did they reply to you?

Mr Beale—Over the period February through March. But in responding, none of them were able to indicate, as I said, that they had statistical or test data to—

Senator CARR—Can we have a copy of those letters?

Mr Beale—Those letters are, I think, in the public domain.

Ms Mackie—They were provided to the ethanol task force.

Mr Beale—They were provided to the ethanol task force. Unless my advisers say that there is some particular reason why not, I would be happy to make them available. My colleagues are reminding me that I got the approval of the companies to release the letters to the ethanol task force, so if it is to go beyond the ethanol task force I would need to get the concurrence of the authors of the letters.

Senator CARR—Will you take that on notice? We will come back to this response.

Mr Beale—I am happy to do that.

Senator CARR—I just want to be clear. In February and March which car companies in particular were telling you they think there is a potential to void the warranties?

Mr Beale—I would have to take that on notice. I wrote to every car company in Australia and I got replies from most of them.

Senator CARR—So this is imported cars as well as those domestically manufactured?

Mr Beale—Some of those companies replied in those terms. I am not sure which ones. Can I take that on notice?

Senator CARR—Thank you. How many car companies did you write to?

Mr Beale—All of the ones we could identify.

Senator CARR—How many is that?

Mr Beale—It certainly would be in the twenties. I recall signing a lot of letters.

Senator CARR—Could we have a list of the companies you wrote to?

Mr Beale—Fifteen, roughly.

Senator CARR—Could you also indicate to me the particular companies that indicated the possibilities of a warranty being voided.

Mr Beale—Again, subject to confirming that with the companies concerned. I could take that on notice. I could check with the companies that they do not mind my providing—

Senator CARR—People have a right to know whether their warranty on a new car—I presume we are talking about new cars here—could be voided by the use of this fuel. What possible reason could there be for not releasing that information?

Mr Beale—The information was provided in a personal letter to me by the chief executives in response to a letter from me to them. It is a normal courtesy to seek—

Senator CARR—I accept that. You would have to have an awfully good reason not to tell people why their warranties—

Mr Beale—Let me raise the matter with the companies.

Senator CARR—Thank you; I appreciate that. You say there has been information around for eight years.

Mr Beale—Fuel has been sold for eight years, almost exclusively in New South Wales, at ethanol blends of up to 20 per cent. The Commonwealth only became involved in fuel standards quite recently, as you know—approximately two years ago. The Commonwealth and the state systems run in parallel. The state has not imposed any limitations on ethanol—

Senator CARR—There have been no regulations in this area and so it is possible that warranties have been at risk for some time.

Mr Beale—No car company has indicated to me that any warranty issue has been raised over that period. This is essentially what the suppliers of that fuel were saying. We have been both running vehicles and supplying vehicles, regular customers, with this fuel.

Senator CARR—Fair enough, but you have only just found out about this possibility of warranties being voided. Is that the case?

Mr Beale—As I indicated to you at the time when we wrote to the motor vehicle companies.

Senator CARR—Have you done any testing on ethanol content of fuel? Has the Commonwealth undertaken any testing results?

Mr Beale—We are testing right now. We have the tests under way. They are being conducted by Orbitol in Western Australia. They are using a variety of vehicles—brand new vehicles and older vehicles. The tests will produce some preliminary results shortly. Much of the argument about car components is about possible very long-term effects. That by its nature will take some time to conduct.

Senator CARR—This is testing undertaken by the National Fuel Quality Standards—is that right?

Mr Beale—This is testing of vehicles using this fuel to determine whether or not it gives rise to either operability or reliability problems. That is one issue. A separate issue is that either the states under the fair trading acts or the Commonwealth under our own act can test fuels. The Commonwealth has sampled fuels across Australia ever since the act was introduced. That is testing the composition of fuels, not their impact on vehicles.

Senator CARR—The damage to vehicles.

Mr Beale—The tests of damage to vehicles are currently under way.

Senator CARR—How widespread is the use of fuel blends with greater than 10 per cent ethanol content?

Mr Beale—Again, we would not pretend to have a complete census, but the evidence that we have suggests that higher ethanol blends are restricted almost exclusively to New South Wales.

Senator CARR—In what sort of volume? How widespread is it in New South Wales?

Mr Beale—It would be very hard for us to determine that but certainly it is present at a number—

Senator CARR—Do consumers know this? Is there any way of knowing whether or not the fuel you are buying has ethanol in it?

Mr Beale—At this time there is not. Of course, there has always been that capacity under I think it is section 68 of the New South Wales Fair Trading Act for the state, which has regulated and will continue to regulate the matter of ethanol until the Commonwealth sets a standard.

Senator CARR—Is it the state's responsibility or the fuel companies' responsibility to tell people?

Mr Beale—The state has a capacity to require labelling under its fair trading act. It has not judged that to be necessary to date. Until the Commonwealth sets a standard for ethanol, its legislation does not actually cut in, because the two sets of legislation run—

Senator CARR—So there is no Commonwealth legislative responsibility at the moment?

Mr Beale—No—not until we determine a standard. As I indicated, we are carrying out this testing to help provide that advice.

Senator CARR—I understand that. Have you sought any legal advice as to whether the Commonwealth is liable for any damage to vehicles as a result of government failure to implement safeguards?

Mr Beale—I have certainly examined the legal issues concerned, and because this is a form the setting of a standard is a legislative act. The Commonwealth would not be legally liable in relation to the establishment of a standard—or for that matter the failure to establish a standard. It is like any legislation that is conducted. There is no legal liability associated with it.

Senator CARR—So, as far as the department is concerned, there is no Commonwealth liability at the moment?

Mr Beale—That is correct.

Senator CARR—Is there any legal liability if the Commonwealth fails to provide advice?

Mr Beale—I would have to seek advice on that but I do not believe that there would be. Legal liability might arise from circumstances where the Commonwealth actively provided advice, and that advice was negligent and misleading.

Senator CARR—Fair enough. So we have a situation here where the motor companies have told you there is a possibility that the warranties are now void as a result of using bodgie fuel, and you have not told anyone. You don't think the Commonwealth has a responsibility there?

Mr Beale—I do not think the car companies have said that the warranties are void. They have said that there could be circumstances—although I would note that no company has referred to us any circumstance that has arisen over the last eight years where, in the state of New South Wales, the use of these fuels have been quite—

Senator CARR—Fair enough, but we are yet to establish how widespread the use of ethanol in fuel is. Nor have we established what the impact of the government's proposals are to actually subsidise the use of ethanol.

Senator Kemp—I think the point was made that the states do have responsibilities in this area. I am not sure that Marsha Thomson in Victoria will thank you for pursuing this.

Senator CARR—I do not think we sell ethanol in Victoria, do we, Mr Beale? How much ethanol is sold in Victoria?

Senator Kemp—We are talking about testing, and there are ministers for fair trading. If my memory serves me correctly, all the ministers for fair trading these days are Labor ministers. That is interesting, isn't it?

Senator CARR—That is interesting. What is more interesting—

Senator Kemp—They are very close to you, Senator.

Senator CARR—Tell me this, Senator Kemp: is the cabinet currently considering proposals for the use of public moneys for the subsidy for the production of ethanol for fuel consumption?

Senator Kemp—It is very kind of you to ask me that question. I am not actually in the cabinet.

Senator CARR—Perhaps then I will ask your secretary at the table. Is the cabinet currently considering proposals to provide public subsidies for fuel—

Senator Kemp—It would be very unusual to brief you, Senator, on what cabinet is doing.

Senator CARR—I am asking a question.

Senator Kemp—If there had been a previous government announcement that might be different, but I will leave that for Mr Beale.

Mr Beale—I cannot add to what I said earlier, and that was that the government announced that it was asking us to undertake some studies in relation to market barriers. I have indicated to you that those have not been absolutely finalised but that I would expect that they could move for government consideration before the end of the year.

Senator CARR—Thank you, Mr Beale. I ask you a direct question: is the cabinet currently considering use of public subsidies—

Senator Kemp—You were given a direct answer. You were given the answer that the officer is prepared to give you. If you are not happy with that answer, that is just tough. You have asked the question, and Mr Beale has responded.

Senator CARR—Yes, and I am asking him another question. Mr Beale, have you not informed this committee tonight that this is a matter currently before government and for government consideration at cabinet level?

Mr Beale—It is the normal requirement in this committee that we do not discuss matters relating to cabinet business. I have indicated to you that we have an obligation to report back to government so that it may consider the matter. We have an obligation to report back before the end of the year. It is my intention to meet that obligation. But it would be totally inappropriate for me to make any comment in relation to whether a matter is before or has been before cabinet.

Senator CARR—Can I ask you this, Mr Beale: has your department supported a 10 per cent cap on the maximum level of ethanol?

Senator Kemp—You may well be seeking advice that departments provide to government there, and—

Senator CARR—I know that.

Senator Kemp—Let me finish; do not get sensitive. We can word questions in whatever way we like, but departments are here to provide advice to government. I am not trying to resist if the officers wish to make a statement, but the general principle is that advice to

government is a matter between governments and the department. It is not a matter for you to intrude into.

Senator CARR—Does the department take the view, Mr Beale, that a 10 per cent cap on the use of ethanol in petrol is sufficient?

Mr Beale—I think that the minister has pointed out that the advice that we will provide on our view will be provided to our minister and that it is not appropriate for me to canvass that in this particular forum.

Senator CARR—Do you think the issue of subsidised production of particular transport fuels—in this case ethanol—is one that would normally be considered within the context of a broader approach to all transport fuels, particularly when you are trying to encourage the use of cleaner fuels?

Mr Beale—Again, this is a very—

Senator Kemp—I do not know quite what you make of that question, Mr Beale. I would be interested to hear your answer. Senator, we seem to be going around very much in circles here. You have had a very good run, and I must say that we have all been fascinated by this range of questioning. But it seems to me that you have been questioning for well over an hour. I wonder whether anyone else, particularly Senator Bartlett, wishes to ask a question—and whether he is as fascinated as I am by this.

Senator CARR—Thank you very much, Minister. Perhaps you can understand that I do not take your advice particularly seriously with regard to questioning at estimates. Can I ask the officers—

Senator Kemp—No. You will take notice of process, manners and proper behaviour. You can ask whatever questions you like.

Senator CARR—That is right; I will.

Senator Kemp—But I do want to make sure that other senators around the table have an opportunity. That is the point I was making. It is a matter of sheer common courtesy. I know that is difficult for you, but it is a matter of courtesy.

CHAIR—Other people are entitled to ask questions.

Senator CARR—They are indeed.

CHAIR—You have had an hour on this; nearly an hour and a half.

Senator CARR—I will conclude this section in a moment if I am not obstructed by the minister. He is doing a very poor job of it, but nonetheless he is attempting to obscure the issues.

CHAIR—That is a very valid point, Senator Carr.

Senator Kemp—Such a wit; such a cutting wit.

Senator CARR—I ask the officers from the Greenhouse Office: how much money has gone to the ethanol projects that you mentioned have been funded?

Mr Shevlin—For the project for the production of ethanol with the Douglas Shire Council there was the sum of \$7.35 million. For BP, which was a project for the blending and distribution of ethanol, there was an amount of up to \$8.8 million.

Senator CARR—That is the sum total of the moneys provided?

Mr Shevlin—Those are the two ethanol related projects that have been funded under GGAP.

Senator CARR—Mr Beale, how long has the ethanol task force been operating?

Mr Beale—The ethanol task force, as I understand it, has completed its activities. Ms Mackie, Assistant Secretary of our Atmosphere and Sustainable Transport Branch, was the chair of that task force, so she will be able to tell you how many months it was in existence.

Senator CARR—Thank you. That is very good of you.

Ms Mackie—The task force ran over a 10- to 12-month period, from July 2001 through to April 2002.

Senator CARR—Was it the view of the task force that there should be a limit on the use of ethanol?

Ms Mackie—The task force provided a summary view of a range of positions on the percentage—

Mr Beale—The short answer is that the task force failed to reach a common view.

Senator CARR—How many were on the task force?

Ms Mackie—From memory, there were about 15 to 18 representatives on the task force.

Senator CARR—What sorts of groups were represented on the task force?

Ms Mackie—State environment protection agencies, automobile groups, oil companies, ethanol producers and motor vehicle manufacturers.

Senator CARR—How many people took the dissenting view with regard to the original task force recommendation on the 10 per cent cap?

Ms Mackie—Two representatives took a dissenting view.

Senator CARR—Where were they from?

Mr Beale—I think they were from the Biofuels Association.

Ms Mackie—That is correct.

Senator CARR—So they are the ones who actually make the ethanol?

Mr Beale—I think they are those who make the ethanol or wish to make the ethanol.

Senator CARR—That is what I am saying. So, of the up to 18 people on the task force, only two had a dissenting view on the 10 per cent cap?

Mr Beale—I do not think this is a matter of adding up the numbers. A range of views was put. The view of some of the participants was that they could see a cap being established at one level. For others there was a strong view that the jury was out in terms of the science and reproducible engineering tests in relation to a cap at 20 per cent. The government took the decision to test that science to get to the bottom of the issue.

Senator CARR—Ms Mackie, as chair, you were able to see whether there were two people who dissented from that recommendation?

Ms Mackie—As chair, I took the approach of facilitating the advice of the members of the committee. I took the view that taking a majority/minority view was not appropriate. I sought to reflect the full views—

Senator CARR—I understand that. I just want to get the range of views. You have two people representing the industry saying that the 10 per cent cap is something they cannot

agree with and the rest of the people on the task force—the other 16—saying that the recommendation of the task force, which was a 10 per cent cap, was to be supported.

CHAIR—Is this still a confidential report, Mr Beale?

Senator CARR—They have answered the questions for the last 10 minutes, so it is not too confidential.

Ms Mackie—The advice was given to the task force and provided to the minister.

Mr Beale—It has not been publicly released. Given that there are a range of individuals involved in this, before further discussing the detailed views that might have been adopted by one party or another, it would be appropriate for us to consult those parties. Suffice it to say that it was not possible for Ms Mackie to secure a common view on the recommendations to be put to government.

Senator CARR—Yes, I already have the answer. You have 16 people saying they support the cap and two who do not. The two who do not come from the ethanol industry. I guess we could go through a long-winded process to get the full records of the task force, but perhaps we will move onto something else.

Mr Shevlin—To clarify the answer I provided recently about the size of the grants, those are the total grant amounts which will be paid subject to delivery of all the performance milestones in the deeds of agreements for those projects. The Douglas Shire project, for example, will take seven years to be fully implemented. So those are the total grant amounts subject to delivery. They do not represent the current expenditure against those projects.

Senator WONG—Mr Beale, I take you back to your comments earlier regarding an options paper that looked at the proposals to re-allocate funds between sub-programs. Do those options include re-allocation of funds that are currently allocated to programs administered by the AGO?

Mr Beale—No.

Senator WONG—Is there some significant under-spending in a number of programs that the AGO administers?

Dr Wright—Could I seek to clarify the question. Are you referring to a specific financial year or the current financial year?

Senator WONG—Both, I think. In relation to the programs which are included in Measures for a Better Environment—GGAP, the Renewable Remote Power Generation Program et cetera—have you spent to budget to date or have you underspent?

Dr Wright—Again, I ask you to clarify which financial year you are referring to.

Senator WONG—The most recent financial year.

Dr Wright—The most recent completed financial year? Or the current financial year?

Senator WONG—We will do the last one and then where we are at to date.

Dr Wright—As you would be aware from the budget papers and the portfolio budget statement, as a result of the last budget there was a rephrasing and reprofiling of expenditure against a number of greenhouse programs in the Measures for a Better Environment package. The sum total of that was \$141 million and that was across a range of programs including the Renewable Remote Power Generation Program, the Alternative Fuels Conversion Program and GGAP.

Senator WONG—What about in the current financial year?

Dr Wright—In the current financial year it is really too early to say. In some programs there has been a small amount of milestone slippage and that is to be expected. The advice of most of the grantees is that that will be recaptured before the end of the year. We are only part way into the year so we are monitoring the situation and are in regular contact with the grantees.

Senator WONG—When you say some milestone slippage, how much money are we talking about?

Dr Wright—I do not have that with me. Again, it would have to be over a specific period but it is a relatively small amount at present.

Senator WONG—It is a relatively small amount?

Dr Wright—If I could clarify, some of these delays can be due to delays in equipment, and so a milestone may slip by a number of weeks and then be recaptured. Given the quantum of funds across those programs, it is a very early stage in the financial year to give a view.

Senator WONG—At the estimates in May of this year, the underspend that the AGO was directly responsible for was indicated to be \$134 million.

Dr Wright—That is correct.

Senator WONG—What was it by the end of that financial year?

Dr Wright—As I said, it was \$141 million. The lower figure was the estimate that was provided to the budget. The final amount was the reconciliation after we got in the full expenditure for each of the programs at the end of the financial year.

Senator WONG—Have there been discussions with Treasury as to why the AGO continues to underspend its budget?

Dr Wright—The rephrasing and reprofiling of the AGO budget across a range of programs has been undertaken to align the expenditure profiles with those programs—

Senator WONG—I do not think that is the question I asked you.

Dr Wright—In that case, perhaps you could repeat the question.

Senator WONG—I asked if there had been some discussion with Treasury regarding the continuation by the AGO to underspend its budget.

Dr Wright—There have not been specifically.

Senator WONG—So they have not indicated to you that if you continue to underspend you may lose it?

Dr Wright—No.

Senator WONG—Can I ask some questions regarding the Smith report into the performance of your office? I understand the report was completed on 30 June; is that correct?

Mr Bamsey—About that date, yes.

Senator WONG—Have you seen the report, Mr Bamsey?

Mr Bamsey—Yes, I have.

Senator WONG—Does it recommend a downgrading of the AGO?

Mr Bamsey—The report is a report to government, and I am not in a position to make any comment about it.

Senator WONG—Did you have the opportunity to make any submissions to that review?

Mr Bamsey—I arrived at the AGO at about the time the report was completed. I understand that Mr Smith did consult members of the AGO in relation to the compilation of his report.

Senator WONG—What recommendations does the report make in relation to the future of the AGO?

CHAIR—Senator, you have been told it was a report to government.

Senator Kemp—Senator, that was responded to with an earlier question that you raised.

Senator WONG—When is the report likely to be released?

Mr Beale—We do not know.

Senator WONG—Is that a matter before the minister?

Senator Kemp—It is a report to government and, without pre-empting what anyone else may say, I assume it would be a matter for the government to decide whether or not it wished to release the report. I do not know whether any statement has been made on that matter.

Senator WONG—Has there been any public statement about the report from the government?

Mr Beale—I think the minister has indicated that it is a report before government, and a decision on its release will be taken when the government has completed its consideration of the report.

Senator WONG—Mr Bamsey, I understand you are the acting CEO; is that right?

Mr Bamsey—Yes, that is correct.

Senator WONG—How long have you been in that position?

Mr Bamsey—Since July.

Senator WONG—What progress has there been in appointing a permanent CEO to the AGO?

Mr Bamsey—I understand that the process of appointing a permanent chief executive will commence when the government's response to the Smith report is known and concluded, because that will determine the mode of the appointment.

Senator WONG—Could you repeat that: that will determine—

Mr Bamsey—The results of any government decisions about the Smith report could affect the mode of appointment of the chief executive.

Senator WONG—There may not be an AGO for there to be a CEO of. Is that why you are holding off on filling the position?

Mr Bamsey—No, that is not what I said.

Senator Kemp—I think that is a leading question. Just ask factual questions and we will give you some facts.

CHAIR—Civil servants cannot comment on policy issues—

Senator WONG—Yes, I am aware of that.

CHAIR—so it is quite wrong to try to draw them into doing so.

Senator WONG—Has there ever been a permanent CEO?

Mr Bamsey—Yes.

Senator WONG—For how long have you been in acting mode? Was it only since July?

Mr Bamsey—Yes, since July.

Senator WONG—Is it the case that new offices are being constructed for the AGO?

Mr Bamsey—Yes. We expect to move to an office that is under construction at the present time.

Senator WONG—When is that likely to occur?

Mr Bamsey—In July next year, I believe.

Senator WONG—What is the accommodation area of that office—that is, how many staff is it set to house?

Mr Bamsey—I am informed 180 staff.

Senator WONG—How many staff are currently employed?

Mr Bamsey—Approximately 180.

Senator WONG—I will move now on to the Parer report—the COAG Energy Market Review. What input did the AGO have into that review?

Dr Wright—The review called for submissions about last April in response to an issues paper that was published by the panel in February. The AGO provided a formal submission to the Parer review and that is available on the web site.

Senator WONG—Was a staff member seconded as well?

Dr Wright—A staff member is seconded to the secretariat, and has been since about October last year, is paid for by the secretariat and reports to the secretariat.

Senator WONG—What are the consequences of the recommendations of that review on a number of your programs, in particular the MRET program, the GGAP and the Generator Efficiency Standards scheme?

Dr Wright—The report that has been issued by the review is a draft report. There is a period of further public consultation when submissions can be made to comment on the draft report. That will conclude in early December, with a final report due, I believe, before the end of the financial year. As the report is not yet complete, and it is also a report to COAG and not to the Commonwealth government, it would be inappropriate to make any comment on draft recommendations at this time.

Senator WONG—Are you providing a response to the draft recommendations?

Dr Wright—We are currently considering whether there are errors or omissions in the report that would warrant a response by us.

Senator WONG—The report is critical of a number of greenhouse policy responses and recommends an emissions trading system. It is the case, isn't it, that those recommendations are inconsistent with the maintenance of the programs that I have referred to?

Senator Kemp—It is a draft report.

Senator WONG—I know that it is a draft report.

CHAIR—The officer has already said that they are not prepared to comment on a draft report.

Senator WONG—What is the difficulty in commenting on a draft report? Is it contrary to standing orders to ask questions about a draft report that is in the public arena and that deals directly with the programs that public moneys fund?

Dr Wright—As I thought I had explained, the report is in draft form; the recommendations are not final—

Senator WONG—I am not suggesting that they are, Dr Wright; I am asking what your response is to them.

Dr Wright—It is a report to COAG, not to the Commonwealth government, and any policy implications will be considered through that process and it is not appropriate to comment on policy implications at this preliminary stage.

Mr Beale—This report was only released last Friday. I am sure the AGO would require quite some time to examine and think through the report before it even considered providing advice to the minister in determining whether or not a response would be made. So I do not think we can really go any further.

CHAIR—That is a very important practical consideration, Mr Beale.

Senator WONG—Has the AGO, independently of the Parer review, done any modelling on a nationwide emission trading system? There is some discussion in your annual report about this.

Dr Harrison—We have not done any modelling of an emissions trading system per se, but the nature of macroeconomic modelling would be that it would be structured around a carbon price, which is the equivalent of having an emissions trading system in.

Senator WONG—Have you done any projections of what abatement outcomes might result from such a trading scheme?

Dr Harrison—No, we have not compared emissions trading to other policy measures in any modelling exercise.

Senator WONG—So there has been no modelling at all of the abatement effect of a trading scheme?

Mr Beale—I think that Dr Harrison indicated that the AGO had not conducted any modelling of the impact of an emissions trading scheme as distinct from the range of other policy interventions that you could pursue to achieve a given abatement level. Is that correct, Dr Harrison?

Dr Harrison—That is correct.

Mr Beale—I think that is the answer to your question.

Senator WONG—That is an answer about the comparison between different models. I am asking if any modelling was done in relation to the emissions trading scheme alone as opposed to in conjunction with any other industry programs.

Mr Beale—Dr Harrison said no.

Dr Harrison—No.

Senator WONG—Are you aware whether any such evidence was presented to the Parer review?

Dr Harrison—No evidence based on modelling of that kind was provided to the Parer review by the AGO. I could not comment on what other sources the Parer review had.

Senator WONG—Are you aware whether the Parer review considered any other evidence of modelling of a national trading scheme and emissions abatement resulting from that?

Dr Wright—I understand that the Parer review sought advice in a number of areas and that those consultancies will be made available or may even presently be available on the review web site in conjunction with the report. I have not been in to check that they are there, but that is my understanding.

Mr Beale—The Parer review is not actually the responsibility of this portfolio.

Senator WONG—I appreciate that.

Mr Beale—It is the responsibility of Industry, Tourism and Resources. Questions might better be directed to them.

Senator WONG—I am moving off it, Mr Beale.

CHAIR—Thank you for that advice, Mr Beale. I think that it is quite appropriate that we move on.

Senator WONG—I am moving to the Greenhouse Challenge program. I am not clear about the methods for calculating emissions reduction which seem to be apparent in the documentation. The 1997 report to the UNFCCC has two estimates, one of 21 megatonnes in 2010 and one of 9.1 megatonnes in 2010. We then have a press release from Minister Kemp indicating 30 million tonnes by 2000 while the third national communication this year indicates a range of 6.7 megatonnes to 10.3 megatonnes. Can you perhaps clarify for us why there is such a differential and whether those estimates are calculated on different parameters?

Mr Shevlin—I cannot answer the question. Mr Richard Begley, who prepares the information for the national communication, should be able to help.

Mr Begley—Could you repeat the question, Senator?

Senator WONG—Yes. I was trying to clarify the different ways in which it appears the abatement estimates have been made in relation to the Greenhouse Challenge program. Perhaps if we start with the second national report under the United Nations Framework Convention on Climate Change where there are two figures: 21 megatonnes and 9.1 megatonnes. Minister Kemp's press release of May 2002 indicates abatement of 30 million tonnes by 2000 and the third national communication indicates a range of 6.7 megatonnes to 10.3 megatonnes. There is a significant variation in the abatement estimates there. Could you clarify why that would be the case?

Mr Begley—It is fair to say that we do estimate our measures on the best available information that we have at the time. It is fair to say that the most recent estimate that you see in the third national communication is the estimate that we currently have based on the best available information, as I stated. I think in terms of comparison to previous estimates, it is a bit hard for me to provide an answer at this point in time. I would prefer to take that on notice rather than offer conjecture about estimates that were made some time in the past.

Senator WONG—Perhaps you could take this on notice as this may clarify it: I am asking about the basis of the calculation of the estimates that I read out previously, that is firstly in the second report of 1997, there were two estimates—one of 21 megatonnes and one of 9.1 megatonnes. Then there was the estimate in Minister Kemp's press release of May 2002 of 30 million tonnes and then in the third national communication there is the figure of 6.7 megatonnes to 10.3 megatonnes. Mr Begley, are you the person responsible for the verification under the Greenhouse Challenge program or is that Mr Shevlin?

Mr Begley—It is Mr Shevlin.

Senator WONG—There has been a verification process undertaken by AGO?

Mr Shevlin—That is correct. There was an initial trial verification process where we verified four of the members of Greenhouse Challenge. I believe that was back in 1998. In 2000 we did a full round of verification. We verified 31 of the 38 organisations who at that stage were eligible to be verified; that is, they had been on the program long enough to submit a report that we could verify. We are currently finalising a second full round of independent verification which is looking at, I believe, another 18 companies.

Senator WONG—How many of the companies that have been independently verified have revised the emission abatement estimates downwards?

Mr Shevlin—I believe in the first full round of independent verification there were four cases where there were some non-material errors identified in the verification exercise. The companies quite readily made whatever corrections were necessary. I cannot comment without checking whether those resulted in changes upwards or downwards because in some cases it was just that they had inadvertently used an incorrect emission factor, for example.

Senator WONG—Are you able to give us a figure as to the total revision downwards as a result of the verification process?

Mr Shevlin—No. I do not believe there have been any major revisions one way or the other as a result of the independent verification exercise but I would have to check to see whether there were individual cases where there were upward or downward movements as a result of the independent verification.

Senator WONG—Perhaps you could take that on notice.

Mr Shevlin—There are constant revisions that companies make to what they forecast and then what they actually achieve, because it is a program where they constantly search out new measures and investigate whether the measures that they previously identified can be implemented.

Senator WONG—Has there been, as a result of this process or the companies' own movement on their likely targets, a revision of the minister's announced abatement target of 30 million?

Mr Shevlin—Yes.

Senator WONG—What is the current revised—

Mr Shevlin—The current figure for the Greenhouse Challenge program is 19.2 megatonnes—it is actually slightly over but that is the last figure I have—as the total reported abatement from Greenhouse Challenge member companies.

Senator WONG—So it is 30 per cent less than the minister's announcement in May?

Mr Shevlin—I would have to check on the wording of the minister's announcement. If I may clarify that, you have reminded me of a situation that occurred in the current verification process where we discovered that some companies had inadvertently been reporting their annual abatement as though they had been accumulating it. That led to a significant overestimate of abatement overall for the program. So those figures have not yet been publicly revised down by the individual companies but we are working with them.

Senator WONG—How much money has been spent to date on the Climate Action Partnership?

Mr Terrill—No specific budget has been allocated to the partnership.

Senator WONG—How much has been spent?

Mr Terrill—There is no particular budget line, so I think that at this stage it would not be possible to tell that. One of the design principles for the partnership was that it would be conducted in accordance with existing activity. It would not date any new institutional structures or particular spending requirements.

Senator WONG—How many trips have AGO staff made to the United States to progress the CAP?

Mr Terrill—I do not know specifically. I will take that on notice.

Senator WONG—Could you also indicate the approximate cost of that.

Mr Terrill—Yes.

CHAIR—I call the Great Barrier Reef Marine Park Authority.

[10.18 p.m.]

Great Barrier Reef Marine Park Authority

Senator McLUCAS—I want to go first to the budget issues that we canvassed at the last estimates. We were talking about the reduction in appropriations of \$2½ million that came through, and officers from GBRMPA advised me that that was to be made up by increases from Reef HQ income from visitation and from increasing the reef tax. What are the proportions of that work that were to make up that \$2.5 million?

Ms Chadwick—I will hand over to John Barrett, who is the head of our corporate services. In doing so, can I say that there were two areas where our appropriation was diminished. The first, as you rightly say, was the refurbishment of Reef HQ. I am pleased to say that that was completed on time and on budget. Reef HQ reopened only a matter of a few months ago. I suspect that it would be a little premature to accurately indicate how its income is travelling, because we had something of a halo effect for the first month or so with the reopening and all the publicity, particularly in the local Townsville area, which pushed up the visitation numbers even more than we had anticipated. The last advice that I had from those running the Reef HQ program was that it would probably be Christmas time before we had a better indication of comparing like to like to see how we were travelling. The other area where a program ceased was in the special enforcement funding. That was about \$1 million a year. I will pass over to John.

Mr Barrett—Senator, just to clarify: you talked about the environmental management charge—

Senator McLUCAS—Yes, and increased takings from visitations at Reef HQ.

Mr Barrett—and the fact that they—

Senator McLUCAS—The advice I had last time was that the increase in those revenues was to offset the \$2.5 million loss in appropriation.

Mr Barrett—I think the Reef HQ revenue is to cover the cost of managing the facility, so additional revenue from Reef HQ goes back into running that facility rather than offsetting reductions in appropriation.

Senator McLUCAS—That is different advice to what we had at the last estimates.

Mr Barrett—I was just trying to clarify the information we gave you then. The reduction in the appropriation was specifically related to the enforcement program and the additional

funding we got for Reef HQ in the last financial year, which was for a particular repairs and maintenance and assets program.

Ms Chadwick—The other thing that may be of assistance is that, as you rightly indicated, Senator, the income from EMC is predicted to increase. In fairness to tourism operators, I gave them more than 12 months notice of the first CPI increase in five years, according to our regulation and formula. That kicks in in April 2003 and will represent a 50c increase on the basis of \$4. John may recall the estimated income from that. The 50c may not sound much, but 50c in four dollars over an income of about \$6 million is significant.

Senator McLUCAS—At the last estimates, you said that would be \$200,000.

Mr Barrett—I think that would be in the first financial year, because we will only be accruing one-quarter of that increase.

Senator McLUCAS—We are still quite a way behind; I suppose that is the point that I am making.

Ms Chadwick—Yes, it kicks in next April.

Senator McLUCAS—And you will not know until Christmas what the plateaued visitation figures will be?

Ms Chadwick—I could certainly provide you with the figures to date, and I would be happy to do so. The advice that I have received from the head of that area is that, in terms of trying to compare like with like, that Christmas period would be our first time since the reopening to get a more accurate and realistic figure, comparing like with like. But, if you are interested in the figures up to that point, I am more than happy to provide them.

Senator McLUCAS—If, come the end of December, we could get a picture of what visitation has been since the reopening, that would be useful, and then maybe at each estimates we just get a breakdown—

Ms Chadwick—I am hopeful, as I am sure you are, that it will be a good news story.

Senator McLUCAS—I want to go to the representative areas program, and I thank you for providing me with a copy of the consultation program. The public consultation formal process has finished. Just for the record, what is the next step in the process?

Ms Chadwick—As you rightly say, the consultation process has finished, but I am sure you would be aware that this is but stage 1 of a mandatory two-stage process. In stage 1, we conducted well over 200 public meetings in the area up and down the coast of Queensland. We have received an unprecedented number of submissions: 10,180, from memory. Given that some of those submissions were from organisations representing hundreds and occasionally thousands of members of particular organisations, it was a huge response. At the moment, we have put on extra temporary staff to assist us in creating a database and we have all hands on deck for an analysis of those submissions.

I must say that we underestimated our success in soliciting community responses. The reality is that I had anticipated we would have the analysis completed and be ready to look at options for a draft zoning plan early next year. It is now looking as if it is going to take a little while for us to even complete the analysis and database of the submissions that we have received but we are hoping for something like April or May next year as a target date for the draft zoning plan. That is what we are aiming at. But I have been wrong once. I thought we would be fortunate to get about 3,000 submissions—I was out by 7,000 submissions. In many ways there is going to be the complexity of trying to take community views into account along with the scientific and technical advice. That is what we are aiming for.

Senator McLUCAS—You say it will not be early next year, but you do not want to give a date.

Ms Chadwick—It will be as early as we can possibly make it next year. All staff at the authority are aware of the keen interest there is. Despite the controversy in some quarters about this program, a very clear message came through from the community that they are looking for certainty. The sooner we can get back out to them with a draft zoning map—and consult and resolve the final shape of zoning in the GBR—the happier the community will be. That is what we are trying to do.

Senator McLUCAS—In the questions on notice at the last estimates committee hearings you provided an analysis of the costs of the advertising that would be required. You advised that you had to employ more staff to deal with the submissions. Are those costs still the same?

Ms Chadwick—No. The costs have increased because we significantly underestimated the response from the community. With respect, I do not apologise for that because I believe that we conducted an excellent, open and extensive public consultation campaign. The state was meant to mirror that campaign. At the end of the process they had received eight submissions—one of which came from GBRMPA—while we received 10,180. I think that, even though our costs blew out, the beneficiary was the community.

Senator McLUCAS—You said that you were going to spend \$162,000 on the RAP. Do you have any notion of what we are actually going to have to spend?

Ms Chadwick—I could not estimate at this stage how much we will spend in toto because, again, I could not predict what the community response to consultation phase 2 will be. However, if it is of interest to the committee, I am more than happy to give an estimate on the general costs to date.

Senator McLUCAS—What program will you find the extra money from to run the consultation?

Ms Chadwick—We are in fact taking a whole-of-agency approach to this, as you can imagine, and I am well aware that you have an interest in, and understand the complexity of, the program. All areas of GBRMPA are involved. Fisheries, for example, has at least one member of staff fully engaged and others partially engaged. Tourism has about the same. Our conservation and biodiversity group basically manages the RAP. It goes on and on.

Senator McLUCAS—Basically, you have taken staff offline from other tasks and put them on the RAP?

Ms Chadwick—Yes.

Senator McLUCAS—What impact has that had on the other services that GBRMPA runs?

Ms Chadwick—We have had no particular programs that have dropped right off the agenda. We are trying to keep programs running but the intensity of the programs and the time of completion of some programs have slipped. As a group, we have agreed on several corporate priorities, and one of them is RAP.

Senator McLUCAS—You said that the community is looking for certainty. You also used the term ‘openness’, which I think has been a key theme that GBRMPA has been trying to portray in the community. I want to move to the Princess Charlotte Bay regulation that has been an issue in the north. Can you give us a snapshot of the history of the development of the final zoning plan from 1994 till now. You have 60 seconds, and it starts now.

Ms Chadwick—One could jump from 1994 through several years and say that after extensive consultation there was a draft zoning plan. The area that interests you is, of course,

Princess Charlotte Bay. The draft zoning plan went to the board of the Great Barrier Reef Marine Park Authority and at that point Princess Charlotte Bay was zoned dark blue. The board agreed to that zoning in Princess Charlotte Bay in the clear knowledge and understanding that the intention of the authority was to create a dugong protection area under state legislation in the same way that other dugong protection areas had been created. When that draft zoning plan went to then Minister Hill, he was dissatisfied with the strength of our response in relation to Princess Charlotte Bay. He suggested to the authority that we may consider tightening up that response, particularly given his concern for dugongs. He was certainly entitled to do that, both as a minister and under our legislation. The matter went back to our board; the board agreed with the minister's suggestion and, as a response, that adjustment was made to the zoning plan with a recognition that within the zoning plan there would be a capacity to provide for a limited number of netters to utilise the resources of Princess Charlotte Bay under certain criteria.

Senator McLUCAS—Can I interrupt you there. I think you are describing two events in that sentence. Is that correct?

Ms Chadwick—You only gave me 60 seconds, Senator.

Senator McLUCAS—I know, but there are two events: the 1999 decision to move from a habitat protection zone to a conservation zone—

Ms Chadwick—That is right.

Senator McLUCAS—did not include the proviso that commercial gill netting would be allowed. That is my understanding.

Ms Chadwick—No. In 1999—Mr Tanzer may care to verify this—there certainly was concern and an expectation that the pressures and needs of a very small handful of fishers who relied on that area for their livelihood could be taken into account and that that would be done by regulation.

Senator McLUCAS—I thought that decision was made in 2000.

Mr Tanzer—When the change from the dark blue habitat protection zone to a conservation zone went back to the board, it was explained to the board that the intention was that there would be allowance made for continuation of commercial netting in some form.

Senator McLUCAS—Does that not fundamentally contradict the principle of a conservation park zone?

Ms Chadwick—It is not illegal; it is not contrary to our legislation.

Senator McLUCAS—That is not the question I asked. Is it not fundamentally contradictory to the principles of a conservation park zone?

Ms Chadwick—No, I would beg to differ. With a permit a number of actions can occur that are contrary to our zone. For example, I believe all of us would value certain research activities that inform us about the park and help us in management decisions. GBRMPA does in fact examine and assess permit applications for extractive research in green zones, for example, so it is not unusual.

Senator McLUCAS—Then why, in the final zoning plan, is the zoning condition around Princess Charlotte Bay the only non-compliant use within any of the zones? I do not think you can say that it is not unusual if it is the only one in the whole plan that does not comply with the zone that sits in the act.

Ms Chadwick—I can but hypothesise. Mr Tanzer, who was there at the time, may be able to add more. It is my understanding that, in the community consultation towards the original draft zoning, there was a belief that Bathurst Bay was incredibly important to dugong; as a result, it was to be zoned green. In recognition of submissions, community desires and the social and economic circumstances—there were some fishers up there who relied solely upon that area for their livelihood—the original intention was to zone Princess Charlotte Bay blue and put dugong protection measures over it through state legislation. That would allow some access and some recognition that those people had a right to a livelihood.

Senator McLUCAS—On another day we will talk about the role the state has below the low-water mark; we do not have time to do that now. You said Senator Hill was dissatisfied with the proposal in the draft plan and suggested to the board that they review it. Did he do that in writing?

Ms Chadwick—Yes, he did; but I think it needs to be clear that it was a suggestion raised as a matter of concern by Senator Hill. Our legislation—from memory, somewhere in section 32—states that, in terms of a zoning plan, the minister has every right to make such suggestions, return a draft zoning plan to the authority and ask them to take his suggestions into account. That did happen: matters were taken into account, they were taken to the board and the minister's suggestions were agreed to by the board.

Senator McLUCAS—Could I get a copy of the letter from Senator Hill?

Ms Chadwick—It was not a letter; it was a notation on a ministerial briefing note, and I do not know that I can provide you with that.

Senator McLUCAS—Probably not.

Ms Chadwick—But I can assure you that that was the sequence of events, that the matter did go to the board of the marine park authority and that the board did accept the minister's suggestion.

Senator McLUCAS—I notice that, in the very early part of every annual report you put out—I think with the exception of this year—you report on a requirement in the act that any directive the minister makes to the board must be reported. So obviously you do not consider suggestions from Senator Hill to the board to be a direction.

Ms Chadwick—No. It was not a direction. My recollection is—please correct me if I am wrong—that the area on which we must report and, as appropriate, have reported, comes under section 7 of the marine park authority act. It provides that if the minister makes a general direction to the board that direction must be reported in parliament. We have faithfully followed that.

In the matter that you are referring to, section 32 of our legislation describes the various steps relating to a zoning plan, and it says that the board presents to the minister the draft zoning plan and he, upon examination, can consider it and make suggestions as to changes, which then go back to the board—which is what happened in this case. The draft then goes back to the minister and at that stage, coming back a second time, if there are further matters on which the minister seeks to make changes, he is still perfectly entitled to do so, but he must note his changes and say so in the parliament. This was not necessary and was not the case in relation to Princess Charlotte Bay, because the suggestion of the minister was accepted by the board.

Senator McLUCAS—Do you know what informed Senator Hill's position to advise that the consultation process, which had led to a blue zone, was wrong?

Ms Chadwick—It would be somewhat bold of me to pretend to understand the minds of ministers, other than to recognise that they are always wise and correct. In this case I can make the prediction that the board of the authority and the minister had similar concerns, and that was the protection of dugong. The methodology of how one would address those concerns was where the difference arose. It was the view of the board and the staff that we could address the concerns about dugong protection in the same way that we have through cooperation with the Queensland government in the creation of dugong protection areas elsewhere. In this case, our minister at the time, Senator Hill, said that he did not think that was good enough. He wanted it within the zoning plan to achieve the same protection of dugong. So in a sense, whether under the Commonwealth legislation or the state legislation for dugong protection areas, it was the view of the minister at the time that it should be in the zoning plan.

Senator McLUCAS—So essentially you are telling me that the board suggested that it be a blue zone, where gill netting is allowed by permit—

Ms Chadwick—As of right.

Senator McLUCAS—As of right, but permitted.

Mr Tanzer—No, there is no permit issued under a blue zone. It would be an as of right activity.

Senator McLUCAS—Or in a conservation park area where you were still going to allow gill netting to occur and the board and the minister shared the view that dugong need to be protected. The only difference you are telling me is that potentially there were going to be fewer gill nets in the area, but there were still going to be gill nets and there were still dugong that need to be protected. We were going to have a yellow zone with an activity which is an expressly excluded activity.

Ms Chadwick—But the term is ‘regulated’.

Mr Tanzer—Prior to this, you would be aware that dugong protection areas were put in under the Queensland Fisheries Act in the southern part of the Great Barrier Reef Marine Park. The approach adopted by the authority, as I understand it, was one of cooperation with Queensland and trying to manage the activities of netting in situ in different situations. The idea was that the QSIA would come forward with a proposal as part of their submissions in the zoning plan process saying, ‘These sorts of conditions could apply to gill netting in PCB.’ There is a joint Commonwealth-state committee on dugongs. The intent was that, working in that collaborative way, protection for dugongs would be implemented in PCB under a general use B zone, which allowed netting. Senator Hill believed that we needed to be more explicit and he asked us to reconsider—he did not direct us—the level of dugong protection that would be afforded in PCB. The response was that if we wanted to make it more explicit, turning it yellow was an option. Further to take account of the fishing interests and social and economic interests, local fishers with significant history would be able to apply for a permit to continue but with certain conditions attached to these permits, which would further protect dugongs.

Senator BARTLETT—Earlier this year, you wrote a letter to Dr Powell from Geoscience Australia following things he said in estimates committee hearings back in June. He wrote back to you in September claiming that at the Bali conference in August 2000 interest in the use of SAR data to detect oil spills was expressed by a couple of GBRMPA staff whom he names. He continues that he was advised that one of Geoscience’s research managers followed up on this matter with GBRMPA staff members after the Bali meeting. Does that

conform to your understanding of what happened? Has there been any further correspondence or communication between the authority and Geoscience?

Ms Chadwick—I am not sure there has been further correspondence, Senator, but I am happy to defer to John Tanzer. Yes, in general terms what you say is absolutely correct. I believe that, whether there was a Geoscience presentation or some such at the Bali conference, as often happens in those circumstances, in another discussion in the corridor at the conference others said how very interesting it was and expressed some interest. I would have to say that if I expended the GBRMPA budget on the basis of every junior officer from another organisation who expressed interest in the corridors at a conference, you would have a lot of questions to ask me at Senate estimates.

Senator BARTLETT—According to the letter from Dr Powell, Geoscience followed up after the Bali meeting, which suggests there was further contact after the corridor conversation. Are you aware of that happening?

Ms Chadwick—No. The first I realised that there was an issue was in response to comments made, I think, at Senate estimates. As a result of that, I wrote in fairly blunt terms to Geoscience saying that I had never authorised that and that oil exploration or anything to do with oil exploration was prohibited in the GBR and that we were not interested in that.

Senator BARTLETT—There was a story in the *Australian* at the start of this month about the illegal live fish trade. Are you aware of or do you agree that there is a significant illegal trade in live fish?

Ms Chadwick—I would not have the knowledge or expertise to talk about a significant illegal trade. I think those comments were attributed to the Customs department. I can however say with some confidence that there is significant illegal fishing in the Great Barrier Reef area. On that basis, we have been working very closely with Coastwatch, AQIS, Federal Police, DPI—every agency that is prepared to cooperate and collaborate with us. I am extraordinarily grateful for the support, particularly from Coastwatch which is at no cost to the GBRMPA but highly valued. We have been making significant inroads into illegal fishing, particularly live coral fishing. From memory, I would say that approximately 80 per cent of the apprehensions we have made in the last 12 months or so has been thanks to the aerial surveillance provided by organisations such as Coastwatch.

Senator BARTLETT—Has there been an increase in apprehensions?

Ms Chadwick—There certainly has been. It is very hard for me to say with any clarity whether that means there is an increase in illegal fishing or that we, in the cooperative and collaborative ventures that we have structured, are simply much more professional at apprehension. But it is a significant problem.

Senator BARTLETT—I notice that on your web site you have now started to list all the permits that are applied for, which is a fabulous innovation.

Ms Chadwick—And I thank you for your encouragement in that regard, Senator.

Senator BARTLETT—Here is a little bit of further encouragement: I notice some of the applications are fairly light on detail; a number of them simply have the name of the applicant and nothing else. Is that going to be more expansive over time?

Ms Chadwick—Without in any way being evasive, can I take that on notice and see what information I can provide? The applications on the web site start from all the current and the most recent ones. It will be some time, given the efforts that we are putting into the rep areas

program and a variety of other things, before we find the human and financial resources to do the backlog of existing permits. But in terms of what detail is there, I will certainly undertake to respond on notice.

Senator BARTLETT—At the moment there are over 200 applications on there for permits. None of them provide for public comment. What is the standard for determining if a permit application is going to seek public comment?

Ms Chadwick—That is usually when it is adjudged to be highly sensitive or a matter of wide public interest. But I will call on Mr Andrew Skeat, who is an expert on this. He could answer this far more adequately than I can.

Mr Skeat—The requirement for public advertising relates to whether the proposal is likely to have an impact on other users of the marine park. It is actually a very narrow definition in relation to the requirement to publicly advertise.

Senator BARTLETT—That is the specification in the act, is it?

Mr Skeat—It is a specification in the regulations.

Senator BARTLETT—I have a question about Nelly Bay. When is that harbour scheduled to open?

Ms Chadwick—We do not know. It will no doubt open when it has an operational permit, and it will have an operational permit when we believe it has complied with all our conditions.

Senator BARTLETT—What conditions are not complied with yet?

Ms Chadwick—We have some concern about the level of silt and whether that is adequate. I understand that work is being undertaken on that at the moment. We have a concern that the clear definition between the land and the marine park is clear.

Senator BARTLETT—The ‘clear definition’ is ‘clear’? I am not sure I understand.

Ms Chadwick—We seek to ensure that in the construction of the harbour there has been no excision of the marine park.

Senator BARTLETT—What do you do if there has been an excision?

Ms Chadwick—There cannot be without the agreement of both houses of parliament.

Senator CARR—Why did Dr Kemp revoke his decision in regard to the EPBC Act in the Otway Basin—specifically on the issue of seismic tests in the Otway Basin?

Mr Early—Santos originally referred the proposal to conduct a seismic survey in the Otway Basin in September. They received authority to proceed, provided that the survey was finished by 15 December. That was to ensure that there was no activity within areas of critical habitat for the blue whale after that date. The vessel contracted by Santos had mechanical problems, and they sought reconsideration of the original decision so that they could go beyond 15 December. They agreed to divide their work program into two parts or two zones. About 30 per cent of the first zone is located within the area identified as critical habitat for the blue whale and the entire second zone is located outside the critical habitat area. The minister agreed to Santos’s application under very strict conditions. The conditions included their having to complete the first stage of the survey—in other words, be totally outside the critical area for the blue whale—by 15 December, which was the original condition, and that all survey work after that would be totally outside the critical habitat and about 25 to 35 kilometres away from where the bulk of sightings have occurred.

Senator CARR—As I understand it, blue whales are quite seriously endangered, aren't they?

Mr Early—Yes.

Senator CARR—Would you agree that they are seriously endangered?

Mr Early—Yes.

Senator CARR—Do you also agree that Deakin University has undertaken research that suggests there is quite a serious risk of encountering whales in this area which you say—as is the advice you have provided to the government—would be safe in which to conduct seismic tests?

Mr Early—I would not agree with that. I do not think the research shows a serious risk of whales being in that area at that time.

Senator CARR—What scientific advice did you rely upon to allow seismic exploration until 15 January in what I understand and am led to believe are actually their breeding grounds?

Mr Early—No, that is not the case. Zone 2, which is the area in which the company would be allowed to continue into January, is totally outside the critical habitat area; and only 30 per cent of zone 1 is within the critical habitat area.

Senator CARR—What scientific advice did you relied upon for that conclusion?

Mr Early—We relied on the best scientific advice available, including that from Dr Gill and Deakin University, our own experts and—

Senator CARR—So what is this best scientific advice available?

Mr Flanigan—In putting together our advice on this proposal, we drew very heavily on the advice that had been provided by Dr Gill as well as on information that is in the draft recovery plan and information that is in the seismic guidelines that we use for considering these projects. Dr Gill is the principal researcher in this area and, in fact, he has been doing investigative work on blue whale aggregations in this area for some four years. It is largely the advice that he has generated out of those studies that we relied on in determining exactly the likelihood of this operation encountering blue whales at this time of the year.

Senator CARR—Will you give us a copy of that advice? Will you publish that advice?

Mr Flanigan—The advice we drew on is the published advice of Dr Gill in a paper published in 2002, in which he reports his observations from a number of aerial surveys he has flown over the area.

Senator CARR—Can you cite the reference to that paper?

Mr Flanigan—Yes, I can. The paper is called 'A blue whale feeding ground in the southern Australian coastal upwelling zone'. It has the journal citation 'Res Management No. 4'—I assume 'res management' means research and management.

Senator CARR—Are you telling the committee that the Deakin program has not advised you of a risk of disturbance to the feeding of blue whales?

Mr Flanigan—Dr Gill himself was one of the two people who provided comment to us when we first considered the proposal. In that comment he raised his concerns and his opinion that he felt there was some risk. In arriving at our decisions we had to weigh his opinion against the facts that were also presented in his papers and in other places.

Senator CARR—So he actually advised you that he had some concerns?

Mr Flanigan—That is correct.

Senator CARR—Was that consistent with his published research?

Mr Flanigan—It was certainly consistent. In the work that Dr Gill had provided to us and his comments on the development of the blue whale recovery plan his view had been that there was a potential for blue whales to arrive in this general area of the Otway Basin and the Bonney Upwelling initially in mid-December, but then with this year's surveys he felt—

Senator CARR—So he changed his mind, did he?

Mr Flanigan—He had observed a whale in the area as early as 4 December. The dates that he provided in his paper from his actual surveys have in 1998-99 the first sighting of a single blue whale in the whole of the upwelling area—so not necessarily adjacent to the survey site—

Senator CARR—There are not too many of them left, are there, so—

Mr Flanigan—There are estimates that there are probably about 2,000.

Senator CARR—Do all 2,000 breed in the Otway Basin?

Mr Flanigan—They are not breeding in the Otway Basin. They come to the Otway Basin to feed on krill swarms that develop in the upwelling—

Senator CARR—So we could find all 2,000 in the Otway Basin?

Mr Flanigan—No.

Senator CARR—So seeing a small number will not necessarily reflect the population numbers.

Mr Flanigan—The numbers in December and early January—again reported by Dr Gill—are of the order of less than one blue whale in the area per hundred kilometres. Later on in the season—February through to May—those numbers ramp up quite considerably.

Senator CARR—To how many?

Mr Flanigan—To over four.

Senator CARR—I see. They do ramp up quite a lot, don't they!

Mr Flanigan—In terms of whale—

Senator CARR—I put this to you in all seriousness: you acknowledge that this is a seriously endangered species and that it is a critical habitat for them, and yet you have allowed seismic testing to be undertaken despite the advice you received from experts. Is that a fair summary of what you have actually told me?

Mr Flanigan—No. That is not correct.

Mr Early—That is not at all fair. As I have said to you before, the minister's extension of the time beyond 15 December is entirely outside the critical habitat and—

Senator CARR—We have quite contrary advice on that, haven't we?

Mr Early—No. There is no contrary advice on that at all.

Senator Kemp—You haven't been listening again, Senator.

Senator CARR—I have been listening.

Senator Kemp—Chair, I draw your attention to the time. I think Senator Carr has had a very fair go this evening.

CHAIR—Have the officers completed their answers?

Mr Early—If the minister says I have, then I have.

CHAIR—If you had any other important facts to add, I would be happy for you to do so, but we are beyond our time so we should wind up.

Senator Kemp—I think the officers are happy with that.

CHAIR—I ask that all further questions on notice be in by close of business on Friday, 22 November. The answers to questions on notice must be returned to the committee secretariat by 13 December. I thank the ministers who have appeared today, the departmental secretaries, the committee secretariat, Hansard, the departmental officers who appeared as witnesses and the senators.

Committee adjourned at 11.04 p.m.