



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

**Reference: Australian Wool Innovation - expenditure of funds under statutory
funding agreement**

THURSDAY, 28 AUGUST 2003

CANBERRA

CORRECTIONS TO PROOF ISSUE

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Thursday, 28 September 2003

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Thursday, 28 August 2003

Members: Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

Participating members: Senators Abetz, Boswell, Brown, Carr, Chapman, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Harradine, Harris, Hutchins, Knowles, Lightfoot, Mason, Sandy Macdonald, McGauran, McLucas, Murphy, Payne, Ray, Santoro, Stephens, Tchen, Tierney and Watson

Senators in attendance: Senators Ferris, Heffernan, Sandy Macdonald and O'Brien

Terms of reference for the inquiry:

To inquire into and report on:

- a) the administration and operation of the Statutory Funding Agreement dated 28 December 2000, between the Commonwealth of Australia (represented by the Minister for Agriculture, Fisheries and Forestry), Australian Wool Innovation Pty Limited and Australian Wool Services Limited;
- b) the expenditure and application of funds paid to Australian Wool Innovation Pty Limited under the terms of that agreement; and
- c) other relevant matters arising from the reference.

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Committee met at 10.05 a.m.

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. This is the committee's third hearing to consider matters in relation to the inquiry into application and expenditure of funds by Australian Wool Innovation Ltd, pursuant to a statutory funding agreement. This matter was adopted on 26 May 2003 by the committee for inquiry pursuant to Senate standing order 25(2)(b), which empowers the committee to inquire into all matters administered by agencies and departments within the committee's responsibility. The specific subject of this inquiry is the administration and operation of the statutory funding agreement dated 28 December 2000 between the Commonwealth of Australia, represented by the Minister for Agriculture, Fisheries and Forestry, Australian Wool Innovation Ltd and Australian Wool Services Ltd; the expenditure and application of funds paid to Australian Wool Innovation Ltd under the terms of that agreement; and any other relevant matters arising from the reference.

Today's hearing is public and open to all. A *Hansard* transcript of the proceedings is being made, which will be available next week from the committee secretariat or via the Parliament House internet home page. It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings. Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence. Any decision regarding publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing. The committee has received and published 12 submissions to date, all of which are now available from the committee's web site. The committee has received a submission from Australian Wool Innovation Ltd dated 11 August 2003 which has not been published. Is it the wish of the committee that that submission be now published? There being no objection, it is so ordered.

Senator FERRIS—Mr Chair, I also propose today to ask witnesses questions from the audit report, so I would like to move that the audit report also be made public.

CHAIR—This is the report under cover of the letter of 13 August from Australian Wool Innovation Ltd?

Senator FERRIS—That is correct.

CHAIR—Is it the wish of the committee that that report be now published? There being no objection, it is so ordered. The committee received a submission from the former chair of AWI, Ms Maree McCaskill, which raised a large number of contentious issues regarding AWI management and applications of funds during Ms McCaskill's period as chair. The committee invited Ms McCaskill to attend today's hearing to discuss these claims in a public hearing but she has declined the committee's invitation to appear.

Senator O'BRIEN—I would like to move that those letters be incorporated in the record. I would ask you, Chair, to read the last of the letters into the *Hansard* record because I think it is important that they be clearly on the public record now.

CHAIR—I will accede to that request. This letter dated 26 August, from Maree McCaskill, which is addressed to me, states:

Dear Sir

I have received your letter and wish to state that I have made myself available at the time indicated for hearings during July and the Senate Committee chose not to convene.

I am in Perth and Melbourne, Wednesday through Friday and am not available at 9am either in person or telephone on the day and time you have nominated as I am chairing a council meeting.

I will not succumb to intimidation or pressure and am not able at such notice to rearrange my employment commitments to attend on Thursday.

I reassert for you and am prepared to do so publicly, that I am exercising my right as a private citizen to decline to give oral evidence on Thursday 28 August 2003. If the Senate Committee chooses to draw its own conclusions without evidence of procedural fairness and natural justice, I am sure the public will draw its own conclusions.

My written submission is clear and self-explanatory.

Yours faithfully

Maree McCaskill

26 August 2003

Senator FERRIS—Before we move from that topic, Chair, I would like to draw the attention of the committee to page 6 of Ms McCaskill's submission to this committee in which she makes a number of personal accusations against me as a member of this committee concerning my conflict of interest. I assert again that I have no financial interest in the wool industry nor any company associated with the wool industry. My professional association with Mr McLachlan, to which she refers here, is 20 years ago at the National Farmers Federation. I was not on Mr McLachlan's staff, as she asserts, when he was defence minister. In fact, I was a member of the Senate at that time. Thank you.

Senator O'BRIEN—I would like to put on the record part of a transcript of the *Country Hour* of 6 June this year. There is a quote from Ms McCaskill referring to the PricewaterhouseCoopers report, which has now been published by the committee. She is quoted as saying:

The document has been referred to our lawyers and certainly it will be up to their decision in terms of what they do. We're particularly concerned about the fact that a lot of the claims that have been made are very non-specific. I would be very happy to appear before any Senate inquiry with the rest of my board and of course the managing director Col Dorber. We would be happy to front any court of law, we would be happy to front any shareholders meeting.

I make that public because it is in absolute contrast to the attitude of Ms McCaskill in relation to appearing before the Senate committee now.

CHAIR—Thank you. It should probably be noted for the *Hansard* that the other members of that board at the time have also been invited to attend and have declined.

[10.13 a.m.]

CAMPBELL, Mr Simon Hay, President, WoolProducers

FRASER, Mr Duncan Alistair, Honorary Treasurer, WoolProducers

TURNER, Miss Sharon Marie, Executive Director, WoolProducers

CHAIR—Welcome. Would you like to make an opening statement?

Mr Campbell—I would like to make an opening statement.

CHAIR—We have received your submission, which we have published.

Mr Campbell—I will make reference to that, possibly, to establish some detail on one document, which is a summary of corporate governance matters. The two letters that I have put before you are now in your hands. I have referred to them in my statement.

Thank you very much for the invitation to address and respond to this inquiry into the affairs of Australian Wool Innovation. I am a wool grower from far western Queensland and I am very proud to be here as the President of WoolProducers representing the peak and largest national body for wool growers in Australia. WoolProducers is funded by voluntary contribution from state and individual members, and we have around 14,000 of those. WoolProducers commend all the senators on the RRAT committee for their very proper interest in the substantial investment by the Australian government in research and development in this major Australian industry.

The failures of governance and breaches of the statutory funding agreement at AWI have been the subject of considerable and robust public debate. It is a fundamental function of WoolProducers to engage in and, on occasion, of necessity, to lead this debate. We make no apologies whatsoever for this—it is one of the many tasks which our members expect us to deliver for the payment of their voluntary fees. Because of some of the discussion that has preceded our appearing before you, our position in these matters is best described as acting for our members as if we were a shareholders association. We have a mission to work on behalf of our membership to ensure that any wool industry company or organisation in receipt of compulsorily acquired levies operates in an ethical, transparent and efficient manner and that such funds are carefully applied for the ultimate benefit of the compulsory levy payers—the wool growers.

AWI is a unique construct—it is a partially privatised company still in receipt of government funds without a government director and with quite separate fiduciary and shareholding arrangements for its shareholders. Post Goulburn, because of the separation of organisations and functions in the wool industry—into advocacy and accountability, which is us, WoolProducers; R&D, which is AWI; and promotion and market development, which is AWS—this is a vital, necessary and unavoidable function for WoolProducers. All of our policy and views evolved in a dialogue with our members—they are well considered, cooperatively constructed and nationally oriented, as you would expect.

Peripheral issues, in our view, are that there have been some occasional and determined attempts by other parties appearing before the Senate or lodging submissions to the Senate to personalise this important debate, which is a debate about the failure of AWI governance under the former board, and focus this debate in a most unhealthy manner on individuals and personalities—at the expense of the real issues of governance. We have never engaged in this process of personalisation and we never will.

Therefore, in that light, we have tabled two letters to the chair of this inquiry of the RRAT committee. I do not propose to read those, because they are now in your hands, but it is important to put into the record that the first letter deals with recent actions by Mr Dorber in a private phone conversation to a wool grower who had put a submission before the committee. The manner, nature and timing of that conversation lead us to believe that this was an action which, in our view, represented very real intimidation of a Senate witness. That is the first letter we have passed to you. The second letter places on record very simply that the sum of the personal statements and observations made about me in submissions by Mr Dorber, Ms McCaskill, Ms Gibbons et cetera are in their entirety untrue and incorrect. We will return now to the main business.

CHAIR—To interrupt you there, Mr Campbell, we have received these two letters and we will give consideration to how we act upon them and whether we publish them.

Mr Campbell—We will leave it in your hands. Thank you, Chair. It is a process not familiar to us, but we felt we should correct the record and make some comment, and that did not necessarily need to be public.

Any minor corrections to our original submission, as noted in the invitation, are possible. There are one or two dates we may correct. In regard to summaries to add to the original submission, after discussion with the secretary to the inquiry, we have added to the record two further summaries. One summary is a table which deals with statutory funding agreement—SFA—breaches, because we can record, in our view, a very substantial number of breaches of the statutory funding agreement under the former AWI board.

This agreement is, quite properly, the core business of the Senate as a house of review and as the delegated standing RRAT committee of the Senate. You, as senators, are more completely equipped to judge on these matters of SFA than perhaps we are. The second item that was circulated last night, which we wish to have added to our record in the interests of summarising the fairly weighty submission that we put in, is a list of the corporate governance failures of AWI. The statutory funding agreement in itself also refers to the necessity of appropriate corporate governance, so the two matters are inextricably linked.

These matters are even more important in this case, and for us this is a very important point, because the shareholders of AWI are involuntary shareholders; they have no choice in their investment or divestment in AWI. The growers are in a sense captive to this system. If they are dissatisfied with the company's performance they can neither dispose of their shares nor can they choose not to pay the levy. The shares are of a fixed and nominal value and can neither accrue value nor yield any cash return. So there is an absence of normal commercial transactions which mean the overall performance of the company is difficult to measure in conventional ways. The point of this is to say that it is even more incumbent on a board in charge of such funds from involuntary shareholders to act in good faith—firstly, to the benefit of the company, and, secondly, on behalf of the shareholders. The need for confidence and trust to be developed, applied and earned by board, directors and the company itself is much more critical in this unique situation.

CHAIR—Can I interrupt to say we have received your list of corporate governance concerns and the table of potential breaches and we will be publishing them.

Mr Campbell—Yes. We would wish them to be published and we hope they assist. We are aware that we lodged an inch-thick submission—we felt we needed to. If I may, in closing, I will refer to that list and attempt to summarise it briefly. It was very difficult for us acting as a shareholders' association at arm's length from all of the parties, and it was potentially difficult for us to detect breaches of corporate governance. But the performance generated sufficient material that we came up with this three-page list of simple dot points of things that are very visible to anybody with an interest in business or investment.

I will highlight some of the points we have made. It appeared to us, from the public record, there was no effort—a failure of the former board—to properly search for and appoint an MD or a CEO. There is absolutely no public evidence that, prior to the appointment of the former CEO, the former board of AWI ever identified the skills required for that position, used this list of skills to conduct the widest possible national and international search or that the board interviewed or canvassed any range of candidates for the position.

It is an absolutely fundamental activity of any business group to write a strategic plan and then find a CEO who culturally, intellectually and competently is able to reflect the business direction of the company. If these processes did not occur, it is a major failure in corporate governance by the former board. We were concerned when it became clear on the public record that two directors resigned from the company citing corporate governance concerns. It became clear, in the presence of the new board by revelations from a commissioned audit of the affairs of the company partially reported by the Chair, Mr I. McLachlan, in his letter to shareholders on 11 June, that there were major grave failures of normal business practice and clearly inadequate systems of control: for example, \$22 million in unsigned contracts. Therefore, there was no security for the company or its shareholders of project completion or protection of intellectual property. There was an outline of the strategic plan, which I have referred to briefly, that was developed by a transition board, yet this first former board of AWI failed to produce a formal strategic plan and related business plan, at least to the benefit of shareholders, for about 18 months.

The problems seemed to start early. The board failed to properly go through a process to re-elect directors to AWI in 2001. I will not go through those points because they are well detailed in our submission. A major point is that the former AWI in our view abrogated virtually all of their corporate responsibility as a board by giving the managing director of AWI at the time a spend limit of \$2 million. This has meant that in theory the MD could have conducted all of the spending of the \$70 million in AWI through only 35 large projects—almost no need to reference the board and almost no need for a board to meet. The board only must be responsible for such large expenditure of grower funds particularly where they are involuntary funds.

Many items arose out of the annual general meeting of 2002. The former board, before the AGM, failed to meet and consider the nominations properly before the board of five directors—they were subsequently elected but by a completely different pathway. One of the directors made the statement that the board in fact never made a decision concerning receiving these people onto a ballot paper and never discussed a decision about receiving them onto a ballot paper. Yet another director in public at the same meeting was able to say that the decision the board made in much conversation was to follow the constitution, and he voted for that. There were extraordinary differences of opinion.

The board failed to bring the register of voters up to date. There appears to have been—and, again, all in the public arena—very substantial expenditure prior to the AGM, which we can only conclude was designed to influence the outcome of the election in favour of the incumbent board. Important matters were not disclosed at the AGM, which were major failures. The directors had received advance payments of sums of money—this is revealed in Mr McLachlan's letter to shareholders. The board had failed to disclose fees paid by the company to a director as chair of a subsidiary entity, Shear Express. The managing director misled shareholders at the AGM in his formal report about the status of a major company asset and related income stream—the property in York Street. It is inscribed in the minutes of the AGM that they had recently 'leased the property for a return of 11.3 per cent'—a terribly tidy figure. The reality is—and it was discovered later—that neither the floor of that expensive real estate that was owned by AWI nor the floor that they rented were actually rented at all.

The board failed to address appropriate skills mix to conduct their business independently, and we have provided various tables in our major submission which show quite clearly that the board, particularly after the departure of Dr Vizard, was especially weak in a range of skills areas. It is really important for a board to be able to act independently. OECD guidelines on this are very clear: 'Any board should be able to exercise objective judgment on corporate affairs, independent in particular of management.' I hope that the additional material, the short summaries that we have given you, will add to the value of your deliberations. I am very happy to take questions on any of the subjects within your terms of reference.

Senator O'BRIEN—Firstly, your summation of the relationship between that AWI board and its shareholders, I think, is very accurate, and I suspect I may quote it at times in talking about the issue of organisations such as AWI and the relationship to their shareholders who are shareholders by virtue of statutory levy. Mr Campbell, how many growers does your organisation present?

Mr Campbell—It represents approximately 14,000 growers. Five of our executive represent state farm organisations, which comprise the majority of those members, and we have six independent members, for a total of 11 on our executive. It is possible to be a direct member. It is an extremely inclusive organisation. You can be a member of a state organisation, then a member of WoolProducers, or a direct member. But we have 14,000 members.

Senator O'BRIEN—Was your organisation a supporter of this new industry structure, that is, the Woolmark and AWI model?

Mr Campbell—We have been and we remain in support of the new structure because it separates accountability functions, R&D and promotion. Because our organisation receives no funds whatsoever from AWI, it acts absolutely independently in seeking performance for our members, who are all wool growers. So the structure that was suggested has actually worked. It was a very near thing though because of the defensive nature of the constitution that was given to AWI. If we had not been able to raise a lot of signatures, the necessary changes may not have been made.

Senator O'BRIEN—Was that an accident? You are alleging that there was a potential for the problems of AWI, as you see them, to have been insoluble but for the existence for your organisation.

Mr Campbell—I think that is correct.

Senator O'BRIEN—Is it your view that the government has an ongoing role in the management of this industry, or do you support the view expressed by Mr Dorber that government should be completely out of the scene?

Mr Campbell—The Australian government has had a long history of investing in R&D through a range of mechanisms. A very common one has been the provision of matching funds to half a per cent of the gross value of production. I continue to support that. That is a useful contribution to the industry and to the community. Obviously, it is absolutely fair then to expect that any body that you give money to is able to

account for that community property—for those government funds—properly and you need the conviction that that is being well managed.

Senator O'BRIEN—I certainly concur. It is my view that the parliament has an ongoing role. As long as there is public money flowing to the industry, it therefore must be publicly accountable not only to government but also the parliament. There is also the issue of the mandating of levies and funding of the organisation through the parliament, which I think would be a justification for continuing parliamentary scrutiny. Can you tell the committee when your organisation first became concerned about the management of AWI by the former board and managing director?

Mr Campbell—I have a bit of a time line—relatively early in the piece I would have to say. Certainly in November and December of 2001 and January of 2002. There were a range of matters that became publicly visible that concerned us: design awards; the Shear Express announcement; and on 29 January, an announcement about Woodlots in a press release. There was a range of activities that made us uncomfortable and a lack of focus by the board. As a shareholders association, we were trying to get them to focus on performance measurement and we wrote to them about that in November. We did not receive a very favourable reply because the issue of performance measurement is as important for those involuntary shareholders as fiscal accountability. I suppose the answer to your question would be November of 2001.

Senator O'BRIEN—You wrote to Mr Truss about those concerns on 4 February 2002. In the covering letter you requested a meeting with Mr Truss. What was the response to that request and when did you receive it?

Mr Campbell—We received no formal reply from Mr Truss's office on any of the matters that were raised. There were informal discussions, which tended to centre on: the wool industry should go in there itself and solve the problems.

Senator O'BRIEN—Between whom were those informal discussions?

Mr Campbell—Certainly we can recall a meeting with me, Sharon Turner, Paul Sutton and David Whitrow and—I will just check with my director—I think briefly attended by the minister. We expressed our concerns. We had verbal assurances that, really, it was a semiprivatised company and that the wool industry would have to go and solve these problems.

Senator FERRIS—Did you ask for an audit to be done at that time, as the statutory funding agreement provided for?

Mr Campbell—I would like to discuss this with the director—confirming my memory: we asked for assurances that the obligation to provide that audit under the statutory funding agreement would be provided. And, no, we did not receive a formal answer on that either.

Senator O'BRIEN—What did the minister actually say at the meeting?

Mr Campbell—I would return to what I said. He has tended to say in regard to the AWI problem that the wool industry has to go and solve it. By which he meant: it is a semiprivatised company—for instance, why don't you stand directors or not elect directors, as the case may be?

Senator O'BRIEN—He was effectively saying, 'It's your problem, not mine'?

Mr Campbell—That is correct.

Senator O'BRIEN—You attach a three-page statement to that letter that went to a number of issues that concern your organisation. Did you ever receive anything from Mr Truss, his office or his department in relation to those issues in any formal sense? I think you have already said no but I want to be certain about this.

Mr Campbell—That is the attachment. No, we did not achieve a formal meeting on the subject and the attachment was not replied to in any formal way.

Senator O'BRIEN—You say you did not have a formal meeting. What was the nature of the meeting that you had?

Mr Campbell—An informal meeting with the people that I listed just before.

Senator O'BRIEN—How did that come about?

Mr Campbell—Probably through our concern that these matters—

Senator O'BRIEN—I meant who set it up? I am trying to understand the difference between an informal and a formal meeting. Was it a matter that arose in conjunction with other matters or was the meeting specifically set up between a couple of people and then others attended? How did it happen?

Mr Campbell—I understand. Because I live a couple of thousand kilometres from here, every time to come to Canberra I will make myself available and, through the director, advise various officers of the parliament: 'I am here. Would you like to discuss anything?' As we had recently written this letter I asked, 'Would you like to discuss anything?' So it was probably triggered by us and by my presence here.

Senator O'BRIEN—How did you set about following up the issues at a ministerial and departmental level and directly with the AWI board and AWI management, other than the way that you have so far described your evidence this morning?

Mr Campbell—We received from ministerial level only the answer that I have given you, which was: you need to go and fix the problem. We attempted many times in correspondence to engage the AWI managing director and, on occasion, the chair on a range of important issues, all of which are canvassed in our summary. The sorts of things we would have expressed our concern about were, for example, elements or principles in the Shear Express initiative. We tried to discuss with the board in November issues of performance management and received an extremely blunt response. We had several short sharp exchanges with AWI over the subject of the Woodlot matter. We expressed our concern about Dr Vizard's resignation, which we said left a massive gap in the skills base. We attempted in a civil and methodical fashion to raise the problems as they became visible in the public arena.

Senator O'BRIEN—Mr Campbell, you stated in your submission that until the demerger of AWI from AWS, Mr Price was in fact responsible for the activities of AWI, and you rely on section 37.1 of the statutory funding agreement which states:

For so long as the Company is a subsidiary of AWS, AWS must ensure that the Company complies with all its obligations under this Agreement.

Are you suggesting that this committee should seek to take evidence from Mr Price in relation to a number of these issues?

Mr Campbell—I believe that our statement in the submission is in fact correct and that Mr Price was responsible. It would appear therefore that perhaps he was also responsible for key appointments—this is beyond my knowledge—for instance, of the managing director. Yes, I think that would be a sensible course of action for the inquiry.

Senator O'BRIEN—Are you suggesting that Mr Price was dictating the management and direction of AWI through his appointee, Mr Dorber?

Mr Campbell—No. Matters of the board would be beyond my knowledge, Senator, much as I would have wished to know on behalf of my members who are all shareholders.

Senator O'BRIEN—Are you alternatively stating that the legal position was such that the buck stopped with the AWS board and not with the AWI board?

Mr Campbell—The buck most certainly stopped with the AWS board, and certainly by extension with its chair, on almost all matters prior to the demerger, that is correct. That is my understanding.

Senator O'BRIEN—Did you find it unusual that Mr Dorber was appointed directly by Mr Price rather than the AWI board?

Mr Campbell—I have no knowledge of that because that would be within the board records of AWS and AWI. We observed the appearance, like a *deus ex machina*, of a managing director with no visible public advertising having taken place. That is probably a question that is better directed to a board member of the time.

Senator O'BRIEN—Mr Campbell, I want to go to the Farmhand donation. Mr Dorber told this committee that AWI had in fact withdrawn the funding to the Red Cross because the Red Cross would not sign an agreement as to how the funds would be spent. Mr Dorber said he rang the finance officer at the Red Cross and he said he was not aware of any attempt to transfer funds electronically. He said that the AWI finance officer had hand-delivered a cheque. You sought a copy of the agreement regarding Farmhand referred to by Mr Dorber and you have told us in your submission that despite at least four attempts you did not see that document. Have you subsequently seen that document?

Mr Campbell—No, we have never seen that document and the existence of that document was announced at the AGM. We have seen no evidence. The invitation was made at the AGM to see the document.

Senator O'BRIEN—The invitation was made by whom?

Mr Campbell—By Mr Dorber. He said that anybody could see the agreement—words to that effect—with the Red Cross if they asked him.

Senator O'BRIEN—Did you ask him?

Mr Campbell—We did ask him on four separate occasions and I think the dates—

Senator O'BRIEN—What was his response?

Mr Campbell—I pass to the director because she was handling that matter directly.

Miss Turner—The responses on separate occasions were first of all that, yes, he would attend to that and forward the agreement to the office of WoolProducers. When I followed up, not having received the agreement, I was told that his lawyers were not in the office and he would follow that up with them and get me a copy of the agreement. On the third occasion I was actually in the AWI offices where Mr Dorber was unable to see me. He said to me on the phone that he would follow it up and give me a copy of that agreement. There was an email exchange also following that up, to which Mr Dorber replied again in regard to the lawyers that he would have to check with them and then send me that agreement. WoolProducers then took steps to view the agreement through the Red Cross. It was never provided by AWI and it was discovered that the Red Cross did not have any agreement.

Senator O'BRIEN—So over what period did you attempt to see the agreement?

Miss Turner—There was a period after the AGM when Mr Dorber offered the agreement to anyone who wish to see it. The dates that WoolProducers asked Mr Dorber for a copy of the agreement were 14 to 19 November. It was during this time that WoolProducers contacted the Red Cross to see if we could see a copy of the agreement through them. That is when we were advised of the sequence of events that took place around the announcement of the donation, which was from the end of October up until that time.

Senator O'BRIEN—You provide some details of the sequence of events according to your records, Miss Turner, and according to the coordinator of the appeal, Mr David Childs. You advise that AWI attempted to transfer \$500,000 electronically to the Farmhand appeal on 18 October but that the web site rejected the donation because of the size. Clearly, there was some sort of record of the attempted transaction. Have you seen some sort of record of that attempted transaction?

Miss Turner—WoolProducers were advised by the Red Cross that their web site had rejected the transfer of funds from AWI due to the size. The Red Cross has not provided evidence of that in any way to WoolProducers.

Senator FERRIS—Do you know whether the cheque was made out specifically to the Farmhand appeal or to the Red Cross? Have you been able to ascertain that?

Miss Turner—I believe, from my discussions with the Red Cross, that the cheque was made out to the Red Cross, but that is something that I would ask you to ascertain from the Red Cross.

Senator O'BRIEN—Does it surprise you that Mr Dorber claims to have no knowledge at all of the attempt to transfer half a million dollars?

Mr Campbell—It is extremely surprising for a managing director who, it was discovered during the year, had a spend limit given to him by the former board of \$2 million.

Senator O'BRIEN—There would presumably be extreme controls on who would have authority to attempt to electronically transfer large sums of money, particularly an amount of that size. Do you know what those controls were?

Mr Campbell—No, that would be an internal matter. But I would reinforce what you are saying, Senator—my wool growers members would like to have the conviction that such controls once existed or—as they probably believe—exist now.

Senator O'BRIEN—That is an interesting question to ask, isn't it? You say in your submission, when the cheque was transmitted it was only a cheque—there was no other documentation—and it was hand-delivered to the Red Cross on 18 October. Do know what record was kept in relation to the cheque? Was it just the cheque butt?

Miss Turner—It is our understanding, again from information provided by the Farmhand coordinator of the Red Cross, that all that was delivered to him by AWI was the cheque. WoolProducers would have no further knowledge of any record kept by AWI.

Senator O'BRIEN—You then advise that, after discussion between the Red Cross and AWI, it was agreed that the AWI donation would be announced at the Farmhand benefit concert in Sydney. Do you know if there is any documentation of that discussion and the decision that flowed from that discussion?

Miss Turner—No, I do not know.

Senator O'BRIEN—The concert was on 18 October, as I understand it. That is right, isn't it?

Miss Turner—I believe that is correct. This again is information relayed to us by the Red Cross.

Senator O'BRIEN—According to your submission, Mr Dorber then called the Red Cross on the night before the concert and said there was to be no more publicity on the donation. Do you know whether that was merely an oral communication or should we presume that there was some documentation—that is, a request that no publicity be given to the AWI donation?

Miss Turner—From information gathered from the Red Cross I believe that it was a phone call from Mr Dorber to the Red Cross. The Red Cross have also advised that there was no documentation received whatsoever from AWI. Again, the cheque was handed over and, in any instance, not until well after the AGM and inquiry by shareholders for a copy of the agreement did documentation from AWI arrive at the Red Cross.

Senator O'BRIEN—The big announcement was cancelled and your submission then tells us that more than a week after the cheque was handed over the Red Cross received a letter from the AWI requesting that certain conditions be applied to the donation—that is what you are referring to, is it?

Miss Turner—Correct.

Senator O'BRIEN—Did the Red Cross tell you when that letter was received?

Miss Turner—The Red Cross did tell WoolProducers that the letter was received in that time frame, approximately five days after the original announcement.

Senator O'BRIEN—About the 23rd. Was it after the concert or after the announcement?

Miss Turner—After the Alan Jones interview.

Senator O'BRIEN—You then advised that AWI contacted the Red Cross seeking a letter of commitment to the 'new arrangement'—that is, the condition imposed on the donation—as there was an AWI board meeting in 'half an hour'. Was that the first meeting of the new board?

Mr Campbell—That is correct.

Senator O'BRIEN—So half an hour before the first meeting of the new board someone contacted the Red Cross seeking a letter of commitment. Who was it, do you know?

Miss Turner—It was advised by the Red Cross that it was Mr Dorber.

Senator O'BRIEN—You say that your understanding is that the Red Cross then took the matter to the new board in pursuit of a resolution. I imagine we will have a chance to put something to the representatives of the new board later in the day. I take it that, according to the information that you have received, the claim by Mr Dorber that the current AWI board took no action in relation to the Farmhand donation is untrue.

Mr Campbell—I think it is a question for the new board. Our information comes from what discussions we can have with the Red Cross.

Senator O'BRIEN—What the Red Cross have told you contradicts what Mr Dorber says: that is that the current AWI board took no action in relation to the Farmhand donation.

Mr Campbell—That appears to be correct.

Senator O'BRIEN—On the morning of an estimates hearing in November last year you advised that Mr Dorber contacted your organisation and advised that the Farmhand matter was no longer your business and that the cheque had been returned. Whom did he actually contact?

Miss Turner—Mr Dorber contacted WoolProducers' office in Canberra. I received a message from my executive assistant at the time that that phone call had taken place and that those words were requested to be passed on to me by Mr Dorber.

Senator O'BRIEN—So it was a message that he effectively dictated to your executive assistant with a request that it be passed on to you, was it?

Miss Turner—Correct.

Senator O'BRIEN—Is it fair to say that if the Red Cross records are complete and, based on your written and oral evidence, this whole process could well be shown to be a farce that in no way complied with the terms of the statutory funding agreement?

Mr Campbell—That is a perfectly reasonable description, Senator.

Senator O'BRIEN—Mr Campbell, I want to go to section 3.6 of your submission that relates to AWI elections. Do you have a question, Senator Ferris?

Senator FERRIS—Mr Campbell, I would like to take you back a step. I want to ask you about your communication with the board. Did you have regular board meetings between you as a body and the board, or did you have individual meetings with perhaps the chair or the managing director? In other words, did you have a formal contact with the board?

Mr Campbell—In our role representing our members we continually sought to discuss what were major industry matters with AWI. The formal expectation would have been that I would have discussed things with the chair of the board of that company and that our executive director would have discussed things with the managing director. In practice it seemed that everything got streamed through to the managing director. The chair was somewhat inaccessible. There were some responses but very few from the chair.

We would do things such as write letters. I have one in front of me, dated 7 November 2001, where we wished to discuss with the board important issues—and suggest and interact with them—relating to performance measurement. Whether from naivety or in the interests of normal open discussion with any board we sent that letter to all of the directors acting on behalf of wool growers. We had, in my view, a somewhat extraordinary response from the managing director saying he would not be placing our letter in front of the board. It was his business to conduct the day-to-day business of the board and he was responsible for the agenda of the board. We would periodically strike what I would regard as most unusual behaviour from AWI.

Senator FERRIS—Did any board members respond to that letter individually?

Mr Campbell—No board members responded to that letter.

Senator FERRIS—It might be useful, if WoolProducers were so inclined, to offer that letter for tabling so that committee members can get a feel for that correspondence. To go back to my original question, was there any formal communication with AWI?

Mr Campbell—There was formal communication with AWI. It was often conducted under great difficulty. I have in front of me other letters where we are threatened with legal action or that legal action may occur.

Senator FERRIS—On what basis were you threatened with legal action?

Mr Campbell—One letter dealt with Woodlots. It was suggested that our response to the Woodlot project was 'defamatory of AWI, its board and myself'—this is an email from Mr Dorber. It goes on: 'I will not respond to any correspondence until I can be certain a communication channel is operating ... Reply to me within 24 hours ... damage to my professional reputation.' In most cases these were accompanied by a request not to give these letters to anybody else.

Senator FERRIS—Would you be prepared to table those letters now?

Mr Campbell—Yes, I am happy to table these letters.

Senator FERRIS—To summarise, it seems your communication formally with the board was somewhat difficult.

Mr Campbell—It was extremely difficult. To raise another example, we wrote a very straightforward one-page letter referring to Dr Vizard.

Senator FERRIS—Can I stop you there? I want to get on to Dr Vizard's resignation in a minute. I just want to finish on communication. Did you report to your body that you were unable to establish what you considered to be an open communication with AWI and was there any comment by other members of your board in relation to that?

Mr Campbell—Yes, all interactions between WoolProducers and any body are reported to our executive. They regarded the responses we got as unusual, erratic or, on occasion, extreme. It should be noted that as a

national body representing wool growers we have other positions in industry, such as on Animal Health Australia or we might deal with Meat and Livestock Australia. Never have I encountered responses or communication like this, either in my time with WoolProducers or in my professional life.

Senator FERRIS—Were you aware that the managing director was able to spend up to \$2 million of levy moneys without reference to the board? If you were, did you express any concern at that arrangement?

Mr Campbell—We did not become aware of it until after the resignation of Dr Vizard. It was, by interpretation, obvious at the time of the Woodlot matter that the MD of that company appeared to have a very large spend—amount unstated—

Senator FERRIS—Did you ever express any concern about that?

Mr Campbell—By the time that was made public our communications were somewhat negligible with AWI; the moment was past.

Senator FERRIS—Let us get onto the resignation of Dr Vizard. When did you become aware that Dr Vizard had resigned?

Mr Campbell—I see from this letter dated 20 June, which I wrote to Ms McCaskill, that it says: ‘I have tried a few times to ring but we seem unable to connect.’ It was a press announcement that drew our attention to this.

Senator FERRIS—So you were unaware that Dr Vizard was planning to resign—he had not made any indication to you that he was planning to resign?

Mr Campbell—No. Dr Vizard never discussed the board business of AWI with me.

Senator FERRIS—What was the response of WoolProducers when you saw that resignation reported?

Mr Campbell—We were understandably perturbed. I immediately tried to ring the chair of AWI. When that did not elicit a response, I wrote a letter on 20 June. I am happy to read the paragraph that deals with our concerns on that, if you wish me to.

Senator FERRIS—Please do.

Mr Campbell—It says:

I would like to understand from you as the chair of AWI the reasons behind Dr Andrew Vizard’s resignation and to appreciate what steps you plan to take to address the vacancy. Dr Vizard’s resignation has left a massive gap in the skills base of the board of AWI, which in the opinion of WoolProducers and many other observers is already underweight in many areas and is now deficit in all segments of the wool value chain from production, processing and product development as well as in research, development and innovation strategic work, project proposal evaluation, to name but a few. Having no production skills—

this being Dr Vizard’s speciality—

then logically the related areas of animal health, genetics and production systems and integrated extension are also completely absent from the board. The board is considerably weaker as a result. Concerns also remain in the industry as to the reasons for the resignation of Director Patten as well as the manner in which the vacancy so created was filled.

Senator FERRIS—Did you seek to have any involvement in discussions on who should replace Dr Vizard as a director?

Mr Campbell—We raised in whatever forums we could the issue of the skills base of the board, but the response to my letter to the chair of AWI was not from the chair of AWI but from the managing director at the time. It effectively threatened some litigation and suggested that in some manner I—it is probably best if I table the letter. But, in answer to your question, it concluded with the statement:

Until this matter is resolved no AWI staff members or consultants, including myself, will be able to deal with WoolProducers. When you are prepared to withdraw your ridiculous and false assertions—

I presume by which he meant the letter I wrote to the chair—

about the competence of the AW board and myself as managing director, I will then review the position.

Senator FERRIS—In other words, you were not able to have any involvement in the replacement. So what was WoolProducers’ response to AWI’s subsequent full-page advertisements taken out by the former chair in the rural press in Australia saying that Dr Vizard had resigned due to workload pressures?

Mr Campbell—I suppose I step forward in time—we might just turn to the press that we have in our hands—to the point at which Dr Vizard himself gives his reasons. He did not give as a reason that he resigned because of workload pressures. We were horrified to have lost such a competent board member.

Senator FERRIS—Were you concerned as to how the amount of money that had obviously been spent on full-page ads had been raised within AWI and whether it satisfied the terms of the statutory funding agreement? Did you attempt to find out what was spent on those advertisements?

Mr Campbell—I have a wonderful team here helping me. I do not believe that those advertisements properly fall within the statutory funding agreement.

Senator FERRIS—Did you do anything about that? In other words, did you raise it with AWI?

Mr Campbell—As I have indicated, in the response from the managing director of AWI, for not the first time the threat was that the door was shut. We put out a press release because it was important that we put our concerns in front of the involuntary shareholders and our members. We noted that we had written asking why he had retired and so forth.

Senator FERRIS—It may at this point be worth mentioning that Mr Dorber in his evidence to this committee some weeks ago, on 26 June, made the point that he believed that expenditure such as this fell within an area where the board:

... could spend money on agri-political activity, provided that it was not either Commonwealth money or levy funds. For example, a board of the company could spend the \$24 million of funds that I negotiated from the sale of properties in any way that corporate law permitted it to, without referral to this agreement or to the Commonwealth.

However, looking at the statutory funding agreement on page 10, it very obviously states:

The Company must not spend any of the Transferred Moneys or any proceeds from the sale or other exploitation of Transferred Assets on Agri-political activity.

It would seem therefore that there is some confusion, perhaps we should say, by the former managing director as to how those transferred assets should have been spent. Perhaps later on this afternoon we will have an opportunity to clarify that. Unless my colleagues have any other questions in relation to Dr Vizard's resignation, I would now like to proceed to the question of Shear Express.

Senator SANDY MACDONALD—Miss Turner, I have a personal question. I have noticed that in some of the unaccounted for payments, flowers were provided by Mr Dorber in Canberra. You weren't a recipient of any of those flowers, were you?

Miss Turner—In March last year, my nephew was very badly injured in a car accident and was not expected to make it. My executive were aware of this of course because I was unable to attend work and through that AWI became aware, and I did receive a bunch of flowers from AWI at the office upon my return.

Senator SANDY MACDONALD—Thank you.

Senator FERRIS—Were WoolProducers as a body consulted on the funding of the Shear Express project?

Mr Campbell—No, we were not consulted on the funding. On its announcement, we actually wrote and commended AWI on investing on the Shear Express initiative as addressing a major problem in the industry. However, in the same letter we expressed our concern that some of the other operation of AWI might be compromised by appointing the MD of AWI as the chair of the Shear Express board. As for the project, our members would wish it to go forward; as it still does.

Senator FERRIS—Given that the former managing director of AWI told a New South Wales Farmers Association conference on 7 February 2002 that he would receive no remuneration from Shear Express as it was part of his salary package, did that allay your concerns in relation to any involvement of the chairman of Shear Express being the managing director, or was it that you were concerned about the arm's length nature of the process of evaluation?

Mr Campbell—The latter, Senator. Every time you invest a sum of money like that you do not wish to squeeze out of the market of potential research providers somebody else who may have a completely different idea which could be commercially competitive. The minute you appoint somebody from what is really just meant to be an RDI investment company to a subsidiary company that is clearly going to do all this work, you are providing a non-commercial competition that may restrict the innovations that come up, and that is not good thing. This is not an investment company; this is a company that is spending funds on research and development. So it was the principle that we were trying to draw to the attention of AWI.

Senator FERRIS—Were you reassured by the fact that Mr Dorber and, I believe, Mr Lee said that they would not be receiving any directors' fees?

Mr Campbell—I will comment and then Mr Fraser might like to comment. No, because the principle is that AWI should not have had a direct link to a company doing research; they should be at arm's length. Whether they were paid or not would have been beyond our knowledge. I would certainly not have expected a managing director, already amply remunerated in any event, to have been paid for chairing a subsidiary board.

Mr Fraser—If I could add to that, I was the chairman of the New South Wales Farmers Association wool committee meeting which was held in Trangie in February last year and which Mr Dorber attended for the whole day. We asked in question time, when he was talking about the Shear Express initiative, whether he saw that he had a conflict of interest given that there were also investments in other wool harvesting projects. He said he certainly did not and it was almost as if he felt he was professional enough to differentiate between his role as the managing director of AWI and as chairman of this subsidiary company, Shear Express. He also stated very clearly that he received no remuneration at all from his directorship of Shear Express because he was adequately compensated in his salary as AWI managing director.

Senator FERRIS—Thank you, Mr Fraser. Mr Dorber told this committee at a hearing on 26 June that he did not know whether he was being remunerated with director's fees for Shear Express. I appreciate that you will not have seen this, since the documents have just been made public, but can I ask you: what is WoolProducers view of the disclosure in the AWI's submission, which we have tabled this morning, that during November 2002 after the first meeting of the new board Mr Dorber himself telephoned AWI's chief financial officer and instructed him to arrange payment of director's fees from his commencement as chairman until 30 June 2003 without the knowledge of the new board? It has been disclosed that he received \$24,062.50 in those fees and that, despite two or three letters from Minter Ellison, he has not, as I understand it at this time, returned those fees.

Mr Campbell—Our organisation would be appalled. You have raised at least three legal matters in the course of that revelation.

Senator FERRIS—I plan to see where that has gone when we have some further evidence this afternoon. Can I now turn to the issue of the employment of Mr Dorber's children, Luke Dorber and Holly Dorber. When did you become aware that two of the former managing director's children were being employed at AWI?

Mr Campbell—In the way that there is gossip around an industry, certainly at some time prior to the annual general meeting of 2002 it would have been mentioned to us. We never formally responded because we did not know whether or not that was a fact.

Senator FERRIS—Did you ever raise it with the former managing director? Did WoolProducers have a view about the managing director's decision to employ two of his children?

Mr Campbell—Noting that our communication with AWI under the former board and with the former managing director was difficult, that colours my response somewhat. We did not respond because we did not whether that was a fact. The employment of anybody is the managing director's function and not even necessarily a concern of the board. But, as an organisation, we would have wished to know, if children of any person on the staff of AWI were employed by their father, that the process that was gone through was open, a normal employment process, a contestable process and skills based. That would be our expectation.

Senator FERRIS—Were you aware that in previous employment—that is, in the timber industry—Mr Dorber had also employed members of his family; specifically, I believe, Luke Dorber and at least one of his daughters?

Mr Campbell—No. We were aware of some press about difficulties that seemed to have emerged around that person's involvement in the forestry industry, but I was not aware that he had employed children in another company in which he held a position.

Senator FERRIS—And therefore you were not aware that at least one of the children had in fact received redundancy payments from that former company in which Mr Dorber held a position?

Mr Campbell—No, I am unaware of that.

Senator FERRIS—If you had been aware of those things, would you have raised them with Mr Dorber or with board members—perhaps the chair of the board?

Mr Campbell—I think that if we had been aware of them, we had had knowledge of that, we would have attempted to raise that with the chair of AWI and to understand their staffing and employment policy.

Senator FERRIS—When did you learn that the children had received substantial redundancy payments?

Mr Campbell—I am not aware of substantial redundancy payments. Directly to my knowledge, that is not known to me. These would be private papers of AWI and the board.

Senator FERRIS—When you discovered that the children were no longer in the employ of AWI, did you seek any clarification of the terms and conditions under which they had left AWI's employment?

Mr Campbell—Given that this emerged as a public issue at the time of the election of the new board, I think our assumption would have been that the competence of the successful candidates would have been such that they would address these matters. But you have touched on another concern which we did raise with Mr Dorber relating to staffing issues, and that was that we were regularly told—and in public—that the staff of AWI was as low as 32 or something like that. It became quite clear when the new board was in place that the number was between 50 and 70, yet it was reported to us at an AGM that we had this small, sharp organisation with a small number of employees.

Senator SANDY MACDONALD—I think he had said that it was 27.

Mr Campbell—Yes, 27—and I think there is another figure on record of around 30.

Senator FERRIS—What is WoolProducers' response when I tell you that, in the documents that have been tabled this morning, Luke Dorber received \$94,649.18 in a redundancy payment before tax 10 days after he had received a bonus of \$10,000 net of tax and five months after he had received a bonus of \$5,000 net of tax? What is the response of WoolProducers when I tell you that the documents also reveal that Holly Dorber, who worked two days a week casually for WoolProducers, received \$37,989.17 before tax as a termination payment? She was, in fact, a casual employee who was to have finished her employment at the end of December. Despite this, her termination payment included \$35,000 of severance pay calculated at \$38 per week for 52 weeks—that is, a full-time position. What is the response of WoolProducers when I tell you that the documents that have been tabled at this inquiry this morning reveal that Mr Dorber signed her redundancy release, although in his evidence on 26 June he said:

I do not think I have ever actually seen the paperwork.

How do WoolProducers feel about that response?

Mr Campbell—It takes rather a lot to set me back on my heels. Given that so many of our constituents are in drought, have debt and are still obliged to meet their compulsory two per cent levy payments, I am absolutely horrified. There is a minor correction for the record. I think you mentioned Holly Dorber as an employee of WoolProducers; she was an employee of AWI.

Senator FERRIS—I am sorry.

Mr Campbell—That is just correcting the record. I am absolutely stunned that this could occur. I am not surprised that it occurred in the culture that seemed to be promoted in AWI by the former board.

Senator FERRIS—I propose to explore these payments further with witnesses this afternoon, but I would like to clarify one other point in this particular area, and that relates to the employment of a freelance journalist during the election process. Were WoolProducers suspicious when a freelance Melbourne journalist asked particularly aggressive questions of Mr Ian McLachlan at a Rural Press Club lunch in Victoria?

Mr Campbell—Yes. It was reported to me that Mr Dorber did attend and that seated very close to him was a person asking particularly aggressive questions. It seemed unusual at the time on two counts: one that the original event was planned to be a constructive debate between the Hon. Ian McLachlan and Ms McCaskill and that never seemed to occur—she refused to contribute to that debate; and, two, that the managing director was able to attend. Yes, it seemed unusual to us.

Senator FERRIS—Did you know that Mr Everist had in fact been engaged by the managing director of AWI, was paid more than \$600 to attend the lunch and that he asked questions which were emailed to him by Mr Dorber, as outlined in the AWI submission, despite the fact that when Mr Dorber appeared before the Senate committee on 26 June he told me:

I did not give him any questions to ask nor did I suggest to him what he might ask. In fact, he was a very insignificant player in the day's events.

If you have a look at the documentation that has been tabled this morning—and I appreciate that you have not had an opportunity to do so—you will see an email from Mr Dorber to Mr Everist which details, I think, six

questions of a particularly aggressive nature which he instructs Mr Everist to ask at that Rural Press Club lunch and pays him for the job of doing so.

Mr Campbell—I am certainly surprised and observe that for a non-elected managing director to be engaged in a pre-election debate at that level is most unusual and might represent a breach of some corporate law.

Senator FERRIS—And perhaps the statutory funding agreement.

Senator O'BRIEN—I want to pursue a matter that you referred to in your submissions relating to the AWI elections. You advised that the old AWI board, under the lead of Colin Dorber, as you put it, was very active in the 2002 election campaign for the AWI board. You identified a number of expenditure items, including such matters as advertising, telephone polling and campaign related travel. Are you aware of the exchange that this committee had with the department on this matter in June and the legal advice AFFA sought and received on this matter?

Mr Campbell—I am aware that a question was asked. I ask to be refreshed on the response please, Senator.

Senator O'BRIEN—I do not have all of the exchange in front of me but I am happy to get that for you. I just wanted to make sure that you were aware this is a matter we had discussed with the department. Are you saying you have not seen the legal advice that AFFA received?

Mr Campbell—No, we have not seen that legal advice. Our submission deals with our perception as a public body of what was in the public arena. Advertising which contains words like, 'Remember the days when the Wool Board was stacked with wool producers? Most producers would prefer to forget,' is clearly designed, in the view of WoolProducers, to influence an election in a certain manner. That is our observation as a group working for our members.

Senator O'BRIEN—As I understand it, this issue was sent off to the Government Solicitor as part of the package of material included in the PricewaterhouseCoopers audit for advice. This committee now has a number of emails that go to the matter. The first is an email from Colin Dorber to Claire Braund, who is from i2K Communications. It is dated 21 September 2002 and is in response to an email from Ms Braund dated 20 September to a large number of people, including, it appears, the AWI board and Mr John Roydhouse. I want to quote from that document because it goes to a matter you raised in your submission. Ms Braund states in the email:

For those of you who require an introduction, I have been retained to assist with the campaign for the re-election of the current AWI Board.

She continues:

As the re-election issue has some urgency, please do not hesitate to call at any time.

There is a second email from Ms Braund, again of i2K Communications, to Mr Dorber, Ms McCaskill and again to Mr John Roydhouse. I want to quote sections of this email because I believe it highlights the political nature of the campaign run and paid for by AWI. Point 3 in that email states:

Any political interviews to be handled by the Chair—I don't think we can run the risk of putting others up.

It seemed to be a fairly structured political campaign in that context. It goes on:

7. Advertising—open to suggestion here, but I would not advocate running provocative ads at this stage.

As the chair would know, I have been involved in politics for a fair while and these emails suggest to me that this was a political—and in this case, an agripolitical—campaign. Clearly, it was not a campaign about encouraging wool growers to participate in the vote, but about the re-election of the board. What have you got to say about this issue in the light of the fact that AFFA had legal advice to say that it was not an agripolitical campaign? What do you think it means in the context of the statutory funding agreement?

Mr Campbell—Firstly, I would concur with a view that I believe you are expressing: this is extraordinary and unusual. Obviously, it is the first I have heard of this. I would suggest again, as I did in response to a previous question, that that email constitutes evidence of a direct breach of corporate law, and I am horrified that that has appeared. I notice that one of the emails you refer to also includes a member of what it was meant, I presume, to be a technical advisory group of some sort called the WAG, a Mr John Roydhouse. That is in itself unusual. I would not have thought you could use any officer of the company to engage for or against the election of any director at any point. I am quite horrified. I may need a thesaurus if the senators keep exposing the recently released documents to me in this manner.

Senator O'BRIEN—As the documents are available, could I encourage you to look at them and respond to us in written form about that matter?

Mr Campbell—Yes.

Senator O'BRIEN—Point 6 of the document you attached to your letter to Mr Truss is headed 'AWS/AWI board involvement', and you expressed concern that inadequate accountability and internal control systems were put in place by the AWI board in relation to the management of the company by Mr Dorber. Can you expand on that point, please?

Mr Campbell—I think we were starting to have a concern that it was unknown to us as to whether the managing director was constantly and consistently acting under instruction to the board.

Senator O'BRIEN—Perhaps I can help you: did your concern go to the \$2 million discretion enjoyed by Mr Dorber or to a broader problem?

Mr Campbell—No, I think the most major expression of that problem is that clearly there was a massive spend limit which, as I noted before, could eliminate the entire budget of AWI in 35 projects without reference to the board. Subsequently, on the resignation of Dr Vizard and after considerable press on the matter, it became very clear that the board had not been shown many important projects, including, I believe, the Woodlot project that was referred to in the press. There were simply things that Dr Vizard, as a board member, had not seen. Our concerns have been amply justified by subsequent events.

Senator O'BRIEN—So are you saying that the AWI board was acting in a subservient manner in relation to Mr Dorber, that he and not the board was running the show?

Mr Campbell—I have no knowledge of that, but the board is completely and totally responsible for all of the actions of that managing director. If he was acting for them then that is their responsibility.

Senator O'BRIEN—Obviously I will raise this matter further with later witnesses, but I thought it appropriate that I put that matter to you as it is contained in your submission.

Senator SANDY MACDONALD—Mr Campbell, which industry supporters did Mr Dorber find comfort in?

Mr Campbell—I just need to think about the question. I am aware that he attended in person to brief the major wool growers group, for example. I am aware that, I think while Mr Price was chair of AWS and prior to demerger, they constructed an advisory group within AWI. I cannot help but observe that those advisory group positions were never, ever advertised, that one was not aware of a position description and that there was no public search for appropriate people for that. I cannot help but observe that it included virtually the entire executive of the Australian Wool Growers Association, who subsequently disbanded.

Senator SANDY MACDONALD—Which is known as the WAG?

Mr Campbell—That group is known as the WAG.

Senator SANDY MACDONALD—Are you aware of Mr John Roydhouse being a member of WAG?

Mr Campbell—Yes, I am aware that he was a member of WAG and an active member of AWGA in times past.

Senator SANDY MACDONALD—Do you have any understanding of how the AWI website tender process proceeded and anything about that?

Mr Campbell—Absolutely none. At no point have I ever had any exposure to any AWI board files, either in the former board or in the new board.

Senator SANDY MACDONALD—Would you be surprised—and you will see this from the document that you will be able to read today—that an original tender was provided but then, on a complaint from Mr Roydhouse and a personal investigation by the former managing director of AWI, the original and cheaper contract was replaced by a more expensive tender by Mr Roydhouse?

Mr Campbell—Are you saying that a tender process was conducted and that Mr Roydhouse as a WAG member was not the cheapest tenderer but by some interference was awarded this tender?

Senator SANDY MACDONALD—Yes, I am suggesting that.

Mr Campbell—It is certainly extraordinarily poor process and may or may not have some reflection under corporate law.

Senator SANDY MACDONALD—I think you will have a very interesting lunch hour, Mr Campbell. Your submission is substantially about corporate governance and the election of the directors. Do you have anything in particular that you would be prepared to put on the record now, briefly, about the current AWI constitution, particularly with regard to the election of directors?

Mr Campbell—Yes, I would be happy to put on record that the constitution as originally described is unhealthily defensive. It actively militates against shareholders simply and easily nominating candidates not to be on the board but merely to be on the ballot paper. In my view the constitution, while legal, is not a sound constitution and tends to preclude the engagement of its shareholders. The five candidates whom industry elected and who are now the majority of the board undertook as candidates, and have undertaken in writing, that there will be discussion and revisions to the constitution at this year's annual general meeting. I applaud their interest in making this a more open and accessible organisation. I am sure they will put forward some sensible ideas, and they have certainly asked our opinion, and doubtless those of state farm organisations, of the changes we think would promote a much more engaging, exciting, interesting and ownership culture by wool growers. I applaud them for what they are going to do.

Senator SANDY MACDONALD—Thank you. I have some other questions but I will not ask them now. I am advised by the chairman that I have to declare that I have an interest in this, being a wool grower.

CHAIR—They say that the only thing sillier than a sheep is the person who looks after them—I am one of those people also. Senator O'Brien supports the grain industry because he has moderately fast racehorses and he has to feed them chaff, so he has an interest. We have on the record earlier that Trish Murphy declined. In fact, she and Ian McLachlan, rather than declining, were unavailable. They actually have not declined to be here. I apologise and correct the record. Thank you very much.

Proceedings suspended from 11.39 a.m. to 12.01 p.m.

VIZARD, Associate Professor Andrew Lancelot, (Private capacity)

CHAIR—Welcome. Would you like to make an opening statement before we move to questions?

Prof. Vizard—I think I bring an unusual perspective to this inquiry. Uniquely, I was the only director who was involved in the entire process of the conversion of the old statutory wool body, AWRAP, into two commercial entities—AWI and AWS. I was appointed to AWRAP in 1999 following the infamous AGM at Goulburn at which the entire AWRAP board was removed. Subsequently, I was appointed to the interim advisory board responsible for the transition of AWRAP into the new entities. Finally, I was appointed as a director of those new entities, AWS and AWI.

On 14 June 2002 I resigned from AWI. If I can, and I know that time is of the essence, I would appreciate the opportunity to read from the resignation letter I wrote to the then chair of the AWI, Ms McCaskill, in June last year. I have copies of the letter with me and I can make them available to you if that assists.

CHAIR—Thank you very much.

Prof. Vizard—There are parts of the letter I would appreciate highlighting, and I will be brief. If I could, and I think this will assist the committee, I would then like to make some comments that go to the background of my resignation. With regard to the letter, I would like to read the following parts:

12 June 2002

Ms Maree McCaskill

Chair

Australian Wool Innovation Ltd

Please accept this letter as formal notification of my resignation as a Director of Australian Wool Innovation Ltd, effective from 14 June 2002.

As you know, I have committed myself personally and professionally to the Australian wool industry and its future. However, after considering the divergence between some recent board actions and my understanding of the accepted principles of corporate governance that shareholders should reasonably expect from AWI, I have decided that resignation is the only proper course of action for me to take. I have long supported the Millstein view that good corporate governance is essential to good corporate performance.

I am taking the opportunity to let you know the reasoning behind my decision. From board discussions, you will be aware of the details of some of the recent issues that have concerned me, but in summary they include:

1. The recent review of the Managing Director's performance was conducted in the absence of any normal measures of performance, such as agreed key performance indicators. In my view, the difficulty in assessing performance was further amplified by the repetitive provision of inaccurate and incorrect information to the Board on the nature of the Managing Director's remuneration package, such as the maximum cap on the bonus, and an operating environment at the board level in which constructive criticism of performance was, in the end, aggressively discouraged. I had envisaged my role as a director as being able to provide independent, transparent and honest advice in the interests of all stakeholders, including shareholders. Transparency, accountability and proper process are fundamental to good corporate governance.
2. The decision of the board to reject a process to correct a clear potential serious error that occurred in the mechanics of the last AWS Annual General Meeting, in which there was a failure to record the retirement and re-appointment of myself and Ms Murphy from AWI at the same time as our retirement and re-appointment to the AWS board was recorded. Legal opinion showed that this error could easily be fixed, but the board voted against pursuing this path. In my view, the effect of that decision has been to turn the last AGM into a sham, since it now appears that, despite myself and Ms Murphy standing for re-election, our AWI directorships were never at risk. This is in complete conflict with everyone's understanding of the purpose of that election process at the time, and in my opinion, has seriously undermined the rights of shareholders.
3. Following the resignation of Mr Patten from AWI, the board of AWI had no opportunity to submit a collective view on the mix of board skills and experience necessary for the efficient and effective conduct of the board. Rather, after private discussions between yourself and Mr Price, on the day that Mr Patten's resignation was received, a teleconference board meeting was held to ratify Mr Nelson as the new AWI board member. Again, this is a clear and fundamental departure from best practice corporate governance and the **responsibility** of directors to help ensure the best possible candidates with the most diverse ranges of skills and talents are recruited to the board.

There are, as you are well aware, other issues but those outlined above are the most important to my decision.

Let me emphasise that my decision to resign is not based on a personal reaction to the board failing to agree with my views on certain matters. As a director on numerous boards, I am well aware that board decisions are collective and, that after proper and constructive debate in the interests of all stakeholders individual directors need to stick by collective decisions even when they may have personally opposed them. Rather, my decision to resign is based on my belief that certain fundamental principles of corporate governance and proper process have been breached or ignored by the company.

... ..

Finally, my great hope is that my decision and the earlier resignation of Mr Patten from the board of AWI, send clear signals to you, your fellow directors and the senior executives of the company of the need to adhere to a set of clear and unambiguous guidelines on corporate governance in the interests of all stakeholders.

Yours sincerely

One of the reasons that I have read most of this letter is that during the past year I have heard many versions of why I resigned, such as that I was too busy with jobs or I was no longer interested in wool—wrong and wrong. I did not and do not think that all projects funded by AWI were bad. I feel that numerous worthwhile projects were initiated and funded during my directorship. My letter provides the real reasons behind my resignation, hopefully clearly enough to remove any further misguided interpretations.

In that letter I give three examples of corporate governance issues that had deeply concerned me. I can provide this inquiry with factual details of these issues if that assists. In my resignation letter, I also point out that there were other issues which were of concern to me. Heading that list was a concern that I had that the company was drifting away from the principles espoused by the wool task force report—the universally agreed blueprint for a new way forward for AWI. I can assure you that I was probably as aggressive as anyone in seeking a wool research management organisation that differed markedly from the AWRAP of a decade ago. It was important to me that AWI was to be smaller, cheaper to run, more focused and with more systematic investment decision-making, project execution and management interfaces.

In June 2001 the AWI board adopted an operating strategy that embodied those principles. I thought it was an excellent document. The document stated that AWI would exhibit characteristics such as ‘Focus—small number of best value projects and submissions driven by sound strategic planning; resources—small number of executives and total staffing numbers of about 18; efficiency—rapid decision making on projects’ and so on.

Over the next few months I felt I saw a move away from those important and innovative principles back to a system that the old AWRAP had left behind a decade or more ago. So, for example, in February 2002, on the goal of a smaller number of best value projects, Mr Dorber reported to the board that, rather than the agreed 15 to 30 major projects, we actually had over 200 projects on the books. On strategic planning, at the point of my resignation the company had still failed to develop, articulate and implement an investment portfolio strategy for the key areas of on-farm research, including genetics, pasture and nutrition, wool quality and producer technology transfer. On staffing, the need of AWI to move from its premises in York Street to larger premises about a year after its purchase was, for me, a clear physical demonstration that our staffing objective had not been adhered to. At the point of purchase of York Street, Mr Dorber correctly advised the board that the York Street premises were easily sufficient for the expected staffing numbers as per our plan, with room to add about 50 per cent more. As for rapid decision making on projects, I was aware of numerous submissions that had been under consideration for more than a year. These sorts of deviations from agreed operating strategy were of concern to me.

I would like to me one final observation. Despite my personal concerns, it is probably fair to say—perhaps in a perverse way—that during a period of extreme pressure, the current system has worked. I resigned in June 2002. Later that year, shareholders were given an opportunity to vote on all of the incumbent directors. The shareholders had their say. With the exception of one director, a completely new board was elected to AWI. Following that decision, a new CEO and a CFO were appointed. So, within two years of its inception, a completely new team is now at the helm of AWI—with shareholder approval. I would ask senators to bear that in mind when considering any recommendations. I hope this overview provides you with a background to my resignation and, of course, I am happy to answer any questions as best I can.

CHAIR—Thank you very much, Professor Vizard.

Senator FERRIS—Can we first deal with the number of board meetings of AWI that you actually attended?

Prof. Vizard—I attended every single board meeting that occurred and I think they were occurring monthly.

Senator FERRIS—Thank you. Can you take us back to how the former managing director was appointed by AWI?

Prof. Vizard—Yes, I can. If I can refer to my notes, it might be helpful.

Senator FERRIS—In the former chair's submission, she says:

The Managing Director of AWI was recruited through an executive search process conducted by Mr Price.

So, in your response, could you outline your role in this executive search process and whether you could indicate the number of candidates the board was presented with when the judgment was made with regard to the appointment?

Prof. Vizard—I will do that. I will provide you with that and further details. In brief, it is my recollection that Mr Dorber was appointed to the position of Managing Director of AWI under the instruction of Mr Rod Price, Chair of AWS. A condition of the appointment of Mr Dorber as MD was that the MD was to be based in Sydney and, in due course, that AWI's staffing operations would also be based in Sydney.

Contrary to evidence given by Mr Dorber, this appointment was formally confirmed at an AWI board meeting of 30 January 2001. Mr Dorber was in attendance for the duration of this board meeting, including the entire agenda item involving his appointment. Since there has been other possibly conflicting evidence provided to this inquiry on this matter, I would like to provide my memory of the full details of the appointment and substantiating documents.

At relatively short notice, a teleconference board meeting was arranged for AWI to be held on Tuesday, 30 January at 7.30 a.m. I remember that I was in Toowoomba, Queensland on board business for another company that I am a director of. The board papers that were circulated prior to the meeting included 'Item 4b Appointment of Managing Director' without any further supporting documentation. The evening before the teleconference, I—and presumably all other AWI directors—received a faxed set of detailed briefing notes for the board meeting. The covering note to my fax said these notes were from Mr Colin Dorber and were faxed from NSW Forest Products Association. That was the first time I had heard Mr Dorber's name. Item 4b of the briefing notes prepared by Mr Dorber read in part as follows:

Item 4b Appointment of Managing Director.

A contract between Mr. Colin John Dorber and the AWI nominee Mr. Ray Harris for the position of Managing Director, for a period of four years, has been signed with the consent of Mr. Price.

... ..

Note: It is an express intention of the contract that the MD be based in Sydney and that in due course the AWI staffing/operations also be based in Sydney.

Recommendations:

- That on the recommendation of the Chair of AWS and with the support of AWI directors, Mr. Colin John Dorber ... being a natural person eligible to hold office of Managing Director, be appointed Managing Director of Australian Wool Innovation Pty Ltd, effective from 1 March 2001.
- That Members of this Board and staff of AWI be authorised to provide Mr. Dorber with any information relative to the operations of AWI prior to his appointment date, in consultation with the Chair of the Board, as required.
- That Mr. Dorber be authorised to meet with and speak with AWI Board Members and or staff, prior to his official commencement date, as necessary and for such purposes as determined by the Chair of this Board.
- That any costs incurred in such activities be authorised by this Board.

I have copies of those notes. Would the chair like those tabled?

CHAIR—Thank you. Thanks very much for that introduction..

Senator FERRIS—You did not talk about the executive search process.

Prof. Vizard—Can I continue, please. During the phone board meeting, following a brief overview of the nature of the contract that had been signed by Mr Dorber and AWI, the chair put a resolution to the effect that Mr Colin Dorber be appointed as managing director. I remember that I stated that I was in no position to ratify such an important decision since all I knew about the candidate so far was his name. In particular, I remember I stated that I would need to have, at the minimum, a copy of Mr Dorber's CV and an overview of the appointment process before being able to ratify that decision. I also voiced my opinion that since nested in this decision was an implicit agreement that the company was to move to Sydney from Melbourne—with consequent loss of staff and increase in costs—this also required proper and full assessment before ratification.

After some further discussion, it was agreed that the board would be supplied with a copy of Mr Dorber's CV and that this was to be circulated immediately along with a signed letter of employment. Despite my position that there was insufficient information to pass such a resolution, the resolution was put to the vote and passed. Mr Dorber's CV and the letter of appointment were provided to me by AWS the following day. At the next AWI board meeting of 16 February 2001, Mr Dorber's appointment was discussed further. The board resolved as follows—and since there has been some other possibly conflicting evidence, I will read out the exact resolution as recorded in the minutes of that meeting:

Mr Rodney Price, Chairman of AWS Ltd is to be asked to prepare a one-page summary concerning the process adopted leading to the appointment of the Managing Director. The board indicated that information concerning the process (not the selection of the ultimate appointee) was sought. This was as a consequence of direct representations to a number of Directors by 'stakeholders'. Action: Chair—ASAP.

That summary was never tabled whilst I was a director. So, to answer your question, I am not privy to how Mr Price selected that process because that piece of information was never tabled, despite being asked for by the board.

Senator FERRIS—Were you aware that during your period as a director of AWI, the managing director was able to spend up to \$2 million without reference to the board?

Prof. Vizard—Yes, I was.

Senator FERRIS—Can you tell us how that decision was made?

Prof. Vizard—Yes, I can. In essence, initially, at the first board meeting a decision was made that the limits that would exist would be the limits of the old AWRAP board. So that was originally agreed to. I cannot remember the details of them but the limits were substantially less than \$2 million. At a later date—I think it was at the June 2001 board meeting—a proposal was put forward that the managing director's limit be increased to \$2 million. The proposal was put forward on the basis that in this interim period there would be considerable need for some rapid decision making by the managing director.

Senator O'BRIEN—This is in the context of a monthly board meeting?

Prof. Vizard—Yes, at the monthly board meeting. I remember I expressed concern about the size of that and thought it was probably excessive. After some discussion, it was agreed that the \$2 million would stand; however, it would be subject to review in January 2002. To my knowledge, that review did not occur.

Senator FERRIS—Does that mean that none of the expenditure under \$2 million was brought to the board for ratification?

Prof. Vizard—It meant that that process was not required; sometimes expenditure under that amount did come to the board.

Senator FERRIS—In the information that came to the board, was there ever any information provided on Mr Dorber's personal credit card which was issued to him as part of his role as managing director?

Prof. Vizard—I can never remember such information coming to board level. It may have gone to the audit committee level; I expect it should have.

Senator FERRIS—So it would be fair to say that you never saw any evidence of Mr Dorber's credit card expenditure, for example of \$4,000 for Shakespearean plays, including *As You Like It*, *Much Ado About Nothing* and *The Tempest* for Cromer High School in Sydney?

Prof. Vizard—I never saw such information and I am very surprised that such expenses were incurred.

Senator FERRIS—Were you aware that on Mr Dorber's CV, among his personal referees is the headmaster of Cromer High School, and that Mr Dorber was president of the Cromer High School parents association for six years? Was this sponsorship ever disclosed to the board? This was categorised as an education expense. Is that the sort of thing you would normally be presented with on the board?

Prof. Vizard—To answer your first question, that information was, to the best of my knowledge, never provided to the board whilst I was a member. I believe it is a most inappropriate expenditure.

Senator FERRIS—Did you ever use the gym in AWI's headquarters in Sydney?

Prof. Vizard—No, I had resigned before the move to the new building, but I did hear that there was a gym; I never actually sighted it.

Senator FERRIS—Is that the sort of thing that would normally have come to the board, in your belief?

Prof. Vizard—A decision on whether there should be a gym or not?

Senator FERRIS—Yes.

Prof. Vizard—I really cannot say. At times I found it difficult to understand what was coming to the board.

Senator FERRIS—I notice that in your letter of resignation—and I have only had a minute to look at it—you cite the following as one of the reasons for your resignation:

... a recent review of the Managing Director's performance was conducted in the absence of any normal measures of performance, such as agreed performance indicators.

You suggest:

... the difficulty in assessing performance was further amplified by the repetitive provision of inaccurate and incorrect information to the Board on the nature of the Managing Director's remuneration package, such as the maximum cap on the bonus ...

Can you take us through what you mean by that?

Prof. Vizard—I certainly can. In his evidence to this inquiry, Mr Dorber made a number of statements relating to his salary package and employment contract. Since those public comments have already been made, by way of background I would like to put forward my understanding of the key features of Mr Dorber's remuneration and condition of employment. Mr Dorber commenced employment as Managing Director on 1 March 2001. The board was advised that the fixed remuneration component of his salary included a fixed salary of \$245,000 per annum, as well as superannuation, life assurance protection and a company vehicle. The board was further advised that it was on file that a discretionary bonus of 10 per cent was available and that home faxing and Internet services would be provided. We were advised that the formal dollar value of the package was declared at \$317,000 per annum.

Two other features of that contract are worth explaining. The contract had what was described to the board as a 'drop dead' clause. That is a clause I have heard Mr Dorber mention in public several times. The clause stated that Mr Dorber's contract may be terminated at the conclusion of year 2—that is, 1 March 2003—if, for any reason, Mr Dorber fails to meet performance objectives of the company. That termination would be at no cost to the company. This clause is especially interesting, given the final outcome of Mr Dorber's employment.

A second feature of the contract was that the board had an obligation to review the fixed remuneration component not less than once a year and may vary that component following the review. At the AWI board meeting of 21 February 2002, the board conducted an annual review of Mr Dorber's performance during the first year of his contract and also undertook its first review of the fixed remuneration component of the contract. As I stated in my resignation letter, this review was conducted—in my view, improperly—in the absence of any normal measures of performance, such as agreed key performance indicators.

The decision of the board was as follows: Mr Dorber was to receive a \$15,000 bonus before tax, representing about 60 per cent of what the chair had advised the board as the available discretionary bonus of \$24,500. For the following year's salary, it was decided that there would be an increase in the base salary of five per cent—that is, it would rise from \$245,000 to \$257,250—and that there would be provision for a bonus of up to 15 per cent, up from the original 10 per cent, depending upon performance relative to key performance indicators.

The board also raised a number of issues that it was concerned about on the performance of the managing director, particularly in the areas of strategic leadership, strategy development and implementation, style and company profile, investment strategy and return on investment, team leadership and succession planning, and processing time for projects. A decision from the board was formally provided to Mr Dorber in a letter from the chair dated 22 February 2002. A copy of that letter was also provided to all board members. I have a copy of that letter with me now. The document confirms all of the facts that I have already outlined, including acknowledgment that the board failed in its obligation to set key performance indicators, and contains some details of the concerns of the board. I believe it to be a sensitive document, but I also believe it to be an important document in light of the final decision that was reached on Mr Dorber's salary. I ask guidance from you whether this document should be tabled or not.

Senator O'BRIEN—In the context of everything that is going on it may be sensitive, but there is a lot of sensitive material that we are receiving, and it should also be public.

CHAIR—Moved by Senator Sandy Macdonald, seconded by Senator Ferris. Thank you, we will accept the tabling of that document.

Prof. Vizard—Putting aside the fact that the review was conducted in the absence of objective criteria, it is my view that the decisions reached by the board at that time were reasonable. Soon after that decision, two important events happened. The first was that Mr Patten resigned as director of AWI and was replaced with Mr Don Nelson. The second was that Mr Dorber appealed the decision to the board and requested that he be able to present his appeal at the next board meeting on 18 April 2002. Ms McCaskill, the chair, granted the appeal. At the board meeting Mr Dorber presented information regarding his performance of the previous year. It is my clear memory of that meeting that the chair aggressively discouraged constructive criticism of Mr Dorber's performance by board members. Mr Dorber left the room and, following further discussion, Ms McCaskill put forward a motion that Mr Dorber receive a bonus for the previous year of \$50,000 net of tax. I remember that this motion was strongly supported by the new board member, Mr Nelson, and to a lesser extent by Mr Staley.

I remember stating that, firstly, this bonus was inconsistent with Mr Dorber's performance as outlined in the letter that was sent to him. Secondly, and very importantly, I remember putting forward the view that a \$50,000 bonus net of tax was completely outside the limit of the agreed bonus of 10 per cent that was recorded on file. I put forward the fact that a \$50,000 bonus net of tax is equivalent to about a \$96,000 bonus including tax and that therefore such a bonus would be about 40 per cent of salary, four times the agreed bonus. It was my strong view that, regardless of one's view of Mr Dorber's performance, it was not in the company's or the shareholders' interests to pay the managing director about four times his agreed bonus. Despite myself and Ms Murphy voting against this, the motion as put by Ms McCaskill was passed.

On the matter of the review of the salary for the upcoming year, Ms McCaskill tabled a report she had commissioned from remuneration consultants, in which it was recommended that the base salary of the managing director be raised from its current level of \$245,000 to \$340,000, an increase of about 40 per cent. I put forward the view that it was indefensible and not in the company's or shareholders' interests to consider such a major increase in salary less than 12 months into the contract. It was my view that the market had been tested less than 12 months previously with the appointment of Mr Dorber and that therefore one could be reasonably confident that a suitable replacement could be found for a similar salary. Furthermore, less than 12 months ago Mr Dorber had agreed to the current conditions and had presumably found them satisfactory, and no substantive changes had occurred in the job description to warrant such an increase.

I also put forward the view that the consultants' conclusion was based on an inappropriate comparison. The consultants had benchmarked the AWI MD position against MDs of commercial companies with a gross turnover of \$50 million to \$100 million. In my view, this was not an appropriate comparison. For example, typically, companies with a turnover of, say, \$75 million may employ about 250 people compared with AWI's 25. They would have total costs of around \$60 million compared with AWI's costs of around \$6 million. In my view, the proper comparison were managing directors of other similar R&D organisations, such as MLC, RIRDC, cotton, the Wheat Board and so on. Further, it was my understanding that, compared to people in these organisations, Mr Dorber was currently well paid and that catapulting him to the proposed salary would put AWI entirely out of kilter. I suggested that a further review be conducted, benchmarking the AWI MD's salary against MDs of similar R&D organisations. Notwithstanding my opinion, the chair put forward the motion that the base compensation for the MD be set at a minimum of \$340,000 and that the chair and another director be authorised to negotiate a final recommended package with Mr Dorber. The motion was passed.

Senator FERRIS—Did you have your name recorded against it?

Prof. Vizard—It was held in Canberra.

Senator FERRIS—You also stated in your letter of resignation at paragraph 4 that constructive criticism of the managing director's performance was aggressively discouraged. Who aggressively discouraged that constructive criticism?

Prof. Vizard—The chair.

Senator FERRIS—Do you have a view on why that may have been the case?

Prof. Vizard—I do not wish to make a view on other people's state of mind.

Senator FERRIS—The former chair stated in her submission at page 3:

Each director was provided with a copy of Minter Ellison's Corporate Governance Guide that is extremely detailed. I owned an extensive KPMG Peat Marwick guide to corporate governance that I loaned to a number of directors.

Did you receive either of those guides?

Prof. Vizard—I may have. In any case, I had copies of such guides from my experience in other directorships.

Senator FERRIS—In her submission the former chair also says:

A comprehensive policy on the operation of the Company was developed with strict delegations.

Were you involved as a board member in the development of such a comprehensive policy?

Prof. Vizard—Yes, there was an operating strategy developed which I considered to be a good operating strategy. It is the one that I referred to in my introduction. It did have some delegation and strict instructions on how things were to be handled and how projects were to be handled. My concern was not with that document; it was concern with whether it was being adhered to.

Senator FERRIS—You also say in paragraph 6 of your letter that you were concerned about the resignation of Mr Patten as director. What in particular were you concerned about in relation to Mr Patten's resignation?

Prof. Vizard—I can provide some information regarding Mr Patten's resignation. At short notice I was advised that there was to be an AWS and AWI board meeting teleconference to be held at 8 a.m. on 11 March 2001. The agenda item was a change of directorships of AWI. Mr Patten was present at that meeting and tendered his resignation from AWI. He made a short statement regarding his resignation. In that he made it clear that he felt he had no option but to resign. He also stated that he felt that he had some serious concerns about AWI and that his removal would not solve AWI's problem. Immediately following his resignation the proposal was put forward that Mr Nelson was to be appointed to the board of AWI.

It is my view that, regardless of the reason for Mr Patten's resignation, the board should have had an opportunity to actually be involved in the discussion and submit a collective view on the mix of board skills and experience necessary for the efficient and effective conduct of the board. We had no such opportunity. I put forward the view that this was actually a return to something that we were trying to avoid. Previously in AWRAP there was a belief that directors got the position by having an old school tie sort of club approach, and what we wanted was a completely transparent system of appointment of directors. I did not think that this was such an appointment. Again, I felt that giving the board no opportunity to be involved in that discussion was a clear and fundamental departure from best practice corporate governance and the responsibility that directors have to help ensure that the best possible candidates with the most appropriate range of skills and talents are recruited to boards.

Senator FERRIS—Point 2 of your letter of resignation says:

The decision of the board to reject a process to correct a clear potential serious error that occurred in the mechanics of the last AWS Annual General Meeting, in which there was a failure to record the retirement and re-appointment of myself and Ms Murphy from AWI at the same time as our retirement and re-appointment to the AWS board was recorded.

Can you explain what you meant by that?

Prof. Vizard—First I will supply some background. The only two AWI directors who stood at the previous AWS AGM were Ms Murphy and I, as the two longest-serving directors of AWI. At that AGM all parties involved, including directors, company officers and, most importantly, shareholders, were of the belief that the positions of directors Murphy and Vizard in AWS and AWI were in equal jeopardy—that is, if we were unsuccessful at that election we would no longer be directors of AWI. At that election, both Ms Murphy and I were successfully re-elected.

The details of the issues I was directly concerned about are these. Mr Dorber contacted me immediately following the teleconference board meeting of 11 March 2002 at which Mr Patten resigned. The purpose of that phone call was to advise me that Mr Dorber had received legal opinion that the only directors who were required to stand for re-election at the next AWI AGM were Trish Murphy and I. I expressed my complete surprise at this legal advice, given that Murphy and I were the only two AWI directors to stand at the last AGM and that commonsense would indicate that Ms McCaskill and Mr Staley, as the longest-serving AWI directors, would be standing. I also remember telling Mr Dorber that in my opinion it was unusual for him as managing director to be dealing with me on matters regarding directors' election, since this is usually the responsibility of a chair of a company.

Having regard to the importance of this matter to the company, I asked that I be immediately provided with full details of the legal advice he had obtained and all surrounding documentation, including complete copies of all instructions upon which the legal advice was based; the names of the legal advisers from whom the advice was received; the dates upon which advice was sought, and by whom; subsequent discussions or

correspondence relating to such advice; the details of who had instructed him to obtain such advice, and under what circumstances; the names of any other persons to whom the advice had been provided; and copies of other files and documents, notes or otherwise, relating to these matters. Having regard to the importance of this matter to the company, I asked that I be provided with these details as soon as possible. I have the fax that I sent to Mr Dorber confirming that request, if the Senate would like to have it tabled.

CHAIR—Moved by Senator Ferris. Yes, thank you.

Prof. Vizard—I also sought, and was granted, permission from the chair to pursue legal opinion about this matter. The legal opinion was quite clear. The anomaly of Ms Murphy and I having to stand twice in a row stemmed from a process error in the conduct of the last AWS AGM.

Senator O'BRIEN—You describe this document as a fax but it is actually an email.

Prof. Vizard—I take that back—it was an email I sent him; that is correct. There was a failure to record our retirement from, and subsequent reappointment to, AWI at the same time as our retirement from and reappointment to AWS was recorded. Consequently, we remained the longest-serving directors of AWI and would therefore be required to stand at two AGMs in a row. Let me make this quite clear. I have heard others state that there were constitutional reasons why we were required to stand twice in a row. To the best of my knowledge, that statement is nonsense. Our retirement and subsequent reappointment to AWI could have been, and should have been, recorded at that AWS AGM. There was nothing in any constitution to stop that proper process occurring. The legal advice was also quite clear about a solution to the anomaly: record your retirement and subsequent reappointment from AWI anytime up to the date of demerger.

Despite repeated attempts by me to obtain a response from Mr Dorber to my requests, it was not until 3 April that I finally received a reply—some 23 days after I requested an immediate response. The response consisted of copies of two emails of legal advice that Mr Dorber had received, dated 26 February and 14 February. Although this reply was an incomplete response to my request, it did show that Mr Dorber had been given exactly the same legal advice as I had—that is, at the time Mr Dorber had received the advice for the anomalous situation, he had also received advice on how the anomaly could be fixed by the board of AWS recording the retirement and subsequent reappointment of Ms Murphy and me to the board of AWI. I have with me a copy of Mr Dorber's response, if you would like that tabled.

Senator FERRIS—Yes, please.

CHAIR—Thank you.

Prof. Vizard—What particularly concerned me about this was that, despite several conversations with me about this issue, Mr Dorber had never informed me that he had received such advice nor had he provided the board with the legal advice he had received. On the day that I received Mr Dorber's response, 3 April, I contacted AWI lawyers instructing them to properly document the retirement-reappointment process required to fix the anomaly so that it could be presented to the board for a decision. Late that day, the lawyers rang back saying that they had discovered a problem. Under the process of demerger, that day—the same day I had finally received a response from Mr Dorber—was the very last day on which the resignation and reappointment of Ms Murphy and I could be recorded. I immediately contacted Ms McCaskill suggesting that AWI request AWS to send out a circular resolution so that the directors of AWS could vote on the issue immediately. Ms McCaskill later informed me that evening that the chair of AWS, Mr Price, had declined the request to circulate such a resolution.

A few days later, on Monday, 8 April, AWI legal advisers contacted me stating that they had reviewed the legal situation and had discovered that, in fact, a solution to the anomalous situation still existed. The recording of the retirement and subsequent reappointment of directors Vizard and Murphy could still occur, although through a slightly different process. However, owing to the forthcoming demerger of AWI and AWS, this window of opportunity would also expire on 1 May 2002.

I rang the chair, asking that the election of directors be added as an agenda item at the next board meeting on 18 April 2002. At that meeting the matter was discussed. The AWI board voted to reject pursuing the legal solution that was outlined, with Ms Murphy and I voting in favour; the chair, directors Dorber and Nelson voting against and director Staley abstaining. Let me make my position quite clear: it was never my view that the previous AWS AGM was illegal; rather, for me, this was an issue of corporate governance. I was concerned in trying to maintain shareholders' rights. The AWI shareholders believed that they had already had their opportunity to vote on Ms Murphy and me and would be rightfully seeking an opportunity to express

their opinion about other directors in proper rotation. In my opinion, the board voted against trying to maintain the integrity and intent of the system. This was of serious concern to me.

CHAIR—Professor Vizard, you stated that on 30 June in the year of Mr Dorber’s appointment there was delegated authority up to \$2 million approved by the board.

Prof. Vizard—Correct.

CHAIR—He started his employment in March?

Prof. Vizard—Correct.

CHAIR—What prompted the board to move that to \$2 million? Was that some of the activity that occurred between March and June? Was any logic given?

Prof. Vizard—My memory is that the company was in a process of rapid development, that some major and rapid decisions needed to be made during the early stages of that process and that, as a matter of streamlining, it would have been very helpful to the managing director if it had been increased. Secondly, what the company was trying to do as a matter of course was put in strong corporate governance issues which the board would use as its lever of control, so that the need for the board to be involved on a day-to-day basis on smaller issues was not great.

CHAIR—To the best of your knowledge, nothing over the \$2 million was approved between the March and June quarters anyhow?

Prof. Vizard—Not that I am aware of.

CHAIR—On that recent evidence, would your opinion be that a reasonable person might have considered that you, along with Mrs Murphy, were being shafted by the board? Do you think that would be a reasonable view to form?

Prof. Vizard—That could be a reasonable conclusion.

Senator O’BRIEN—How long were you on the AWI board?

Prof. Vizard—I was on it from its inception, which I think was technically on 1 January 2000, till 14 June 2002.

Senator O’BRIEN—So about 30 months?

Prof. Vizard—About a year and a half.

Senator O’BRIEN—Was that 1 January 2000 or 2001?

Prof. Vizard—I was on the board for a year and a half.

Senator O’BRIEN—That means you were appointed on 1 January 2001, if you terminated on 14 June 2002.

Prof. Vizard—I was a founding director of the company. I cannot remember the exact date.

Senator O’BRIEN—Can you pinpoint a date when you became concerned about the manner in which the company was being managed?

Prof. Vizard—My initial concern was at the time of the first AWI board meeting, which I have given information about.

Senator O’BRIEN—That was very early in the process. Some of the matters you have dealt with in relation to your resignation letter and other things are very concerning. Can you tell the committee how the mechanics and processes around the statutory funding agreement were settled? Mr Dorber has told us that the board spent a day talking about how to comply with the statutory funding agreement, which seems a surprisingly short period of time, given its importance. As you attended all board meetings, can you tell us how much time the board actually spent on the statutory funding agreement and what was the nature of that consideration? For example, did the board consider specific legal advice on what the provisions of the statutory funding agreement meant?

Prof. Vizard—My memory is that from time to time Mr Dorber would provide us with an agenda item regarding our obligations. It would put forward information so that we could discuss our views on the issues. That did not take an inordinate amount of time, but it was discussed. Things were brought forward.

Senator O’BRIEN—So there was no specific day set aside to discuss it?

Prof. Vizard—Not that I can remember.

Senator O'BRIEN—And there was no legal advice provided?

Prof. Vizard—At various times, yes, there was legal advice regarding what various aspects of that funding arrangement consisted of. I felt that the board tried to take the matter seriously.

Senator O'BRIEN—Were you and/or other members of the board privy to the correspondence that travelled backwards and forwards between Mr Dorber and AFFA regarding the statutory funding agreement?

Prof. Vizard—Occasionally he would give us copies of letters that he was sending off and copies of letters in response to those.

Senator O'BRIEN—Were you made aware of concerns the department had about the approach taken to the statutory funding agreement throughout 2001?

Prof. Vizard—I cannot remember being informed of those.

Senator O'BRIEN—Have you kept copies of the correspondence that you were made privy to?

Prof. Vizard—I have copies of some correspondence. I am not sure if it is the entire correspondence.

Senator O'BRIEN—Is it possible for the committee to be supplied with what you do have?

Prof. Vizard—I will do my best to do that for you at a later date.

Senator O'BRIEN—Evidence from Mr Dorber suggests that in relation to the statutory funding agreement everything was fine, but letters from the government suggest otherwise. Do you recall any such letters coming to the board?

Prof. Vizard—I recall, on several occasions, Mr Dorber informing us that the relationship was very sound and providing us with letters to that effect.

Senator O'BRIEN—I would have asked these questions to Ms McCaskill but she has declined to appear. I want to get some insight into the process of the board in dealing with the statutory funding agreement. What you are saying is that it was a minor item on the board's agenda from time to time. Are you saying that the board, to your recollection, was never made aware of any concerns expressed to the company by AFFA about the operation of the company in relation to the statutory funding agreement?

Prof. Vizard—I can never remember a decision having to be made by the board regarding any concern of that agreement.

Senator O'BRIEN—Does that mean that there may have been matters before the board, on which decisions were not made, which concerned any problems with the operation of the statutory funding agreement?

Prof. Vizard—There may have been.

Senator O'BRIEN—What was the nature of board papers that you considered in relation to decisions taken by Mr Dorber to commit funds in compliance with the statutory funding agreement—that is, what advice was the board given in relation to the expenditure of levy funds and matching funds from the Commonwealth in the context of the statutory funding obligations imposed on the board and was there any link made between the two?

Prof. Vizard—It was not an obvious one. However, the board was taking the view essentially that how it sought its funds in total ran a parallel line to those required under that funding arrangement. As far as I was concerned, I would have been most disappointed and it was against the general board policy that we would be involved in anything to do with political arrangements, for example, regardless of where that money came from because that was outside the remit of how I saw the company should be behaving. In essence, the line being taken is, putting aside the statutory funding agreement for one minute, that the board should be behaving in that manner in any case. What the board attempted to do was put in place a number of strong management levers to try to make sure that any funding was transparent, effective and appropriate. One of the main ones was the Innovar program of project selection.

Senator FERRIS—I am not familiar with Innovar. Can you explain how the Innovar project analysis worked?

Prof. Vizard—Yes, I can. It was a methodology which allowed one to look at a number of different aspects of any particular project that was put forward and to come up with what one thought was its overall benefit for shareholders. It was a way to try to capture, for example the probability of technical success—how probable it was that this thing was going to succeed, the probability of commercial success, how easy was it to do—if it is

easy to do this research, it is probably better to fund it, the expected time to commercialisation, the benefit that would accrue if it were successfully put through this research and its impact to shareholders. Those are all measured by this process to arrive at an overall scoring system. That was the thrust behind it. I thought it was a reasonably sound thrust and one which allowed for an objective assessment of programs. My problem was not necessarily with that as a concept but at times I had quite a deal of difficulty as to whether it was being conducted and, when it was being conducted, whether it was being conducted properly.

Senator SANDY MACDONALD—Certainly, on some of the major expenditures—the Woodlot project, the donation to Charles Stuart University Sommerville Collection, the Farmhand appeal donation, the European Wool Awards and the Million Dollar Movie initiative—I do not think the Innovar scoring system was used. Would that be correct?

Prof. Vizard—I cannot speak for all of those. But I notice Mr Dorber said in his statement that the Innovar program was used on all projects. I know that is incorrect. For example, the program was used to review all the portfolios that we had at the time we took over the company to see which ones we should keep. The Woolmark project was definitely not put through that process. I asked, and it was minuted in the minutes of 12 April 2001, that it be recorded that I required that the Woolmark contracts in full be subject to the Innovar process when convenient to assist with determining the strengths and weakness of the R&D portfolio. The managing director indicated that this would be post June 2001. I never saw such a review.

As for the Woodlot project was concerned, the project was never presented to the board for approval or comment prior to its public release. The only information I remember receiving regarding this project was a one-liner from Mr Dorber saying that the management was examining the opportunities for a combined sheep and Woodlot project. When the project was made public I looked at the details that were publicly available and became concerned. I contacted the chair seeking that this project be discussed at the next board meeting of 21 February 2002. I remember that, at that meeting, Ms Murphy and I raised a series of concerns regarding this project, which were minuted. These included: it was not a core project, it did not meet key wool objectives, \$20 million had already been earmarked for national resource management by AWI—why was it not included as part of that if it was such an important project?—and was there true market failure with the provision of these services or was the project duplicating services that were already commercially available and so on. The board resolved that management rigorously review this project within its first year of operations. Despite the evidence given by Mr Dorber, I was never privy to any Innovar process involved in that project, if it did exist.

Senator O'BRIEN—The matter that flows from that, the \$2 million cap on the managing director's expenditure limit, was due for review before that February 2002 board meeting. Was the matter of the review raised at subsequent board meetings—that is, that no review had taken place?

Prof. Vizard—Not to my memory.

Senator O'BRIEN—I assume the board endorsed the expenditure of funds prior to the end of the 2000-01 financial year. Did that happen?

Prof. Vizard—Yes.

Senator O'BRIEN—However, there was no effective reporting of the activity of AWI in the context of the statutory funding agreement for that year. Was that matter considered by the board—that is, was there a decision not to release details of the operations of AWI beyond the publication of the accounts for AWS and some information about AWI as a subsidiary of that company?

Prof. Vizard—I can remember that there was conversation about ensuring that we did meet the requirements of that arrangement, and I was told that we did.

Senator O'BRIEN—The nature of the reporting was not formally endorsed by the board—the way the matter was reported?

Prof. Vizard—I cannot remember the details. Essentially, I remember there was discussion about whether the reporting system met the requirements and I was told that it would.

Senator O'BRIEN—By Mr Dorber?

Prof. Vizard—I cannot remember the details, but I suspect it would have been.

Senator O'BRIEN—Professor Vizard, can you tell me what role Mr Price played in the operation of AWI other than in the matter you have already related about Mr Dorber's appointment? I am sure you have heard that WoolProducers are of the view that early in the life of AWI it was Mr Price, as chair of AWS, who should be called to account for any problems with AWI. I wanted your comment on that.

Prof. Vizard—My strong view is that, clearly, AWI was a subsidiary of AWS, and that is understood. However, my view was that the AWI board had normal board responsibilities; it was charged properly with the conduct of that company—regardless of whether it was a subsidiary or not, that is what a board must do. In my view, the proper board for running the company clearly was the AWI board. I was concerned in the first several months of AWI's formation that there seemed to be confusion about which chair was running the company. At various times, at various board meetings, I would be asking Mr Dorber, 'Under whose instructions are you doing that?' and it would perhaps be under Mr Price's instructions that such and such had occurred. I made it quite clear that my position was that the chair of AWI, Ms McCaskill, should be responsible for Mr Dorber—that view was supported, I think, by all directors—and that, if there were any conversations that had to be had between AWS and AWI, they would best be performed through a chair-to-chair relationship rather than from the managing director through to the AWS chair. That, as a principle, was agreed. I also remember that this was still an ongoing issue for me as late as September 2001. I asked for and had a private meeting with the chair, Ms McCaskill, and again put forward the view that it should be clear that she should be the chair and look after Mr Dorber rather than Mr Dorber trying to serve two masters, which in my view would be impossible.

Senator O'BRIEN—So Mr Dorber was aware that the board had taken a decision that he should not be receiving direction from Mr Price and that the interrelationship between the two companies should be chair to chair—that is, McCaskill to Price?

Prof. Vizard—Yes.

Senator O'BRIEN—Nevertheless, many months later that practice of interaction between Mr Price and Mr Dorber continued. Do I understand your evidence correctly in that regard?

Prof. Vizard—I was still concerned enough about it to raise it with the chair in September 2001.

Senator O'BRIEN—So it was clear to the board, was it, that the interrelationship continued even as late as September 2001? Or, it was clear to you as a member?

Prof. Vizard—I cannot speak for other board members; I can only speak for what I felt.

Senator O'BRIEN—What you felt? I take it you had evidence that there was a degree of interrelationship between Mr Price and Mr Dorber affecting the operations of AWI?

Prof. Vizard—From time to time, yes.

Senator O'BRIEN—What sort of evidence would that be?

Prof. Vizard—Early on, one instruction that concerned me at the time was the formation of the WAG. It was basically an instruction that AWI should take the WAG from AWS. I was firmly of the view that that was not the most appropriate thing, that what AWI needed was an advisory group made up of highly technical people who were chosen because they had a certain skill base rather than because of political positioning. I was aggressively trying to seek a new advisory group for AWI but, through the chair of AWS, Mr Price, it was decided that we would take on AWI. That was one of the early decisions that was made—which was a major one—that I took a different view on.

Senator O'BRIEN—But you were aware that there was a continuing interchange at that level—that is, Price to Dorber—in breach of the decision taken by the board?

Prof. Vizard—At that stage in September, the issue I was concerned about was that a number of projects were coming through Woolmark. The whole idea of the two company structures was that they should be at arm's length from each other and it should be a transparent process—that is, if Woolmark wanted to submit a project to AWI it should be on competitive, transparent terms, just as with CSIRO or any other organisation. I was uncomfortable if that was the situation. I wish to make it absolutely clear that my view on how it should be run was that it should be done clearly and transparently.

Senator O'BRIEN—What did Ms McCaskill have to say about the apparent continuation of the influence of Mr Price, effectively bypassing her?

Prof. Vizard—I am not sure that she would have agreed to that position, but she took my position and said, 'I understand where you're coming from.'

Senator O'BRIEN—An article appeared in the *Weekly Times* on 26 June last year following your resignation. I am sure that you are familiar with the article. One of your concerns listed in the article was a lack of discussion at board level about what are described as controversial projects, such as forestry and

vegetation. Are you suggesting that debate on these issues was, in fact, gagged in some way and, if so, how was it limited? Was it by the chair or a group within the board?

Prof. Vizard—I am suggesting that it did not come to the board in the first place.

Senator O'BRIEN—That was one of the projects that you say, later in the article, were never discussed at board level. I take it that that project and a number of projects never came before the board, even after they had been approved by the managing director?

Prof. Vizard—Yes. Mr Dorber stated to the board in February 2002 that there were about 200 projects on the books, and very few of those 200 would have come to the board with any detail.

CHAIR—Under the arrangement you made on 30 June 2001, they did not have to.

Prof. Vizard—That is essentially correct. There was no financial hurdle for them to come on that basis.

Senator O'BRIEN—Mr Dorber was authorised to make the decision to commit the company to expenditure, but did that necessarily mean that the matter would not come to the board in the way of a report as to what expenditure had been committed?

Prof. Vizard—Yes. We would receive advice on all projects, which would detail how the expenditure was being committed. There was a matrix available to us. It is not that we were not advised; we were advised. Also, we were not part of that process, and we were presented with a *fait accompli*.

Senator O'BRIEN—You were told, not consulted?

Prof. Vizard—Yes.

CHAIR—But in the 30 June 2001 decision, the Woodlot project was indemnified by you—that is, the board—having to be consulted on that project because it was under \$2 million.

Prof. Vizard—That is right. That decision could be made without referencing it off to us.

Senator O'BRIEN—The last dot point early in that article refers to board decisions to spend money on marketing initiatives, such as fashion parades and assisting woollen mills with promotion. Would I be correct in saying that such initiatives would sit more comfortably in the Woolmark company?

Prof. Vizard—The philosophical and strategic view which I held was that there should be a fairly clear separation of the new R&D company—which would be focusing on R&D—from the Woolmark company. That was intrinsically why the two were split up because the Woolmark company should be focusing on promotion. What I felt was happening in several of these initiatives is that there was a blurring of that demarcation and that some of these were perhaps more of a promotional activity than an R&D activity. I remember rejecting a couple of things coming to the board. It is not that all projects under \$2 million did not come to the board; some things did. There was a proposal to do some promotion on something which I rejected because from our view it was promotional rather than an R&D activity.

CHAIR—Were these all time constrained and could not go to the next month's meeting for approval? Was that one of the logics you used for giving 30 June approval—for the board to be informed rather than be part of the approval process?

Prof. Vizard—It was a broader issue than that. Essentially the notion—in my view correctly—was that the executive should be the executive and the board should be the board. The board is not there to do day-to-day project approval. That clearly should be the executive's position. What the company should have in place is a couple of things: a very strong strategic position so it can actually have an umbrella under which to make decisions, and very strong internal understanding of those issues so that they can make sensible decisions based on that strategy. What the board needed then, having those in place, was a proper mechanism where it could assess that that was all happening and the process could be reported accurately. That was the intent. I personally was not happy with a \$2 million spend limit. That is why I suggested we be reviewed. The intent was correct but the decision to have such a large spend was incorrect—with hindsight I can say that with a fair degree of surety now.

Senator O'BRIEN—You are basically telling us that there was no evaluation of the project by the board and you consider that appropriate. They were not even authorised by the board; they were pre-authorised in that general spend limit. Was any attention given at board level to whether these sorts of initiatives complied with the provisions of the statutory funding agreement, particularly section 5 of that agreement?

Prof. Vizard—Can you remind me what section 5 says?

Senator O'BRIEN—I was hoping you would not ask me that because I have left my statutory funding agreement in my office.

Prof. Vizard—I have been out of the company for more than a year.

CHAIR—Here is a copy.

Senator O'BRIEN—It is a rather lengthy provision about the application of funds which go to a variety of things. Perhaps you could read the lengthy provision yourself rather than me read it into the record.

Prof. Vizard—Could you repeat the question, please?

Senator O'BRIEN—Was any attention given at board level as to how these sorts of initiatives, and I use the examples of fashion parades and assisting woollen mills with promotion, complied with the provisions of section 5 of the statutory funding agreement? Or was that never considered?

Prof. Vizard—No; it was considered. It was difficult, because the element that was missing was the very strong strategic plan which would delineate those areas to which funding would be applicable and would therefore be the blueprint for how it would be funded and would clarify that it was all in line with what was required by both the company and the Commonwealth. That strategic plan was still not complete—still not there—at the time of my resignation. That was a concern to me, because they had a very good platform from which to make a strong strategic plan rapidly. The previous organisation had made a very sound platform from which to start.

Senator O'BRIEN—It is a bit of a catch-22. You say that if they complied with the strategic plan they were intended to therefore comply with the statutory funding agreement but, because you did not actually have a strategic plan, I am wondering how you satisfied yourself—or the board satisfied itself, if it ever did—that the statutory funding agreement was being complied with.

Prof. Vizard—In the absence of that strategic plan—I was with you, Senator; it was confusing for me—but in the end I was relying on the fact that the board made it relatively clear to the executive that it must comply with those issues and on Mr Dorber's response, that it was.

Proceedings suspended from 1.21 p.m. to 2.01 p.m.

CHAIR—The committee is continuing its questioning of Professor Vizard.

Senator FERRIS—Professor Vizard, I know that you had left the board when the two children of the managing director were given their redundancy payouts but I believe that you were still on the board when Luke Dorber and Holly Dorber were engaged by AWI. Did those staffing decisions come to the board and, if they did, could you make any comment on any discussion that took place at that time?

Prof. Vizard—I can state that Luke Dorber was appointed without the prior knowledge or approval of the board. My memory of the details is as follows. I am unsure of the timing of Luke's appointment but sometime after it, I and other directors, found out serendipitously that Luke Dorber was an employee of AWI. At a subsequent board meeting, one of the directors, Mr Patten, questioned Mr Colin Dorber about the circumstances of Luke's appointment. Mr Colin Dorber advised the board that he had distanced himself from the process and had asked the chair to oversee the process of Luke's appointment but the position was not the subject of a competitively advertised selection process.

I remember that Mr Patten and I made it clear that we were uncomfortable with this process. I remember stating that, in my opinion, unless such appointments were the subject of an arm's length, clearly competitive and transparent system they put the company, the managing director and the incumbent at unnecessary risk. Ms McCaskill stated that she had sought advice from Mr Price on this issue and both he and she were satisfied with the process.

On the issue of Holly Dorber's appointment, I am certain that the board never endorsed such an appointment during my tenure and I cannot even remember being informed that Holly Dorber was an employee of AWI whilst I was a director of the company though she may well have been.

Senator FERRIS—It does seem as if she was a casual employee although she was paid out a redundancy as a full-time employee, as I think we established before lunch. Was Mr Dorber present at the board meeting when this matter was discussed or did he declare a conflict of interest and withdraw for the purposes of the discussion?

Prof. Vizard—He was present throughout and was, I can remember, quite aggressively upset that such a matter should have come to the board.

Senator FERRIS—Did the chair or any board member ask that he withdraw, given that there was quite clearly a potential conflict of interest for him as a director, during the discussion?

Prof. Vizard—Not that I can remember.

Senator FERRIS—Was there any discussion at that meeting as to the continued appointment of Mr Luke Dorber?

Prof. Vizard—Not directly, although, as I say, the chair made it quite clear that she was quite satisfied with the process that had occurred.

Senator FERRIS—You said at the outset that you are or have been a member of a number of boards. Are you able to tell the committee whether you have been aware on any of those other boards that there have been family members appointed and employed in such a fashion?

Prof. Vizard—Not in such a fashion. To my knowledge that has not occurred. I cannot think of any example even similar, and my advice would be no different from the advice I put forward to that board: that, particularly in those circumstances, it is my view that it is in everyone's interests including the incumbent's, that you have an arm's length, clearly competitive and transparent system. Otherwise it puts everyone at risk. Unfortunately, I think that that particular principle has been shown to be true in this circumstance.

Senator FERRIS—What was the chair's response to Mr Patten's concern and your concern? And did Mr Dorber actively take part in the discussions on this matter?

Prof. Vizard—The chair informed the board of the process that she had gone through: that she had taken over the process, that that was her way of doing it and that she was satisfied. As far as Mr Dorber goes, I remember that he was very upset that it had been brought up; in fact, we were having drinks with staff afterwards in the meeting and he was raising it quite aggressively with the staff that he thought it was outrageous that it had been brought up as an issue. I remember that both I and another director, Ms Murphy, had to ask him to please refrain from commenting further about it in front of other staff.

Senator FERRIS—Given that it was a matter that had been discussed within the board, surely it was confidential matter?

Prof. Vizard—That would be my opinion.

Senator SANDY MACDONALD—What was the normal method of appointment of people by AWI? Did Mr Dorber make decisions on his own?

Prof. Vizard—Precisely as I outlined, the intent was that, as much as possible, all appointments should be done on a competitive basis—that is, advertised. The intent generally was that it should be transparent and always at arm's length. That was what I and other board members had as an intent. Once again, I am now aware of numerous examples where I suggest that that process did not occur to my satisfaction.

Senator SANDY MACDONALD—But, in line with other board appointments that you have or had, that normally would be done by a staffing committee responsible to the board.

Prof. Vizard—There is often an HR person on companies that I am involved in who would look after that properly. I was involved in some of the selection process for some senior staff and Mr Dorber was very active in those circumstances—and in one, in a way which I was most concerned about.

Senator FERRIS—Do you want to tell the committee what that was?

Prof. Vizard—If the committee wishes to hear it.

Senator FERRIS—You have made the comment; I wonder whether you want to substantiate it.

Prof. Vizard—Yes. There was a certain person—and I had best not name the person because it is unfair to them—who Mr Dorber was recommending for a position. I was aware that that person had had difficulties in the industry and I suggested that it would be good to seek independent advice and opinion from the industry about that person. Mr Dorber said, 'That's a good idea,' and he went out and sought advice through a consultancy group about that person from various experts in the industry. I saw the names of those people and they were good people. Some of them rang me and said, 'Andrew, I have just been asked by AWI to give advice on a certain person and I have to say I had to give advice that was quite contrary to their appointment. I was concerned.' I said, 'That's fine, you have to do what you have to do. That is what you were asked to do,' and I left at that.

Following that, a couple of weeks later, I received from Mr Dorber a copy of the responses from those people saying that they had all been asked their opinion of this person and they had all said he was excellent, so we were going to employ him. I rang up all of the people who were asked to give an opinion and said, 'Would you mind providing a written memory of your conversation regarding this person and giving one copy to me and one to the company.' These were provided. In every instance they were quite damning of this person, in complete contrast to what had been provided to me previously by Mr Dorber.

I brought this to the attention of Mr Dorber and was dealt with in what I felt was a most aggressive fashion, particularly given that it was a matter in which I, as a board member, was concerned about the quality of the material that was being given to me by my managing director. In the end Mr Dorber said, 'I agree that those statements as given are correct now but I also feel that I've got no alternative but to employ this person, because I have already offered them the job.' As well, I was rung up by a number of senior staff of those companies who had been asked for their opinion and told, 'Mr Dorber has just been on the phone to me and is threatening me with legal action regarding the comments I made about that person, and I am upset.'

Senator FERRIS—Am I correctly hearing you as saying that members of the board were misled by the managing director in relation to documentation concerning the appointment of that staff member, who was still appointed despite the misleading information you uncovered?

Prof. Vizard—I certainly was misled, in my opinion, with that information. I cannot speak for any other director, but I was misled, in my opinion.

Senator FERRIS—We are talking about the process of recruiting Luke. When I questioned Mr Dorber about this on 26 June, he said that the chairman of the board had conducted a recruitment process including interviews and had documented the process and directed that all of the documentation concerning his appointment be placed on file. When you discussed this matter at a board meeting, were you able to see Mr Luke Dorber's file?

Prof. Vizard—No, we did not see the file. None of us asked to see the file. We took the chair's word.

Senator FERRIS—Perhaps that is something I can raise later. You referred in your opening remarks to the decision to make the move from Melbourne to Sydney. I realise that this may have been to one side of the responsibilities you had as a board member, but can you take us through that process as far as you know about it? Can you comment on how you saw that process in terms of the cost to the wool industry in the loss of intellectual property and perhaps any other losses?

Prof. Vizard—As I presented previously to this committee, the decision to move the base for AWI from Melbourne to Sydney was embedded in the decision to employ Mr Colin Dorber as the MD, because it was a condition of his employment. That decision was made prior to the first AWI board meeting, on the instruction of Mr Price. As I said at that first board meeting, I felt that I was not in a position to ratify such a decision in the absence of any financial or other information regarding costs and likely loss of staff.

Personally, I was quite disappointed with this decision because of my history in the previous companies. As I said, I was first appointed to AWRAP, and I was appointed knowing that it was going to be converted into a different company. The other directors of AWRAP, the chair, Mr Sherlock, and I looked at the company from a ground view at the time and said, ‘What do we wish to preserve going forward as a company to make sure that we hand over the company in the best possible shape for the new entity?’ There were two essential elements that the company held. One was intellectual property and the other was people. We went through a difficult period. We did our best to maintain the best quality staff we could in the AWRAP organisation so that on the handover date the company would have an immediate platform from which to move forward.

You can perhaps understand my disappointment then at that decision, knowing as I did that we would probably lose 90 to 95 per cent of the staff that we tried to hand through. They were lost, and in my opinion that was a severe loss because the intellectual property that some of those staff held in their brains you cannot replace. In my opinion, they were, in most cases, replaced by staff who were not as good. In some instances some of those staff were re-employed as consultants later on at higher salaries in any case, so I suppose they came back to the industry but at a higher cost. I was concerned about that as a potential loss to the industry. As far as I knew—and I was not privy to it because it was not my decision—there was never any presentation of information about the pros and cons of such a move.

Senator FERRIS—I am conscious of the time so I will ask one final series of questions, and they relate to the employment of Mr Peter Anderson, a former minister for police in New South Wales, and one of the early recipients of a lucrative series of contracts that were awarded in the very early days of AWI. Mr Anderson was given a contract which appeared to me to be something that would require quite specialised knowledge, that is, a study of aspects of the wool industry in Europe. Did that contract come before the board before it was awarded, and were you aware that Mr Anderson was in fact the primary referee for Mr Dorber in his curriculum vitae?

Prof. Vizard—To answer your last question first, at no time was the board made aware that a contract had been entered into with a person who was the main referee on Mr Dorber’s CV. To answer the other part of your question, I remember that at one of the early board meetings Mr Dorber was very keen to undertake a review of chemical contamination in wool and its impact associated with the EU. The EU was putting in place some potentially rigid regulations regarding future use of wool with chemical contamination. I remember that at the board meeting Mr Dorber made the comment that he was wishing to do that.

I advised Mr Dorber that the previous organisation had been conducting work in exactly this area and quite thoroughly, and that probably less than a year or so before one of the staff had gone over and had conducted a review to understand the political situation. It had been documented that a basic program for pesticide residue management had been built up so that any other review that was required should be built on that previous work rather than replicate it. I did not want to waste shareholders’ moneys replicating work we had already done. In fact, it was my understanding that the previous work had suggested that if any further work was to be done it should not be of a political nature—of understanding the political situation. What was required was a high level economic study to work out country by country the volumes of wool and the expected losses that would occur if they brought in various levels of residue protection.

Mr Dorber said he would take that on board. I note that in a following AWI board update—which he regularly gave the board—he said that he had approved final terms of reference for the chemical contamination and EU wool project, which is what he was calling that project, to go to tender. On that basis I presumed that the project was to go to tender. I heard no more about it until I noticed in the matrix of projects that he gave us that the chemical contamination project had gone to, I think, Anderson Consulting Group for \$50,000. I thought no more of that.

I remember some time later asking Mr Dorber if it was possible to see a copy of the review that was done. He said, 'Not yet, but it will be ready sooner or later.' That was about it. That was my knowledge of that project until, some time after I left the company, I was told that this Anderson Consulting was the Mr Peter Anderson who was on his CV. I have no knowledge of Mr Anderson's expertise or anything, so I cannot comment on whether he was appropriate. That is all I know. We had had a review at a high level technically, and I would have expected that that group should have had a high-level economic review background if it had successfully tendered.

Senator FERRIS—Mr Dorber told the committee on 26 June that he was not recruited for what he knew about wool but for what he knew about politics. How does that fit with what you have just told the committee was your perceived view of the skills that were needed for this sort of study?

Prof. Vizard—It is obviously at variance.

Senator FERRIS—Were you aware that after this \$50,000 contract was let there were a number of payments of, I believe, \$10,000 a month—I do not have the figure in front of me but I believe it was \$10,000 a month or thereabouts—for work which has never been detailed, for which no tenders were called and of which my understanding is that the Anderson Consulting company and Mr Dorber himself have declined to give details?

Prof. Vizard—I was aware of no such arrangement.

Senator FERRIS—I understand that it was something to do with ovine Johne's disease, which again begs the question of what Mr Anderson's skills would have been in that area. Perhaps, as with his previous contract, he was employed for the politics of it. One of the things you mentioned earlier today was the analysis that was done on all of the projects. I asked Mr Dorber about the analysis that was done on the projects when he came before us. He told the committee that they were all subject to that sort of analysis. I wonder whether you would agree that that analysis was done on them. I think Senator Macdonald asked you about the film industry and a number of other industries and contracts. To your knowledge, was that process of analysis used on every project you saw?

Prof. Vizard—No. I have already placed on record that it was certainly not. At the 12 April 2001 board meeting I asked for a group of projects to undergo the analysis that had not previously be done and that that be brought back to the board. To the best of my knowledge that never was brought back to board. I also had concerns not only about its not being used in all projects but also about its abuse when it was used—whether it was used appropriately. I can give an example of this. It is an important one which shows what my concerns sometimes were. As part of the review, management was asked to use the Innovar processes on all on-farm projects that were already in the portfolio from AWRAP to decide which ones we should keep and which ones we should remove.

That analysis using the Innovar project was done. One of the highest ranked projects by this Innovar process in that was a project called the Wool Profit Map. By this Innovar process, which is documented here and was tabled at the May 2001 board meeting, it came out as one of the highest ranked projects. Nevertheless, Mr Dorber recommended that it be discontinued. I remember questioning Mr Dorber at the time and asking, 'Why would you recommend discontinuing this project when it is one of the highest ranked projects that we have?' Mr Dorber explained, to the best of my memory, that there were some other concerns with the project, which I could not quite understand, and that the analysis had been done using an old weighting system of the Innovar method so subsequently, that ranking could be wrong. I said, 'Which particular weightings are incorrect and if you reweight it, does it still come out?' but I got no satisfactory answer. So I left it at that but the project was discontinued. I heard not much more about that project until after I resigned, at which stage I received, from one of the persons involved in the project, some interesting advice about that discontinuation. Essentially, it was that they were fully paid out not to complete the project.

Senator FERRIS—How much was the payment?

Prof. Vizard—\$200,000 was paid out. So, in effect, this project, which could have been completed for that amount of money and ranked very highly on this system, was discontinued for the same cost as its completion. I cannot think of one sensible reason why that should occur but I am advised that is the case. In fact, that person has made a submission to this inquiry, which they asked me to table here. I am happy to do so.

Senator FERRIS—I will move that that document be tabled.

Prof. Vizard—This person, Mr John Grant, was one of the persons behind the Innovar project scheme. He makes some comments regarding that, which are disturbing, regarding the model. I think you should probably

have it tabled for that reason as well. That is his submission not mine and I am just referring you to it. I am wondering now how many of the other discontinued projects had similar payouts that the board was never advised of.

CHAIR—Could I revisit that? Did you detail what the project was and the benefits it may have brought to the wool industry?

Prof. Vizard—Yes, it was an extension project which showed that there were certain profit drivers in the industry which were very important that farmers monitored and were aware of. That is why it was called the Wool Profit Map. It was a very hands-on extension program for wool growers and it involved getting growers to monitor their management and improve their management in those areas which made dollars for wool growers. From where I sat, it was a good project and it scored highly on that process. So it was one of those ones which I could not understand the logic of it being discontinued at the time and—it sounds even more absurd—once I had found that out as per that document which has just been tabled.

CHAIR—Do I read here that, in good faith and to honour their commitment, they completed the project anyway regardless of being terminated?

Prof. Vizard—That is what I was advised but they had no reason to do that. They did it because they were believers in the project.

Senator FERRIS—The \$200,000 was paid presumably by Mr Dorber as managing director for them to end the project even though the board had decided it was a good project?

Prof. Vizard—The board had not decided it was a good project. The Innovar process had highlighted it as a good project. This is the evidence that is presented here. I know no more than what is presented there.

Senator FERRIS—I take it, Professor Vizard, that although they completed the project, as this document here says, wool growers have been denied the benefit of it.

Prof. Vizard—If it has been completed, they probably still have the benefit of some of it at least but I cannot understand the logic behind that.

Senator FERRIS—I do not think there was any.

CHAIR—In the separation of wool grower money from the government matching grant, in this circumstance here are you able to tell whose money it was that was used to pay the thing out?

Prof. Vizard—No I cannot. It is not transparent to me.

Senator SANDY MACDONALD—I want to take you back to the Shear Express director's fees. Firstly, I want to ask you whether you were a member of the AWI board which resolved that Mr Dorber should not be in receipt of director's fees from Shear Express?

Prof. Vizard—Yes, I was and that, I remember, happened in the February 2002 board meeting and it was resolved to that effect.

Senator SANDY MACDONALD—Are you aware that in evidence to this committee Mr Dorber indicated that he was not able to confirm whether he had received fees as a director of AWI's subsidiary, Shear Express?

Prof. Vizard—I read that evidence.

Senator SANDY MACDONALD—Are you aware that Mr Dorber did receive the sum of around \$24,000 as director's fees as a director of Shear Express?

Prof. Vizard—No, I am not aware of that.

Senator SANDY MACDONALD—I think that was further evidence. He claimed before the committee that he could not recall whether he had been paid director's fees despite the fact that he had been provided with a remittance advice at the time of payment and we happened to have a copy of the remittance advice but I am not sure whether that is publicly known at this stage. The next question I wanted to ask was about the establishment of the AWI web site. Can you shed some light on the process by which the web site was set up, the contract that was apparently first let and then a subsequent investigation of the contract awarded and a new contract being awarded at a higher value to somebody else?

Prof. Vizard—Yes, I can give you my memory of the events surrounding that. I can remember that the board asked for a tender process to be set out for the web site and that a company was chosen to actually run the tender. I think it was PwC but that could be incorrect—certainly, it was one of those big companies. I remember that they through their process selected a preferred tender. I then remember that at a board meeting,

Ms McCaskill advised the board that she was going to personally overturn the PwC recommendation in preference for another tender.

Senator SANDY MACDONALD—Can you recall who the original preferred tenderer was?

Prof. Vizard—No, I cannot.

Senator SANDY MACDONALD—Are you aware that a sum of money was paid to that preferred tenderer.

Prof. Vizard—No, I am not and I was not made aware of that.

Senator SANDY MACDONALD—Can you recall who the subsequent successful tenderer was?

Prof. Vizard—No, I cannot.

Senator SANDY MACDONALD—In your letter of resignation you set out three reasons which steered your decision to resign from the board, but you said in the opening paragraph, ‘Please accept this letter as formal notification of my resignation as a director.’ Presumably you had a number of other discussions in terms of private conversations with the chairman. Were there any discussions that you had which perhaps were not appropriate to put in your resignation letter?

Prof. Vizard—No. I think that I discussed with Ms McCaskill pretty well every one of the issues that I have outlined here. Ms McCaskill would have known my opinion on each of them and would have understood what I thought about them. So it should not have been surprising to her to receive such a resignation letter, given that I had flagged all of those issues with her and it was quite clear what my opinion was. I made them quite clear at the time in board meetings.

Senator SANDY MACDONALD—Excuse my ignorance on how public companies run, but I have not been a director of a public company. When Mr Dorber had the discretionary payment for this large amount of money, did that mean that every time he exercised his discretion he would have to bring that decision back to the board, and that that would be presented in board papers before your monthly meeting?

Prof. Vizard—No. What you are asking, in a way, is what systems a company should put in place to monitor the conduct and performance of the executive team. Different companies have different approaches, but part of the approach is to put limits on the managing directors’ and executives’ spend limits, and that forces certain decisions. The ones that we were forcing the board to make happened to be decisions over \$2 million. The board was not forced to make decisions under \$2 million for financial reasons. However, the board put in place systems of monitoring of those projects so that they could monitor what was going on in those projects as they were going along. So we were expecting to see advice continuously about those projects—which ones were coming up as new projects and how much had been paid out into them. We received that as a matrix.

We also had spent some time with that Innovar process. That was the crucial element. We were expecting that, if that was being run properly, there would be a level of rigour around it which would help to make sure that they were translating sensible project decisions. One of the big elements that was missing, in my opinion, through this whole process and should be driving decisions on investment in R&D was a strong strategic position. As I have said previously, the strategic portfolio for investment, particularly on on-farm projects, had not been developed whilst I was a board member.

Senator SANDY MACDONALD—Where is a very small discretionary payment, like one made on an American Express card, picked up in the administration of a large company? Who determines whether it is within the capacity of the person who is using their American Express card, for argument’s sake, properly or improperly? Someone has to be accountable; it cannot just be the person making the decision? How is that done?

Prof. Vizard—The way it is done—and this company was no different in principle—is that there is a spend limit that is given to the card. I am not sure what the spend limit was in this particular case. Those payments which are made generally are expected to go to the audit committee. The audit committee is generally the group that authorises the spend limits associated with credit cards of senior executives. So that audit committee has to satisfy itself that those spends have been done correctly on those cards. That is the general thing. Then the audit committee presents the consolidated information through to the board for their satisfaction.

Senator SANDY MACDONALD—Does the audit committee normally have a director sit on it?

Prof. Vizard—The audit committee generally is preferably composed of non-executive directors and the managing director is there by invitation. It is not like being asked to a birthday party: it is an invitation that you must be there. It is so that they can be asked the questions as the committee goes along but they are there by invitation.

Senator SANDY MACDONALD—Do the audit committee and AWI operate at arm's length from the managing director?

Prof. Vizard—Mr Patten was attempting to set up the audit committee in the fashion I have just described. I cannot remember that he actually got it to that system. Before that, I think Mr Dorber was officially on the committee, but then he was there by invitation with the other non-executive board members. Once he left, I cannot remember the final structure off the top of my head.

Senator SANDY MACDONALD—But in other public companies where you are a director the audit committee is at arm's length from the managing director?

Prof. Vizard—You need to be able to show that level of independence in the audit committee, yes.

Senator O'BRIEN—Were you aware that program managers could spend up to \$100,000 per project without referral to Mr Dorber?

Prof. Vizard—I cannot remember that figure now but I probably was instructed of that, yes.

Senator O'BRIEN—I asked Mr Dorber:

So you could spend \$2 million per project times however many projects, and they could spend \$100,000 per project times however many projects?

Mr Dorber answered:

Yes, subject to the strategic plan, the operating plan, the ever-interested board and the finance and audit committee, who would—

I interrupted him:

So all of those projects, all of those expenditure decisions, were reported to the board?

He answered:

Every dollar of expenditure was reported, usually within 24 hours of it actually being determined.

Is that your recollection?

Prof. Vizard—It is very hard to show a negative, but in essence—I certainly was not told on a 24-hour basis—our board papers did consist of a large matrix which was an ongoing summary of our spend on various projects which I believed to be comprehensive. What rarely came to the board, which is a deviance from what I think Mr Dorber said, were the details of the Innovar process and all the other bits of information regarding why a project was selected. It was very rare that that came to the board.

Senator O'BRIEN—Was there ever an explanation of how it met the strategic plan or the operating plan and what the finance and audit committee had said about projects?

Prof. Vizard—No, not on a case by case basis.

Senator O'BRIEN—When I asked Mr Dorber:

Was it the board or Mr Price who appointed you?

His answer was:

Mr Price appointed me.

I think you were saying that the board actually made the formal decision of appointment and he was present. Is that correct?

Prof. Vizard—No, I am stating that his contract was signed prior to the very first AWI board meeting, but at the first AWI board meeting we were asked to confirm his appointment.

Senator O'BRIEN—On another matter, I asked Mr Dorber this:

Clearly, the statutory funding agreement with the Commonwealth was the critical document in your understanding of the board's and the company's obligations.

His answer was:

Yes, to the point that the board and I spent an entire day studying it and discussing its application. The delegations that I tabled spring directly out of the structure of the statutory funding agreement.

I take it from your earlier evidence that you have no recollection of an entire day spent studying the statutory funding agreement?

Prof. Vizard—I cannot remember an entire day on the statutory funding agreement.

Senator O'BRIEN—Would it be fair to say that his involvement with the board would have been after 30 January 2001? It did not occur before that time?

Prof. Vizard—No. The first I had heard of Mr Dorber was on that date.

Senator O'BRIEN—Were there meetings outside of board meetings to discuss particular items?

Prof. Vizard—Yes, at various times.

Senator O'BRIEN—Did you attend any such meetings, that you are aware of?

Prof. Vizard—The ones that I was involved with, yes. Can you give me an indication of the sort of meeting you are thinking of?

Senator O'BRIEN—I am not sure. Mr Dorber says that the board and he spent an entire day studying the statutory funding agreement. I presume you would recall spending an entire day studying the statutory funding agreement. You are telling me that you do not recall spending such a day.

Prof. Vizard—No, and I think I would.

Senator O'BRIEN—I would have thought that you would, as well. Did the board ever discuss the expenditure of funds which were not Commonwealth or levy payer based funds, to your recollection?

Prof. Vizard—The general approach the board was taking was that there was little deviation between what was required between the statutory fund and where we were trying to head the company. That is, if one looks at the restrictions that are placed by that agreement—you should not spend money for political purposes and those sorts of issues—we held exactly the same view. My view generally would be that if you had a problem as a Commonwealth about those things, so would I as a director regardless of what pot of money it came out of. In summary, that is the general thrust.

Senator O'BRIEN—Did Mr Dorber ever discuss with the board, to your recollection, his view that he could spend the \$24 million of funds that he had negotiated from the sale of properties in any way that corporate law permitted without referral to the statutory funding agreement?

Prof. Vizard—I take exception to that, as far as the particular board goes. As a legal position, I am not sure whether that is correct.

Senator O'BRIEN—I am asking whether he discussed that with you as a board member or at a board meeting at which you were present.

Prof. Vizard—No.

Senator O'BRIEN—Would that be the sort of matter which would require a separate authorisation, if indeed he intended to do that, or could he have spent moneys from non-levy payer or taxpayer sources without reference to the board under his \$2 million charter?

Prof. Vizard—He certainly could spend money outside but the board would be expecting that it would be in those areas where the board was expecting to see investment. For example, investment in, say, a political issue would certainly be outside his remit. I would expect that he should have to justify that immediately and withdraw it if we found out it had no value to wool growers.

Senator O'BRIEN—He also says that it was he who recommended that the board all stand for election at the one time. He was talking about the intensity of feeling that was in the R&D community about his operation:

I probably would never have recommended to the board that we all stand for election had I known—the intensity, the passion and the hatred that exist.

I understand your submission to suggest that your resignation made it obligatory for all the board to stand for re-election. Did I misunderstand that?

Prof. Vizard—No. Under the constitution of the company, what had to happen was that the two longest serving directors were required to stand, by rotation. Because of that anomaly, even though I stood last time, our retirement from AWI had not been recorded so I was still a longest serving director. I was up and so was

Ms Murphy because of the same anomaly. When I resigned, the next longest serving director would then have to have stood—and to my memory that was Ms McCaskill. My understanding is that, technically, what would have happened would have been that Ms McCaskill and Ms Murphy would have been the two standing as a requirement under the constitution. As far as my understanding goes, there was no need for all six to go up. I was not privy to any of that discussion because I was already off the board.

Senator O'BRIEN—Thanks for that. The last matter I wanted to raise with you was with regard to your early comment on whether the structural arrangements and the model of AWI were sound—notwithstanding what has happened with the operations of the board under the structure. It concerns me that you suggest that there is not a problem with the structure, given that we are hearing a great many allegations of what might be described as 'misallocation of grower and taxpayer funds' and expenditure on projects not provided for in the statutory funding agreement; a possibility that funds have been spent on matters which were totally irrelevant to what should have been the operations of AWI; in all probability, a lack of appropriate scrutiny of AWI by the government; and the lack of ability of the parliament to properly scrutinise the expenditure of taxpayers' funds. Given all of those problems, why should we take the view that there is nothing wrong with the model as reflected in the AWI structure? Even though you say the fact that you resigned seems to have precipitated an election and the throwing out of the whole board, if Mr Dorber created the opportunity for that to happen by recommending that the whole board go to election, wasn't that almost an accident?

Prof. Vizard—Of all the problems you raise, I cannot think of one example where I feel that they were structurally caused. It would also be fair to say though that perhaps a structure where there was a more rigorous monitoring, perhaps by yourselves—

Senator O'BRIEN—Certainly the department, at first instance, I would have thought.

Prof. Vizard—would be worth considering. I have had some experience in boards of listed public companies. I have been on the board of several government statutory authorities and numerous other boards and I can tell you with a degree of certainty that the behaviour and corporate governance of this particular board was most unusual. That is as much to do with people as it is with structure. I do not care what structure you put around the wrong people—it ain't going to work. Even a very good structure with the wrong people does not tend to work. In my opinion, it was so unusual that I had no choice but to resign. That is a most unusual thing and a most sad thing to have to do. I can assure you that it was one of the most difficult jobs I have had in my life—to be involved in a company where you know you are dissatisfied with these sorts of processes but you have to hang in there because the shareholders are expect you to.

I would be putting forward that a lot of the problems stem from the personnel and people that were chosen. I have given a description of, for example, how the managing director was chosen. Given the sort of rigour in that process, it is probably not surprising that you get a managing director who is less than optimal. The surprising thing is that that process happened in the first place.

Senator O'BRIEN—Perhaps if you had not been in a position where it appears Mr Dorber was engineering the arrangement of your position to come up for election you might have made a different decision.

Prof. Vizard—If a whole series of 'perhapses' had happened? I cannot speak for those.

Senator O'BRIEN—That is right. What I am suggesting to you by that—and perhaps I should have put it more fully—is that the circumstances in this case led to what is arguably a massive maladministration of grower and taxpayer funds and that the solution came about because of a series of events which might or might not have happened if different people had filled those positions. Doesn't that tell us that there is something wrong with the model?

Prof. Vizard—Not necessarily. You could put forward a view on whatever could have happened; it is very hard to talk hypothetically. All I can say is that in a most difficult period the integrity of the system has come through. In that process there is often a little bit of serendipity involved, and perhaps there was here as well. Within a very short period—and remember this company was formed only two years ago—we have virtually a completely new board, a new CEO and a new CFO. The system was able to recognise that something was wrong and completely change it within quite a short period of time. Personally, I would think that that is quite a positive for the current system rather than a negative.

Senator O'BRIEN—I wonder in the circumstances, if this committee was not conducting the examination that it was, whether the material that is now public would have been public for growers.

Prof. Vizard—I think that is a good question to ask. I cannot think of any other avenue by which it would have come out.

Senator O'BRIEN—Given the apparent suggestions we have heard about threats of legal action, one might have thought that individuals might have been very circumspect about what they might have said or about what documents they might have produced had this committee not taken an interest in the matter. I guess what that is saying to me is that the degree of parliamentary scrutiny of the model is a deficiency to start with and that we should look at others as well. I take it you are agreeing with that.

Prof. Vizard—I think it would be reasonable to review the monitoring processes that are in place. I think that is a reasonable proposition, yes.

Senator O'BRIEN—Thanks.

CHAIR—I have only one question to follow on, and it is with respect to the submission we just got from Mr John Grant. When this project was cancelled, were you a director?

Prof. Vizard—Do you mean the Wool Profit Map?

CHAIR—Yes.

Prof. Vizard—Yes, I was. That was the project I was referring to.

CHAIR—Something in this letter has piqued my curiosity a bit. Mr Grant, in writing back to Mr Dorber, says:

Mr Dorber was never able to demonstrate why the project was to be dropped and in order to get his way, had the project cancelled and fully paid out a year earlier than the contract was drawn for. In other words the contract was fully funded by AWI, but was stopped as it had become politically unsuitable.

What in the hell does that mean?

Prof. Vizard—I take it it was their view—and it might not necessarily be true but it is their view—that no good reason for stopping the project was given to them and that they were aware that it actually scored well in the internal process of AWI. Consequently, I know that a group called the WAG, the Wool Advisory Group, did not particularly like that project. That might be what they are suggesting there.

CHAIR—That draws your evidence to a conclusion. Thank you for your time and patience.

Senator FERRIS—And thank you for the considerable courage you have shown in documenting some of the material today.

Prof. Vizard—Thank you. There are a couple of statements involving me in Ms McCaskill's submission that I believe are inaccurate. Could I have two minutes to correct those?

CHAIR—Yes.

Prof. Vizard—Twice in her submission Ms McCaskill incorrectly states that I was a serving director at the time of the June AWI board meeting. This is incorrect. I resigned from AWI effective from 14 June 2002. The June board meeting was held after that date. Ms McCaskill states that I had given an interview to the *Weekly Times* prior to that AWI board meeting. This is incorrect. I was contacted by the *Weekly Times* after they had read the AWI press release informing of my resignation. Ms McCaskill correctly states that I had made a statement that at this stage I did not intend to make my resignation letter public. I never did make my resignation letter public, until today. Ms McCaskill states that I declined to take part in any committees at the inception of the board in February 2001. This is incorrect. My memory is that I was not asked by the chair to be a member of those committees. During my directorship, however, I was asked by the chair and the executive to perform many ad hoc duties, including delivering speeches, sitting on recruitment panels, helping executives develop strategies and assessing possible investments for AWI. I can only remember one occasion on which I declined such a request. In her statement Ms McCaskill made some references to why I resigned. I hope I have already clarified those in my comments today.

Senator FERRIS—You might also want clarify about the forward payment of directors' fees. I note that in the audit report there is some reference to them and to the fact that some directors have returned their forward payments. Would you like to clarify that in relation to you, for the *Hansard* record?

Prof. Vizard—I wish to put on record that I did pay back moneys I felt I should to AWI with respect to directors' fees. I will explain what I think occurred, and this may help out with further examination. Mr Dorber advised us that he had discovered that, AWI being a tax exempt company, employees—including the board of directors—could gain tax advantages for themselves at no cost to the company. Pricewaterhouse provided that information. Furthermore we were advised by Philip Lee, the CFO, that Pricewaterhouse had advised us that we were entitled to claim retrospectively for the 2001-02 year. They discovered this in about February 2002.

The position put to us was that you could claim for the entire year, even though we had discovered it quite late in the year. Claiming for the entire year led to an overpayment for directors in 2001-02. That is my understanding. It has been put forward that it was actually a forward payment, but I think it was technically an overpayment for the 2001-02 year. That is perhaps why there have been some statements that I never received a forward payment—my understanding is that it could have been considered an overpayment for a previous year. In any event, we were asked to take a salary sacrifice so that that overpayment which I was part of could be paid back. Upon my resignation I still owed an amount of, I think, \$12,697, which I paid back.

CHAIR—Thank you very much.

[3.07 p.m.]

TARG, Mr Leslie Mark, Company Secretary and General Manager Commercial, Australian Wool Innovation Ltd

VAN ROOYEN, Mr Brian Percy, Deputy Chairman and Chairman of Finance and Audit Committee, Australian Wool Innovation Ltd

CHAIR—Welcome. Would you like to make an opening statement before we go to questions? If you choose to make an opening statement, we will be delighted.

Mr van Rooyen—I am going to take 10 minutes of your time just to run over the summary of our submission and add some additional information which we would like to table, given the submissions that have been made. Firstly, we would like to strongly put the view that the style and content of the statutory funding agreement in the way that it sets out the relationship between the Commonwealth and AWI is sound and appropriate. Whilst improvements and enhancements are currently under discussion between the parties, the necessary mechanisms to ensure the proper use of funds by AWI and its accountability to stakeholders, as well as adequate remedies, are already in place. Our shareholders fixed what they concluded was a problem with AWI, and voted in the new board at the annual general meeting in 2002. It is our strong belief that the combination of the SFA and the regulatory framework of the Corporations Act 2001 have proven effective in making the board accountable for its actions.

Since our election on 4 November 2002, AWI and the Commonwealth have worked, and continue to work, closely and cooperatively to ensure that the company complies with its obligations in the SFA. Cooperation between the Commonwealth and AWI is the most effective way of achieving compliance not only with the express provisions of the SFA but also with its intent. Indeed, we suggest that the minister and his department have acted in the most appropriate manner in deciding to allow the corporate model to work, and by engaging in direct dialogue with AWI and to address and resolve many of the issues that have been raised during the course of the current inquiry.

In December 2002 the company formed a finance and audit committee that commissioned PricewaterhouseCoopers to conduct a midyear review of our financial affairs. In parallel, the board has worked very closely with management to strengthen governance procedures and to improve controls. Since the election, the new board has substantially reduced management's delegations so that the board can exercise control over the company's operations, improve the transparency of AWI's monthly financial reports and resolve that, as a matter of priority, all projects should be covered by formal contracts prior to being acted on. We have also promulgated an advance payments policy, which provides guidelines on how the company is to process advance payment requests made by research providers. Importantly, we have also resolved that any campaigning for re-election must be undertaken at the directors' and not the company's expense. We have formed the remuneration and appointments committee of the board, which sets policy on remuneration issues for the company, and have instructed our lawyers to correspond with members of the former board seeking repayment of directors' fees and travel costs, explanations of payments identified by PwC and assistance with claims made by third parties.

With respect to the evidence given by Mr Dorber to the committee on 26 June 2003, we summarise our response as follows. Mr Dorber asserted that the \$24 million from the sale of AWI's interest in the CSIRO properties could be spent in any way that corporate law permitted, including agripolitical activity, and was not subject to the SFA. The board does not agree that the SFA contemplates AWI having a separate pool of funds which is not governed by the SFA.

Mr Dorber also drew a distinction between how levy funds and Commonwealth matching funds could be spent under the SFA. The board believes that the SFA leaves no room for doubt that both levy funds and Commonwealth matching funds must be spent by AWI efficiently, effectively and ethically for the benefit of Australian wool growers. That is a significant point of difference between our view of the statutory funding agreement and the view expressed by Mr Dorber in his evidence on 26 June.

We also discovered 34 projects with a value of \$14-odd million—and not nine projects as claimed by Mr Dorber in his evidence—that were approved by AWI prior to 1 December without executed contracts in place. What really concerned the board was the fact that \$3.4 million had been paid to research providers for these projects before formal contracts were executed. There were an additional 34 projects valued at \$8.265 million which were also not the subject of binding agreements—some of which also involved payments. PwC were

not able to determine the dates on which these projects were actually approved, but they were prior to the appointment of the new board. We do not accept that AWI's position was adequately protected by letters of agreement and we note that in a few cases there were not even such letters in place before payments had been made, for example the Farmhand donation and the European Wool Awards.

Also of concern to us was the fact that, immediately prior to the election of directors in October 2002, Mr Dorber actively campaigned for the re-election of the existing board at AWI's expense. We have heard evidence today, and we have given evidence in our submission, of a freelance journalist who was asked to ask specific questions at a speech given by the future chair, Mr McLachlan, at the Victorian Rural Press Club. He also engaged a communications company specifically to assist in the campaign to have the sitting directors re-elected. We believe this expenditure was not for the benefit of AWI or wool growers but for the benefit of the sitting directors.

The proposed Farmhand donation was initially offered unconditionally on 7 October, and only much closer to the annual general meeting on 31 October 2002 did Mr Dorber attempt to place restrictions on how the money could be used. Mr Dorber advised the new board of the matter at its first meeting on 6 November 2002, stating that there was a contract with Red Cross, but the truth was that there was no contract at all. The funds were eventually repaid by the Red Cross on 20 November.

In respect of Shear Express, which was chaired by Mr Dorber at the time, Shear Express had resolved that Mr Dorber not be entitled to any director's fees because his role as chairman formed part of his duties as managing director of AWI, and the previous AWI board had also resolved that he should not be entitled to director's fees. He had also, in fact, rejected a suggestion made to him on 15 August 2002 that he submit a tax invoice for Shear Express director's fees, stating that he had resolved that he would not be paid them. This notwithstanding, during November 2002, after the first meeting of the new board, Mr Dorber changed his mind and misused his authority. He telephoned AWI's chief financial officer, instructing him to arrange payment of Shear Express director's fees from the commencement of his role as chairman to 30 June 2003. He did this without the knowledge of the new board and subsequently, as indicated in the remittance advice that is attached to our submission, he received director's fees of \$24,062.50 from Shear Express. He also received the sum of \$8,907 in advanced director's fees from AWI for the period after he ceased to be a director. These fees have not been repaid despite letters of request from our lawyers, nor has one other director yet repaid their advance, but all remaining directors have repaid all sums advanced to them.

Regarding the employment of Mr Dorber's children, whilst we discussed this matter with him at our first board meeting and expressed our view that it was poor judgment to employ one's children in a public company, we advised him that no decision was being taken as to the children's continued employment with AWI. Notwithstanding this advice, Mr Dorber unilaterally took the decision to retrench his own son and daughter as employees of AWI in November 2002 and did not advise the chairman or the board until after he had taken the action. In our opinion, the level of the termination payments made to each of them was excessive and, despite Mr Dorber's admitted conflict of interest, he determined and authorised those amounts. We have already heard evidence today about the amounts that were paid to both his son and his daughter. In respect of his daughter, one can only say that the payment on a full-time basis was particularly excessive, given that she was a part-time and casual employee. It should also be noted that Mr Dorber signed the acceptance of his daughter's termination payment on her behalf.

The statements that were made at the annual general meeting by Mr Dorber in respect of the York Street premises and by the former chairman in respect of the number of staff were materially incorrect and were misleading to shareholders. We also note Mr Dorber's testimony that objective appraisal, the Innovar process, was used for all projects. That is not the case. In fact, the Innovar process could only be used for on-farm projects, and all post-farm projects were not subject to the Innovar process. A number of significant projects were not subject to any objective appraisal whatsoever. We also submit that the form of letter sent by the chair, Mr Ian McLachlan, to AWI shareholders on 5 June 2003 not only accurately represents what appears in the PwC report but was expressly approved by PwC before it was sent.

Since AWI lodged its submission, the committee has published further submissions from other contributors. In the submissions tendered by Ms McCaskill and Mr Staley there are some inaccuracies. Rather than go through all of them point by point, I would like to draw the committee's attention to two examples. Firstly, there is the assertion that directors currently receive sitting fees. This is incorrect. Directors are still being paid in the same manner that the former directors were. They receive the same annual fee, the same annual committee fees if they serve on board subcommittees and these fees are paid through the same payroll system

established for staff. They are paid fortnightly, not monthly as advised by Ms McCaskill, one week in advance and one week in arrears.

Secondly, I note that Ms McCaskill denied that director's fees were paid in advance. On the evidence that AWI has in its possession, that statement by Ms McCaskill is incorrect. During March 2002, a few weeks before the end of the FBT year, all but one of the directors at the time were paid \$23,016, grossed up, in advance of director's fees so they could avail themselves of the maximum benefit of the FBT rebatable provisions. We have had discussions with PricewaterhouseCoopers, who advised on the matter, and that advice included the strong suggestion that the directors who were to receive such an advance should formalise the arrangements in writing. There is no evidence that this was done. We have also raised the matter with our external auditors, who have advised that this matter should have been disclosed in the 2001-02 annual report but was not. It will, of necessity, be disclosed in the 2002-03 annual accounts.

Additionally, it has come to our attention in the last week—as the result of a recent letter sent to AWI's lawyers by Ms McCaskill—that a separate advance was made to Ms McCaskill during February 2002 of \$9,293 net of tax. Of concern to the present board is the fact that the balance outstanding of this amount was repaid on 27 June 2002 and precisely the same amount was readvanced to Ms McCaskill on 2 July 2002. There was no disclosure of these transactions in the 2001-02 annual accounts. In discussion, our auditors believe they should have been disclosed, and they will be in this year's annual accounts. Our investigations into this matter are ongoing.

There has been a lot of evidence in the submissions and in the hearings about corporate governance. It is important for you to know that it is the view of the current AWI board that the definition of corporate governance set out in the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* is the best definition. That definition is:

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

From the submissions that this committee has received and the evidence that has been given—particularly the evidence that has been given by the former chair and the former managing director—it is most surprising to me how anyone can claim that there was adequate corporate governance.

Any group of directors who take advances on fees and do not disclose them to shareholders is not engaging in proper corporate governance. Any board of directors who interfere with a formal tender process and overturn the results of tenders with a resultant increased cost to the company is not engaging in good corporate governance. Providing inaccurate, misleading information to shareholders at annual general meetings is not good corporate governance. Being party to a process of allocating overheads to projects in what appears to be an attempt to conceal from shareholders the true costs of running the company is not good corporate governance. Claiming that all projects were properly assessed and objectively appraised when a large number were not is not good corporate governance. I put to you, Senators, that this is not open, it is not transparent and it does not demonstrate integrity or accountability. I am happy to take questions.

Senator O'BRIEN—Can you tell the committee when you were appointed to the AWI board?

Mr van Rooyen—I was appointed to the AWI board on 4 November 2002.

Senator O'BRIEN—And you are the chair of the Finance and Audit Committee of the board?

Mr van Rooyen—That is correct.

Senator O'BRIEN—Who else is on that committee?

Mr van Rooyen—In December 2002 the other appointment to that committee was Mr David Boyd, and that was subsequently expanded to include Dr Chris Abell when he was appointed to the board in, I think, April 2003. So there are now three members on the Finance and Audit Committee. We have a combined committee for finance and audit.

Senator O'BRIEN—How does the committee actually work? How often does it meet?

Mr van Rooyen—The committee meets at least every month. In fact, during this past nine months it has probably met 10 or 12 times because of a lot of the issues we have had to work through. Would you like to know how we go about our work?

Senator O'BRIEN—Yes, please.

Mr van Rooyen—First of all, we review all issues raised by the auditors and in particular we have been reviewing the issues raised by the PricewaterhouseCoopers reports. We have appointed a separate group to handle internal audit now, which was formerly handled by the same organisation which handled the company formal audit. We have split that, as is good corporate practice today, and we now have another organisation handling internal audit. We focus on risk management and the investment activities of the company where we have significant funds on investment, and we look at the financial reporting and work with management to ensure that the financial reporting is accurate and truly represents the position of the company.

Senator O'BRIEN—How does that differ from the structure that was in place under the previous board?

Mr van Rooyen—Not having been a member of their committees, it is difficult for me to answer that. I have been through the minutes of their meetings and it would appear to me, as an observation only, that our process is far more diligent.

Senator O'BRIEN—So you are suggesting that the former two committees—I think you were saying you had combined those—

Mr van Rooyen—They had two separate committees; that is correct.

Senator O'BRIEN—I take it neither appeared, from their minutes, to be rigorously looking at expenditure.

Mr van Rooyen—It is very difficult for me to pass a comment on what they were doing because the minutes were, by the nature of minutes, very short.

Senator O'BRIEN—I see. Can you tell the committee what you see as your responsibilities as director of AWI under Corporations Law and also under the statutory funding agreement with the Commonwealth?

Mr van Rooyen—I see my responsibilities as being to ensure that the company operates in a legal manner; that it operates ethically, openly, with transparency; and at all times ensuring that our shareholders' investments—their funds—are invested in a manner to produce the best results for our shareholders and in compliance with our obligations under the statutory funding agreement and Corporations Law.

Senator O'BRIEN—With regard to the statutory funding agreement, it was signed off by the minister, Australian Wool Services and AWI around the end of December 2000 and came into being on 31 December 2000. According to Mr Dorber, the new AWI board met three or four days at a time from January 2001 on to get the new company up and running. Mr Dorber said a number of board members made themselves available outside board meetings to work with him. Did the PricewaterhouseCoopers audit pick up how much additional remuneration was paid to members of the former board involved in this work and, if so, how much?

Mr van Rooyen—The PricewaterhouseCoopers report did not comment on that. To the best of my knowledge, the board members received committee fees and their annual fee as board members and they did not receive sitting fees, as is the case today. Irrespective of the number of meetings held, the same fees applied.

Senator O'BRIEN—So, as far as you can ascertain, there were no additional fees for that work?

Mr van Rooyen—No, we have not discovered any other fees paid.

Senator O'BRIEN—AWI officially opened its doors on 1 March 2001. Mr Dorber told the committee in June that the former board spent an entire day looking at the statutory funding agreement. Have you discovered any evidence of that having taken place?

Mr van Rooyen—No we have not, but we have not looked for that either.

Senator O'BRIEN—Okay. You are familiar with the statutory funding agreement?

Mr van Rooyen—Yes.

Senator O'BRIEN—Would it be surprising that the former board would spend as much as a day looking at that or do you think they should have spent much more than a day looking at the statutory funding agreement?

Mr van Rooyen—The statutory funding agreement was a very important part of the company's legal requirements. We as a board have certainly spent time, both prior to our election and since the election, understanding our obligations under the statutory funding agreement and, when we make decisions, we are very mindful of our obligations under the statutory funding agreement. We have not as a board sat and committed a whole day to studying the statutory funding agreement, but it certainly is an issue that all us have at the forefront of our minds. We are well aware of the implications of that statutory funding agreement and we ensure that we operate within the requirements of that agreement.

Senator O'BRIEN—So you regularly visit the issues which arise from the statutory funding agreement?

Mr van Rooyen—Correct. When it comes to issues of expenditure, it is one of the first questions that we ask ourselves if something on the fringes or in the grey area of promotion or one of those areas comes up. The issue of the statutory funding agreement comes up all the time.

Senator O'BRIEN—Is that at board level?

Mr van Rooyen—Yes, at board level.

Senator O'BRIEN—The statutory funding agreement requires AWI to apply funds in an 'efficient, effective and ethical manner'—I think, under 5.3—doesn't it?

Mr van Rooyen—Yes.

Senator O'BRIEN—You might be aware that the government has sought advice from the Government Solicitor in relation to AWI's compliance with clause 5.3. Can I take it from your evidence that you have initiated a review of the arrangements put in place by Ms McCaskill's board to ensure compliance with the statutory funding agreement?

Mr van Rooyen—Yes, we have.

Senator O'BRIEN—You have listed those changes in your submission. Can you take the committee through those and the reasons for those changes so we can get some sense of the old system and the new system and the reason for change?

Mr van Rooyen—Are you referring to 5.4 in our submission, the paragraph headed 'Mr Dorber is incorrect in stating ...'?

Senator O'BRIEN—Yes.

Mr van Rooyen—Other than Mr Dorber's testimony, it is difficult for us to know how the previous board administered the statutory funding agreement in their conduct of AWI. All we can say is that we do not agree with Mr Dorber's interpretation as given in his evidence that the statutory funding agreement allowed certain funds to be treated differently from others. It is our view certainly that the CSIRO property sales fall well and truly under the statutory funding agreement. They are part of transferred moneys and fall squarely under the SFA. Our view, essentially, is that the SFA will drive our total behaviour. We do not in the way we expend money look at a project and say, 'Is this within the statutory funding agreement or is it out of it?' To our mind, the statutory funding agreement is a really good guide in guiding the company as to how it should expend its funds and we are operating within that role—by applying the statutory funding agreement provisions to the way we expend money. If you go any other way, you can only get yourself into trouble.

Senator O'BRIEN—It would have been interesting to have asked Ms McCaskill about the old system, but unfortunately she has declined to appear.

Mr Targ—On a very technical level, the other thing we did was to introduce a system whereby, in the course of approving expenditure, any manager of AWI must certify that they have satisfied themselves that the expenditure meets the requirements of the statutory funding agreement. They must indicate on a stamp on that account which particular provision of the statutory funding agreement that expenditure complies with. That is the new system, which was introduced in about March this year.

Senator O'BRIEN—The statutory funding agreement imposed immediate reporting obligations on AWI, did it not?

Mr van Rooyen—Yes.

Senator O'BRIEN—Once the company was operating, receiving funds and committing funds, it was obliged to comply with the statutory funding agreement in that regard. Mr Dorber advised the committee in June that the Commonwealth waived the obligation to provide an annual report imposed by the statutory funding agreement. He said that no written report of a general nature relating to the statutory funding agreement was prepared for the Commonwealth—and I assume that was for 2000-01. He said that it was agreed with the Commonwealth that a more comprehensive report would be prepared for the second year—2001-02. Has the new board found any evidence of that waiver having been communicated to the AWI board?

Mr van Rooyen—No, we have not.

Senator O'BRIEN—It would have been more than prudent for the board to have checked to ensure that the waiver of what was a fundamental part of its reporting requirements to the government had been okayed by the minister, wouldn't it?

Mr van Rooyen—Certainly that is what I would have done.

Senator O'BRIEN—Correspondence provided by AWI to this committee appears in conflict with Mr Dorber's evidence. He left us with the impression that everything went very smoothly under his management. I have a copy of a letter from Mr Sutton, the senior AFFA officer at the time, to Mr Dorber. It is dated 7 June 2001, so it was before the end of the 2000-01 financial year. A range of concerns were raised in that letter. I take it that it is something you would have seen. While acknowledging that the strategic plan was a draft, Mr Sutton told Mr Dorber that it did not draw the linkages between the objective strategies and outputs. He stated that parts of the plan were unclear on the issue of transparency and assurance 'regarding the manner in which levy monies and matching Commonwealth contributions will be spent'. He was critical of the performance indicators and he also suggested the need for a governance statement on directors' responsibilities for planning and reporting. Does it surprise you that as at June 2001 no governance statement was in place?

Mr van Rooyen—You are asking me to comment on a period in which I had no involvement. It is really difficult for me to make an objective comment about that.

Senator O'BRIEN—Would you have thought that one would have been in place at that time—at the end of a reporting year?

Mr van Rooyen—It was the first year of the company's operations.

Senator O'BRIEN—Would that not have been a first-order issue for the board?

Mr van Rooyen—It should have been. But, not having been involved and not understanding the background at the time, I really am not in a position to pass a comment.

Senator O'BRIEN—It is pretty clear from the letter of 7 June that the evidence from Mr Dorber is wrong and that AFFA did have a number of concerns about the accountability arrangements outlined in the draft strategic plan, isn't it?

Mr van Rooyen—Correct.

Senator O'BRIEN—Mr Dorber wrote to the minister on 24 September 2001 seeking formal confirmation that materials provided by AWI to the government at that time be accepted as meeting and discharging the company's obligation of that time. Have you sighted a copy of that letter?

Mr van Rooyen—No, I have not.

Senator O'BRIEN—Just to make sure, I will ask the secretariat to show you a copy of the letter. It was cc'd to directors and sent to Mr Sutton and Mr Rodney Price. I would like you to have a look at it. You have not seen it before?

Mr van Rooyen—I have not. What I can say to you is that the new board is very mindful of its reporting obligations both to shareholders under Corporations Law and to the government under the statutory funding agreement. We are working with the department to ensure that we meet our obligations in respect of the year just completed and we are also very mindful of the fact that our auditors have to provide a sign-off in terms of the statutory funding agreement as well. We are currently working to ensure that all those obligations are met in our reporting.

Senator O'BRIEN—Could you check to see if Mr Dorber's letter was presented to the board at any time? Only you would have the ability to do that for us.

Mr van Rooyen—We will take that on notice.

Senator O'BRIEN—Mr Taylor, the secretary of AFFA, responded on 17 October and said in part that, despite changes to the ownership structure, in respect of the use of levy funds, the essential elements of funding accountability and transparency obligations remained the same as those required for a statutory authority. He told Mr Dorber that AWI's operating plan did seem to fall somewhat short of the requirements of the statutory funding agreement and that the statement had been examined to ascertain whether it was sufficient. The advice he had received was that it required further inclusions before the department would be in a position to recommend to an incoming government that AWI had met its reporting obligations under the statutory funding agreement. He drew Mr Dorber's attention to reporting requirements under sections 16 and 17 of the statutory funding agreement, which he describes as one of the main means by which the parliament

and levy payers would assess the performance of AWI and the value of money contributed. He said in relation to AWI's strategic plan that it may meet minimum expectations. Do I take it that if you have not seen the original letter you would not have seen the response from Mr Taylor?

Mr van Rooyen—I certainly have not seen the response from Mr Taylor but I must also draw your attention to the fact that we are focused on running this company and taking it forward. Whilst we have been, by necessity, forced to look back at what has been happening, we have not gone that far back—to 2001—to ascertain the issues in relation to reporting to the government. We have had meetings with the department in respect of reporting and there is ongoing consultation between our management and the department to ensure that we meet our obligations going forward. We have not gone backwards to see or to try to redress a lack of reporting in the past.

Senator FERRIS—Mr van Rooyen, I know you have been here most of the day and I think we have previously covered adequately many of the issues that I was going to ask you about, but there is one outstanding one that comes out in your PricewaterhouseCoopers report. It is in relation to the gymnasium. At point 10 of the PwC report it identifies that a payment of \$124,740 was made to a Mr Henry Pollard for 12 months worth of massage, chiropractic and personal training services to be provided to AWI staff as well as three months of personal training services to Mr Dorber. According to this report, Mr Pollard had the value of his contract paid in full despite the contract being terminated five months short of its completion. What steps have you taken to have any of that money returned?

Mr van Rooyen—It was our view in looking at this matter that the arrangement that was entered into was a payment in advance arrangement and the fact that we had cancelled this gymnasium service five months from the end of the contract did not mean that we could recoup the funds. We desperately needed the space where the gymnasium was because we did not have enough space for our staff and people were operating under very cramped conditions, so we decided to close the gymnasium, terminate the contract of Mr Pollard and get our staff housed in far more acceptable conditions.

Senator FERRIS—The issue of the gymnasium is a subject that I raised with Mr Dorber when he appeared before this committee on 26 June. He told the committee at the time:

It was just a room which had in it an exercise bike, a walking machine, some weights and some mats.

What amount of money did AWI pay for that equipment and what were the arrangements when the equipment was disposed of?

Mr Targ—I will have to take that question on notice. We did do an exercise to try to ascertain how much had been spent. I know I have it somewhere back in the office but I do not have it with me.

Senator FERRIS—Perhaps at the same time you could let the committee know the extent to which the staff, as Mr Dorber claimed, had contributed towards the cost of both the equipment and the services of the gymnasium. I note that at point 10 here under the personal training services for Mr Dorber there is an indication that the staff had in fact made some contribution towards this cost, but from what I can see here it appears to be a very small amount of money, I think it is \$3,900 towards the cost of this facility. As a matter of a case study, I would be interested to have a look at that.

What I would like to come to, after a day of some quite startling evidence from a number of witnesses, is the matter of the Shear Express wilful payment of fees despite a board decision; the unilateral decision to terminate the employment of two children, despite there being no indication of need to; and questions of conflict of interest in relation to tender processes. Given that in his evidence, which I was trying to find here to quote to you, he told the committee that people had asked him why he had been terminated and he said he did not know, he thought that he had done a very good job and that people agreed with him that he appeared to have done a good job, could you take the committee through the process for the decision to dismiss Mr Dorber and can you give the committee any detail of the circumstances of that dismissal?

Mr van Rooyen—If I could first correct one statement, I notice that Mr Dorber in his evidence called it a dismissal. At his request, it was a mutual separation, and that is the terms of the contract and the deed of release that we have between the company and him. The reason for entering into the separation agreement with Mr Dorber was that he had lost the confidence of the majority of the board. That is what led to the negotiations leading to his leaving the company under a mutual separation agreement.

Senator FERRIS—Can you take us through the circumstances under which that occurred?

Mr van Rooyen—It was the view of the majority of the board that Mr Dorber had misled the new board. This happened on four occasions.

Senator FERRIS—What were those occasions?

Mr van Rooyen—The first two occurred during the first meeting of the new board. The first was in respect of the Farmhand donation. Mr Dorber told the new board at the meeting on 6 November 2002 that the contribution of \$500,000 was made on contractual terms. I quote: ‘They signed the contract or letter of agreement.’ The initial offer to Mr Alan Jones I believe was made by email on 7 October. It was read out on radio, I believe, on 7 or 8 October and a number of interviews followed. There is internal correspondence with staff in relation to the concert on 18 October and the first correspondence to the Red Cross spelling out conditions of the donation appear on 25 October, some considerable time after the first offer was made. This also, coincidentally, was after this had hit the press and a number of questions were being asked.

Senator FERRIS—What were the other circumstances under which the board believed it had been misled?

Mr van Rooyen—The previous communications manager left the employ of the company and the board was told that he had resigned and left. We discovered that in fact he was dismissed by Mr Dorber and that in fact he was made a separation payment of \$100,000. I do not think you could get a more serious matter than that. We discovered this also during November. The termination of his children without reference to the chair or to the board was another issue that surprised the board. In addition to that, there were payments of bonuses to executives during November without reference to the chair or to the board. As a result of all those issues, the majority of the board no longer had confidence in the managing director.

Senator FERRIS—Why did you choose to negotiate a separation agreement when you have just outlined a series of events that in anybody’s understanding would surely constitute sackable offences—any one of them? Can you tell this committee why a decision was made to enter into a separation agreement, can you give the committee the terms under which that separation agreement was signed and can you tell the committee why you did not sack this man for any one of those four issues that you have just outlined to this committee?

Mr van Rooyen—This all happened in a very short space of time in November. Some of the documentation behind some of these allegations only came to light after his departure. We were also bound by a very tight contract that Mr Dorber had with the company and it was decided that the best way to separate with Mr Dorber was to negotiate under the contract. We were legally advised that that was the way to do it, and we proceeded down that course. With the benefit of hindsight one may form a different view today, but at the time that was the decision that was made and we went along that route.

Senator FERRIS—You may wish the committee to go in camera to answer this question, and it may be that other members of the committee have questions that they would like to ask. I think that there would not be a wool grower in Australia who would not ask that they be told, given that the children in this family received \$100,000, less some tax that they would have paid. There are wool growers in this country who deserve to know what this man received from their funds when he left the employ of this company. I understand that you may wish to go in camera to answer that question, and I would be happy for other members of the committee to ask any other questions before we do that at the end of the proceedings. I have been telephoned by wool growers from all around this country who are devastated by the news that they have received over the last few months and I feel very strongly that they deserve to have that last piece of honesty presented to them.

Mr van Rooyen—I do not have the exact details with me. There is a number in my mind but I would not be prepared to put it on record unless I knew it was accurate, so I would have to take that on notice if you need the exact figure. Of course the figure will be presented in the annual report, because we are obliged under Corporations Law to reflect all payments to directors and senior executives in bands, and those bands will reflect the payments that were made.

Senator O’BRIEN—Are you saying that you will supply the information to us subsequent to today’s hearing?

Mr van Rooyen—That is what I have said I will do.

Senator SANDY MACDONALD—Was it subject to a confidentiality clause at the time?

Mr van Rooyen—It was the subject of a confidential deed of release.

Senator SANDY MACDONALD—So what you are saying is that the statutory law overrides any commercial confidentiality?

Mr van Rooyen—No, what I am saying is that the remuneration he received will be reflected in the annual report because we are obliged under Corporations Law to reflect in the annual report remuneration paid to

directors and senior executives. That will be reflected in the bands in the annual report. The terms of the deed of release will not be reflected in the annual report.

Senator FERRIS—As I understand it, you have agreed to supply the information to this committee. We look forward to receiving it under whatever circumstances you need to supply it to us. I notice that the report from PricewaterhouseCoopers is dated May this year. As a result of the time that has elapsed since then, have any further breaches of what you would consider good corporate governance come to light through the administrative processes that are now in place within the AWI?

Mr van Rooyen—The one that we are aware of is the one I referred to that we have only become aware of in the last week or so—that is, that there was a further advance of directors' fees which we originally were unaware of and which was not picked up by the Pricewaterhouse report. Directors' fees were advanced to the chair, Ms McCaskill, in February 2002. The balance outstanding of those advanced directors' fees was repaid on 27 June and readvanced on 2 July. We still have that matter under investigation. The original advance was \$9,293. The balance that was paid at the end of June was in the area of \$6,000, and the same amount was readvanced on 2 July. It appears that the nature of that transaction around the end of the financial year was possibly designed to prevent the fact that such an advance had been made from being disclosed in the annual report. The final repayment of that amount was made in November 2002 after Ms McCaskill lost her seat on the board.

Senator FERRIS—There are a number of comments and recommendations in this Pricewaterhouse report which refer to legal advice and attempts to have payments refunded, and various activities are recommended by PricewaterhouseCoopers as part of their process. Can you update the committee on whether any of the funds that you have sought to have repaid in the various areas they have identified have in fact been repaid?

Mr van Rooyen—Yes, we have recovered some of the directors' fees advanced. There are still two directors whose advance payments are outstanding. They are in the hands of our legal counsel and we are progressing that.

Senator FERRIS—Can you name those two directors?

Mr van Rooyen—They were the chair, Ms McCaskill, and Mr Dorber. We are still endeavouring to recover, via Shear Express, a company in which we have a substantial investment, the advanced director's fees in respect of Shear Express. Again, that company is proceeding down the legal route to ensure that we recover those moneys as well. In respect of the travel moneys outstanding, we have received part of the travel moneys back, but there is still an amount outstanding and our lawyers are proceeding with that as well.

Senator FERRIS—What about some of these other issues—the children, the conflict of interest, the questions related to tender processes and so on—which appear to raise questions in relation to Corporations Law? What action is AWI taking in relation to those issues?

Mr van Rooyen—We have adopted this view in some of those cases: is it commercially sensible to proceed? I am not being specific as to any particular cases here, but in some cases our legal advice has been that it would be questionable whether we would be successful in a legal challenge and in that case we have taken a commercial decision not to proceed. In areas where our legal advice is strong, we will be proceeding.

Senator FERRIS—Perhaps when you have had the opportunity to reflect on those details you might provide those to the committee so that we can consider those actions.

Mr Targ—Just to go back to that question about the gymnasium, I have the information here. To equip the gym cost \$52,525. The amount recovered from employees against that is in the order of \$15,000, until we closed the gym to make way for office space.

Senator FERRIS—How much was raised as a result of dispensing the equipment?

Mr Targ—The equipment was sold for \$20,000.

CHAIR—Through an internal or external sale?

Mr Targ—It was sold externally.

CHAIR—I draw your attention to clause 22.2 of the statutory funding agreement. It states:

The Company must ensure that, as part of the audit, the auditor audit, and report (at the Company's cost) on, the Company's compliance with its obligation under this Agreement in relation to the Funds.

In view of that clause, in clause 6.2 of your advice to the committee you advise that PricewaterhouseCoopers advised the board that Mr Dorber requested that the auditors only conduct the statutory audit. Do you have any information as to why Mr Dorber gave that advice?

Mr van Rooyen—I do not.

CHAIR—To your knowledge, did anyone at AWI point out to Mr Dorber or to the chief finance officer at the time that the statutory funding agreement makes it obligatory to provide the special audit certificate?

Mr van Rooyen—It was before my time; I cannot answer that.

CHAIR—You then go on to advise that the board at this stage has no plans to seek a certificate retrospectively for 2001-02 because the board is concerned that that certificate may be heavily qualified. In the interests of a proper appreciation of any AWI expenditure problems for that year, isn't it important to obtain such a certificate, however heavily qualified it might be?

Mr Targ—I have had quite extensive discussions with PricewaterhouseCoopers and the department on this particular issue. We are concentrating pretty heavily on getting this certificate in relation to 2002-03 accounts. As you could well imagine, the auditors are inclined to heavily qualify that opinion because of what is being thrown up, firstly, by the PricewaterhouseCoopers report, and, secondly, by this inquiry. They will comment in relation to the company's compliance with the statutory funding agreement in the course of their statutory audit. They will concentrate on material transactions and form a judgment. Obviously, they will have to qualify it to the extent that other PricewaterhouseCoopers reports have indicated possible areas.

The third thing is that we are in the course of preparing a response to a letter sent to us by the minister in which he requested fairly specific information about a number of issues highlighted in the PricewaterhouseCoopers report. He has requested information about what remedial action the company has taken in relation to the matters he has raised. We are getting our response audited by PricewaterhouseCoopers to provide a level of comfort that what is being said in that response is in fact happening.

CHAIR—Would that be, in turn, the answer to this question: what test does the auditor foresee applying to the test in clause 5 of the statutory funding agreement that expenditure and application of funds was for any given year efficient, effective and ethical?

Mr Targ—That is the answer in relation to 2002-03. In our three-way discussion we felt that that was probably the most appropriate, cost-effective and efficient way of dealing with that particular requirement.

Senator O'BRIEN—Returning to the point I was at in terms of Mr Dorber's interaction with the department on the statutory funding agreement, I consider that a critical part of the terms of reference of this inquiry, so I want to pursue it. There was a letter from Mr Dorber to Mr Taylor dated 14 November. It runs to nearly nine pages. I am sure you are aware of it because AWI has provided it to this committee. Are you aware that the former board approved that letter?

Mr van Rooyen—I am not aware of that.

Senator O'BRIEN—Would that be contained in the minutes, if it were?

Mr van Rooyen—I have been through the minutes of the company and all its committees, and I do not recall that being minuted like that.

Senator O'BRIEN—On page 3 of that letter, Mr Dorber states that, far from being inadequate, the level of information provided to the government—according to Rod Price, the AWI board and himself—had been exceptional, and he was amazed at the proposition that AWI had shown a lack of desire to work with government. It seems to me that, in contrast with Mr Dorber's evidence and based on Mr Dorber's own correspondence, statutory funding agreement reporting requirements had indeed not been waived, that at the end of 2001 compliance with the statutory funding agreement was inadequate and that there was a view in government that AWI was not working proactively or consultatively. Has that fact emerged to you and has that motivated the desire of the current board to improve the situation?

Mr van Rooyen—The only thing that motivates the current board is the current board's view of our obligations under Corporations Law and the statutory funding agreement. We have certainly taken notice of history from the point of view of what the department and the minister have advised us. But at the end of the day our desire is to ensure that we totally comply with our obligations under the statutory funding agreement and Corporations Law.

Senator O'BRIEN—So the board does not have a view of whether Mr Dorber and the board complied with the requirements of the statutory funding agreement—is that what you are telling us?

Mr van Rooyen—No, I am not saying we do not have a view. Our view is that there was possibly a lack of compliance in the past. But what we are aiming to do is ensure that from the time we have been elected we comply. That is why we are working with the department to ensure that we do comply.

Senator O'BRIEN—So that is an ongoing process?

Mr van Rooyen—That is an ongoing process, yes.

Senator O'BRIEN—Are you saying that the department have not raised with you the issues of difference they had with Mr Dorber in seeking to develop the relationship for the future?

Mr van Rooyen—I would like to ask Mr Targ to respond to that, because at the board level I am not actually interacting with the department directly.

Mr Targ—On operational issues, such as how we will provide a clause 22.2 audit certificate, for example, or what form the annual report for 2002-03 will take, we are having extensive and ongoing discussions with the department. I think they have been fairly diplomatic in relation to any issues they might have had in the past. I think they are concentrating with us, as a team, on what we are going to do now for 2002-03.

Senator O'BRIEN—What do you mean by 'diplomatic'?

Mr Targ—I do not think they are necessarily raising with us any particular issues they might have had in the past. It predates me and it certainly predates the board.

Senator O'BRIEN—So they are not saying, 'Look, we had this problem with the previous board; these were the issues we raised. What is your view about these?'

Mr Targ—In general terms they are. In general terms they are saying, 'We didn't get a clause 22.2 certificate last year; we definitely require one this year, so how are you going to go about it? We didn't get a complete annual report last year; we need one this year. How are you going to do that?' Then there are discussions. For example, this year, because it is a wool poll year, we had to produce a review of performance, so we have been in constant contact with the department about the review of performance and making that available to levy payers.

Senator O'BRIEN—So what the department is saying to you is: 'These things that we didn't get last year that we want this year are requirements to satisfy the terms of the statutory funding agreement'?

Mr Targ—They are putting it in the context of requirements under the statutory funding agreement, but always underpinning that is the notion that the statutory funding agreement itself is a document which defines the relationship between the Commonwealth and us.

Senator O'BRIEN—As it should be. I am just interested that they are expressing to you the deficiencies that occurred in the past. I guess that raises some questions for the department. On the face of what you say, they are conceding that there was a deficiency in their interaction with the board.

Mr Targ—I do not think they are telling us that. That is an issue I suspect you will have to take up with the department.

Senator O'BRIEN—No, they might not say it in those words.

Mr Targ—They are certainly raising with us that there were some things that were not done last year which they want corrected, and we have taken that on board.

Senator O'BRIEN—There was a financial statement published for Australian Wool Services for the year ending June 2001 and it appears that that was the only statement that picked up AWI for that financial year. My reading of the AWS account indicates that, as at 30 June 2001, AWI held total assets of \$74.6 million, cash of \$26.3 million and revenue from ordinary activities of \$32.8 million. Can I take it that that would mean revenue from levies and consolidated revenue?

Mr van Rooyen—I am not sure. We have not really analysed the 2001 financial year numbers in any shape or form.

Senator O'BRIEN—You would be able to ascertain that for us, would you?

Mr van Rooyen—I will take that on notice, if you like.

Senator O'BRIEN—I take it that, from your understanding of the statutory funding agreement, decisions taken prior to 30 June 2001 fell under the terms of that agreement? The statutory funding agreement came in at

the end of December 2000, so there would have been decisions taken prior to 30 June 2001 that fell under the terms of the statutory funding agreement, one would have thought.

Mr van Rooyen—Given that the company was formed formally, I think, in January 2001, yes, I think you are right. The statutory funding agreement would have been applicable.

Mr Targ—Yes, it would, because this agreement came into effect on conversion time, which has the meaning given to it in the act, which I think is 1 January 2001.

Senator O'BRIEN—I am asking these questions because there are a number of statements by Mr Dorber. In a statement he filed to the committee headed 'Claims of reporting concerns raised by AFFA departmental officers and administration of the statutory funding agreement' he stated that the complex and detailed project management and assessment tool known as Innovar was used for almost every project and concept assessment from approximately May 2001, which I think tells us there were a number of projects which commenced prior to the end of the 2000-01 financial year.

In terms of the statutory funding agreement, he told us in June that the government had told him that 'compliance with the statutory funding agreement would emerge over time'. Given that we know that there was a difference between AFFA and AWI as to what compliance would have meant, Mr van Rooyen, would you agree that the obligations imposed on the former board under the statutory funding agreement were immediate and could not be met over time? Compliance with the statutory funding agreement started from the inception of the statutory funding agreement—

Mr van Rooyen—Yes.

Senator O'BRIEN—and compliance could not be deferred to a later time.

Mr van Rooyen—Absolutely. The agreement came into effect on 1 January 2001 and the obligations commenced as of that date.

Senator O'BRIEN—The management of funds and the application of funds, 4 and 5, were immediate?

Mr van Rooyen—Absolutely.

Senator O'BRIEN—You may not be able to answer this now but I would like to find out whether the board records indicate when the former AWI board and the board audit committee approved the systems procedures and controls put in place to ensure compliance with clause 4.1 of the statutory funding agreement.

Mr van Rooyen—We will take that on notice.

Senator O'BRIEN—I would like to know when those arrangements were settled and when the former board commenced approving or endorsing Mr Dorber's approval of funding for projects—although I am taking it from some evidence we heard today that they did not formally approve or endorse the decisions; they had delegated them to Mr Dorber.

Mr van Rooyen—Apparently not. I also correct one comment that you read from there. Mr Dorber said that nearly every project went through the Innovar process. As we have already given evidence, that is not the case; that is incorrect.

Senator O'BRIEN—Do you know what proportion would have gone through the Innovar process?

Mr van Rooyen—The only projects that could have gone through Innovar were the on-farm projects, and, to the best of my knowledge, less than 50 per cent of the projects at that time were on-farm projects, and not necessarily every one went through that. I could take that on notice and give you a breakdown.

Senator O'BRIEN—Thank you. The board papers indicate that there was not a formal process of approval of projects from the time of the delegation to Mr Dorber of how to approve projects of a value of up to \$2 million?

Mr van Rooyen—From the records on the company that I have looked at, I cannot really comment on how the former board managed that process.

Senator O'BRIEN—I apologise for having to put these questions to you, but the former board chair has refused to appear before this inquiry, so I am seeking the best evidence that I can obtain in the circumstances and balancing the evidence from Mr Dorber in the light of a number of pieces of evidence which are absolutely in contrast to what he has told us. How would the current board satisfy itself that all funds committed are being used in accordance with the statutory funding agreement? Presumably there are contracts entered into that are ongoing which commenced under the former board.

Mr van Rooyen—There are a number of contracts that were entered into before we were elected. We have reviewed a number of them. There are some that we thought were borderline in fitting in under the statutory funding agreement. But, in nearly every case, there was a legal commitment to that expenditure and it was our view in a lot of cases that we should just see the projects through. For all new projects, as has already been indicated by Mr Targ, we do insist that every project comes to us and, as a matter of example, every project comes to the board even though we have delegated levels of authority. They are not as generous as the previous board, but we are seeing every single project. They have to demonstrate to us which clause of the statutory funding agreement that particular project falls under and they also have to demonstrate to us whether there is evidence of market failure. So we are looking at every level of expense in the organisation.

That is why, immediately we were elected, the first questions we asked were, ‘What does it cost to run the company? What are the overheads of the company?’ You have probably seen, and I think that it is in Mr Dorber’s evidence, that in his time the expenses of the company were only \$3.7 million. That is absolute nonsense. With respect to the expenses of the company—and it has been evidenced in the reports by PricewaterhouseCoopers—it had already spent that amount of money in the first three or four months of the financial year, before we were elected. There was a process of taking overheads and allocating them to projects. In my mind, that is not transparent, it is not open and it reveals a lack of integrity because it is designed to deceive.

Senator O’BRIEN—When looking at the projects which commitment had been made to, your first comment—which is probably a very prudent one—that they were borderline raises the question of, if you were required to fund those on an ongoing basis, how you would acquit them against the statutory funding agreement, which your board still has to do.

Mr van Rooyen—We will measure them against the statutory funding agreement and, if we believe they do not fall within that, we will declare it. It is our obligation to do so.

Senator O’BRIEN—What are the ramifications of the commitments of growers’ and taxpayers’ funds to projects which are not in compliance with the statutory funding agreement? Is there any opportunity to revisit those matters, for example by the Commonwealth?

Mr Targ—Most of them are covered by validly executed contracts.

Senator O’BRIEN—That is a problem for the company, not the Commonwealth, isn’t it?

Mr Targ—They are valid contracts, so to break those contracts you have to look at the terms and conditions of the contracts themselves. I can give you a couple of examples. In one case, a fairly large project was fairly heavily front-end loaded with advance payments. The board looked at the project and determined after about 12 months of a two-year period for the project that it was not going anywhere. It was probably fairly marginal under the statutory funding agreement; you could argue one way or the other. To terminate the contract there and then would have effectively resulted in a penalty payment being made by the company. The company determined that, whatever benefit was being reaped by the project, they may as well see it through until the next revision point, and terminate it then if there had still been no further improvement. That is what the company, in effect, did. That is an example where the individual terms and conditions governed how we went about writing the company out of the commitment.

In the case of another project, the Somerville rock and fossil museum, the company had committed \$100,000 in cash and \$150,000 in kind to the foundation. The sum of \$100,000 had been paid in cash and the company had the right to terminate there and then, and it did, so the \$150,000 in kind was never paid. So it is governed by the terms and conditions of the individual contracts.

Senator O’BRIEN—I understand what might be prudent so far as the company is concerned in relation to those contracts, but my question went to the issue of the impact of the statutory funding agreement on the company’s obligations to the Commonwealth and what the Commonwealth’s rights are. I think the Commonwealth does have the right to recoup money, doesn’t it, under the statutory funding agreement?

Mr Targ—The issue is: has there been a breach of the statutory funding agreement? If you could clearly establish that then that is the course of action open for the Commonwealth.

Senator O’BRIEN—Has the board considered that issue in relation to the projects entered into by the previous board?

Mr van Rooyen—The board has. In fact, Farmhand is a very good example. In our view, Farmhand was a clear breach of the statutory funding agreement and we made sure that the money was recouped.

Senator FERRIS—What about the film that has attracted half a million dollars in up-front funding without any asset backing? What has happened about that?

Mr van Rooyen—That is an interesting project. In fact, our view is that that project will probably be delivered properly, notwithstanding the fact that we were very uncomfortable with the manner in which the moneys were advanced. We believe that falls under the issue of education, under the company's strategic plan. Without having seen the outcome of the film, I do not believe it is in breach of the statutory funding agreement, but we do believe there will be a successful outcome there.

Senator O'BRIEN—In relation to these projects, I take it that the current board has to satisfy itself that the funds were properly authorised and accounted for and that an auditor could readily verify that the funds were spent only in accordance with the statutory funding agreement?

Mr van Rooyen—That, of course, will be the subject of the audit that is required under the statutory funding agreement, and that will be provided in respect to the year just concluded.

Senator O'BRIEN—That is the issue that you are going to have to face with some of those projects. An independent auditor is going to have to verify that the funds were spent only in accordance with the statutory funding agreement?

Mr van Rooyen—That is correct.

Mr Targ—The difficulty with all of that is the subjectivity of some of the terms used in the statutory funding agreement: 'efficiency,' 'ethical,' 'for the benefit of wool growers'. Some of those things are very subjective, as you could imagine. You might have a view that might be different to mine on some of those things. I think it will be very difficult for an auditor to be absolute in those sorts of instances. There are some clear-cut instances where there might have been breaches but, in other cases, they are borderline.

Senator O'BRIEN—It is a problem that those subjective tests need to be made by the auditor. There should be a more objective criteria, should there?

Mr Targ—I know that once you start talking about what is ethical, what is efficient and what is for the benefit of wool growers, you get into the area of subjectivity at times. Courts would have a field day with some of that stuff. The intent is clear, and the board have a very clear view about those things and they have reinforced their views with management. We are in the course of implementing the meaning of those. How an independent auditor comes through after the event is an issue we are wrestling with at the moment.

Senator O'BRIEN—Obviously, you had a look at all of the reports the company operations manager provided to Mr Dorber, the board and the board audit committee in relation to compliance with the statutory funding agreement. I think you said earlier that they were fairly short. Did I understand you correctly?

Mr van Rooyen—Yes, they were short. The operations manager has no recollection of reporting in writing to the managing director, the board or the finance and audit committee about the AFFA-AWI relationship. He did report verbally to the MD on several occasions after visits to AFFA offices in Canberra or when AFFA personnel visited the AWI office. He did report verbally that the relationship was developing into a solid working relationship. He also accompanied the managing director to an AFFA staff conference on one occasion, at which time he was invited to address AFFA staff about AWI and its future direction, but he has no recollection at all of reporting in writing about the relationship.

Senator O'BRIEN—That is the same company operations manager who was on staff for the entire period of Mr Dorber's reign?

Mr van Rooyen—Correct.

Senator O'BRIEN—He says he provided no monthly reports in writing.

Mr van Rooyen—He has no recollection of reporting in writing to the managing director, the board or the finance and audit committee about the AFFA-AWI relationship.

Senator O'BRIEN—Does he say he might have done it some other way?

Mr van Rooyen—He did report verbally on several occasions after visits to AFFA offices in Canberra.

Senator O'BRIEN—That obviously does not mean every month?

Mr van Rooyen—No.

Senator O'BRIEN—In written advice to the committee, Mr Dorber said that it was not unusual to make advance payments under what he described as 'properly controlled conditions'. How does the AWI board and the audit committee test what were properly controlled conditions—whatever that means?

Mr van Rooyen—That was the old board that made advanced payments under so-called 'properly controlled conditions'. The example of the \$500,000 advance to a sole trader is to my mind an example of a very poor condition under which to advance moneys. We have set a very strict advance payment policy program in position. Management are well aware of this and follow the process. In our view the previous procedure was somewhat lacking.

Senator O'BRIEN—What were the rules before, do you know? Have you discovered any rules that existed before?

Mr van Rooyen—There was a company policy and procedures manual with authority limits et cetera. I do not believe that advance payments were specifically covered by that.

Senator O'BRIEN—Can you check that, just to make sure?

Mr van Rooyen—I will take that on notice, Senator.

Senator O'BRIEN—I take it you would not have an objection to supplying us with the details of the rules that you now apply. I think you have gone over it, but I want to have a complete answer on it.

Mr van Rooyen—Our policies and procedures in respect of authorities and advance payments?

Senator O'BRIEN—Yes.

Mr van Rooyen—I will take that on notice and supply that.

Senator O'BRIEN—Thank you. Would it be normal for the current board to take independent legal advice or any other advice in relation to payments for research projects, for example, to see how it fitted with the statutory funding agreement?

Mr van Rooyen—If a board had a concern about that, I could see the board taking advice, yes. We take advice on a number of matters if we have a concern and we are not sure—it is prudent.

Senator O'BRIEN—Do you know whether the former board ever took legal advice or other advice in relation to making advance payments for research projects?

Mr van Rooyen—I cannot comment on that.

Senator O'BRIEN—There were some specific projects funded by AWI under the former board—and you may not be able to respond directly today, but I think the committee would like a response from you. Minter Ellison, on behalf of AWI, wrote to Mr Dorber on 18 March 2003 and sought an explanation as to the basis for the expenditure directly by Mr Dorber of \$4,033.20 on Shakespearean plays, including the *Taming of the Shrew* and *Romeo and Juliet*, for Cromer High School, and an explanation for the expenditure of 9,360 for disabled children and their family carers to go to Movie Mania. The letter asked how both those projects fitted with section 5 of the statutory funding agreement. Is there any evidence in board papers of those projects coming before the board or the audit committee?

Mr van Rooyen—No, there is not. Are you referring to the previous board?

Senator O'BRIEN—Yes.

Mr van Rooyen—No, it was not brought to their finance and audit committee at all. Certainly, the current finance and audit committee is pursuing those matters. To date, we have not had the courtesy of a reply.

Senator O'BRIEN—On 31 March 2003, Carolyn O'Dea, on behalf of Mr Dorber, responded to the Minter Ellison letter. That letter advised in part that 'all expenditure by Mr Dorber was properly authorised either through the terms and conditions of his employment authority or delegations from the board, or both'. Is there any evidence in board papers that Mr Dorber had the authority to spend money on books of Shakespearean plays and trips to the movies for children?

Mr van Rooyen—It is difficult to comment on that because we do not have specific details of his authorities other than his capital expenditure authority, which is the \$2 million that has been spoken about a lot here today. I do not have the details of his expense authorities. Certainly, our new procedures cover that. as you will see when we supply them to you.

Senator O'BRIEN—Do I take it that the current board is not contesting that Mr Dorber was entitled to expend those funds?

Mr van Rooyen—The issue comes back to the statutory funding agreement.

Senator O'BRIEN—It is twofold, isn't it? It is whether he had the authority to spend it anyway and, if he did, was he spending moneys properly under the statutory funding agreement?

Mr van Rooyen—As we understand it, it would appear that these expenditures fell within his \$2 million authority as well. He appears to have had the authority to spend those moneys. The real issue from our perspective is: was it in terms of the statutory funding agreement?

Senator O'BRIEN—Could the board authorise expenditure beyond the terms of the statutory funding agreement?

Mr van Rooyen—This board would not do that.

Senator O'BRIEN—Could any board do that? Have you taken advice on that?

Mr van Rooyen—We have not taken advice on that because we do not intend to do that.

Senator O'BRIEN—You are looking at the question of recovering money, potentially, from Mr Dorber, I take it. If he relies on authorities given surely you would investigate whether the power to give that authority rested with the board.

Mr van Rooyen—A number of these issues are subject to legal process at the moment. I will take that one on notice even if I cannot comment now.

Senator O'BRIEN—I would appreciate that. I wondered how, if there was authority, such payment complied with section 5.1 of the statutory funding agreement. There have been some questions and answers in relation to the circumstances surrounding the employment and termination of Mr Luke Dorber. From the information we have been supplied he commenced on 27 August 2001 on a salary of \$47,500 per annum, subject to annual review against key performance indicators. That salary jumped to \$86,000 on 3 May 2002, eight months later. On 17 June, 44 days after his salary jumped by 80 per cent, apparently Ms McCaskill approved and authorised the payment of a \$5,000 bonus net of tax. On 15 November 2002 a payment of \$10,000 was electronically transferred to him and was authorised by Mr Lee and Mr Thomson, but the authorisation was made five days after the payment was made. That is right, isn't it? The payment was made on 15 November but the authorisation was not actually given until 20 November. Is that an unusual practice?

Mr van Rooyen—It is certainly not a normal practice. For a payment to be made there needs to be proper authorisation. Proper authorisation is required to generate the payment. In this case you are correct: it would appear that the payment was made and the authorisation was post the event. It is unusual. It has been reported by PricewaterhouseCoopers and, as indicated by them, there was no evidence found to explain or justify the payments made.

Senator O'BRIEN—On 25 November, five days after the authorisation for the payment of the second performance bonus, according to your evidence, Mr Luke Dorber's employment is terminated by his father with a payout of \$64,031.66. Do I take it that Mr Colin Dorber made the termination and authorised the payment of the \$64,031.66. That is before tax, I think.

Mr van Rooyen—It is \$64,000 after tax. The payment was \$94,649 before tax. Our information indicates that that was the case, that Mr Dorber instructed those payments to be made.

Senator FERRIS—In defiance of any board structure.

Mr van Rooyen—It was not referred to the board. He instructed the operations manager and the chief financial officer. In our questioning of them, they indicated that they believed it was within the authority limits that he had and they made the payments.

Senator O'BRIEN—Over a period of 15 months, the cost to AWI of employing Luke Dorber was around \$170,000, based on his salary alone, plus \$15,000 after tax in bonus payments. It translates to about \$2,650 a week for the period of his employment. That is without on-costs of course. What sort of salary cost would normally apply to the type of position that he filled?

Mr van Rooyen—First of all, some of that payment was in fact the termination payment. I think that you have added that in there because for a 12-month forward period he was responsible for—

Senator O'BRIEN—But that is not the norm, is it? How many of your employees would receive that sort of payment?

Mr van Rooyen—His annual salary was based on \$86,000 a year.

Senator O'BRIEN—It was a very generous payment—a year's termination payment.

Mr van Rooyen—The termination payment, in our view, was excessive.

Senator O'BRIEN—What should it have been?

Mr van Rooyen—For an employee, in my experience, who has been employed for 18 months, a termination payment would probably rank somewhere between three and six months.

Senator FERRIS—What are you doing about that?

Mr van Rooyen—At the moment, we have no legal process in train on that. The terminations were made, the payments were made and they were lawful. They were authorised properly within the authorities in place at the time. They were excessive. The issue here is whether Mr Dorber, in his conflict of interest, exercised proper duty and care as a director of a company. That is an issue that we are discussing with our legal advisers.

Senator O'BRIEN—Were they ethical?

Mr van Rooyen—Are you asking me for an opinion?

Senator O'BRIEN—You know why I am asking: the statutory funding agreement says that the payment should be ethical.

Mr van Rooyen—I do not believe that Mr Dorber should have intervened in the termination of his children. He should have acted in the same manner that he acted in the employment of his children. He allowed somebody else to handle it and authorise it—the chair of the company—and in this case he should have removed himself from the process. That is my opinion.

Senator O'BRIEN—Were any grounds ever stated for the termination?

Mr van Rooyen—His advice to the chair, and I believe the emails are attached in our folders, is that he felt that they were being discriminated against because of their name, and on that basis he decided to terminate them without reference to the chair. If you look at the emails that are attached, when Mr McLachlan questioned him about this and said, 'I wish you'd spoken to me first,' I believe his response went, 'I thought managers managed and directors directed or the board directed.' It was something to that effect. Clearly he took it upon himself and decided he would not refer it to the chair or the board as was proper and as he should have done. That was his judgment, or lack of.

Senator O'BRIEN—So the grounds were that the board would discriminate against his children and therefore he terminated them and paid the money?

Mr van Rooyen—No. The board questioned his judgment in appointing his children in what the board considered to be a lack of transparency. At our first meeting we questioned him about that. We felt that it was not correct that his children should have even been employed in a public company with a limited number of employees, particularly with the lack of transparency in the employment process. But he was clearly told the board was not making a judgment at that time. Off his own bat he decided that he would terminate them, and his grounds for termination were that he felt they were being discriminated against because of their surname.

Senator O'BRIEN—So he terminated both of them? You say that he signed the acceptance of termination payment on his daughter's behalf?

Mr van Rooyen—I think he signed the calculation sheet for his daughter. He signed the acceptance of his daughter's termination payment on her behalf and a copy of that document is at attachment 12.

Senator FERRIS—Having directed it to be calculated, he then signed it on her behalf?

Mr van Rooyen—That is correct.

Senator O'BRIEN—Ms McCaskill was the chief executive officer of the Beverage Industry Environment Council at the same time as being the chair of AWI. In the PricewaterhouseCoopers audit, there is reference to three payments totalling \$31,990.65 made to that council. The audit report said that the amount was in relation to fees for Ms McCaskill to attend AWI business meetings away from Sydney between 1 March 2001 and 25 October 2002. In your view, is that a normal arrangement in such circumstances?

Mr van Rooyen—The new board has resolved that board fees cover any time that a board member needs to attend on company business. Quite frankly, if that time is excessive and necessitates time away from one's full-time employment or otherwise and if one cannot make that time available within the fees that are paid, one should not be on that board. These payments were made in addition to the board fees paid to the chair, I understand because of time that the chair was spending on AWI business and was away from the beverage

council. In my view, that is not usual; it is certainly not something that will be done by the current board. The chairman has made it very clear to all board members that the fees are there as fees and there will be no additional fees paid.

Senator O'BRIEN—Similarly, the reference to additional payments to Ms McCaskill for her work as the chair—she was getting a normal board fee plus a payment for being the chair, I take it?

Mr van Rooyen—The normal process is that the chair of a company does receive a higher annual fee than a director. That is a quite normal process.

Senator O'BRIEN—I know we have touched on the Farmhand matter, but I want to go through a couple of points again. Mr Dorber told this committee that AWI had in fact withdrawn the funding to Red Cross because Red Cross would not sign an agreement as to how the funds would be spent. He said he then rang the finance officer at the Red Cross. He said he was not aware of any attempt to transfer the funds electronically and that the AWI finance officer had hand-delivered a cheque on 18 October. WoolProducers' submission claims that AWI attempted to transfer \$500,000 electronically to the Farmhand appeal on 18 October but that the web site rejected the donation because of size. Does AWI have any record of that attempt?

Mr Targ—I have attempted to find one, but I cannot find one. We can only find reference to the cheque that was raised.

Mr van Rooyen—The cheque was raised on 11 October 2002, even though it was only presented quite late in the month.

Senator O'BRIEN—Is there any evidence of a covering letter that would have gone with the cheque?

Mr van Rooyen—No, there is not.

Senator FERRIS—Mr Dorber, I think, told this committee in June that in fact the funds had been withdrawn. Do I understand you correctly to say that in fact you arranged to have the funds returned?

Mr van Rooyen—No, we did not arrange to have the funds returned. What we did was express our dissatisfaction with the whole process of the Farmhand appeal, at our first board meeting on 6 November. In fact it is interesting that on that same day when we were due to have the first board meeting in Sydney, on Mr Dorber's instructions an attempt was made to stop the cheque that had already been presented on 30 October. Obviously this was one of the issues the new board raised, and we were told that it was subject to contract, subject to a legal letter of agreement. Of course at that time AFFA were also raising concerns about whether this met the obligations under the statutory funding agreement. Then the AWI operations manager in fact attempted to get the Red Cross to agree to the terms and conditions which were in the letter of 25 October, that I referred to earlier. Obviously the Red Cross refused to accept this, because they had been given the cheque earlier without any conditions attached to it, as best we can establish. Finally the Red Cross agreed to return the funds.

CHAIR—Did you say the cheque was drawn on 10 October?

Mr van Rooyen—We have details in our evidence which indicate that the cheque was drawn on 11 October.

CHAIR—When was it banked by the Red Cross?

Mr van Rooyen—On 30 October.

Senator O'BRIEN—And it was delivered to them on 18 October?

Mr van Rooyen—So it seems.

CHAIR—So it was banked after they refused to sign, or whatever the process was?

Mr van Rooyen—Yes. I do not know what the process was. Some companies are—and I am not suggesting the Red Cross are—slow in banking cheques, and I can only assume it went through their normal process.

Senator O'BRIEN—Did AWI send a letter to the Red Cross requesting that conditions be applied to the donation? If so, when?

Mr van Rooyen—Yes, they did. The first correspondence that we can find in the files is dated 25 October 2002 from Ms Kirsty McCann for Col Dorber, Managing Director. The letter reads:

Australian Wool Innovation has contributed the sum of \$500,000 to the Farmhand Drought Appeal subject to the following conditions ...

Then it lists three conditions and says:

It is a precondition of this grant that these terms be adhered to.

That is the first correspondence that we can trace at all of these conditions, and we do not have a signed copy of that letter in our files.

Senator FERRIS—What date was that?

Mr van Rooyen—It was 25 October.

Senator FERRIS—That was two weeks after the cheque had been sent.

Mr van Rooyen—After the cheque had been drawn internally and just over two weeks after it had been announced on radio.

Senator O'BRIEN—Was there any special event occurring on that day?

Mr van Rooyen—On 25 October?

Senator O'BRIEN—Yes.

Mr van Rooyen—The only special event I can think of is that by now the media were having a field day about this particular donation.

Senator O'BRIEN—Was the board meeting around that time?

Mr van Rooyen—No. The election was coming up within a few days of that.

Senator O'BRIEN—I suppose we need to know when the letter was actually delivered. Obviously the new board discussed the Farmhand donation and had a discussion with Mr Dorber, I take it, about the appropriateness of making the donation.

Mr van Rooyen—We did. About the same time of the new board meeting, the secretary, Mr Taylor, wrote to Mr Dorber expressing concern about the donation and asking whether it complied with statutory funding agreement. Also it would be interesting to note that on 6 November the Red Cross wrote to the company expressing their appreciation for the support and the company's generous donation—it does not refer in any shape or form to conditions.

Senator O'BRIEN—What was the date on the letter?

Mr van Rooyen—The date of the Red Cross letter was 6 November.

Senator O'BRIEN—The date of your board meeting?

Mr van Rooyen—Correct. They made no reference to the letter which apparently was sent on 25 October. To the best of my knowledge, I do not think the Red Cross are able to demonstrate that they received a letter of that date.

Senator O'BRIEN—To be clear on that, we may need to ask them. I understand that half a million dollars was repaid on 20 November.

Mr van Rooyen—Correct. There was a handwritten note on the Red Cross letter to the operations manager from Mr Dorber saying, 'Please sort this out.' That was dated 15 November, and the funds were returned shortly after that.

Senator FERRIS—Senator O'Brien and I had been asking questions that morning in our normal estimates process that might have assisted that process.

Senator O'BRIEN—That is my recollection. The chairman, Mr McLachlan, responded, four days after the donation had been returned, that the new board was examining the facts. You referred to the letter from the minister, Mr Truss, which is dated 18 November, regarding whether the donation met the terms of the statutory funding agreement. Mr Dorber told this committee in June that at no time had the Commonwealth or any minister suggested the Farmhand donation or negotiations breached the statutory funding agreement. That is obviously not the case. Was that discussed by the board and Mr Dorber when the new board sought to examine the facts of the donation?

Mr van Rooyen—The minister's letter was not discussed because the letter was received after our first board meeting. We only had one board meeting with Mr Dorber and then he and the company parted company.

Senator O'BRIEN—So he may not have been aware of that letter?

Mr van Rooyen—He was aware of this letter—it arrived while he was still employed by the company. The letter from the minister was dated 18 November. It went to the company offices and it was addressed to the chairman. It raised specific concerns about the donation and the statutory funding agreement.

Senator O'BRIEN—But do you know that he saw that letter?

Mr van Rooyen—I cannot categorically say he saw the letter, but I believe he did because I think he referred it on to Mr McLachlan in Adelaide.

Senator O'BRIEN—Can you confirm that for us?

Mr van Rooyen—I will take that on notice and verify that.

Senator O'BRIEN—I want to move to the issue of the AWI elections in 2002 and some emails provided by AWI. The first is an email from Mr Colin Dorber to Clair Braund and is dated 21 September 2002. As discussed earlier, this email from Ms Braund was addressed to a large number of people, including the AWI board and Mr John Roydhouse. Ms Braund—from i2K Communications, as I am sure you are aware—states:

For those of you who require an introduction, I have been retained to assist with the campaign for the re-election of the current AWI Board.

It continues:

As the re-election issue has some urgency, please do not hesitate to call at any time.

The second email from Ms Braund to Mr Dorber, Ms McCaskill and, again, John Roydhouse says, amongst other things:

Any political interviews to be handled by the Chair—don't think we can run the risk of putting other up.

Is there any conclusion we should draw from that, other than that the references in that email are to the business of conducting a political campaign about the board election?

Mr van Rooyen—That is exactly the inference that I and the rest of the board have taken from those emails.

Senator O'BRIEN—What do you know about the passage which says:

Advertising—open to suggestion here, but I would not advocate running provocative ads at this stage.

Were you aware of part of an advertising campaign being conducted by the board at company expense?

Mr van Rooyen—I was very aware of an advertising campaign that was conducted. There certainly was advertising money spent. We have tracked an amount with the advertising agency that the company uses—Hammond and Thackeray. Whilst they had a program in place to advertise on behalf of the company, we believe they also handled some of this advertising because we also located an email subsequently, in fact quite recently, where Claire Braund received an invoice from Hammond and Thackeray for a significant amount of money. She was quite concerned to have received this invoice and sent an email to Mr Dorber saying, 'This cannot be from our account; surely this is for Hammond and Thackeray.' There were clearly moneys paid and certainly, there was the amount of \$4,895.55 that was paid, which was clearly for the re-election of the board. It was in fact that particular one which you may recall—

Senator FERRIS—For the *Hansard*, can you tell us what that heading says.

Mr van Rooyen—It says, 'Who's pulling the wool over whose eyes?'

Senator FERRIS—I think we now know the answer to that question.

Senator O'BRIEN—I would have assumed, and perhaps you would like to comment on this, that the board might productively conduct a campaign to encourage shareholders to vote and to provide information from the various sets of candidates, but could only properly have spent the company's money on material which was impartial to the outcome of the election. Is that a fair assumption of what they could properly have done?

Mr van Rooyen—That would be my interpretation, yes.

Senator O'BRIEN—I am in no doubt that this expenditure would have been in breach of the statutory funding agreement. Is that the current board's view?

Mr van Rooyen—It is certainly the current board's view that any money spent promoting the re-election of directors would be at the expense of the directors concerned. It certainly would not involve the expense of company money. We have clearly resolved this and we have indicated that in our submission. We questioned those advertisements and the expenditure and the answer in one case was given that it was to correct statements made by the opposing nominees, which were 'defamatory'. In other words, it was an attempt to set the record straight, so it came under the heading of putting out the true facts in the marketplace. The reality is that once you get involved in doing those things you really do immediately go over the edge and can be criticised for spending company funds on electioneering.

CHAIR—How much was spent?

Mr van Rooyen—In this particular case that advertisement was \$4,865. There was a total of \$13,000, which was sent to i2K Communications, which we have not been able to track specifically to advertisements and link them to being advertisements directly related—

CHAIR—That was the one you referred to earlier where someone had received an invoice and she hoped it was not hers.

Mr van Rooyen—That was the \$13,000 I was referring to. Going forward, our view has been that we are managing a cash flow here in the past year of the order of \$70-odd million and we have to take commercial judgment on a number of these issues. Yes, where they have been identified by PricewaterhouseCoopers and there are areas for recovery of shareholders' funds, we will be pursuing those. But, at the end of the day, we cannot afford to take our eye off the main ball, which is to be investing shareholders' funds properly for the best return for them.

Senator O'BRIEN—Surely this is a matter of significant principle as to how the company goes on?

Mr van Rooyen—Absolutely, and that is why we have made a statement in our submission that the board have resolved that there will be no company electioneering and that the managing director or chief executive, whatever may be the case, will not get involved in electioneering or the re-election of existing directors. It is quite improper in our view that a non-elected director/chief executive should get involved in that.

Senator FERRIS—Before we move off the topic, I want to ask whether the amount of money spent on the full-page advertisement related to Dr Vizard's resignation is listed in that document you have there?

Mr Targ—It may well be but I have not separately identified that. I will have to take that on notice.

Senator FERRIS—Thank you.

Senator O'BRIEN—I take it from what you are saying that it is not the intention of the board to seek to recover those costs from the previous board and/or Mr Dorber?

Mr van Rooyen—At this stage it is not.

Senator O'BRIEN—The audit refers to a donation by AWI to the Liberal Party of Australia. Is it a surprise that I would take some note of that? It is referred to on page 30—part 21—and it advises that an invoice was received from the Liberal Party as an individual sponsorship for the Millennium Forum. The audit advises it was subsequently withdrawn by the Liberal Party and redirected to Mr Dorber personally. Have you ascertained why it was withdrawn or did you initiate that action by the Liberal Party?

Mr van Rooyen—The invoice was received by the company and we immediately questioned what it was for because clearly, as a new board—and as a policy—we will not and cannot make donations to political parties. When we queried this, I understand it was then withdrawn and it was sent to Mr Dorber personally.

Senator O'BRIEN—It is an invoice for a donation—is that right?

Mr van Rooyen—Correct. There had been no payment made against the invoice.

Senator O'BRIEN—Have you discovered other political donations made by Mr Dorber in his capacity as the CEO of AWI?

Mr van Rooyen—We have checked and, as far as we can ascertain, there have been no donations made.

Senator O'BRIEN—When was that invoice received?

Mr van Rooyen—I think it was in November 2002, but I will take it on notice and let you know.

Senator O'BRIEN—What was the value of the invoice?

Mr van Rooyen—\$5,000.

Senator O'BRIEN—That is a pretty good practice: sending an invoice for a donation of \$5,000.

Mr Targ—It is a membership.

Senator O'BRIEN—It is a membership, is it, not a donation? But it says it is a donation.

Senator FERRIS—I think the most important thing is that no money was paid.

Senator O'BRIEN—That certainly is important. I am interested to know how it was invoiced as a donation but we are now told it is a membership.

Mr van Rooyen—It was an invoice—whether it was for a donation or a membership, I do not know. If I used the word ‘donation’ then I apologise.

Senator O’BIEN—I would be happy for you to clarify that. I would not want this to be misleading, but I heard it was for membership and if it is for a membership then we should know about it.

Mr van Rooyen—Senator, I can clarify it. You have a copy of the PricewaterhouseCoopers report there. It actually says that it was received for individual sponsorship of the Millennium Forum. I think the emphasis there is on the word ‘individual’, which tends to suggest that it was possibly for Mr Dorber personally.

Senator O’BIEN—One would never know. So you have conducted the inquiries. It says here that ‘further inquiries were conducted for all donations per the general ledger made by AWI in the period from January 2002 to December 2002’. Were inquiries made about the previous 12 months?

Mr van Rooyen—No, they were not.

Senator O’BIEN—I suppose that was PricewaterhouseCoopers’ recommendation. I am surprised that they would limit themselves to that range, given that Mr Dorber was in control of the chequebook, effectively, for the six months prior to that.

Mr van Rooyen—Would you like us to take that on notice?

Senator O’BIEN—I would like you to take it on notice and let us know whether there were any other donations in the period of Mr Dorber’s stewardship—however they are described.

Mr van Rooyen—We will take that on notice.

Senator O’BIEN—I am assured that sponsorship in this case really is a donation.

Senator FERRIS—Whatever it was, it was misappropriation of funds.

CHAIR—Thank you very much for your time and patience.

Senator FERRIS—We look forward to receiving that information that you have taken on notice.

Mr Targ—Will that be summarised for us?

Senator FERRIS—The *Hansard* will be available early next week.

[5.13 p.m.]

CAMPBELL, Mr Simon Hay, President, WoolProducers

CHAIR—Mr Campbell, I understand you need a few minutes to clarify a couple of issues.

Mr Campbell—As you know, I have asked in writing to make a few closing remarks, because I have found today's extraordinary evidence disturbing—as will growers. Growers and my members are going to find things that are either not best practice or illegal morally repugnant. All of this comes back to funds largely from growers—four-fifths of the funds are from growers and the balance is from government. Growers from Bourke to Badgingarra and Blackall to Burra are not going to be happy.

I would like to reinforce something that is within our submission, which is that it is the belief of WoolProducers that neither the structure of the wool industry nor the agreement is the cause of the problems that are in front of us. To get to this point has been a very near thing. Had WoolProducers, with its state farm supporters, not existed, had the board not been changed and had the candidates not seen the importance of the company and been prepared to take a professional risk, then I think, on all the evidence, this Senate inquiry would have been looking in the not too distant future at a wool industry company with problems comparable with NRMA or HIH and this has been avoided. There is no need for major structural change. I suspect there is no need to change the SFA. I would like to refer senators back to our submission, which reinforced some very simple actions and tools to ensure that these problems do not occur again such as simple changes to constitutions to make the process inclusive.

Finally, I have observed the senators at work and I note your considerable frustration, which I share, that you have not been able to interview the former chair of the AWI former board. Quite clearly, there are very important matters that should have been responded to. I sympathise with you. Our members would certainly hold that person accountable to shareholders for all of the somewhat extraordinary matters that have been raised in the inquiry today. I again commend the senators for their careful attention to and their obvious interest in a great Australian industry.

CHAIR—Thank you very much, Mr Campbell. Can we put into the public record the submission from Ms Murphy which was delayed in transmission and failed to turn up in time. I will conclude by thanking everyone for their time and attention. I restate on the record that the Senate Rural, Regional and Transport Legislation Committee has a fine record of doing the right thing by wheat, wool, meat or whatever. It operates in a manner which is probably a bit of a guide to other committees across the board. Thank you very much for your attendance.

Committee adjourned at 5.16 p.m.