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Official Committee Hansard

SENATE

FINANCE AND PUBLIC ADMINISTRATION REFERENCES
COMMITTEE

Reference: Regional Partnerships Program

WEDNESDAY, 13 APRIL 2005

CAIRNS

BY AUTHORITY OF THE SENATE

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SENATE

FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

Wednesday, 13 April 2005

Members: Senator Forshaw (*Chair*), Senator Watson (*Deputy Chair*), Senators George Campbell, Heffernan, Moore and Ridgeway

Substitute members: Senators Barnett and Johnston for Senators Watson and Heffernan, Senator Murray for senator Ridgeway, and Senators Carr and O'Brien for Senators George Campbell and Moore

Participating members: Senators Abetz, Brandis, Boswell, Brown, Carr, Chapman, Colbeck, Conroy, Coonan, Crossin, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Fifield, Harradine, Knowles, Ludwig, Lundy, Sandy Macdonald, Mackay, Mason, McGauran, McLucas, Murray, O'Brien, Payne, Robert Ray, Sherry, Stephens, Tchen, Tierney and Webber

Senators in attendance: Senators Carr, Forshaw, Johnston, McLucas, Murray, O'Brien and Stephens

Terms of reference for the inquiry:

To inquire into and report on:

- (1) The administration of the Regional Partnerships program and the Sustainable Regions program, with particular reference to the process by which projects are proposed, considered and approved for funding, including:
 - (a) decisions to fund or not to fund particular projects;
 - (b) the recommendations of area consultative committees;
 - (c) the recommendations of departmental officers and recommendations from any other sources including from other agencies or other levels of government;
 - (d) the nature and extent of the respective roles of the administering department, minister and parliamentary secretary, other ministers and parliamentary secretaries, other senators or members and their advisers and staff in the process of selection of successful applications;
 - (e) the criteria used to take the decision to fund projects;
 - (f) the transparency and accountability of the process and outcomes;
 - (g) the mechanism for authorising the funding of projects;
 - (h) the constitutionality, legality and propriety of any practices whereby any members of either House of Parliament are excluded from committees, boards or other bodies involved in the consideration of proposed projects, or coerced or threatened in an effort to prevent them from freely communicating with their constituents; and
 - (i) whether the operation of the program is consistent with the Auditor-General's 'Better Practice Guide for the Administration of Grants', and is subject to sufficient independent audit.
- (2) With respect to the future administration of similar programs, any safeguards or guidelines which might be put in place to ensure proper accountability for the expenditure of public money, particularly the appropriate arrangements for independent audit of the funding of projects.
- (3) Any related matters.

WITNESSES

BLANCKENSEE, Mr Robert Michael, Chairman, Atherton Tableland Sustainable Regions Advisory Committee; and Chairman, Far North Queensland Area Consultative Committee	132, 97
LAWRENCE, Mr Michael William, Executive Officer, Atherton Tableland Sustainable Regions Advisory Committee	132
McDADE, Mr Peter Joseph, Private capacity	139
O’CONNOR, Mrs Lyn Elizabeth, Private capacity	2
STEWART, Mr Lindsay, Private capacity	31
STRAZZERI, Mr Joe, Private capacity	80
VIEIRA, Mr Tomas Artur, Executive Officer, Far North Queensland Area Consultative Committee.....	97

Committee met at 9.07 a.m.

CHAIR—I declare open this public hearing of the Senate Finance and Public Administration References Committee. Today's hearing is part of the committee's inquiry into the administration of the Regional Partnerships program and the Sustainable Regions Program. We have previously held five public hearings and published quite a number of submissions, which are available on the committee's web site. Today we will be taking evidence from a number of organisations and individuals, commencing with Mrs O'Connor.

For the benefit of witnesses, evidence given to the committee is protected by parliamentary privilege. That means that witnesses are given a very broad protection from action arising from what they say, and the Senate has the power to protect them from any action which disadvantages them on account of the evidence that they give to the committee. Equally, of course, I have to remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. We prefer to conduct all our hearings in public. However, if there are any matters which witnesses wish to discuss with the committee in private, they can make a request at the time and we will consider the request.

The committee decided during an earlier hearing that evidence given by all witnesses to this inquiry should be given either under oath or by way of affirmation. But, as I said earlier, if evidence given to the committee is deliberately false or misleading, it may constitute a contempt of the Senate, whether or not an oath is given.

[9.09 a.m.]

O'CONNOR, Mrs Lyn Elizabeth, Private capacity

CHAIR—Welcome. Do you have anything to add to the capacity in which you appear today?

Mrs O'Connor—I appear in a private and independent capacity in terms of my involvement in the programs within the scope of your review.

CHAIR—I understand that you have an opening statement that you would like to make. I invite you to do that and then we will proceed to questions. I draw your attention to the fact that the more time we have for questions the better it is for the committee.

Mrs O'Connor—My opening statement will be brief, and I am relying on the committee to draw out through your questions whatever else you may find relevant. In my opening statement I would like the committee and those present to note that my involvement in the Regional Partnerships program and Sustainable Regions projects and earlier in the DRAP and RAP has been in an independent and private capacity. In particular, any interest, information gathered or held, communications, representations or other actions regarding an A2 Milk application under the Regional Partnerships program are in a private capacity. Despite any links, representative capacities or employment from time to time with processes, industry bodies or groups, I remain fiercely independent.

From a personal perspective—and it may help you to understand—my husband and I own and operate a modest dairy farm enterprise on the Atherton Tableland. I am keenly involved in the industry post farm gate, with processor, industry, research and agripolitical roles over time and contracted project delivery from time to time. During 2002-04 I worked mostly voluntarily, particularly in the dairy region, assisting farmers deal with drought impacts, advocating and assisting in accessing assistance from both state and federal assistance programs. I have a commercial and empathetic understanding of the physical and financial circumstances in the industry and in the region. In the second half of 2004 I travelled to south-east Queensland, Sydney and Melbourne to complete drought assistance claims for some producers, to attend and coordinate industry meetings and to attend training.

To background my involvement with ACC and DOTARS, over time I have provided industry briefs and regional insight, opinion and comments to FNQACC and DOTARS on general matters and some specifically relating to projects or applications before them. During 2004 this led me to provide some background and links to DOTARS in relation to the A2 proposal. Again I must point out that this was produced and provided in a private capacity, with care taken to maintain independence from any perceived industry opinion. This independence has allowed me to join the dots beyond traditional industry boundaries, to seek expertise beyond traditional industry sectors and to deal comfortably with the complexity. The industry in the Far North is characterised by one major processor and, in my opinion, a justifiable but harsh milk price at farm gate level. These two factors combine to create a regional vulnerability that needs careful and vigilant management.

The region needs to have confidence in the people, processes and systems to look out for us and not be too easily romanced by new ideas. The region also needs to deal in policy and fact rather than emotions and assumptions. It has been difficult developing and broadening people's understanding of complex and multilayered issues in a tight time frame and the emotional climate of excitement or defence. During my previous contact with DOTARS, the dialogue and time frames around seeking and providing input have been reasonable. With the A2 project, there was a different climate and a sense of haste and pressure.

My background file on A2 Corporation New Zealand dates back three years. It was just something we picked up in the press and my family has followed, and we maintain a file on that just out of interest to see where it goes—there are new things on the horizon all the time and it is interesting to see where they end up. I have had some feedback on A2 Australian involvement. Several A2 suppliers supplying farms in south-east Queensland have expressed concern directly to me regarding late payments from A2, and there were strong rumours that the Queensland processor had also had delays and difficulties with payments, although I have not personally spoken to them. It appeared that A2 was on thin ice, irrespective of court proceedings or grants. I also question the material presented to farmers in Far North Queensland at the time this project was seeking letters or signatures of support.

From a milk perspective, A1 or A2, human breast milk contains A1 beta-casein and that is the particle that A2 aims to minimise. So, as a simple farmer's wife, I do not see a lot of benefit in it, and when you drill deeper into the science there is nothing to convince me personally, but I am only one consumer. As cows are tested or swapped between herds, there is a risk to the current regional cheese production due to the potentially reduced levels of A2 beta-casein, which contributes significantly to cheese properties, including stretch.

Specifically regarding the grant moneys, I have concerns regarding the specific spend of this money. How was it to be spent specifically? Was it to be directed towards shares, testing, purchase of plant and equipment? How does that fit within the guidelines? I certainly have a lot of questions which I believe the department should have had time to consider fully. I do not need the answers to them, but the department certainly should have them.

In summary, I have two recommendations. Firstly, at the announcement of a grant, especially when it involves other stakeholders, it should be clearly stated that the announcement is only a step in the process. Further due diligence should continue and the project should not be a goer until contracts have been executed by both the applicant and the minister. Secondly, in developing, and particularly in assessing, projects fast track should never become jump track, one track or some other agenda. Due diligence can happen in a faster time frame but it must not be compromised at all.

Senator CARR—Thank you for coming today. I have listened carefully to what you have said and, as I understand it, you are saying that you are an independent consultant and advocate for the dairy industry in the region. Is that right?

Mrs O'Connor—Yes.

Senator CARR—And you have worked outside of the region as well. Your main contact has been with the Department of Transport and Regional Services and the Department of Agriculture, Fisheries and Forestry. Is that correct, or were there other departments?

Mrs O'Connor—I would certainly be known to other departments. I have never been employed directly by any department but I have certainly had input over time into, in particular, DAFF, DOTARS and DPI&F.

Senator CARR—How would you describe your relationship with those two major departments I have mentioned with regard to the dairy industry?

Mrs O'Connor—DOTARS?

Senator CARR—Yes, and Agriculture.

Mrs O'Connor—My relationship with DOTARS has mostly been simply a conversation based relationship, providing regional input into projects over time. I have been on both ends of the stream, from supporting applications to providing feedback on applications.

Senator CARR—And you have kept detailed files on these discussions?

Mrs O'Connor—I certainly am an avid note-taker and would normally notate any contact.

Senator CARR—The nature of these committees is that we try to get to the bottom of how public administration actually works, and it would be of great assistance to the committee if someone of your expertise and experience was able to provide any further details about the nature of the relationship between you and the departments. Are you able to provide the committee with any further documentation?

Mrs O'Connor—I certainly have file notes I would be willing to specifically provide if they prove to be of any value to you. I am sure you do not want to pore through my whole diary.

Senator CARR—You would be very surprised about the interests of senators!

CHAIR—Be careful!

Senator CARR—The point is that we are seeking to establish the way in which the department works so, if you can provide us with any information that is relevant to your dealings with the department, we would greatly appreciate that.

CHAIR—You say 'information'. Do you specifically mean documentation?

Senator CARR—Yes, that is right—information: documentation, file notes or any other correspondence that you think would be relevant to your dealings with the departments. Have you dealt with ministers?

Mrs O'Connor—I should go back and deal with the DPI&F issue, because we dealt more specifically there with DOTARS. I deal with DPI&F almost on a daily basis on all sorts of

industry issues, particularly with drought. I just about lived in their drought unit for a couple of weeks last year, so I have a very close working relationship with DPI&F. If I can gloat for a moment, I picked up an award from the minister on Friday night, so it is a good working relationship.

Senator CARR—Apart from receiving an award, what dealings have you had with the minister?

Mrs O'Connor—Our areas on the Atherton Tableland are exceptional circumstance declared, which relies heavily on the DPI&F supporting the application. So, in working up that application and getting the ministers to sign off on it, there were a lot of workings there with the department and, in the end, directly with the minister.

Senator CARR—With regard to the dairy industry and A2 milk, what dealings did you have with ministers on that matter?

Mrs O'Connor—Because I was so drought focused at the time, I saw the DPI as the drought office. I have at no stage engaged with the DPI regarding A2 milk.

Senator CARR—And the Department of Transport and Regional Services?

Mrs O'Connor—Through conversations very early last year, it became known to people that I had a little hobby on the side of following the A2 situation in Australia and New Zealand, so from time to time there were questions, and I never linked it to anything and never knew there was an application until a bit after midyear.

Senator CARR—You said there were questions. What questions were they?

Mrs O'Connor—'What's this A2 stuff?'—and I am always very careful in how I answer, because my opinion is only a lay opinion in relation to that. I can only express that I have concerns or ask them to be vigilant in their processes.

Senator CARR—But as a practitioner in the industry your concerns were presumably based upon experience.

Mrs O'Connor—Yes, there is enough data there in the industry to make it of concern.

Senator CARR—So do you speak to farmers in the region about making financial commitments to the A2 project?

Mrs O'Connor—No. In my day-to-day dealings with farmers I am very aware that my opinion on matters such as A2 should not cross the office table or the kitchen table. I am very passionately principled.

Senator CARR—So you were not arguing against it with individuals. But were you were aware in your dealings with farmers in the district that there was a view being expressed about the value of the project and that farmers were being asked to contribute funds or investments towards the project based on those statements by public officials?

Mrs O'Connor—Certainly before it was made public in the media I was not aware of what contributions were being discussed. I had no knowledge of that detail. It is only in the time since that farmers have chosen to make a comment here and there regarding what they saw of A2. Some were asked to sign letters of support and that sort of thing, so they have seen documents. They were concerned about it. I have no other knowledge of it.

Senator CARR—Did you deal with Mrs Kelly's office when she was administering the Regional Partnerships program?

Mrs O'Connor—No.

Senator CARR—Were you aware that Mrs Kelly had supported the A2 project?

Mrs O'Connor—Only through the rumours that she had attended a meeting in Cairns in May. That has been pointed out in one of the other submissions.

Senator CARR—Do you think that her support for the project influenced any farmers in their decision to commit to the project?

Mrs O'Connor—No farmer has expressed to me explicitly, 'De-Anne Kelly supported this, so I was supporting it.' I assume, perhaps wrongly, that, when strong government support is being provided to a project, or is perceived to be being provided to a project, farmers may be less careful than perhaps they otherwise would be. That is only speculation.

Senator CARR—That is a reasonable presumption, surely. If the government is behind a project, people presume that it is ridgy-didge.

Mrs O'Connor—Yes. We all must keep our eyes and ears open. At the end of the day it is our own commercial decision what we do. But in my opening statement I said we have to rely on the people and the departments within the region to be vigilant and aware of these things and less romanced by them than perhaps we are who are in pain.

Senator CARR—Yes. But people do not always behave in that way, do they? If they see a minister or parliamentary secretary supporting a project, is it not a reasonable thing for people to expect that the government has done its homework and that there is a basis for that support?

Mrs O'Connor—Some people would assume that. Personally, I would not, but that is my nature.

Senator CARR—Bitter experience has taught you that that is not the best way to proceed. Do you know how many farmers actually did spend their own money on the A2 project?

Mrs O'Connor—I cannot comment on that, other than what has been publicly reported.

Senator CARR—I am from down south, so you will have to remind me. How many farmers did spend money on the A2 project that you are aware of?

Mrs O'Connor—I cannot comment in relation to that.

Senator CARR—You do not know, or you do not want to discuss the matter?

Mrs O'Connor—I cannot discuss the matter.

Senator CARR—What is on the public record about the number of farmers who have invested in the project?

Mrs O'Connor—In my reading of the press, there is only one farmer who has committed serious funding to it and is in a situation of no return. You will have him before you today.

Senator CARR—From your reading of the public record, is that an accurate reflection of the situation? Are there are other farmers?

Mrs O'Connor—I am very much concerned that there are other people who have manoeuvred to take advantage of A2 who have had some cost—not necessarily in buying or testing a load of cows but in manoeuvring their business and engaging business plans to take steps.

Senator CARR—So there would be more than one farmer who has been affected by these developments?

Mrs O'Connor—Yes.

Senator CARR—Are you able to tell me roughly how many you think there might be?

Mrs O'Connor—It depends how we measure effect. If we are talking purely about financial effect then the public record states one and I have no knowledge of other people who have committed cash. But there are farmers who have committed to changing business plans and there are costs associated with those manoeuvres.

Senator CARR—When did you first become aware of the A2 Dairy Marketers plan to set up in North Queensland?

Mrs O'Connor—There was talk within the industry that it would pop up and continue to grow. Providing it stayed within the health regulations and did not offend the ACCC or anything else, it could chug along. Personally, I wish any new enterprise well that can return a higher farm gate price. I only became personally aware of the specific rumour relating to it coming to North Queensland after the meeting with some farmers in Cairns in about May at which De-Anne Kelly apparently made some comments.

Senator CARR—Were you aware of the operations of the A2 Milk people in Southern Queensland prior to that meeting in May?

Mrs O'Connor—That they had suppliers and were processing? Yes.

Senator CARR—Did you make contact with or have a discussion with farmers in the southern part of the state in regard to A2 milk?

Mrs O'Connor—I certainly never initiated the conversations but, in my travels for other reasons, over lunch and so on farmers would say, 'I do not supply a traditional processor any more—I'm now an A2 supplier,' and they were happy.

Senator CARR—In regard to the government, did they contact you or did you contact them to start the discussion on A2 milk?

Mrs O'Connor—In relation to the application, in August last year we had a forum at Malanda at which I had a conversation with a member of the ACC and a member of DOTARS in relation to the contract pack issue. We said: 'We have an asset here in Malanda that is under-utilised and could better use its capacity in fresh milk processing. Is it possible to contract pack?' It coincided with a trip to Sydney the following week in which I did have discussions with representatives of Dairy Farmers regarding contract packing, not just from an A2 point of view. We have other requests within the area to bottle water and put a squirt of some bush tucker fruit or flavour in it, so contract packing is something a processor has to deal with and come to a position on anyway, irrespective of A2.

Senator CARR—So there was a formal public consultation meeting where you first discussed the issue with officers of DOTARS and the ACC. Is that right?

Mrs O'Connor—Yes. That meeting had nothing to do with A2 though. They were just participants.

Senator CARR—It was incidental?

Mrs O'Connor—Yes.

Senator CARR—At what point did you receive anything in writing about A2?

Mrs O'Connor—Because of the time frame related with the assessment, my communication with DOTARS was by phone and fax, simply trying to get anything that they might wish to have on their table in assessing it to them as quickly as possible. I have notated all those phone calls.

Senator CARR—We will have a look at those.

Mrs O'Connor—In relation to that, I will review the transcript of today's proceedings in relation to DOTARS. To avoid duplication, if it is provided I can endorse that, or I can provide additional information.

Senator CARR—We appreciate that. You have a right to make additional submissions on these matters at any time. I would appreciate it if you took the opportunity to do that. Your interest in this was to try to get the department to make sure that they are having a good look at this project. Was that your motivation?

Mrs O'Connor—Yes. As an individual I have things, I see things and I hear things, and on my table it does not make sense—and it concerns me. Having had previous experience with the department and some of the programs, I have concerns that there are things there they need to know. That is not to stop them from approving an application. They need to ask the questions

about them and make sure that they are addressed in the application, in the milestones and so on going forward.

Senator CARR—So due diligence has real meaning for you?

Mrs O'Connor—Yes.

Senator CARR—You met with Mr Anderson on 3 September last year, is that right?

Mrs O'Connor—Let me check my note. Yes, on 3 September last year there was a National Party dinner in Innisfail, which some of the industry representatives attended.

Senator CARR—Do you often go to National Party dinners? Did you have a special reason to see Mr Anderson?

Mrs O'Connor—It was my first time.

Senator CARR—I hope they fed you well and you enjoyed it. But did you have a special reason to go to that dinner?

Mrs O'Connor—No special reason at all; my diary was free Friday night and I thought I—

Senator CARR—will go along to a National Party dinner.

Mrs O'Connor—Yes, I thought I might go to a National Party dinner.

Senator CARR—That is a civic duty! When you spoke to Mr Anderson, did you raise the A2 milk issue?

Mrs O'Connor—At the end of the night for my own benefit I needed to know, yes, he knew of it and he was on top of it and was making a great decision. So at the end of the night I spoke face-to-face with John Anderson and Ron Boswell and just said: 'Are you aware of this? Please be careful. Make sure you get it right.'

Senator CARR—You were asking them to be careful about what?

Mrs O'Connor—That they look at the whole picture and that they address any of the weaknesses or concerns in the application or the environment around it very carefully. My other concern, in having to live and work in the tableland dairy community, was about this application if it were not managed properly. It had already started to create a wedge in the community. That wedge needed management, and it should not be left to volunteer industry leaders to manage that wedge. We needed some support in doing that if this application were to proceed. There is no reason A2 could not go ahead on the tableland and be very successful and not create an irreparable divide. Sure, there would be some rough stuff along the way as people adjusted to their neighbour getting paid more than them, but that is commercial reality. But we need to manage that impact in the region.

Senator CARR—So the wedge was just on the question of price? Were there any other issues that concerned farmers that you were speaking to?

Mrs O'Connor—It was mainly that some farmers were disappointed they had not been offered the opportunity.

Senator CARR—So there was a concern about the preferential nature of the arrangements?

Mrs O'Connor—I would not use that word. I would not put that word into farmers' mouths but, yes, some people were disappointed they were not offered the opportunity.

Senator CARR—Did you express these concerns to Mr Anderson?

Mrs O'Connor—No. At that point of the night the time frame was not right to go any further. My whole aim in the discussion was saying, 'Are you are aware of it? Please be careful and please help us manage the impact.'

Senator CARR—So Mr Anderson and Senator Boswell were asked to be careful about these matters. How did they respond to your appeal?

Mrs O'Connor—They took note and were going to follow it up.

Senator CARR—Did they follow it up?

Mrs O'Connor—I had a call the following week from someone claiming to be from John Anderson's office. I assume they were.

Senator CARR—Do you remember who that was?

Mrs O'Connor—Yes. I will make a note of that and provide that note.

Senator CARR—Thank you very much. What was their response to you?

Mrs O'Connor—That there was no application and that I was a fool.

Senator CARR—Sorry?

Mrs O'Connor—There was no application.

Senator CARR—No application and that you were?

Mrs O'Connor—A fool.

Senator CARR—Why is that?

Mrs O'Connor—Because there was no application; I was crying wolf.

Senator CARR—You were being foolish?

Mrs O'Connor—Yes.

Senator CARR—That wasn't true, was it? There was an application. How do you respond to that suggestion that you were being foolish?

Mrs O'Connor—I just take it on the chin. Obviously the minister's office knows these things, I trust.

Senator CARR—This is a minister's adviser telling you that you were being foolish?

Mrs O'Connor—Their advice was that there was no application. I respect that an individual is going to provide their information in good faith and that they understood there was no application.

Senator CARR—When were you made aware that the funding for the project had actually been approved?

Mrs O'Connor—It was a week later.

Senator CARR—A week later the funding is approved, or you are aware of it being approved?

Mrs O'Connor—Personally, I was aware of the application being in the system. Why else is DOTARS communicating with me regarding regional impacts and concerns? Why am I being involved in their due diligence in providing industry background if there is not an application? We are all obviously very disillusioned about that. The advice provided back to me, early in the week after 3 September, was that there was no application.

Senator CARR—What we have got before us now is the application from the ACC. We have got the ACC's assessments of that application. It is quite clearly at the time that you are speaking of. What was the date that the ministerial adviser spoke to you, do you remember?

Mrs O'Connor—The third of September was a Friday, so it was early the following week.

Senator CARR—Was it some time after 6 September?

Mrs O'Connor—Yes.

Senator CARR—Back in August the application was received by the ACC; it was processed on 26 August. Quite clearly the minister's office has misled you. It actually says in that assessment, under the question of overall recommendation, that if the large amounts of letters of support are testimony of what the local people want then this project is worth further research. Were you surprised that the ACC had received supporting letters and had a view that their project deserved strong support?

Mrs O'Connor—Is that comment in the ACC submission?

Senator CARR—Yes. I have got it in handwritten notes here. It says that if the large amounts of letters of support are testimony to what the local people want, then this project is worthy of future research. It is potentially beneficial to introduce something at this stage to assist the farmers. And it had a recommendation of three medium priority projects on the application. Are you surprised to hear that?

Mrs O'Connor—I certainly know from other projects that sometimes those at the top of the tree do not know what is actually in the body of the tree, that there may be a flower or a fruit further down the tree. It does not surprise me that the advice provided back to me was that there was no application.

Senator CARR—In fact, the application had been approved on 29 August.

Mrs O'Connor—It was not public information. It was not information that was provided to me, and I do not believe some of my contacts within DOTARS were aware of that.

Senator CARR—You mean to say that the departmental officials were not aware of it?

Mrs O'Connor—It is quite possible. They certainly never made me aware of it, and we were still going through the rigorous process of due diligence.

Senator CARR—When was the last contact that you had with the department or the minister about the A2 project prior to 29 August?

Mrs O'Connor—The twenty-ninth of August is perhaps, in my mind, an irrelevant date, because my last—

Senator CARR—You were not to know that they had been approved, that is right.

Mrs O'Connor—No. My last contact with the department, when they were still asking relevant questions in the process of rigour and due diligence, was actually around midday on 8 September. The media alert went out that afternoon.

Senator CARR—You are still talking to them on 8 September; you have not been informed. The department approves it on the day the election is called, but you are not made aware of any of these things—and you are obviously a person of some importance to them in terms of consultations with the broader community. Is that the evidence you are providing to the committee?

Mrs O'Connor—I would review that in a written form before I committed to it, but it sounds fair. From the fact that the election was called we assumed, from previous experience in reviewing projects, that caretaker mode was in force.

Senator CARR—That is a critical issue. A contract of this type fits within the caretaker conventions, and the minister is not authorised to be signing off new contracts after that date. You were being told by the minister's office after that date that there was no application.

Mrs O'Connor—I again refer to the tree that may have fruit further down that they are not aware of, although I am a simple individual and I do not understand how that can happen.

Senator CARR—As far as you are concerned, when was the last day you had discussions with the department that would lead you to the view that they were still working on this application?

Mrs O'Connor—On Wednesday, 8 September.

Senator CARR—So it was after the grant had actually been approved?

Mrs O'Connor—Yes. In some respects that alarmed me, and I will be cautious in asking the people I communicate with in the department, if they ever work with me again, 'At what stage are we at now?' I am very aware that the due diligence process continues after approval. It did not alarm me that they were still asking questions, but at no point was it flagged that it may already have been approved.

Senator CARR—But what does it do to your confidence in dealing with public officials when a grant of this size, made under these circumstances, appears to have been so poorly prepared in terms of due diligence, up until the point at which it was approved?

Mrs O'Connor—I wish it were better and I wish it were tighter, but I also understand that some things do need a fast-track approach. While I believe there were flaws there, that the time frame was too tight and that the process was not done rigorously enough, it does not necessarily alarm me either.

Senator CARR—But you said in your opening statement that you felt that to fast-track should not mean to jump-track. Is this a circumstance where there may well have been a jump-track event occur?

Mrs O'Connor—With hindsight, knowing what we know now, I am concerned that something went on there and that there was haste that I have not seen before within the department.

Senator CARR—How do you account for that?

Mrs O'Connor—I trusted that the people in the process honestly believed that this was a great project that offered a high farm gate price. Although in my opinion that is romance and it is too cheap and too easy, perhaps they were simply romanced. In reviewing my files I cannot pinpoint that any individual deliberately acted out of line. There just seems to have been a general view: 'These people need help; we have something that can solve their problems.'

Senator CARR—Let us just deal with the competitive neutrality issue.

Mrs O'Connor—Yes, that is relevant to the guidelines.

Senator CARR—It is very relevant to the guidelines. The ACC says that 'competitive neutrality is a big problem with this project', a major issue, and that 'some members are

concerned about how the government is involved and now it will affect current farmers'. Later on, the ACC also says that 'Until the competitive neutrality issue is clarified, the Far North Queensland ACC members cannot recommend this project any higher than a 3', which is not especially high in the scheme of things. When we turn to the issue of fast-tracking and jump-tracking, is it not possible that there has been an overlay of political intervention here?

Mrs O'Connor—I certainly could not see that from where I was sitting. As an individual providing information I could feel a current there that I had not experienced before, but perhaps that was normal and I just had not noticed or been exposed to it before. So I was not alarmed at that stage and it was just: 'This is important and we are going to do it fast.' I do not have a problem with doing things in a shorter time frame, provided that it is rigorous.

Senator CARR—And that is the problem here, because you indicated that, even before the court proceedings, it may well be that the milk company was on thin ice. I think they were the words you used: 'financially on thin ice'.

Mrs O'Connor—In the personal notes of my trips, which I enter when I come back, I made a note—'Thin ice??'—because that was just my feeling from talking to other farmers.

Senator CARR—When did you reach that conclusion?

Mrs O'Connor—I do not have a diary note here regarding that, but early August.

Senator CARR—In early August you identified that, financially, the company was on thin ice, by talking to other farmers. Why did they think it was on thin ice? Was that simply because the company was not paying its bills?

Mrs O'Connor—I did not drill into the conversation with the farmers to form a strong opinion one way or the other, but they were concerned and, I think, when a farmer feels concerned and feels they should express it then there is probably good reason.

Senator CARR—You identified that in August, yet the department did not identify that in September—8 September was the last time you spoke to them—and certainly it would appear it was not identified when the minister approved this project on 29 August. Is that right? Would that be a fair description of your evidence?

Mrs O'Connor—I would assume that they would have exposed that in their process—I do not need to know this—and in their minds they would have felt there was a sound commercial platform there: 'Everything is hunky-dory, we tick the box and we move on.' So, although I am not seeing that process, I do not need to see that process either. I trust that my assessment of 'thin ice' is nothing more than my opinion.

Senator CARR—But it was not just your opinion, was it? It was well founded, because that is exactly what happened.

Mrs O'Connor—Still, at that point in time I would not take my opinion that they were on thin ice too far.

Senator CARR—When were you aware of the court proceedings on the misleading advertising?

Mrs O'Connor—I get a court listing electronically every day, and I scanned it.

Senator CARR—So you were aware of it straightaway?

Mrs O'Connor—Yes.

Senator CARR—Can you recall when that occurred?

Mrs O'Connor—I would have to go back through my electronic file. I will make a note and address that.

Senator JOHNSTON—Could you briefly set out a bit of the recent history of dairy farming in the tableland? I take it that it has been through a fairly rough time.

Mrs O'Connor—Over the dinner table we say we have had the three Ds: deregulation, drought and De-Anne. We have dealt with all of them, and I hope that, going forward, we can continue to deal with issues that perhaps diverge to another letter of the alphabet. As a region we deal with issues, I believe, in a fairly mature and responsible manner. The industry today sits on 105 suppliers. The weather has been good in the last couple of months. Generally the atmosphere is better than it was mid-last year, where we were post deregulation, it was the second or third year of drought for some of our producers and the milk price was at its lowest. The pain was evident. I went home and lived it every day—and I did not escape it when I left home. The community and every farmer in it were at a point of financial and, to a certain extent, physical and emotional flux.

Senator JOHNSTON—Can you comment about the level of debt, say in the middle of last year, across your 105 producers? I do not know that they all disclose exactly where they stand with the bank to each other, but I would have thought you would have a fair idea living amongst them and being as engaged with them as you are. I would have thought the debt levels were fairly high.

Mrs O'Connor—I certainly cannot disclose my personal engagement with farmers, but the industry has a *Dairy 2004: situation & outlook* report which deals with that. North Queensland surveys were beefed up to give a relevant pool of data. That has just been completed and will be out at the end of May. I would look at that information to look at the debt situation on the farm.

Senator JOHNSTON—So you cannot comment as to what your understanding was regarding debt in mid-2004 amongst the 105 producers?

Mrs O'Connor—I certainly would not comment regarding the debt. Cash flow was damn tight.

Senator JOHNSTON—How do you think that the 105 producers were affected by deregulation? Was it a happy event? Do you think they were battling to survive in 2004?

Mrs O'Connor—In my opinion as a region we coped with deregulation far better than a lot of other regions did. In working with the national industry and visiting some regions of Victoria, even this year, I am surprised they have not coped as well as we have.

Senator JOHNSTON—Would incomes over the five years have been halved or down to a third of what they were, say, in 1999?

Mrs O'Connor—Rising costs and the impact of drought have had an extreme impact on farm gate income.

Senator JOHNSTON—Let us talk net income.

Mrs O'Connor—I would not say it has halved.

Senator JOHNSTON—Has it slightly more than halved?

Mrs O'Connor—No, it is probably down by a third. I will take that on notice. I would not want to mislead.

Senator JOHNSTON—I am just asking you to generalise, because I think we need to get a feel for the state of the industry in the middle of last year. What sort of price per litre were you getting at the gate?

Mrs O'Connor—Pre deregulation the region in round figures was sitting on 36c per litre.

Senator JOHNSTON—How many processors did you have in the marketplace for Atherton for your 105 producers?

Mrs O'Connor—One processor, Dairy Farmers, takes the milk from the major pool of farmers and Mungalli organic biodynamic farm takes milk from their own enterprise. Over time it has taken on another supplier or two.

Senator JOHNSTON—So there is effectively only one purchaser of the milk produced by the 105.

Mrs O'Connor—Yes. I made reference to that in my opening statement. The region is characterised by one major processor.

Senator JOHNSTON—What price were we getting per litre, say, in the middle, May and June, of last year—25c or 26c?

Mrs O'Connor—No. The regional average price under the payment system for a reference litre was 27.5c, which, once you take other things into consideration, is slightly higher. The regional average would have been closer to 28c or 29c. It was certainly less than 30c.

Senator JOHNSTON—What was the mooted discussed price that A2 was going to put into the marketplace?

Mrs O'Connor—The prices banded around were close to 50c.

Senator JOHNSTON—I saw some reference to 50c to 70c a litre.

Mrs O'Connor—Hearsay in the community regarding milk price is fraught with danger. But 50c was an interesting price.

Senator JOHNSTON—That is right. It is getting on towards double what people were getting and it is getting on towards a third more than they were getting before deregulation. I take it the 105 producers were very interested in the potential for that producer to come online.

Mrs O'Connor—I would split the suppliers into three groups: those who were definitely not interested and had opinions relating to it not being a real product or not being sustainable and therefore not being worthy of them changing their farming systems to cater for it; those in the middle who were perhaps happy to look at testing, selling, moving and trading cows so that other people could produce A2—and that is a great business opportunity for farmers as well—and those who just wanted to do it.

Senator JOHNSTON—So we had the sceptics who thought, potentially, 'We'll stick with what we are doing, because if we take some of the producers out of the market the price should go up, in any event.' I take it there is an element of that in the first group. The second group were umming and ahing and thinking they could go either way, and the last group definitely wanted to be in it. Is that right?

Mrs O'Connor—Yes. In the first group, some of them were not necessarily thinking, 'We'll take them out of the marketplace and then we'll get more.' There is a commercial reality there of factory throughput that has been well talked about during drought, especially with the large Victorian processes of having stranded assets because of not having enough milk. There are those who are saying, 'This is an opportunity; how do I secure higher output to secure the factory?' So there are two sets in that first category who saw it differently.

Senator JOHNSTON—Was there animosity amongst the growers as to those who were likely to benefit from the A2 dairy—after all, some people had the cows and the capacity to provide the milk? Was there an attitude of, 'You're in the A2 umbrella; we're not'—that sort of thing. Was there a sense that only some people would benefit?

Mrs O'Connor—I referred to the wedge before, and it was a wedge that had to be dealt with—change, if it continued. If there were a new commercial operator in the region today, we would have to deal with that change. The risk is when change is a wedge that remains and splits the community. Some people would have liked to have been made the offer but were not. Other people would have liked to have been made aware of it so they could send a letter of concern or something.

Senator JOHNSTON—Is it fair to say that you were a little sceptical and uneasy about the selective way that the potential processor, the A2 dairy processor, went out and secured its suppliers?

Mrs O'Connor—Certainly if I were writing the application and looking for letters of support I would have taken a different path. That is a matter for the people who are writing the application. I expect that those letters are scrutinised in the due diligence process.

Senator JOHNSTON—So you think that the way that producers were enlisted left something to be desired in terms of unifying the industry and having the industry fully informed as to where this thing was going?

Mrs O'Connor—I think it could have been clearer as to what the opportunity was and the size of it.

Senator JOHNSTON—Do you understand in full detail the grant process from the area consultative committee application to the DOTARS assessment right through? Do you understand how that works?

Mrs O'Connor—I believe I had a fairly good understanding of it prior to this, and I have reviewed their submissions in the last week. There was nothing surprising there. Their submissions and the processes documented in them pretty much confirmed what I thought was going on around what I was providing from time to time.

Senator JOHNSTON—What was your opinion of the process?

Mrs O'Connor—If the process is adhered to, and 'fast-track' means we work faster, not that we are misfits—

Senator JOHNSTON—That we cut corners.

Mrs O'Connor—that is fine.

Senator JOHNSTON—So, in your view, if the process is adhered to and, to use the word you use, if it is rigorously applied, it is a good process?

Mrs O'Connor—Yes. At any point along the line the people involved need to be able to say, 'No; I'm not finished yet.'

Senator MURRAY—With respect to the tablelands, would it be fair to say that your professional and social interactions in the tableland mean that you are well connected and well informed?

Mrs O'Connor—Normally, yes.

Senator MURRAY—Is it your view that the opinions you arrive at are supported by both empirical study as well as anecdotal input from your various contacts within the industry and within the community?

Mrs O'Connor—Yes, I think so from my network and links around the tableland. There is an honest face that people can disagree with—they can have a very strong opinion another way—and we can all move along together.

Senator MURRAY—That leads me to the view that you have been excessively modest in describing yourself as a simple, ordinary person and that you have some authority and credibility as a witness. Therefore, when I ask you these questions, I am going to put it within the framework of the broad reference basis that you have. Are you familiar with the phrase ‘picking winners’?

Mrs O’Connor—Yes.

Senator MURRAY—In a public policy sense?

Mrs O’Connor—For the record, I would get you to elaborate, please.

Senator MURRAY—If you searched *Hansard*, particularly in the early years of the Howard government’s regime, you would find the phrase ‘not picking winners’ comes up a great deal from government members and senators. Indeed, there was a Senate economics references committee inquiry into industry policy which specifically attended to the issue of picking winners. The basic thesis was that, while it might be legitimate to try to give government support to industries—the film industry would be an example, where tax concessions and particular incentives have tried to get that industry really well established in Australia—it was not wise or good government policy to pick businesses or enterprises within an industry.

Mrs O’Connor—I am with you.

Senator MURRAY—You follow where I am going with this?

Mrs O’Connor—Yes.

Senator MURRAY—Was there any resentment at large in the community and in the tablelands with respect to this particular project that the government was picking a winner—in other words, giving support to one part of the industry and not to another?

Mrs O’Connor—From my perspective the concern within the region was that this was a wedge that was not being managed. It may not be sustainable. There were certainly concerns that it was not sustainable, until the product was proven and the market was proven. I speak very loosely there about sustainability. If we are going to put a wedge in the community and manage it so that we can then have two dairy enterprises on the tableland—or three or four—we have to make sure that there is good backing for that transition. It is a lot of work to manage that change and, although people leave one segment of the industry and go to a new processor, it is still the individual as a whole that deals with their issues.

Senator MURRAY—You see, what we are talking about here is at the very heart of good public administration of taxpayers’ moneys. You talk about a wedge. A wedge essentially means that people are being put off side, that they are being annoyed or aggravated by a process or that they are left out. The reasons for which you should pick anyone to give money to has to be related to a public policy objective: it will introduce more competition; it will encourage innovation or entrepreneurship; it has genuine benefit to the community in some way. That is why the rigour of a DOTARS process needs to be of high standard and high quality, and it is why I want to use the phrase ‘picking winners’, because essentially what has happened with

respect to the tablelands is that one section of the community has been given government incentives over and above another section, in complete contrast to drought relief, say, where you either meet the exceptional circumstances criteria or you do not; it is not discretionary. The danger of picking winners is that it is discretionary and it is not related to a public policy objective. So I ask you again: was there, in that context, aggravation in the community that a picking winners approach had been adopted without regard to a real public policy objective? You now see why I asked you whether you are well connected and well informed.

Mrs O'Connor—Yes. I can only answer it by saying that, the way it was progressed at the time, the wedge was there. Whether that is just a step that brings us to change and that we have two different processes and that all can be managed and dealt with is one thing, but when it is a wedge that is chiefly thrown into a region, the resources are not packed around that to deal with the change. There is no-one in the region from the department that can help farmers with that change, no-one there from the Department of Primary Industries and Fisheries that can help farmers with their business plans. We are very underresourced as an industry post farm gate in that respect. If it becomes a wedge rather than a point on the timeline of change, that is what I would define as picking a winner.

Senator MURRAY—In your judgment was there a public policy benefit from this project?

Mrs O'Connor—There could be.

Senator MURRAY—Was there?

Mrs O'Connor—There is no project.

Senator MURRAY—Exactly. The second area of questioning I want to deal with relates to my summation of a number of remarks I both heard and read, particularly with respect to National Party senators and members. Essentially, the thesis goes like this: to the victor goes the spoils—we won; bad luck. In other words, by having achieved an election victory, both as a government and as individuals, they have the right to spend taxpayer money in their constituencies as they see fit. What is your view of that kind of view that some people seem to subscribe to?

Mrs O'Connor—It does not rate in matters that I pay attention to. In any organisation, whether it is the regional football club awarding money to one local football team over the other, games go on, things go on; there is preference for one reason or another. Providing the principles are applied, that is fine. I become concerned with these processes as the guidelines are there. Providing we all stick within them, it does not matter who is in government or who your local member is, the principles override that. I may go to our local senator with an idea and there may be fast-tracking applied. Providing that it is applied with the right rigour, there is nothing wrong with that.

Senator MURRAY—That is the point, isn't it? Essentially good rules with regard to public administration and expenditure of taxpayers' money are designed to protect us all from our own human nature. There is no human being who is not biased and who does not want to favour those issues, principles or objectives which appeal to them. But the philosophy I have outlined to you, as I have heard it and read it expressed, is essentially a return to crude pork-barrelling politics.

The reason I am asking you this question is that I want to know whether, with your good connections and your well-informed network, the producers and the community in the tablelands are aggravated by a discretionary approach or just accept it as a fact, a reality, of political life.

Mrs O'Connor—During the election period, there were some opinions expressed to the effect that, 'If the National Party thinks this is buying votes then they must be still working for Bob Katter.' It was a showstopper for people in considering electoral changes and other candidates. Those who were behind this application were behind it and probably still vote the way they vote. I do not think it was ever going to be a vote buyer.

Senator MURRAY—Do you regard that philosophy that I have expressed as crude and ineffective—in other words, that it is unlikely to influence votes?

Mrs O'Connor—Perhaps a different project could, but this one, in my opinion, was not the right one. If they wanted to back a winner and have some electoral outcome from it then they got it wrong.

Senator MURRAY—There are two aspects to my question, obviously.

Mrs O'Connor—I would like to just clarify that. I was not aware of—I did not see or sense—any of that background agenda in the election process. Perhaps that is my weakness and reflects my naivete in that I just do not pay attention to that noise. If you are the member today then you are the guy I work with. I really do have a deaf spot when it comes to the other political agendas.

Senator MURRAY—Except that you are well connected and well informed, which is why I want to know your opinion.

Mrs O'Connor—But I want to talk about more exciting things than that.

Senator MURRAY—This Regional Partnerships program spends hundreds of millions of dollars of taxpayers' money; that is our interest. There are two parts to my question. One is that if politicians think that pork-barrelling of this kind affects peoples' votes, and that is their motive, when it does not then they should give it away. I want to know if, in your experience, in this instance it did affect peoples' votes. The second part of my question is that, if politicians think that simply by being in government or winning their seat or constituency they have the right to dispense taxpayers' moneys on a subjective basis, what is your view of that? We have discussed that before. I want to know whether you felt that this was affecting peoples' votes in any way or was seen to be trying to affect peoples' votes given the timing.

Mrs O'Connor—Given the timing and the comments in the media, you could certainly say that there may have been an intent to try and affect votes, but in my opinion it did not work. I do not consider that there was a large backlash. A good candidate may have got more. It may have been a step in the change process for the National Party if they had not bugged it up, but it would not have changed the result.

Senator MURRAY—So, would it be fair for me to summarise your evidence, to me at least, on this basis: if this project and the moneys involved were intended to have a beneficial industry and community affect, it was a failure; if the project and the moneys involved were intended to

influence votes, it was a failure; and if the project and the moneys involved were an attempt to indicate that if you wanted something the member could deliver at any time, then it might be regarded as a partial success?

Mrs O'Connor—I would have to think carefully about your question, but I think people are not that naive and they can see when there are things going on. They are awake to it and they think very carefully about changing the way they vote or the way they do business.

Senator MURRAY—Are you saying that it does not reflect well on the government or the member?

Mrs O'Connor—Yes, it is just dumb, but it does not have to be that way. There is a path there for it to be so much better—so much more for our community. Pork-barrelling of any kind is, in my mind, not acceptable unless the fast-tracking has been rigorous, the impact on the community is real and that impact does not create a wedge that nobody is going to take responsibility for managing. My concern about this whole process is that it upset the community at a time when we were settling. We were dealing with the hard yards of drought, but we were settled and dealing with our issues. This created a wedge of emotion against neighbouring farmers and between peers whereby they were not able to support each other in the things they needed to support each other in. That is where I come from in this debate: change is good but it has to be managed. When you throw a wedge into a community, if you honestly believe that through all these great processes that it is the right project, then the resources have to be there to deal with the impacts. I do not believe there were any resources available to deal with the impacts of this, if it had proceeded.

Senator STEPHENS—I would like to reflect on some of the evidence you provided earlier to Senator Carr. I understood from that evidence that you provide industry experience and expertise to DOTARS on these kinds of projects. Is that right?

Mrs O'Connor—I do from time to time if there is a regional project, and it may be totally outside the dairy industry, and they want a local opinion—which they are quite entitled to seek, provided it is done properly.

Senator STEPHENS—In relation to the A2 milk project that we have been talking about this morning, did DOTARS provide you with any information that had been provided by that organisation in support of the application for funding?

Mrs O'Connor—No. I am very careful about how I request information for clarity from DOTARS because I know, whenever I have been an applicant to any of the DRAP applications within a regional community, that the confidentiality of those applications is paramount. I accept that they ask intelligent questions with enough meat on them so that I know what they are asking and can provide an intelligent answer.

Senator STEPHENS—Sure. In the application, an organisation that is seeking more than \$250,000 for a commercial activity is required to provide some details, including the business plan for the project, but also, where applicable, a feasibility study. Have you ever seen a feasibility study for A2 Milk or the industry that it supposedly represented?

Mrs O'Connor—No.

Senator STEPHENS—What about industry data or research: have you been able to gather information independently, as an industry expert, on A2 Milk?

Mrs O'Connor—Sorry, I will have to ask you to repeat that question.

Senator STEPHENS—One of the things that should be provided is industry data and research. Have you been able to access industry data and research around A2 Milk and its health claims?

Mrs O'Connor—I have sourced material through the industry and externally to the industry, and I pointed that out in my opening statement. If I trawl for information I do not just go to the industry bodies—I go wider. That information has been provided to DOTARS. I question some of the technical issues, such as whether or not people within departments could interpret it with any relevance, but, in providing information, I would say, ‘These are the questions I would want answered if I were in your position,’ but do not worry about me either. So I provide them with some flags.

Senator STEPHENS—In terms of your dealings with the farmers who were approached to participate in the A2 milk project, or vision, are you aware of whether or not they were provided with some kind of marketing plan, cash flow projections—the kinds of things that would allow them to make an informed decision about their participation?

Mrs O'Connor—My only contact with comments back from farmers is that some of those who were asked to supply a letter of support or a signature in a document of support had expressed that they refused to sign because they were not satisfied with the information provided.

Senator STEPHENS—Did you ever see the information that was provided to the farmers?

Mrs O'Connor—I have viewed it; I do not have a copy.

Senator STEPHENS—What did you think of the quality of the information in that document?

Mrs O'Connor—If I had been a project manager in charge of the applications I would have provided very different information.

Senator STEPHENS—As someone in the industry advising dairy farmers about their options did you think that it was adequate documentation or was it trading on hope?

Mrs O'Connor—I have to point out that I never at any stage provided any advice in relation to people being in or out of the A2 project. It was actually after the event that most of our discussions with farmers took place. It was only in that after-the-event conversation. People did not know what they were signing anyway.

Senator STEPHENS—Thank you.

Senator O'BRIEN—Earlier in your evidence you talked about early conversations with an officer or officers of the Department of Transport and Regional Services regarding the A2 milk project. Did you make file notes of those conversations?

Mrs O'Connor—For some I did and for some I did not. I do not note every conversation I have at lunch after an industry meeting!

Senator O'BRIEN—No, that is fair enough; I do not either. Could we have copies of the file notes that you do have?

Mrs O'Connor—Certainly. I believe some of them are provided in the DOTARS evidence you will receive later.

Senator O'BRIEN—Do those file notes identify the person or persons with whom you were speaking?

Mrs O'Connor—They could, if I have noted that.

Senator O'BRIEN—Who did you normally deal with early in the process?

Mrs O'Connor—My contact within the region is through FNQACC—some of the members that we deal with in the community in other project developments.

Senator O'BRIEN—No, I meant with the department of transport.

Mrs O'Connor—As for the department, I have dealt with some people in the Townsville office, and I believe they will be dealing with you this afternoon.

Senator O'BRIEN—Could you tell us who they are? I think we need them for Hansard.

Mrs O'Connor—Can I do that off the record, please?

Senator O'BRIEN—Is there some reason that they need to be protected?

Mrs O'Connor—I do not believe I can publicly draw them into this.

CHAIR—If they are officers of the department and they have been involved in this scheme, they are already involved in some way or other.

Mrs O'Connor—Yes.

CHAIR—We have witnesses from the department appearing later tomorrow. They are senior officers of the department, but we are advised that they will be accompanied by relevant personnel from the local regional offices that were involved. So I would suggest to you that there is no impediment to you identifying those people on the record.

Mrs O'Connor—Given the media presence in the room, I would still decline, if possible, to name names.

CHAIR—They are officers of the Department of Transport and Regional Services. It is not as if they are private individuals for whom you should in any way feel some concern.

Senator O'Brien—Could you provide us with that information in written form—if that satisfies you?

Mrs O'Connor—Yes, definitely. I will provide that before I leave today.

Senator O'Brien—That would be good, thank you. You said in your evidence that you made direct contact about the proposal with some farmers in the southern area. There were two aspects to your evidence: on the one hand, you said the ones you might have had lunch with said they were happy with A2, but, on the other hand, you said that you had heard that some people were talking about late payment or non-payment—I am not sure which. Can you clarify that part of your evidence for us, please?

Mrs O'Connor—I will clarify the reference to 'made contact' or 'had contact'. At no point have I sought contact with them. It is in passing and in other formats that we have had conversations. Over the time frame the opinions they provided to me in that contact changed. Certainly earlier on they were satisfied—they had made a change. I am interested that a farmer has made a change and it is working for them. I think that is great. I want to know what it was, how it worked and how we can duplicate it. When that changes, though, we need to be concerned. Maybe it is a glitch. We all have business glitches from time to time. Maybe it was a glitch in their computer system or something. I would not be overly concerned about it other than having a background of financials and also concern about A2 Corporation New Zealand's financial situation. You have just got to be a little bit concerned.

Senator O'Brien—You were concerned about A2 New Zealand's situation?

Mrs O'Connor—Yes, from a lay perspective.

Senator O'Brien—Yes, from your understanding—you can only speak from your own understanding.

Mrs O'Connor—From my understanding, yes. Their financials are available on the web and—

Senator O'Brien—They do not stack up?

Mrs O'Connor—They were reported in some independent industry correspondence as 'deep in the red' I think it was.

Senator O'Brien—'Deep in the red'?

Mrs O'Connor—That sort of confirms my concern.

Senator O'BRIEN—In your dealings with officers of the department prior to the approval of the application did you draw to their attention your concerns about the A2 proposal and its history?

Mrs O'Connor—In my conversations with the department, I pointed out that, if I were in the department, I would be wanting to ask questions regarding the licence agreement, the testing agreements, the financials and business relations between the licence holder in Australia, the applicants and the New Zealand corporation—just clarifying those relationships and financial flows.

Senator O'BRIEN—Is it fair to say that you wanted to guide the department to use as much caution as possible?

Mrs O'Connor—Not necessarily to use caution but to make sure they had considered all of information available, because they are not in the industry on a daily basis and trolling industry information on a timely basis. I am certainly well aware that, in relation to information I provided to the department, sometimes they would go, 'That's not relevant.' I would hope that in this case they would make sure that they had answered those questions and disregarded the information in due course.

Senator O'BRIEN—You did say that you had some dealings with the Department of Agriculture, Fisheries and Forestry. Was that in relation to drought?

Mrs O'Connor—Yes, primarily in relation to drought.

Senator O'BRIEN—Were you advising them on the situation in the Atherton Tableland region with regard to the capacity of the farming community to deal with the problems of drought?

Mrs O'Connor—I was intimately involved in the construction of the EC application for the region in dealing with NRACC assessment and NRACC's tour of the region.

Senator O'BRIEN—So you are known to that department as someone who has a very good idea of the agricultural situation on the Atherton Tableland?

Mrs O'Connor—It was more than me personally knowing—I could source the information through channels, deal with the confidentiality issues and hand it on.

Senator O'BRIEN—And because of that you were in a position to know how precarious some businesses might be and how desperate some businesses might be to find a solution to their problems?

Mrs O'Connor—I think anyone in the industry is looking for a future.

Senator O'BRIEN—Yes, but, because of your role, you probably knew more about the industry than a lot of others and in how much difficulty some businesses were?

Mrs O'Connor—I was certainly very aware of the aggregate data provided in the EC application and also the regional data out of the *Dairy 2004 situation and outlook report* last year.

Senator O'Brien—I am not asking you to deal with specifics about businesses, but you would have known, wouldn't you, that there were businesses that were looking for solutions to get them out of serious problems?

Mrs O'Connor—Yes. I must clarify, though, that I do not for a moment infer that the people looking at the A2 option were people who were in financial difficulty or physical difficulty. Some very good farmers looked at it and were involved. For the record, do not infer that.

Senator O'Brien—I would have taken the suggestion that a 50c a litre milk price in the deregulated environment in any part of the country would have been something that would have had immediate appeal to dairy farmers, particularly dairy farmers in states that had previously had fixed price market milk arrangements—areas such as the Atherton Tableland. It seems to me, as someone who participated in the Senate's inquiry into dairy deregulation, that a proposal that might return dairy farms to a price for their milk in the vicinity of 50c was like a neon light in the dark to dairy-farming operations.

Mrs O'Connor—It certainly is a great opportunity if you can make it work.

Senator O'Brien—Yes.

Mrs O'Connor—I would love to see it work.

Senator O'Brien—But you were not aware of A2 having worked anywhere, were you? During that process, you weren't convinced that A2 was working in southern Queensland?

Mrs O'Connor—Although I had concerns, I honestly hoped that it would, because we need another answer and another option. If it can be part of the option for some or part or the whole of the industry then that is great. But I am very aware that when we are looking at our future we do not run off on easy answers.

Senator O'Brien—Yes.

Mrs O'Connor—In my opening statement I said that that is where we really rely on the department to be vigorous and vigilant and look after us, for want of a better way of putting it.

Senator O'Brien—In fairness, the department were assessing an application to fund a business under a program. Whether they did or not, that business might have succeeded, but their responsibility was how they dealt with public funds. I understand you to be saying that you are concerned that in providing those funds they might have done something to the community which would have caused damage.

Mrs O'Connor—The risks where there and needed management.

Senator O'Brien—You said it was the wrong project.

Mrs O'Connor—In my understanding it was premature. In two or five years time or 12 months time or next week we may all be sitting with egg on our face because A2 is the answer.

Senator O'Brien—It will not be the A2 company we are talking about, because it is in liquidation, isn't it?

Mrs O'Connor—Yes, but as a product it could be our future—we do not know that yet. So I am not canning the idea.

Senator O'Brien—Indeed, the ACC's recommendation actually says, 'If the large amount of letters of support are testimony to what the local people want, then this project is worthy of further research.' That does not seem to me to be saying to the minister, 'You should fund it at this stage.' They are saying that it is worthy of further research—which is consistent with what you are saying, in a sense.

Mrs O'Connor—That is exactly the response that I would expect from the ACC—'We do not know about this, but let us have a look at it.'

Senator O'Brien—So the ACC were providing a recommendation. I do not know whether they were under some pressure or some timeline to provide it, but their view on 26 August was that it needed further research. That is a fair view, isn't it?

Mrs O'Connor—Yes, I would totally endorse the ACC's view at that point in time.

Senator O'Brien—In terms of your conversation with Mr Anderson on the evening of 3 September, did you make a diary note about that?

Mrs O'Connor—Yes, I made a note that I was at the dinner and spoke with both ministers.

Senator O'Brien—Did you make a note about what was said?

Mrs O'Connor—Yes, just the three points that I referred to earlier.

Senator O'Brien—Did you record his response?

Mrs O'Connor—I would have to check whether I recorded his response, but I certainly recall his response very clearly. They were departing the venue and a note was made and a commitment to respond—and that was followed through.

Senator O'Brien—Did you take it from the response that Mr Anderson's office had checked and that they had been satisfied there was no application?

Mrs O'Connor—I certainly saw their call and the content of their call as bona fide, yes. I did not give a lot of thought to how rigorously they might have looked at or searched for an application, but I took the call as being totally bona fide. And to this day I still believe that the call was bona fide.

Senator O'Brien—Did you record that conversation?

Mrs O'Connor—Yes.

Senator O'Brien—And did you record the name of the person with whom you had the conversation?

Mrs O'Connor—I have a Christian name, and I will deal with that in a written submission.

Senator O'Brien—You can provide us with that today, can you?

Mrs O'Connor—Yes.

Senator McLucas—When you had that conversation with Mr Anderson at the dinner on 3 September, you gave an indication earlier that you took away from that discussion the notion, the idea, that because we were now in caretaker mode nothing would happen—that is, that there would not be any progressing of the application that you thought existed. Is it correct for me to think that?

Mrs O'Connor—Yes. In defining that conversation, it was an offhand comment. But, yes, caretaker mode was mentioned. It was a short, sharp conversation, but the point was raised.

Senator O'Brien—The point was raised by Mr Anderson?

Mrs O'Connor—I could not be sure whether it was Mr Anderson or his offsider. But, amongst the party of us who were there having this quick conversation, caretaker mode was mentioned, and that is good enough for me.

Senator McLucas—And the purpose of raising that was to put your mind at rest that the application would not proceed?

Mrs O'Connor—Whether the intent was to put my mind at rest I do not know; that would be very hard. The comment was more, I think, for the group to understand: 'We're in caretaker mode.'

Senator McLucas—So of course nothing could happen.

Mrs O'Connor—I still would not put those words to it. It was more just bookmarking it in their own minds: 'We are in caretaker mode.' Perhaps they were thinking, 'We have time to deal with this.'

Senator Carr—Are you aware—

CHAIR—I draw people's attention to the fact that, while dealing with this witness is very important, we are getting well over time.

Senator Carr—I appreciate the point you are making, Chair. But Mrs Kelly had written to Mr Stewart the day before, on 2 September. In that letter she said, 'I've already written to Senator Boswell, advising him of the funding approval of nearly \$1.3 million.' Did Senator

Boswell indicate to you that he had already received a letter, advising him that the commitment had already been made?

Mrs O'Connor—That certainly was not disclosed.

Senator CARR—It seems to me that it might be a reasonable expectation that that would have been indicated to you. If they were implying that they were in caretaker mode and nothing would be done, yet they had already made the decision and been told that the decision had been made, there seems to be a contrast between the impression they were giving you and the facts.

Mrs O'Connor—Yes. There are lots of grey areas.

Senator CARR—I would say it is pretty black and white; \$1.3 million is pretty black and white.

CHAIR—Senator Carr, that is your conclusion or comment. Keep to questions.

Mrs O'Connor—I do not believe Senator Boswell deliberately misled me. I did not pick up any body language that he was hiding anything from me.

CHAIR—You would notice it!

Mrs O'Connor—The comment was made for everyone's benefit: 'We're in caretaker mode.'

CHAIR—There being no further questions, thank you very much for your evidence this morning. You have undertaken to provide some further material and details, some of them in camera.

Proceedings suspended from 10.40 a.m. to 11.02 a.m.

STEWART, Mr Lindsay, Private capacity

CHAIR—Welcome. Do you have anything to add to the capacity in which you are appearing?

Mr Stewart—I am a former director of A2 Dairy Marketers Pty Ltd.

CHAIR—We are running a little bit over time but we will certainly make enough time available for you to give your evidence and to answer questions. The committee prefers to take all its evidence in public but, if you do have any matters that you wish to discuss with the committee in private, you can make a request and we will consider it at that time. I also advise you that all evidence given to the committee is protected by parliamentary privilege. That means that witnesses are given very broad protection from any action that may be taken against them arising from what they say, and that the Senate has power to enforce that protection. Equally, of course, all evidence must be truthful and any false or misleading evidence may constitute a contempt of the Senate. We require that all witnesses to this inquiry give evidence under oath or affirmation. That was a decision made at the second hearing of the committee. I understand that we have received some documentation from you, which has now been received by the committee and made public. I invite you to make some opening comments, if you wish, then we will proceed to questions from members of the committee.

Mr Stewart—First of all, I would like to say that I will be telling the story as it was from the A2 perspective. In all the dealings that we had with government, I believe, seeing that I was the main person there, that we acted in a kind of business relationship with the government to try and get funding for the farmers and for our company. At this time, A2 Dairy Marketers is in liquidation, with former directors still owing money. A2 New Zealand took over the Friday afterwards. They had negotiations with former directors to take them on board as of the Monday. That is my bitter pill: I started the company and someone else is now reaping the benefits.

I believe this inquiry is to ascertain the right and proper role of government departments. In my dealings with the government, I was directed by them to furnish information, which I did to the best of my ability. We had three other directors working on this grant as such. Because I was travelling, doing the marketing and launching of the product right throughout Australia, most of my correspondence and communication was done by phone and email. I spoke to the receivers last Wednesday or Thursday. If my information seems a tiny bit vague, it is because I have no record of my diary. My diary is on the server, which they said they had supplied to you or are willing to supply to you. Fire away!

Senator O'BRIEN—I understand you were appointed as the director of A2 Dairy Marketers on 12 November 2003, the same day the company was registered.

Mr Stewart—That is correct.

Senator O'BRIEN—The liquidator was appointed on 11 November last year.

Mr Stewart—Yes.

Senator O'BRIEN—ASIC records show you were appointed a director of Star International Group on 18 September 2003. What business is the Star International Group in, and what was its relationship with A2 Dairy Marketers?

Mr Stewart—Phil Roberts, who has been—or was—a lifelong friend had three companies set up. They were Market Rise International, Gulf and Western and Star International Group. Star International Group was going to be a company with Phil Roberts, me, my wife and his wife to do some importing/exporting business. I checked with ASIC probably four months ago and, unbeknown to me, I was wiped as a director in June last year.

Senator O'BRIEN—What was its relationship with A2, if any?

Mr Stewart—There was no relationship. We wanted a cleanskin company, which I was told it was, to formulate the Mungalli Creek and A2 project under a different identity. The funds did not actually go into A2 Dairy Marketers to be used for anything else but Mungalli.

Senator O'BRIEN—So it was connected with A2 in the sense that it was to do with the Mungalli processing proposal.

Mr Stewart—Yes. The business advisers had not signed any formal agreement across; it was just part of the presentation.

Senator O'BRIEN—There was no legal connection, but there was an intention for its involvement in the Mungalli processing arrangement.

Mr Stewart—That is correct.

Senator O'BRIEN—Was it A2 Dairy Marketers or Star International Group that sought funding under the Sustainable Regions Program and the Regional Partnerships program?

Mr Stewart—It was A2 Dairy Marketers.

Senator O'BRIEN—I assume that it was eventually decided to abandon the Sustainable Regions application in favour of Regional Partnerships. Is that right? They are two programs, you see.

Mr Stewart—There were two grants that we did apply for. There was one for the testing of the cows out of Atherton. That never proceeded further but I still believe that was in the pipeline.

Senator O'BRIEN—That is the ATSRAC one.

Mr Stewart—Yes. I just call it 'the Atherton'. I do not know the departments.

Senator O'BRIEN—The Atherton Tableland Sustainable Regions Advisory Committee?

Mr Stewart—Yes, we had sent it up there. There are a couple of mayors on the board or something such as that.

Senator O'BRIEN—Yes, that is the one. And the Regional Partnerships application—what was that one?

Mr Stewart—That was the A2 Dairy Marketers. But it is my belief that that would have then been signed over under legal obligation to Star International or some other body. We just used Star International as what we had at hand.

Senator O'BRIEN—What happened with the Atherton proposal, the first proposal about testing cows? Was that formally rejected?

Mr Stewart—No.

Senator O'BRIEN—Did you receive any information about that?

Mr Stewart—No.

Senator O'BRIEN—So you do not know what happened with that?

Mr Stewart—I do not know.

Senator O'BRIEN—How long was A2 Dairy Marketers supplying product before you applied for a grant under the Regional Partnerships program?

Mr Stewart—We commenced trading in Brisbane's south-east corner on 1 May, and the application was in about June or July for the northern region. Again, I do not have those records.

Senator O'BRIEN—According to the department, the application was received on 9 July.

Mr Stewart—Right.

Senator O'BRIEN—So A2 commenced supplying product on 1 May?

Mr Stewart—On 1 May. In saying that, the reason why we were moving so fast was that I was able to get it into Coles and Woolworths nationally, and those major retailers asked if we could move as fast as possible.

Senator O'BRIEN—You have been a director of a number of companies, as I understand it. How many?

Mr Stewart—Star International.

Senator O'BRIEN—And A2?

Mr Stewart—And A2, yes.

Senator O'BRIEN—Any others?

Mr Stewart—No. I did run my international media business as a sole trader. Unless someone else has signed me up, which is not against all thoughts at this time—

Senator O'BRIEN—You would believe anything now.

Mr Stewart—No, not now—let me tell you.

Senator O'BRIEN—Can we assume you fully understand your obligations under the Corporations Law, including the obligation to keep proper financial records?

Mr Stewart—Yes, definitely.

Senator O'BRIEN—Consistent with your obligations as a director, did you ensure A2 Dairy Marketers kept up-to-date financial records that could explain the company's financial position and performance?

Mr Stewart—We employed a full-time accountant and were under the directorship of Phil Roberts, who was mainly in charge of the funding and the office arrangements, because I was travelling, launching the product and things such as that. So I would attend the board meetings, and the minutes will show that there were a couple of times where I did raise the question about finance and the capabilities of the people that were running A2.

Senator O'BRIEN—So you were not satisfied with their capabilities? Is that what that should indicate? If we see that in the news, is that we should understand it to mean?

Mr Stewart—Yes. Things could have been run more tightly and the financial situation should have been managed more correctly. The steps that I took were that I sought financial planners and financial advisers that I knew personally to come on board with the National Bank. We had meetings upon meetings and, when I flew back into town, wrong figures were given.

Senator O'BRIEN—What is the period we are talking about here?

Mr Stewart—Two months or three months.

Senator O'BRIEN—So it was between May and August.

Mr Stewart—Yes, it was after the launch. At the launch of the company we were promised by one director, who was in charge of the supply of A2, that we would have 25,000 to 30,000 litres per day. On saying that, we put a heavy marketing campaign together to justify that. When we launched he had 6,000 litres, so the company was in a situation where we had back orders and things like that, which I sometimes said was a good thing because it was creating demand, but it was a panic mode. We had sales there that we could not deliver because of promises or lies by directors.

Senator O'BRIEN—So you were lied to by other directors?

Mr Stewart—I believe so.

Senator O'BRIEN—Which other directors?

Mr Stewart—What am I supposed to say here?

Senator O'BRIEN—Can you name them? You have made an allegation that your position is defensible.

Mr Stewart—The supply was not there—so the supply manager, who was a director. I will furnish that later. I am just telling it as it is. I believe the truth is in my submission.

Senator O'BRIEN—Can you confirm that A2 Dairy Marketers prepared a monthly statement of financial performance, a monthly statement of financial position and a monthly statement of cash flows?

Mr Stewart—Definitely. If they were true and correct is another thing.

Senator O'BRIEN—So what you are telling us is that, whilst those documents were prepared, they were not accurate?

Mr Stewart—No, I am not saying that. They were only presented at board meetings to me but, because of the supply chain and things such as that, spreadsheets and financials were probably done on a daily or a two-daily basis. But you should understand my involvement in the financial aspect there: I do know my responsibilities as a director, but my whole persona was to get the sales going—do the marketing, shoot the ads and things such as that.

Senator O'BRIEN—Has the liquidator now got all the documents, all the financials, that were seen by the board?

Mr Stewart—Yes, everything. I believe they have got more than—

Senator O'BRIEN—Are you telling us that minutes of all directors meetings were kept and that they are also held by the liquidator?

Mr Stewart—That is correct. I have confirmed that.

Senator O'BRIEN—I refer you to an email from John Ryall of A2 Corporation to Mr Roberts, a fellow director of A2 Dairy Marketers, dated 22 July 2004. Mr Ryall was sending a copy of an email from Grant Paterson to a number of people, including employees or directors of A2 Corporation. In the email, Mr Ryall asked Mr Roberts to show it to you. Did that happen? You see there that it says, 'Please show Lindsay.'

Mr Stewart—I honestly do not think so. What happened was that Mr Roberts went to New Zealand on a couple of occasions to speak to A2 New Zealand, which was the first market in the world to open with the A2 product on a national basis. Why I am thinking that I do not recall any of that situation—the No. 1 thing is I now have the full directors' emails of A2 New Zealand and I would have used that. But there again he might have forwarded it. I am not 100 per cent sure. Am I allowed to say that?

Senator O'BRIEN—Yes. If you are not sure whether you have seen it or not, you are able to say you are not sure.

Mr Stewart—I do know the situation where A2 DM were asking for a royalty holiday. This might have been conversed to me to pass it to me.

Senator O'BRIEN—The email states, in part:

A2 DM's accounts are in a state that is practically unfathomable. A2 DM are by their own admission strapped for cash.

It seems to be saying A2 Dairy Marketers were in a lot of financial trouble prior to July last year.

Mr Stewart—The reason why this letter has happened is that A2 New Zealand, A2 Corporation, was going to invest money in A2 Dairy Marketers. That is why the trips were undertaken by Phil Roberts, Greg Little and maybe Chris Saddler. I think he went once. I did not go. I saw that New Zealand collapsed after raising \$3 million on the stock market—or something around that figure—and that they could not honestly get it into a supermarket, so why should I waste my time with them? I would not back it with my life, but I do not think I actually saw this. I know that we wanted to tell them that we did not want what he puts down here as a 'royalty holiday'.

Senator O'BRIEN—Sorry, what did you know?

Mr Stewart—I know about number 7 because we were paying royalties to A2 New Zealand, or A2 Corporation. Because we were the first market in the world, we needed their assistance. There was always talk about why should we pay them; that they should be assisting us. Around this time, in July, there may have been the question also raised that New Zealand were going to put \$1 million in.

Senator O'BRIEN—This is about two weeks after you put an application in asking for over \$1 million from the Commonwealth. This email says:

A2 Dairy marketers are by their own admission strapped for cash.

Were you aware of that then?

Mr Stewart—There are always cash flow problems in a new business. We were always looking for investors. Phil Roberts, or whoever went on this trip to New Zealand, stated by their own admission that we were strapped for cash. We were a start-up company.

Senator O'BRIEN—So you do not think you received a copy of this email or where shown it? Or are you not sure?

Mr Stewart—I am not sure. If you ask the receivers, it may have been flicked on to me, but I cannot honestly recall every point.

Senator O'BRIEN—A2 Dairy Marketers had a number of contracted farmers around Gympie in southern Queensland, as I understand it.

Mr Stewart—That is correct.

Senator O'BRIEN—Was the business operating satisfactorily in that part of the state?

Mr Stewart—I have to come from the sales and marketing point of view that there was more demand for the product than we could get. The supply was the issue, not the sales. On the supply that I was talking about before: because the sales were only about 6,000 litres a day, we had a launching budget of around \$300,000 for TV and PR. As you can imagine, when we were told there was going to be supply, we were locked into the TV and could not get out of it. So there was wasted TV money there.

Senator O'BRIEN—Do you know if all farmers around Gympie got paid for their milk on time?

Mr Stewart—In June, July and August, around show time, it was late. At that time, I think A2 New Zealand were doing the due diligence and they were going to put \$4 million in this time.

Senator O'BRIEN—So you could not have paid them without that money from New Zealand?

Mr Stewart—I had a conversation from Dick Schroder's farm to Phil Roberts, who spoke with A2 New Zealand. They said there should be no problems because the money would be forthcoming.

Senator O'BRIEN—But without that money you could not pay the Gympie farmers?

Mr Stewart—We had other investors, on the Gold Coast, who were also looking at the project.

Senator O'BRIEN—I will repeat the question: without the money from New Zealand, were you not going to be able to pay the Gympie farmers?

Mr Stewart—No, because we both had personal money that we were going to put in ourselves.

Senator O'BRIEN—So there was other money to come in—you could not pay them out of the operation of the business. Is that what you are telling us?

Mr Stewart—No. At that stage, I don't think so.

Senator O'BRIEN—I want to go to the minutes of the first meeting of A2 Dairy Marketers' creditors that took place in Brisbane on 8 October 2004. It appears that you addressed the meeting. Do you recall that?

Mr Stewart—A tiny bit, yes.

Senator O'BRIEN—A tiny bit.

Mr Stewart—Are you referring to that statement that I supplied?

Senator O'BRIEN—I was looking at the minutes that we have been supplied. On page 3 they say that the chairperson invited the directors to give a short explanation of the reasons for the failure of the company; he called on Mr Lindsay Stewart; and Mr Stewart advised that he had left the company's premises with a few hundred dollars in his pocket, he would probably lose his home but he would have his dignity. They say that he advised that \$350,000 spent on media advertising was wasted as there was no supply of milk at the time of the media coverage. They also say that he advised that the sales in Brisbane went well although there was no media backing; that he negotiated with the government to obtain a \$1.25 million grant that he had worked his guts out for; and that he hopes that the bastards rot in hell. Is that an accurate reflection of what took place?

Mr Stewart—Not the government meaning—

Senator O'BRIEN—I will put it this way: who were 'the bastards'?

Mr Stewart—The former directors, of course. That is quite funny. I was partly reading from my three- or four-page report, which I have supplied you with at the back of my submission. If you can imagine, I thought I would lose everything, which has not happened to date. But today is another day. The day that we were up here in Cairns my kids were told not to come back to school because we had not paid the fees. Every bit of my money had gone into that. I was saying there that the other directors had walked out owing money to the company, and they still do. That was what caused my emotion that day. I did not read my whole report because of emotion.

Senator O'BRIEN—Were you the principal negotiator with the government for the A2 grant?

Mr Stewart—Yes. I was the person that put the application together and I was guided by the departments. Whatever they wanted we would furnish.

Senator O'BRIEN—Did the department ask you for financial information?

Mr Stewart—Yes.

Senator O'BRIEN—What did you supply them with?

Mr Stewart—Probably the financial spreadsheets and our projection on supply of, I think, 40,000 litres per day up here. We were going to make this a separate identity.

Senator O'BRIEN—Did officers of the department that you were negotiating with about this grant ask you about how the operation was going in southern Queensland?

Mr Stewart—I cannot recall. But do not forget that I am a sales and a marketing person, so I always present everything as good.

Senator O'BRIEN—I asked the question because you have told us that you were the person who was negotiating with the government to obtain the grant.

Mr Stewart—I would have told them that the sales were going through the roof, we were launching in Adelaide, we had a supplier ready to go in Victoria and those types of things, which was normal.

Senator O'BRIEN—Did they ask about any supply problems that you had?

Mr Stewart—I do not think so.

Senator O'BRIEN—Did they ask about any problems with paying farmers in southern Queensland?

Mr Stewart—No.

Senator O'BRIEN—The records of the meeting on 8 October 2004 reveal a debt of \$126,146.11 to the Department of Agriculture, Fisheries and Forestry's levies revenue unit, which I assume relates to the 11c a litre—

Mr Stewart—DIAL, Dairy Industry Adjustment Levy.

Senator O'BRIEN—I think that is right. That is to fund the restructuring package. Was that debt incurred between May and September 2004 or from an earlier date?

Mr Stewart—No. The operation only went from May 1. Supply would have been two days prior to that. So the DIAL was not paid.

Senator O'BRIEN—That is an awful lot for a short time. Does that mean that the company never paid the levy?

Mr Stewart—There was never an issue brought up from the accounts department that was really outstanding. The records of the department would show that. As a director, I never knew that anybody from the government or anything like that would be phoning up looking for money.

Senator O'BRIEN—It is a very large quantity of milk.

Mr Stewart—Yes.

Senator O'BRIEN—And you think it could only possibly have been incurred between May and September 2004?

Mr Stewart—It had to; we were not in operation prior to that.

Senator O'BRIEN—Do you question that level of indebtedness to the Department of Agriculture, Fisheries and Forestry?

Mr Stewart—Yes, definitely.

Senator O'BRIEN—You do?

Mr Stewart—The figures do not add up, do they?

Senator O'BRIEN—The meeting record also reveals a Dairy Australia debt of \$82,480.59, which I would suspect—and maybe you can confirm this—relates to research and development levy payments. Do you know about that?

Mr Stewart—Dairy Australia?

Senator O'BRIEN—Yes. That is what the meeting record shows.

Mr Stewart—Dairy Australia would not even talk to us, never mind send us an account.

Senator O'BRIEN—I am pretty sure they would have sent you an account if you had a debt of \$82,000.

Mr Stewart—What is it for?

Senator O'BRIEN—For supposedly collecting research and development levy payments for the milk that you are collecting, but I will check that.

Mr Stewart—The only levy that I knew about was the 11c DIAL levy.

Senator O'BRIEN—So you are not aware of that one.

Mr Stewart—And if we had a meeting with members of the board of Dairy Australia in Melbourne with our full contingent of the board, why would they not have brought that up? We had a meeting with them.

Senator O'BRIEN—The figure is definitely on the list of the attendance register for the first meeting of creditors—Dairy Australia, \$82,480.59. You do not know what that is about; it was never drawn to your attention?

Mr Stewart—No. We believe they were the people who got Queensland Health on to us. We had no relationship that I know of with Dairy Australia.

Senator O'BRIEN—Can you tell me about the nature of A2 Dairy Marketers' relationship with the A2 Corporation? I understand that the company held a licence to use A2 Corporation owned technology. Did you pay a monthly fee for that?

Mr Stewart—It was on a royalty basis.

Senator O'BRIEN—So it was based upon sales. Volume or cash value?

Mr Stewart—Per litre.

Senator O'BRIEN—So volume. Do you know what the monthly fee was during the period of the company's operation?

Mr Stewart—No. It was around 11.75c per litre, I believe.

Senator O'BRIEN—According to the minutes again, A2 Dairy Marketers owed A2 Corporation \$83,702.94. Do you know if A2 Dairy Marketers made any payments to reduce the royalty debt?

Mr Stewart—Yes. We paid some royalties, but then we were in negotiation with A2 New Zealand on probably three occasions. They wanted it to stand up and work so much that they did what they did.

Senator O'BRIEN—So that \$83,702.94 is a royalty payment?

Mr Stewart—Yes.

Senator O'BRIEN—Could it have been anything else?

Mr Stewart—Yes, it could have been. Sometimes there was a payment for testing. The testing went through New Zealand at one stage, but—

Senator O'BRIEN—You do not know?

Mr Stewart—No, all I have with me is a pad and pencil. But I think it would have been royalties. If the royalties of 11.75c a litre are \$83,000, or the figure that you just quoted, and prior to that it is the same for the dairy levy, something is very obscure.

Senator O'BRIEN—At \$126,000, it does not add up on that basis.

Mr Stewart—No.

Senator O'BRIEN—The minutes of the second creditors meeting referred to A2's major asset being debts owed by a number of supermarkets, but the liquidator says that these debts were actually owed to Cashflow Finance Australia. Can you explain the relationship between A2 and Cashflow Finance Australia?

Mr Stewart—Cashflow Finance is a cash flow organisation that buys the debt of companies. So, instead of paying the 2½ per cent to Coles or Woollies to get your money out within 30 days that you would pay depending on the arrangement, we had a better deal with Cashflow Finance, so we would send the invoices over directly and the money would be in the bank overnight.

Senator O'BRIEN—The minutes show that on 28 October creditors were owed \$1.4 million, not including disputed amounts, and the expected payout to unsecured creditors was 7c in the dollar. Do you recall that or were you aware of that?

Mr Stewart—That there were debts of \$1.4 million?

Senator O'BRIEN—Yes, and that the expected payout to unsecured creditors was 7c in the dollar.

Mr Stewart—Yes. That number changed daily. It could have been 5c, now it is 0.

Senator O'BRIEN—It was not very much.

Mr Stewart—No.

Senator O'BRIEN—Does that indicate that the company was in big trouble for most of its life?

Mr Stewart—No, I do not believe so. When you have the mother company saying that they are going to invest and things like that, you get to the stage where they send Ferriers over to do due diligence. They have all the information. They have all the contacts. They start at the company the following Monday, with the same contacts and the same labelling. Their TV campaign has come out recently, using the same concept, the same talent and the same music. If we believed what we were told by the mother company—and it did happen—we would still be in operation and assisting farmers.

Senator O'BRIEN—But isn't it true that essentially what you have just told us makes it clear that the company was undercapitalised from the start? You were depending on them to give you the financial assistance that you talked about. You talked about \$4 million coming from A2 and more money coming from directors, during the operation of the company.

Mr Stewart—Let us go back to the first statement that I made about the supply. If we had supply three or four times that of what we had the sales for, the sales forecast would have been true and correct. The money that we spent in media would have reaped its benefits and the launch around Australia would have continued, but from day one it was because of that supply issue.

Senator O'BRIEN—But you needed the capital to be able to survive whilst you had your supply in place. You were not ready to start with the capital that you had and the milk supply that you had. Clearly that is the case, isn't it? You were not ready to start with 6,000 litres, given that you had already committed to expending money on a campaign you therefore could not afford.

Mr Stewart—In all honesty, I did not find that out until the May Day long weekend because of the information that we were supplied with by another director.

Senator O'BRIEN—Okay. So, shortly after the company started, you became aware that there was a shortfall in milk supply?

Mr Stewart—There would be no way with my reputation in the media or in, say, the supply of groceries that I would go to Coles and Woollies and say to them, 'We can supply you,' and then on the first day we go into panic mode. In every meeting that I had with the supply manager or the former director, we would start off with 30,000 litres for the first couple of months. We were told everything was in order. When you are within a company you can only do what you know—I did not know one end of the cow from the other; I am more into marketing. So we have got supply, we create the demand and that is what happened.

Senator O'BRIEN—So in relation to your company's region, or the A2 Dairy Marketers' Regional Partnerships application, it was A2 Dairy Marketers that applied for the grant?

Mr Stewart—That is correct.

Senator O'BRIEN—But the application talks about Star International Group being set up. Was that arrangement in place at the time of the application?

Mr Stewart—No. I said that before. The whole reason behind that was to keep the money for the tablelands region, for what it was supposed to be used for. You could not just put it into—

Senator O'BRIEN—Yes. It was A2 Dairy Marketers' operation in the tablelands.

Mr Stewart—That is correct.

Senator O'BRIEN—Yes. The referees were Mr Saddler, Mr Schroder and Cooe Advertising. Mr Saddler's status is not entirely clear to me. He appears as director of A2 Dairy Marketers in some documents but not in others. Was he a director of A2 Dairy Marketers when the company sought public funding?

Mr Stewart—In my opinion, yes. He announced at the second creditors' meeting that he was never a director of the company.

Senator O'BRIEN—Did he attend directors' meetings?

Mr Stewart—That is what I turned around. I said, 'That's great—I paid for all your airfares, your meals and you voted at board meetings. So just because you didn't sign a piece of paper, or a piece of paper didn't go through, you're still a director and held accountable.'

Senator O'BRIEN—Mr Schroder is from Cooloola Milk. What is the nature of that business?

Mr Stewart—He was the processing agent for A2 in south-east Queensland.

Senator O'BRIEN—Mr Schroder's company was owed \$132,778.92 by A2 Dairy Marketers, so he is a referee and a creditor.

Mr Stewart—That is correct. There were a lot of people within the dairy industry, and people like myself, who believed in processing A2 milk with the benefits—seeing as I am not allowed to say 'health'—and benefiting farmers, to allow the retail price to go up and the farmers to get their rightful cents per litre. He was a firm believer.

Senator O'BRIEN—I understand that Cooe Advertising is the National Party's advertising company. Did Cooe introduce you to Mr Ken Crooke?

Mr Stewart—Correct.

Senator O'BRIEN—Did Mr Crooke suggest the referees listed in the Regional Partnerships application?

Mr Stewart—No.

Senator O'BRIEN—Where do they come from? Are they a product of your work with them?

Mr Stewart—Yes. I would just have said to them, 'Give us a reference.'

Senator O'BRIEN—Did you discuss that at board meetings? Did you discuss the application at board meetings?

Mr Stewart—Yes. Because we were light on in a lot of facets I think the other directors did not believe that any government grant would go through. In saying that, I had the same kind of thought of why did we need a government consultant—I think I put it in my report—to have a nice little cup of coffee and things like that. But they would ask how it was going and we would need to furnish more information, things such as that.

Senator O'BRIEN—You did not think the application would succeed—is that what you are telling us?

Mr Stewart—I did not think it was going to succeed, just because of government. I could not understand—I have put it in my submission also—why there is a DIAL levy of 11c when here are farmers walking off the land, and here we come along saying, 'We are going to give you another 11c or 12c.' In my view, it was kind of a conflict of interest.

Senator O'BRIEN—Did it occur to you that none of these referees were really independent of A2 Dairy Marketers?

Mr Stewart—Did it state that they had to be independent? When you are asked for a referee, if you are going for a job, you would probably give your best mate.

Senator O'BRIEN—You might, but where there is a connection, especially a financial connection and therefore potentially a financial outcome for the referee—

Mr Stewart—I disagree with that. When you ask for a referee you want to get people to give a reference that is true and correct. They gave a true and correct one because of their involvement—it was not for any financial gain whatsoever. I suppose Cooe might get an advertising contract or something like that, but—

Senator O'BRIEN—Yes, that is a good example of a conflict, isn't it?

Mr Stewart—No, it is not, because they are already employed.

Senator O'BRIEN—Yes, but they get more work if—

Mr Stewart—My statement is: I gave you referees on the assumption that they were referees to benefit the product and not to benefit themselves. I am not going to get into a debate on words—

Senator O'BRIEN—Okay. Did the department ever ask you about these referees?

Mr Stewart—No.

Senator O'BRIEN—So they never asked you whether they had a connection with the company?

Mr Stewart—The department only asked for more information each time.

Senator O'BRIEN—So the department never asked about the company's relationship with any of the referees?

Mr Stewart—No.

Senator O'BRIEN—A2's project partner was given as Mungalli Creek Dairy. Was there a legally-binding contract between A2 Dairy Marketers and Mungalli Creek Dairy?

Mr Stewart—At the time, no, but Mungalli had engaged a business adviser down here, ABN Ambrose, and we had engaged Michael—

Senator O'BRIEN—You had someone representing you—the point being that there was not a legal relationship but one might have occurred in the future.

Mr Stewart—We had advanced \$10,000 of A2 money to get that into place.

Senator O'BRIEN—So you paid Mungalli Creek—

Mr Stewart—No. We paid our adviser to start talking to ABN. We flew him up here and so on.

Senator O'BRIEN—This is between May and September 2004—or was it before then?

Mr Stewart—It was not until such time when we were going ahead with the government grant.

Senator O'BRIEN—So it was after 8 September, was it? Was it after the date it was announced publicly or was it before—

Mr Stewart—No.

Senator O'BRIEN—It was before the date it was announced publicly?

Mr Stewart—Yes, definitely.

Senator O'BRIEN—Was it in August or September—do you remember?

Mr Stewart—I have a working relationship with Michael—I cannot remember his surname—from the Gold Coast, so he was brought on. He was one of the advisers that came on and, if you check the minutes, his company name was there as a suggested accountant, as one of the suggested accountancy firms, to look after the finance—Ashelfords on the Gold Coast. Michael was chartered to deal with the man from ABN Ambrose to get it all legally tied up.

Senator O'BRIEN—Just let me get this straight—I may have misunderstood you, so I want to be clear: are you saying that this arrangement, pursuing a contract with Mungalli Creek Dairy, led you to engage this person and incur costs after you knew that the grant was going to be made by the federal government?

Mr Stewart—No.

Senator O'BRIEN—It was before that?

Mr Stewart—Yes, definitely.

Senator O'BRIEN—How long before that?

Mr Stewart—About three or four weeks—I would be guessing. It was when we started, I believe, talking about Star International and working out how it was all going to be formulated and we had discussions with Michael.

Senator O'BRIEN—When was the licensing agreement with the A2 Corporation signed?

Mr Stewart—Was it not on 12 November, when the company started?

Senator O'BRIEN—You are not sure?

Mr Stewart—I believe it was, and then we had to furbish things by 1 January or 12 January, something like that.

Senator O'BRIEN—How did A2 Dairy Marketers come to withdraw from the agreement?

Mr Stewart—Because of their legal obligation under their contract, if we cannot supply then they can withdraw; and they did so on that Friday, and they started on the Monday.

Senator O'BRIEN—I understand that directors of A2 Dairy Marketers paid themselves a monthly consultancy fee. The minutes of the second creditors meeting showed that Mr Schroder, one of your referees for the grant, claimed that you and a fellow director, Mr Roberts, were paying yourselves \$30,000 a month in consultancy fees. Is that the correct amount?

Mr Stewart—No, the figure that we put down was \$15,000 each per month. As you will notice in the creditors' report, at no time did I ever take that money. My money was left in the company and my bills were paid by the company, except for the school fees of course—just my normal registration and things such as that. So I think that, as a creditor as well, I am owed in the

vicinity of \$45,000 for the nonpayment of wages or contracts. I do not know the full extent of the other director's activity, but I believe that every cent was taken.

Senator O'BRIEN—So you believe that the other directors paid themselves \$15,000?

Mr Stewart—There was only one other director, Mr Roberts. Do not quote me on this, but I believe that his \$15,000 was taken out on time every time.

CHAIR—How was it paid?

Mr Stewart—By cheque.

Senator O'BRIEN—Did anyone else receive a consultancy fee or was it only Mr Roberts?

Mr Stewart—Yes, the two of us were the owners of the company as such. That number for me was just a number. We were not going to make our money out of wages or consultancy fees. If you doubt the \$15,000, I put \$210,000 back into the company and I am a creditor for that amount as well. So, as I said at the creditors meeting, if anybody wants to shoot arrows then they need to try to think of something better than the \$15,000 because it is not relevant.

Senator O'BRIEN—Can you tell me when you first met Mr Ken Croke?

Mr Stewart—It was through the Cooee Advertising agency in Brisbane. I have known those people for quite some time through the media industry, and some of the people I knew went to work for them. We put our account out for pitch in November to the advertising agencies under the instructions 'don't use any money to pitch; just give us your ideas'. Cooee was employed somewhere around 5 December. After meeting with them and looking at everything they said that we would need a government adviser.

Senator O'BRIEN—So Cooee put you on to Mr Croke?

Mr Stewart—That is correct. At that time I realised that they were the advertising agency used by the National Party in Queensland. I probably did know that, but it just clicked.

Senator O'BRIEN—Did you see it as them putting you onto one of their mates?

Mr Stewart—No, because they put us onto Najta Gougoulas, a PR lady, as well. Within the industry of course they are going to refer us to the people they think are going to do the best job.

Senator O'BRIEN—So why did A2 Dairy Marketers decide to engage Mr Ken Croke?

Mr Stewart—Because it was sold to us on the assumption that we were the small boys on the block and we needed to know about what dairy farmers were doing and what Dairy Farmers Australia was doing. In our capacity of marketing/whatever people we did not have the capacity to do so.

Senator O'BRIEN—Did you think that Mr Croke's impeccable National Party connections would help the company?

Mr Stewart—It has got nothing to do with parties. We employed him to do a job for us that I honestly did not believe that we needed. My father is a waterside worker, but that does not mean I vote Labor. It does not matter what party; he had a job to do. At that stage, as I said in my submission, it was nice cups of coffee. I did not think anything would ever be done.

Senator O'BRIEN—What exactly was Mr Crooke's role with A2 Dairy Marketers as a business?

Mr Stewart—He told A2 Dairy Marketers that he would need to find out information about what was happening. Government grants, at that stage, were not at the top of the list. He believed that we needed to get into government to explain the story of A2, the benefits to Dairy Australia and those types of things.

Senator O'BRIEN—Did Mr Crooke suggest you apply for funding?

Mr Stewart—No. In all honesty, I think it might have been Henry Palaszczuk. We met with Henry, the state Labor man, and the conversation started in his office about how the government could assist us in testing the cows.

Senator O'BRIEN—That is the state government; you applied to the federal government.

Mr Stewart—That is correct, and that is when we would have asked, 'Is there any government funding?' Or Henry might have said it: there is government funding. But as conversations go, you just get involved in these things.

Senator O'BRIEN—Who introduced you to Mrs Kelly?

Mr Stewart—Ken Crooke.

Senator O'BRIEN—When was that?

Mr Stewart—I do not have any records. If you check when I was at the Senate office in Brisbane, that was the day. It was in the Commonwealth offices in Eagle Street I think.

CHAIR—You would have been signed into the building, wouldn't you?

Mr Stewart—I cannot recall.

CHAIR—You said for us to check. Are you saying we check with Mrs Kelly's office?

Mr Stewart—No, I just thought there would be some way—because they were blank rooms, they were not offices. They were meeting office rooms.

Senator O'BRIEN—You had an appointment with Mrs Kelly organised by Mr Crooke?

Mr Stewart—Yes, that is correct. Ken Crooke organised that.

Senator O'BRIEN—According to an email to you from Mr Crooke, you met with Mr Truss some time prior to 15 April last year. What was that meeting about?

Mr Stewart—As I stated before, because he had the portfolio of primary industries, I believe, it was just to explain the way we were going to go about A2 and promote it. It was to advise the government out of courtesy. This was on the understanding of the advice from Ken, which I believe was probably correct.

Senator O'BRIEN—Do you know when that meeting took place? Which month was it?

Mr Stewart—It was a long weekend. I have learnt one thing: not to keep your diary in a computer. But it was in his office, his records would show that.

Senator O'BRIEN—It was sometime in the week before 15 April, I think. Would that have been Easter?

CHAIR—Or Australia Day.

Mr Stewart—Australia Day?

CHAIR—You said a long weekend, we are trying to sort it out.

Mr Stewart—That sounds pretty rushed though. That is six weeks after we started.

Senator CARR—Mr Crooke wrote to Phillip saying, 'As a result of our meeting last week with Federal Minister, Warren Truss.' Were you involved with that meeting?

Mr Stewart—Yes.

Senator CARR—That is the meeting.

Mr Stewart—Yes, as long as that was in his office.

Senator CARR—It says, 'last week', and the e-mail is dated 15 April, so presumably it is the week before 15 April.

Mr Stewart—Yes, it must have been then. He is National Party and he was not too overawed or too thrilled with the project.

Senator O'BRIEN—Okay.

Senator CARR—Your name is on the address list for this email, so presumably it is the same meeting.

Senator O'BRIEN—You wrote to the Deputy Prime Minister on 10 May last year following an earlier discussion with Wendy Armstrong from his office. Is it true that Mr Crooke also met with Miss Armstrong?

Mr Stewart—Who is Miss Armstrong?

Senator O'BRIEN—She works, I believe, in Mr Anderson's office.

Mr Stewart—What does the letter state?

Senator CARR—It is a letter from you to Mr Anderson dated 10 May 2004. It says:

Following discussions with Miss Wendy Armstrong of your office, I set out below some relevant information on the a2 Milk project for your consideration.

Mr Stewart—That was a phone call, not a meeting.

Senator CARR—It says 'following discussions', so that is the nature of it?

Mr Stewart—Yes.

Senator O'BRIEN—I asked you if it was correct that Mr Crooke also met with that same Wendy Armstrong.

Mr Stewart—I did not meet with her.

Senator O'BRIEN—No, but you had discussions with her.

Mr Stewart—Yes.

Senator O'BRIEN—Did Mr Crooke meet with her as well as you having discussions with her, if I can put it that way?

Mr Stewart—I do not think so.

Senator O'BRIEN—You don't?

Mr Stewart—No, I do not. Going back to the sales, Ken would have said something in a meeting about her—whatever the lady's name was—and I would have picked up on that and done the sales thing and just sent a letter outlining what the project was all about.

Senator O'BRIEN—Can I take you back to an answer you gave where you said you thought that Henry Palaszczuk might have suggested funding. I have got a copy of Asia Pacific Corporation's 'Proposal for A2 Corporation—Government and media relations strategy'. It ends with the words 'Ken Crooke' and 'Director' and the date '18.2.04'. It says the second objective is:

... To explore the prospect for financial assistance from industry support schemes offered by State and Federal Governments e.g. Research and Development Grants; assistance under the Federal Government Sustainable Regions Programme.

Are you still saying that Mr Palaszczuk suggested government funding before Mr Ken Crooke?

Mr Stewart—That is a letter of contract or appointment.

Senator O'BRIEN—But it says what the objectives of the appointment were.

Mr Stewart—Yes, that is fine. But again I honestly believed that Ken Crooke's appointment was just cups of tea—that type of thing—to the extent that one of the days when we went to a government meeting I had to ask Phil Roberts, 'Where are we going? What are we going this time for?' I honestly believed that my place in the marketplace was to get out there and sell the product. I did not want to sit in meetings with government that I did not think were going to get milk off the shelf.

Senator O'BRIEN—Did Mr Crooke report to you and Mr Roberts as well?

Mr Stewart—Both.

Senator CARR—On 10 May you are writing to Mr Anderson saying what is needed from government and amongst the list of things you say:

Urgent consideration of a proposal to fund the establishment of a production facility to process A2 milk on the Atherton Tablelands.

So it is quite apparent that—

Mr Stewart—What date was that?

Senator CARR—It was 10 May 2004. You are clearly spelling out what you want from government, and that includes the government funding a production facility.

Mr Stewart—Mr Saddler would have gone to Cairns a few times, and I did write to Dairy Farmers Australia or Dairy Farmers in Atherton—or whatever it is called—when they said they would not process the milk.

Senator CARR—What I am trying to reconcile is this: you are saying that you saw your job as to get out to the market and not be involved with this because it was just cups of tea.

Mr Stewart—That is correct, and there was that sales and marketing module.

Senator CARR—\$2 million is a lot of cups of tea, especially if the taxpayer is paying.

Mr Stewart—It does not say \$2 million there.

Senator CARR—It says here:

Urgent consideration of a proposal to fund the establishment of a production facility ... Cost is estimated at \$2 million ...

That is in your letter of 10 May. How much money were you seeking from the grant?

Mr Stewart—\$1.2 million.

Senator O'BRIEN—That letter on 10 May coincidentally talks about the Regional Partnerships program and the sustainable regions programs. Did you write the letter?

Mr Stewart—Can I have a look at the letter?

Senator O'BRIEN—You can. Some of it can be read but it is a little difficult because it has got a picture of some milk being poured. Someone said, 'Spilt milk,' but I was not going to say that.

CHAIR—No, you just said that someone else said it.

Senator O'BRIEN—On the first page it says, 'What is needed from government,' and there is that dot point which talks about—

Mr Stewart—I think someone else in my office has written this letter, with points given to them by me or by Phil.

Senator O'BRIEN—So you knew about the Regional Partnerships program then? You signed the letter, I presume, which talks about it.

Mr Stewart—Yes, so I must have.

Senator O'BRIEN—Who in your office, other than you and Mr Roberts, would have put that in the letter? Would Mr Crooke have put it in the letter?

Mr Stewart—No, Mr Crooke had nothing to do with it. It looks similar to the way that Najta Gougoulas, our PR, would write a letter.

Senator O'BRIEN—So it was something that the company was contemplating.

Mr Stewart—This is well before we even met with Ms Yvonne Tunney, from Atherton, to put in—

Senator O'BRIEN—An application? Yes, it was well before you put in the application.

Mr Stewart—Yes, but before the first application as well.

Senator O'BRIEN—Sustainable regions?

Mr Stewart—Whatever Ms Yvonne Tunney is in charge of.

Senator CARR—You actually raised the question of an application on 11 June, and at a meeting in Brisbane about a month later you raised it verbally and then put in a formal application, which was received on 9 July.

Mr Stewart—Whom did we meet with on 11 June?

Senator CARR—That was with Mrs Kelly.

Mr Stewart—That is the date, then. That was in the Senate office.

Senator CARR—Yes. On 11 June 2004 in the Brisbane offices.

Mr Stewart—That was the day we had a chat to her, and then she phoned Canberra a couple of times and spoke to—I do not even know if it was Wendy.

Senator CARR—At that meeting were Mrs Kelly, Mr Crooke, you and Mr Roberts, and Ms Riggs was also involved by teleconference.

Mr Stewart—That would have been the lady in Canberra or Sydney or somewhere. We sat there to start with.

Senator CARR—So it is quite clear that, in the month prior, you were aware of money that was available through the government projects and that, on 11 June, you raised the matter with the parliamentary secretary, and then a month after that a formal application was received.

Mr Stewart—No. Can we go back one step. We were invited to a meeting with De-Anne Kelly, and then we discussed grants. She then picked up the phone and spoke to whomever in Canberra and asked where did something like A2 fit in.

Senator O'BRIEN—So you were invited to the meeting; it was not initiated by you? You were invited by Mrs Kelly?

Mr Stewart—Ken Crooke organised that meeting.

Senator O'BRIEN—You were invited to it by Ken Crooke, were you?

Mr Stewart—That is correct, because we were paying Ken Crooke.

Senator O'BRIEN—He had organised for you to meet with Mrs Kelly.

Mr Stewart—That is correct.

Senator O'BRIEN—At that meeting there was a discussion about how the federal government could help A2 Dairy Marketers?

Mr Stewart—Yes, but we did not just walk in.

Senator O'BRIEN—I am trying to put it in a limited number of words.

Mr Stewart—Yes, but it sounds as though we walked in the door and she said, 'Oh, we're going to give you a grant.'

Senator CARR—That is not too far from the truth, though.

CHAIR—Excuse me, Senator Carr, just let the witness answer the question.

Mr Stewart—I am telling the truth here.

Senator CARR—Yes. But I am saying that it was not too far from the truth though.

CHAIR—Order!

Mr Stewart—My credibility as a person is being attacked as well.

Senator O'BRIEN—I am just trying to get the facts.

CHAIR—Order! Gentlemen, please, for the benefit of Hansard it is important that only one person speak at a time. Senator O'Brien asked a question. Have you finished Mr Stewart?

Mr Stewart—No, not yet.

CHAIR—Please finish your answer and then we will go to the next question.

Mr Stewart—As I said, I am telling the truth and my recall of the happenings. I am not here to do anything but tell the truth. Some of the questions that you have aimed at me have attacked my credibility. You are here to ask me questions about the process of the government and it is not about attacking me, if that makes sense. That is an honest assessment. I am sitting here telling the truth of what happened to the best of my ability.

CHAIR—Mr Stewart, you should not pass any reflections upon certain members of the committee here.

Senator O'BRIEN—We talk about this meeting on 11 June, which was organised by Mr Crooke. He invited you to attend—

Mr Stewart—And Mr Roberts.

Senator O'BRIEN—The meeting had you, Mr Crooke, Mr Roberts and Mrs Kelly present?

Mr Stewart—That is correct.

Senator O'BRIEN—Was someone else present?

Mr Stewart—No.

Senator O'BRIEN—Just Mrs Kelly?

Mr Stewart—Yes. She picked up the telephone.

Senator O'BRIEN—Mrs Kelly called someone on the telephone while she was—

Mr Stewart—She phoned about three or four people. I am just making a number up, but she phoned different people in different departments, who said, 'No, speak to so-and-so.' Then she qualified with someone to say, 'Is this the right way?' and 'How do we do it?' and things such as that.

Senator O'BRIEN—So Mrs Kelly made a number of phone calls seeking an appropriate channel to provide funds from the federal government to A2 Dairy Marketers?

Mr Stewart—That is correct.

Senator O'BRIEN—How long did the meeting go for?

Mr Stewart—Probably 1½ hours.

Senator O'BRIEN—How long did it take before Mrs Kelly started to ring people? How far into the meeting did that process start?

Mr Stewart—About 45 minutes.

Senator O'BRIEN—After a discussion which took about 45 minutes, Mrs Kelly started to explore avenues to provide federal funds to A2 Dairy Marketers.

Mr Stewart—With ideas and finding out what was available—that is how I saw it. As a businessperson sitting there, it was like cups of tea that might turn into something.

Senator O'BRIEN—So that was the first time you thought you might actually get something out of the federal government?

Mr Stewart—In all honesty, no.

Senator O'BRIEN—So you thought about it before?

Mr Stewart—No—

Senator O'BRIEN—I thought your evidence just was that this was the first time you thought that cups of tea might turn into something.

Mr Stewart—Yes, but I still was not—

Senator O'BRIEN—You were still sceptical, were you?

Mr Stewart—Very sceptical.

Senator O'BRIEN—But this was your first meeting with Mrs Kelly?

Mr Stewart—Yes.

Senator O'BRIEN—And 45 minutes into that meeting Mrs Kelly was exploring ways that the federal government might be able to provide assistance to your business?

Mr Stewart—Yes, and the reason I believed that was because of the farming situation—the 50c per litre. It was not about anything but helping the farmers in that meeting. That was the whole thing I saw from her. She was not helping A2 Dairy Marketers; she did not know us from a bar of soap.

Senator CARR—You mentioned that there were a number of conversations. I have asked a question in the Senate and I have been told that Ms Leslie Riggs was involved in the meeting by way of teleconference. Do you recall that?

Mr Stewart—Does she have a position?

Senator CARR—Yes, she is a senior public servant in the department that handles Regional Partnerships.

Mr Stewart—If you can understand all these letters and alphabets of names and things like that—

Senator CARR—Yes.

Mr Stewart—I would say there were three or four people. I thought one was pretty senior.

Senator CARR—Do you recall that she was on the phone all the time—was it by way of teleconference—or was it a call made to her?

Mr Stewart—She had trouble working the phone, actually—I remember that; bloody government phones and whatnot—so we had to get someone in. She did do a microphone phone at one stage but I do not think there were three or four people from government involved; it was a one-on-one situation.

Senator CARR—It is just that the answer I have got here says that Ms Leslie Riggs joined the meeting by way of teleconference.

Mr Stewart—She would have been on speaker.

Senator CARR—On speaker phone. Do you recall that?

Mr Stewart—I do not know if it was that lady; there were a few—

Senator CARR—But you recall a person on speaker phone?

Mr Stewart—That is correct, yes.

Senator CARR—She is a first assistant secretary of the department, so she is quite a senior officer. There was also a project officer from the department.

Mr Stewart—There was a male as well.

Senator CARR—Yes, a project officer as well. These people take a bit of organisation to get to a meeting; it is not—

Mr Stewart—It has nothing to do with me. She picked up the phone and they were there.

Senator CARR—You were not surprised that there were senior departmental officials available?

Mr Stewart—They are only people and so, no, not at all. I just remember that she did speak from underneath to someone, saying, ‘Is this the right way to go?’ and things such as that.

Senator O’BRIEN—When did Mr Crooke first advise you that he was going to work for Mrs Kelly?

Mr Stewart—As I have put in my submission, I do not know where that came from, but it might have been roughly three weeks after the meeting with Mrs Kelly.

Senator O’BRIEN—After 11 June?

Mr Stewart—Yes. That might not be 100 per cent correct—

Senator O’BRIEN—It was about then?

Mr Stewart—Yes, and he advised that he would resign the account and that another gentleman would become involved. I only met with the new guy about twice.

Senator O’BRIEN—Was that date recorded in your diary?

Mr Stewart—Back on the computer? No, but the meetings would have been.

Senator O’BRIEN—So it was your last meeting with Mr Crooke?

Mr Stewart—No. I got a phone call from Ken about that.

Senator O’BRIEN—Are you saying that it would or would not have been recorded in your electronic diary?

Mr Stewart—No. That was a phone call.

Senator O'BRIEN—Were you surprised to learn that Mr Crooke was going to work for Mrs Kelly?

Mr Stewart—No. I did not put the two together. I even had to ask someone here today about the party. I know she is now in The Nationals, and then I put Joh Bjelke-Petersen with them. This has no relevance, but Sir Joh had an office next to me about 20 years ago when he came out of parliament. We had media all over the door, and he still went there. So Ken Crooke might even have worked in that office in those days.

Senator O'BRIEN—On 22 June last year you provided a company summary to Mr Ferrier at the ACC when you wrote to him seeking public funding. In that summary you said: 'The directors believe that the project—the A2 Dairy Marketers project—'has almost unlimited upside potential, which is difficult to quantify and therefore no attempt has been made to do so.' Was that an accurate statement?

Mr Stewart—It sounds like another PR letter. The upside of A2 was the benefit to the farmers, the community and, of course, the owners.

Senator O'BRIEN—When you say it sounds like another PR letter, does that mean that it was not an accurate statement?

Mr Stewart—No.

Senator O'BRIEN—I want to know what that means. I asked you a question and you said, 'It sounds like a PR letter.' I want to know whether you mean it was an exaggeration or—

Mr Stewart—No, it is a word.

Senator O'BRIEN—It was your company summary to the ACC in support of your application.

Mr Stewart—It was true and correct.

Senator O'BRIEN—Is it correct to say that the potential was so great that there was no point in doing any cash flow projections?

Mr Stewart—For the grant?

Senator O'BRIEN—Yes.

Mr Stewart—Cash flow projections were done. I explained that before. We did those on 40,000 litres.

Senator O'BRIEN—But you only had 6,000 litres down south, and you did not know what you had up north.

Mr Stewart—We did know what we could get up north.

Senator O'BRIEN—How did you know that? You claim to have been misled about what happened in the south of the state, but you say you did know what you would have up north.

Mr Stewart—We knew the potential up there regarding how many dairy farmers would come on board, how many we needed and how many cows there were, depending on the testing—and it is usually one in four. We could devise the litreage from that.

Senator O'BRIEN—When was the legal action initiated against the company for misleading advertising?

Mr Stewart—That was done at the end of May, because we pulled the ads. Misleading advertising in the dairy or food industry—we use the word 'health'. Milk is healthy. Dairy Farmers and the Australian dairy board all use that word on their web site. They were not brought to court over it. That was an undermining thing.

Senator O'BRIEN—So before the applications were lodged there was legal action against the company for misleading advertising?

Mr Stewart—I do not know the exact dates. We did have a meeting.

Senator O'BRIEN—You said the end of May, and that is why I make that statement.

Mr Stewart—We had a meeting with the health department. They asked the questions.

Senator O'BRIEN—When was that, roughly?

Mr Stewart—The end of May.

Senator O'BRIEN—At the end of May you had a meeting with the health department, and they were questioning your ads.

Mr Stewart—They were questioning everything. Records would show when the writ was sent and when we appeared in court.

Senator O'BRIEN—Were you aware of the writ at the time you lodged the application for Regional Partnerships funding of \$1.25 million?

Mr Stewart—I do not know if we knew the writ was in. We knew that we had not had an answer back from Queensland Health at that time, if that makes sense.

Senator O'BRIEN—When did you advise the Commonwealth government or the ACC that the company was the subject of legal action over misleading advertising?

Mr Stewart—We didn't.

Senator O'BRIEN—You never did?

Mr Stewart—We did not know that we had to.

Senator O'BRIEN—You were dealing with the government on an ongoing basis about getting \$1.25 million. You made some cash flow projections, which no doubt were based upon a media strategy as well as the availability of milk, and your media strategy was the subject of legal action.

Mr Stewart—It was taking one word out of the whole campaign.

Senator O'Brien—But it may have had an impact. You did not tell anyone that your media strategy was under legal challenge—is that what you are saying?

Mr Stewart—We did tell people. We had advice from Deacons that the fine would be approximately \$10,000 if we pleaded guilty. I remember going through those stages. I was dead against pleading guilty when, in my mind, all milk is healthy. So I did not see a reason to phone up all and sundry and tell them that there was legal action being taken. It had been reported in the press, I believe.

Senator O'BRIEN—Do you know when that was? Was that before or after you lodged the application? We can check, but I will just ask you the question in case you can assist us.

Mr Stewart—We met with De-Anne Kelly in June—on 11 June, by the sounds of things.

Senator O'BRIEN—Was it around that time?

Mr Stewart—It might have been a bit later.

Senator O'BRIEN—I have one final question. Were you ever asked about this legal action by officers of the Department of Transport and Regional Services?

Mr Stewart—No, definitely not.

Senator O'BRIEN—In all of your dealings with them, they never raised this issue with you?

Mr Stewart—No. I would have—

Senator O'BRIEN—You would have spoken about it, but they never asked?

Mr Stewart—I would have said, 'What's it got to do with you?'

Senator MURRAY—Your submission is No. 53. Your covering email of 7 April included these remarks:

I give this to you on the condition that it is under Parliamentary Privilege and that no legal action can be taken by any person or any body for what I have said.

Do you understand that whatever you say here cannot be used in any legal proceedings of any kind?

Mr Stewart—Yes. As I said from the outset, I want to tell the truth. My family is No. 1.

Senator MURRAY—I want to be sure, Mr Stewart, that you are aware, apart from telling the truth, that you are under no threat from what you say here. Nobody can come after you.

Mr Stewart—They will. They will find a way.

Senator MURRAY—Then they have to be careful because that would bring the wrath of the Senate down upon them and that is not an idle matter. I just want to be sure that in your answers—

Mr Stewart—I qualified it with Mr Terry Brown 500 times before I even—

Senator MURRAY—I want you to be sure, in your answers, that apart from telling the truth that you can tell the truth without fear.

Mr Stewart—I have told the truth but there is fear there.

Senator MURRAY—I do not make any imputation that you have not. With respect to the promotion of this company, was there a prospectus drawn up?

Mr Stewart—What we would call a business and marketing plan?

Senator MURRAY—No. Was there a prospectus in terms of the Corporations Law.

Mr Stewart—Phil Roberts would have handled all the legal things through Gateway Lawyers on that.

Senator MURRAY—A prospectus is used when the proposition is put to the market. It may not have been necessary in the case of your company if you were going after a grant. But I wanted to be sure that, as far as you were aware, there was no prospectus drawn up under the Corporations Law.

Mr Stewart—What you are talking about is a prospectus for getting money in.

Senator MURRAY—That is right.

Mr Stewart—No. To give Phil Roberts his due, he was always worried about taking investment in because of then being a public company. We would talk about that—how many investors were able to come in and things such as that.

Senator MURRAY—Do you know whether, at any time, there was an independent expert's opinion sought as to the company's forecast or financial estimates?

Mr Stewart—No. But we were getting to that stage through Alford's on the Gold Coast after two months.

Senator MURRAY—So at all times forecasts and estimates were internally derived.

Mr Stewart—That is correct. We worked on a percentage of the marketplace. We would go from 2½ per cent to five per cent of the white milk industry.

Senator MURRAY—Your submission consists of three parts: your covering email, your letter to the committee of 5 April and a copy of your report to Mr Matthew Joiner of 1 October 2004. You would accept—and I entirely understand why it would be like that, given the circumstances at the time—that your report to Mr Joiner is quite emotional.

Mr Stewart—If you had lost your dream through friendship, so would yours.

Senator MURRAY—Yes, and that is why I said I quite understand it. Once again, I draw no imputation from it. But something struck me in there which I thought was stated much more strongly than your evidence to the committee today. On the second page of the report of 1 October, in the second last paragraph, you say:

If you review the minutes of the Board Meetings you will see that I stated many times that I thought the financial management of the company was not in order and that a professional company of accountants should move in to run the day to day finances.

Mr Stewart—That is correct.

Senator MURRAY—'Many times' is a stronger statement than you have made today. Do you recall when the 'many times' began?

Mr Stewart—Probably after the first board meeting where we invited A2 New Zealand over—a month after operation, I think.

Senator MURRAY—Can you give me a month and a year?

Mr Stewart—End of May 2004. We were only in operation in 2004. And then, if you read the minutes, where we met at the Qantas Club in Melbourne, it was stated there again. It is the same as me in charge of the marketing, or whatever—the two people who were in charge of the finances would bring the best figures forward.

Senator MURRAY—Were you concerned that the company was not a going concern?

Mr Stewart—No. That is the funny thing, because I still do believe in the product. The dairy industry will change over the years and the product will always stand, so I believed in what I was doing and that, in generating sales and marketing, the white knight would come along.

Senator MURRAY—Do you believe that the financial estimates or any other production estimates or forecasts put to the government were inflated?

Mr Stewart—No.

Senator MURRAY—Exaggerated?

Mr Stewart—No.

Senator MURRAY—Incorrect?

Mr Stewart—No.

Senator MURRAY—Untrue?

Mr Stewart—No.

Senator MURRAY—How can you answer like that when, as early as May, you were saying the financial management of the company was not in order and a professional company of accountants should move in to run the day-to-day finances? It must mean that the finances were not being conducted to your satisfaction.

Mr Stewart—No, because I was talking about the northern tableland region and that we had 40,000 litres, multiplied by the retail price and so on—all those sums. It was a forecast of 40,000 litres, which amounted to around five per cent of the marketplace. So those figures that were given to the government are true and correct. Does that make sense?

Senator MURRAY—On the second last paragraph of page 3 of your 5 April submission to the committee, you say:

It is funny how the New Zealand Company has used all the information gained to commence a2 Australia (version 2) with all contacts, all marketing concepts and ideas, and the very people whom assisted me in the formalisation of the company. Even to the extent of using the same music and concept in the advertising.

In the last paragraph of the third page of your report to Mr Joiner, you say: ‘Within an hour or two, two directors had been offered positions with A2 Corporation New Zealand. Funny that.’ Are you familiar with the phrase ‘phoenix company’?

Mr Stewart—No.

Senator MURRAY—It is a device whereby insolvent companies or companies which are no longer going concerns shift across their assets, intellectual property, equipment or staff and recommence business in the same form, leaving behind the debts for somebody else to pick up. That is, unfortunately, a very common occurrence in some industries. Is this what you are alleging here—that a whole lot of people deserted one enterprise to resuscitate themselves in another form?

Mr Stewart—No, what I am aiming at are the promises that A2 Corporation New Zealand continually gave us, and that they then commenced trading on the Monday after we closed the doors on the Friday. What involvement the two directors had in that is all on email at the receivers. But I just find it quite funny, especially with the rumours. When they did the Ferriers

due diligence, the director, John Ryall, did take me to the car park on the Thursday prior and he said, 'I've been in town for a few days just waiting for the doors to close.' And he did put in an idle threat: 'Don't go to Coles or Woolworths. You know they've got money in New Zealand and they will come after you,' and so on. He then hugged me, which I was not too thrilled about at that time. So, when I went upstairs, I got Najta Gougoulas to send herself and me an email on what had just occurred. Those emails are at the receivers.

Senator MURRAY—But that is not how I read the paragraph I quoted to you. Essentially you have said that the intangible assets of one company—namely the contacts, the marketing concepts and ideas, and the music and concepts in the advertising—have been transferred to another company, as well as some of the very same people, which is a tangible asset. So you have intangible and tangible assets of one group moving to another. That is classic phoenix company activity.

Mr Stewart—If that were the case, I would be over there as well.

Senator MURRAY—Maybe you have different ethics.

Mr Stewart—Probably because I did not get the phone call. There was doubt there.

Senator MURRAY—It sounds like one of those Lady Astor stories, which I will not bore you with now. I raise these issues with you because I want to know whether the Australian Securities and Investment Commission has taken an interest in the company at all.

Mr Stewart—They have had contact—no.

Senator MURRAY—With whom?

Mr Stewart—The receivers, I believe.

Senator MURRAY—When?

Mr Stewart—Some time early this year. The liquidation is still going on; that has not come to a head as yet. It has taken some six to eight months—six months. With my saying those things in writing, I just want to move on with my life. I do not want to get tied up in litigation and things like that. I just want to put this behind me. We have a successful marketing company going now.

Senator MURRAY—Again, I stress there is no inference with regard to you, but if some directors or officers of the company were operating a company when it was no longer a going concern, and if they misled the government as to their prospects and their estimates, and if—there are a lot of ifs in this—they ran a phoenix company scam with respect to this, then you can see that ASIC will get involved and that criminal prosecutions are possible under the Corporations Law. I have put it deliberately to you so that you understand the worst ramifications of this kind of evidence.

Mr Stewart—First of all, I do not think they are that smart.

Senator MURRAY—ASIC or the directors?

Mr Stewart—The directors. The No. 1 thing, which they did not even realise, was that all emails are left on the server, so whatever correspondence went via email, as most things did with New Zealand, they are on the server. I have actually seen most of those emails, because I looked at them while I was awaiting the closure of the A2 office.

Senator MURRAY—You are well aware that not all people who do wrong are smart, aren't you?

Mr Stewart—That is probably why I will not do any wrong.

Senator MURRAY—For the record, although these submissions of yours could be read in one way, you say that there was no phoenix activity?

Mr Stewart—No, definitely not.

Senator MURRAY—You say that, at all times until put into receivership, the company was operating as a going concern?

Mr Stewart—Yes.

Senator MURRAY—And you say that there was no misleading of government with respect to financial or any other forecasts?

Mr Stewart—Definitely not.

Senator MURRAY—On the last page of your report to Mr Joiner, you remark:

The warnings that came via my way to keep quiet and even the humiliation of a job offer to keep me quiet not relating to A2 Corporation to this minute sickens my guts. The vested authorities will take action.

What does that mean?

Mr Stewart—At the meeting with John Ryall in the company car park, he advised me that New Zealand would come after me—and I take that 'legally', not 'physically'. He said to me, 'I don't want you to be part of the new operation,' which clearly was starting on the Monday, 'but I've got a little private job that I'd like you to do.' So he had another little business thing.

Senator MURRAY—What did you mean by 'the vested authorities will take action'?

Mr Stewart—Referring to what he said in the car park.

Senator MURRAY—Who were the vested authorities?

Mr Stewart—Anybody above me, regarding those threats. I would be talking about Woolworths or the vested authorities that take their product—the people who would think that threat was true and correct.

Senator MURRAY—Were you saying that the vested authorities would take action against you?

Mr Stewart—No, against him.

Senator MURRAY—But, for that to happen, you would have had to tell them that these threats were made. Who were you going to tell?

Mr Stewart—The liquidators, to be honest.

Senator MURRAY—Have the liquidators asked you questions about this paragraph? It is an official report to them.

Mr Stewart—I do not think the liquidators have asked me questions but, to give them their due, they have spoken to me at length about everything. I think that would have come up—that, as a quotation, that is what happened. I probably refer to ASIC there as well, to be honest.

Senator MURRAY—Have you spoken to ASIC—

Mr Stewart—Yes, I have.

Senator MURRAY—with respect to these threats?

Mr Stewart—No.

Senator MURRAY—Do you believe that this inducement was intended to conceal criminal or wrongful acts?

Mr Stewart—Not criminal.

Senator MURRAY—Wrongful acts?

Mr Stewart—I just think it is bloody un-Australian to come over and promise someone something, like a \$4 million input into a company, and for us to pay all of our bills and for them to sit in a hotel room waiting to take over a company.

Senator MURRAY—But why would they want to keep you quiet? If you, they and the directors of the company had done nothing wrong, why would this person, as you have alleged, hold out such an inducement?

Mr Stewart—Just to keep things rolling along smoothly. I was the one who had the relationship with the buyers, the media and the promotional people around Australia. I never ever went to Coles or Woolies. I did write a letter to Coles and Woolies asking them to take down my child's posters promoting the product, because we had nothing to do with it. That is probably the worst thing that I have done to the product.

Senator MURRAY—So, according to your evidence, here is somebody who thinks you can do them real harm with the major distributors of the product and yet they do not want to take you into the new operation; they make you an unspecified job offer and make vague threats. If you were sitting on my side of the table, wouldn't you say to yourself, 'Well, there's something amiss here; this isn't normal corporate conduct'?

Mr Stewart—Yes, I believe that as well. However, when you walk out with \$6 in your pocket, the last thing you are going to do is employ a lawyer. As I stated before, as soon as I walk out of this room, A2 is no longer in my life; no longer do I have and will I have anything to do with them. This is just closure. It is just: okay, I have said my little piece here to get back at the directors who I believe have done wrong; they have done wrong in my eyes as friends and such. I will move on. I am not going to sit around taking legal action against people to ruin their lives.

Senator MURRAY—That is not the purpose of this interrogation. You may well be the victim in all this. However, if in making you a victim, the directors of the company, the people in New Zealand—or anybody else—have acted contrary to the law, including offering inducements or making threats, that is a serious matter which the receiver should look at, which ASIC should look at and which perhaps the police should look at. That is why I want you to be very specific in your answers.

Mr Stewart—My statement is true and correct, and I have said that all along. If those authorities want to do something, I will work with them, but I am tired of it. I thought I was doing the right thing by coming here today.

Senator MURRAY—And you have. The issues that we have to address are these: were the government misled, was the company defective or acting wrongfully, and were the people who were creditors misled or dealt with in a way which would have put them at risk if certain actions had not been taken?

Mr Stewart—I honestly thought that I came here to answer questions on the government grant and if I did everything correctly, which I have stated that I have. I believe that the dealings with the government and De-Anne Kelly were true and correct. At no time did anything that I saw as a non-business relationship go forward, even to the extent where I came up to a dinner here in Cairns after I met with the 40 farmers—I think it was the state National Party; I was invited by Ray Hopper—and De-Anne Kelly came over to my table and said, 'This is the local lady, thank you,' and walked away. She would not even speak to me, and that was in the process of the grant.

Senator MURRAY—But the government grant would never have been offered if the government had known that the company would go into receivership.

Mr Stewart—At that time we did not know—even until the last day. And we did call in Howarth Stevenson Jefferson two or three weeks before and they said, 'You could trade out of this.'

Senator MURRAY—But you could see why somebody like me reading your submission without having the benefit of your qualifying or amplifying it might see otherwise. You stated:

... you will see that I stated many times that I thought the financial management of the company was not in order ...

If I were a bank manager or somebody who was examining an issue, I would be extremely alarmed if a director of a company who was intimately associated with the prospects of that company made that remark. That is why I wanted to pursue this line of questioning with you. Whatever one may think of the present government or any other government, for them to give money to an outfit which was financially shaky would be an act of foolishness.

Mr Stewart—At all times we had the promise of New Zealand and we had the promise of investors coming in. It sounds weird but I was in Adelaide, Cairns and Brisbane doing all the promotion and marketing. What I refer to there is that at one time a wrong spreadsheet was given to the National Bank—that type of thing. If someone is employed as an accountant and in charge of the finances, surely to God they can get a cash flow statement correct. It was kind of the running of the finances. If I could get the sales in surely someone could get the finances correct.

Senator MURRAY—Unless it didn't suit them.

Mr Stewart—That is probably what I am saying in there, not continually that we needed a dollar every day—a dollar would have come in nicely. I had a phone call one day from the office saying, 'The money hasn't been transferred over from Cashflow.' So I phoned up the Cashflow manager—I was in Adelaide, outside a radio station—and said, 'You promised that the money would be in there overnight.' He said: 'Have you checked the statement? Have you checked your bank account?' So I phoned the office and they said, 'We didn't get the email so we didn't think it was in.' It was that type of financial management.

Senator JOHNSTON—What was the start-up capital of this company, when it began?

Mr Stewart—When we opened the bank account, it was \$2—\$1 from each, just to start the bank account.

Senator JOHNSTON—How many shareholders were there?

Mr Stewart—There were four.

Senator JOHNSTON—Who were they?

Mr Stewart—My wife, Phil's wife and us.

Senator JOHNSTON—So just the two families, effectively?

Mr Stewart—That is correct.

Senator JOHNSTON—Did the New Zealand corporation take any shares in the company?

Mr Stewart—No.

Senator JOHNSTON—Never?

Mr Stewart—No.

Senator JOHNSTON—A2(c), as we can call them, never owned A2(a)—they never had any equity interest in A2(a)?

Mr Stewart—No, but a lot of offers were made left, right and centre.

Senator JOHNSTON—Regarding the offers and the discussions, was the injection of capital or the purchase of equity in A2(a) by the New Zealand corporation ever reduced to writing?

Mr Stewart—No.

Senator JOHNSTON—Was it ever in an email?

Mr Stewart—In what respect do you mean ‘in writing’?

Senator JOHNSTON—‘We’re keen to put \$4 million in. We want to put \$4 million in.’

Mr Stewart—All those negotiations were held between Phil Roberts and John Ryall. I was in and out of the office all the time and I would just get messages on my mobile saying, ‘Blah, blah, blah.’ This is so honest: I was in Dick Schroder’s office at his farm—I took up a cheque that had the wrong amount. I phoned the office and left there at about 6 o’clock. I phoned Phil Roberts and said, ‘I’ll bring that other cheque back up here on Monday. Is everything going to be okay?’ and he said, ‘Let me phone you back.’ He phoned New Zealand, spoke to John Ryall, and John Ryall said, ‘The money will be right.’ We took that as an undertaking.

Senator JOHNSTON—When was that?

Mr Stewart—Probably two or three weeks before we closed. We paid as many bills as we could.

Senator JOHNSTON—What was the deal going to be? They were going to get what for their \$4 million?

Mr Stewart—They were going to get 51 per cent of the company. That was just chat—that type of thing.

Senator JOHNSTON—You had access to some patents.

Mr Stewart—That is correct.

Senator JOHNSTON—What were those patents?

Mr Stewart—There were the patents of the A2 testing of the cows and the A2 testing of the milk.

Senator JOHNSTON—So the actual ascertaining of the A2 protein was a process that the New Zealanders had developed themselves and had the intellectual property over?

Mr Stewart—That is correct.

Mr JOHNSON—Did you at any time have a formal signed, sealed, stamped, written document that guaranteed your corporation would have ongoing access to that intellectual property?

Mr Stewart—Yes, I think we had 11, plus four—around 15 years—as long as we had continuous supply.

Senator JOHNSTON—You say that you had 6,000 litres of milk and you should have had 40,000 litres of milk.

Mr Stewart—Roughly 30,000.

Senator JOHNSTON—Sorry, I thought the promise was 40,000 litres.

Mr Stewart—No, 40,000 was up here. The two different markets would work independently. So at the start of A2 Dairy Marketers, on the first day of trade, we had roughly 6,000 litres.

Senator JOHNSTON—From where?

Mr Stewart—The Gympie region.

Senator JOHNSTON—And you thought there were a further 40,000 litres up here?

Mr Stewart—No, the 40,000 litres were identified only after we started looking into farmers walking off the land and whether we could help.

Senator JOHNSTON—As potential?

Mr Stewart—Yes, but there is potential in every cow, or one in four cows.

Senator JOHNSTON—But I thought you said that you were promised 30,000 litres?

Mr Stewart—That is correct.

Senator JOHNSTON—Who promised you that?

Mr Stewart—The director of supply, Chris Saddlier.

Senator JOHNSTON—Do you know the background as to why and how it came to be? Is it minuted that there would be 30,000 litres?

Mr Stewart—Yes, there should be minutes.

Senator JOHNSTON—So it was clear that the directors were functioning under the rough calculation that, daily, there would be 30,000 litres of this product.

Mr Stewart—Yes. It was going to build up over time.

Senator JOHNSTON—But it was going to come into the market with a 30,000 litre per day capacity?

Mr Stewart—Yes, building up to—

Senator JOHNSTON—Building up to 30,000 litres?

Mr Stewart—Yes. We would have needed probably 16,000 to 18,000 litres on the opening day and then it would have built up rapidly because of the media content.

Senator JOHNSTON—How is it you ended up with 6,000 litres? I can see that 6,000 is substantially less than you had anticipated.

Mr Stewart—That is correct.

Senator JOHNSTON—Tell us how that happened.

Mr Stewart—We were told that there were problems with cows coming in and out of milking and calving.

Senator JOHNSTON—So the lactating cycles were not in tune with what your demand and marketing strategy were?

Mr Stewart—That is correct. But I was the worst person under the sun, because I did not care if he had to get 200,000 cows to get that product for me. That was his job to do.

Senator JOHNSTON—So he promoted a positive expectation and he did not deliver?

Mr Stewart—That is correct.

Senator JOHNSTON—What price were you paying per litre for that 6,000 litres?

Mr Stewart—Fifty cents a litre.

Senator JOHNSTON—So you were actually paying 50c a litre for some 6,000 litres a day. For how long?

Mr Stewart—Until we closed the doors.

Senator JOHNSTON—So for three or four months?

Mr Stewart—Five months.

Senator JOHNSTON—No-one else was paying that amount?

Mr Stewart—No, definitely not.

Senator JOHNSTON—What were you retailing it for?

Mr Stewart—\$4.09 to \$4.29 for two litres.

Senator JOHNSTON—So it was \$2 a litre, roughly. When you met Mrs Kelly—and I think you said it was in early June—

Mr Stewart—11 June.

Senator JOHNSTON—And you discussed this?

Mr Stewart—Yes.

Senator JOHNSTON—Did she seem to understand the pricing structure of a litre of milk?

Mr Stewart—Yes, she did. We did not come into the marketplace to save the dairy industry or change the dairy industry. We were bringing in another brand, as we saw it—a brand like Trim or something along those lines, with what we believed, and still believe—or I do—to be benefits. We walked into De-Anne Kelly's office that day and I said, 'The farmers are desperate and, because of the government levy, they are going to the wall. It was supposed to help them.' I said, 'We actually pay 50c a litre, where some are only getting 29c and 31c.'

Senator JOHNSTON—And 27c and what have you.

Mr Stewart—She said, 'How can you do that?' We said, 'We do get the extra retail price, and the way we have done our workings is that—

Senator JOHNSTON—What was her attitude to what you were explaining to her?

Mr Stewart—I have tried to think of the comment overnight. She stated a couple of times that you cannot invent new things. It was just a saying she had. She said that this is an industry that needs help. She was probably saying that you cannot reinvent milk, but you have a point of difference here that the public may accept. So she fully understood that.

Senator JOHNSTON—Which was essentially what the whole of the expectation and the outlook of the company was. You had a point of differentiation that actually returned money to the producer.

Mr Stewart—That is correct. But we then changed our promotion. We became fighting for the farmers. As a company we had not gone down the track of promoting ourselves as paying that extra money. It was just part of it.

Senator JOHNSTON—Are you saying that initially you did not understand what a boon to the industry that 50c a litre at the farm gate would be?

Mr Stewart—Definitely not.

Senator JOHNSTON—You did not realise how good that would be for farmers. So you were simply in it as a commercial exercise?

Mr Stewart—That is correct.

Senator JOHNSTON—And the numbers stacked up?

Mr Stewart—That is correct—well, I believed so.

Senator JOHNSTON—She realised and she brought to your attention that this was a bit of a panacea to the several years of ills that dairy producers, particularly in this part of the world, had been experiencing?

Mr Stewart—Correct.

Senator JOHNSTON—So she explained to you, ‘This would be fantastic and we need to get onto this to help these farmers.’ I am not putting words into your mouth there am I?

Mr Stewart—No, that is true and correct.

Senator JOHNSTON—She sought, to their benefit, to assist you in whatever way she could within the guidelines and within the prevailing rules as she understood them to be?

Mr Stewart—To be honest, you would have to ask her that. What I saw—

Senator JOHNSTON—Tell us what you saw.

Mr Stewart—I saw that it was a business relationship. We identified that 75 or whatever farmers were walking off the land, that families were destitute up here, and that 50c may keep them on the land.

Senator JOHNSTON—Was she aware of the nature of exactly that understanding—that farmers were destitute, as you say?

Mr Stewart—Yes, she is from a cane industry area, so she did speak of the cane industry as well. Her concern was for not us but the farmer.

Senator JOHNSTON—The concern was not for the commercial producer; the concern was for the primary producer—the producer of the milk?

Mr Stewart—Yes, she saw that as the main objective or the main benefit.

Senator JOHNSTON—Did she give you any indication that there would be any nod, nod, wink, wink, ‘I’ll fix it for you’, or ‘We’ll circumvent the rules, we’ll cut the corners and we’ll help you out at whatever cost, so long as we can give you the money and get you going’? Was there any of that?

Mr Stewart—No. Sorry, I do not know what parties are asking the questions.

Senator JOHNSTON—That is fine—just answer honestly.

Mr Stewart—There was none. To the extent that, at that dinner that night, she would not talk to me. I remember we had a meeting at the convention centre in the late afternoon and she said she would be back in five minutes because she would not sit down with me.

Senator JOHNSTON—Did she explain why she would not do that?

Mr Stewart—Because we were talking about government grants.

Senator JOHNSTON—She was so conscious of the need to do things correctly and appropriately that she would not even socialise with you that evening?

Mr Stewart—She would not sit down on the chair that day until Tom Vieira arrived.

Senator JOHNSTON—Did you find that that was a bit of an exaggerated attitude toward propriety? How did you respond to that?

Mr Stewart—I just thought whatever. In business you do—

Senator JOHNSTON—But you remember that she was a bit of a stickler for the proprieties?

Mr Stewart—I am not judging her on her character or anything. Again I state that my dealings with De-Anne Kelly were true and correct. If she did anything wrong in the government’s eyes, that was behind the scenes. I saw it as a business relationship to benefit the farmers and to benefit A2 Dairy Marketers.

Senator JOHNSTON—There was nothing that she did that concerned you as being unprofessional or anything that was seen to be breaching the rules?

Mr Stewart—Unprofessional—no. Breaching the rules—I do not know the rules from her point of view. Again, I did it as a business thing; I was not there to judge her. If someone was going to give me a grant, I would do everything to make sure that the relationship was good.

Senator JOHNSTON—Did you employ Mr Crooke because he was a member of the National Party?

Mr Stewart—Definitely not. Don’t tell my dad.

Senator JOHNSTON—Did you employ him or have any commercial relationship with him because you thought that he was someone who could help you in any way other than professionally?

Mr Stewart—No. As I have stated, I thought it was a cups of tea type thing.

Senator JOHNSTON—I have two final questions. I do not understand the DIAL debt. What is DIAL in your understanding?

Mr Stewart—It is an 11c levy on all milk sold or produced.

Senator JOHNSTON—On whom?

Mr Stewart—On the farmer. It is like a government tax. That is what I said in my submission. If the government were so worried about the dairy industry, why didn't they take the Dairy Industry Levy off and everything would be sweet.

Senator JOHNSTON—I understand that. On the misrepresentation or the misleading advertising, who charged you with that? Was it in fact a charge? You used the word 'writ'. Can you tell us what you technically understood to be the circumstances?

Mr Stewart—We had a meeting with Queensland Health—

Senator JOHNSTON—At whose behest? Did they ring you?

Mr Stewart—Yes, and then our public relations lady arranged a meeting for them. We went into the meeting. They started reading out of a book.

Senator JOHNSTON—Do you know what the book was?

Mr Stewart—No. They just said, 'We are here to sit ...' and so on—I found that funny. They started talking about using the word 'health' and so on.

Senator JOHNSTON—So your advertising said that A2 milk had specific health positives attached to it or something like that?

Mr Stewart—Something along the lines that there are health benefits, which there are.

Senator JOHNSTON—And you were advertising on television in Brisbane?

Mr Stewart—Yes, in the south-east corner.

Senator JOHNSTON—And they came to you and said that it was misleading advertising?

Mr Stewart—I do not know if they used those words, but they spoke to our PR person about it and a couple of letters came through.

Senator JOHNSTON—Did they say who had complained?

Mr Stewart—No, but I could tell you who.

Senator JOHNSTON—Be frank with us. Tell us what you understood to be the situation or tell us the suspicions you have.

Mr Stewart—I believe Dairy Australia Board and the main opposition companies, National Foods and Dairy Farmers, would have put pressure on to bring that to court. I will say on the record now that we put an official complaint in about the three of them to see what would have been done by them. To date, to my knowledge, nothing has been done.

Senator JOHNSTON—So their advertising, you say—

Mr Stewart—On their web site it is similar.

Senator JOHNSTON—Similar, if not on all fours, with the matters that you were prosecuted over?

Mr Stewart—Yes, definitely.

Senator JOHNSTON—And they have not been prosecuted?

Mr Stewart—Not to my knowledge, but we do not have media monitors.

Senator JOHNSTON—So you see it as a bit of a closed shop and an unlevel playing field in terms of accessing this market?

Mr Stewart—Yes, I have found that.

Senator JOHNSTON—So the end result of all of that in terms of trying to inhibit your entry into the market—if you are correct—is that the primary producer is the one who is lumped with the 27c a litre price at the gate, because there is really only one consumer. Am I right? Is that the end product of the whole of the closed shop and the difficulties in accessing this market?

Mr Stewart—I do not know what you are getting at there.

Senator JOHNSTON—It keeps you out of the marketplace.

Mr Stewart—Yes.

Senator JOHNSTON—And you would have soaked up and purchased a significant litreage of milk.

Mr Stewart—That is correct.

Senator JOHNSTON—And on supply and demand you would expect the price to go up if you had entered the market?

Mr Stewart—That was after we found out the real impact that 50c a litre would have on the farmers. One of the companies went around and put their price up at the farm gate by a cent, which then became a bit of a laughing matter—going from 27c to 28c. But people who were supplying A2 milk were advised by the opposition of the day that their A1/A2 milk would not be collected at that stage. There were legal letters sent from farmers to the other producers.

Senator JOHNSTON—So there were actually restrictive practices employed by people that you are aware of?

Mr Stewart—Yes, definitely.

Senator JOHNSTON—Thank you.

Mr Stewart—When I said ‘employed by’ I meant that we contracted the farmers. Of course, when you produce A2 milk you do have A1 milk as well or A1/A2 milk. One of the opposition companies said they would not collect ‘other’ milk.

Senator JOHNSTON—The A1 milk? When they were contracting out—

Mr Stewart—They cannot say that. They call it the ‘other’ milk.

Senator McLUCAS—Mr Stewart, could you clarify one point for me: what did your company provide to the government by way of evidence that you were an appropriate company to give \$1.2 million? There was an application form, and you said that the government asked you to furnish things subsequently. You have talked about what sounds to me like a business plan, which showed 40,000 litres coming out of the tablelands, and that would have had cash-flow projections associated with it. Let us put that aside. What else did you provide by way of showing the government that your company was an appropriate one?

Mr Stewart—Everything they asked for.

Senator McLUCAS—What did they ask for?

Mr Stewart—They asked for the referees.

Senator McLUCAS—Did they ask for current audited financial statements?

Mr Stewart—I do not think so.

Senator McLUCAS—Did they ask you for current financial statements?

Mr Stewart—I do not think so.

Senator McLUCAS—What did the department ask of your company that would have told them what the state of your company was at the time they were making an assessment of the viability of the operation?

Mr Stewart—We furnished everything that they asked for and, I believe, the receivers have given you every bit of information that we put on the table—emails and whatnot. I always believed that the operation up here in Cairns or in the tableland region was seen as a different operation so, with the financials and things, alarm bells did not go off—it was projections as well as a new identity that was commencing this.

Senator McLUCAS—Which would be managed by the same people who manage A2 Dairy Marketers.

Mr Stewart—That is correct, yes.

Senator McLUCAS—So, the recipient of the grant was going to be Star International, but the managers of Star International were one and the same?

Mr Stewart—Yes. Star International was not 100 per cent. It went in as Star International and I did speak to someone about that, saying: ‘We don’t want the money going into A2 Dairy Marketers’ account; we will start a cleanskin company. We have nothing against A2 at the moment but it is up to the government to advise back on that.’ Does that make sense?

Senator McLUCAS—Yes, that is what I am trying to get at. What did the government do to find out that the application for \$1.2 million would turn into the sort of dream that you are talking about?

Mr Stewart—I am not privy to that.

Senator McLUCAS—But you are the entity who provided it to them; that is what I am trying to find out.

Mr Stewart—I do not believe that we gave them full financials of A2 Dairy Marketers; I believe that we gave them projections and cash flow statements, but not written agreements. We had verbal agreements from Coles and Woolies and those types of companies about selling it. We gave them everything they asked for; whatever we gave them is what they asked for.

Senator McLUCAS—I will go back and look at the documents that we have received from the receiver. There is one final thing that I want to be absolutely clear about: when the application was made there was an agreement with Mungalli Creek Dairy that the processing plant would go there—is that right?

Mr Stewart—No. There was no formal agreement. That is what the two financial guys were employed to do.

Senator McLUCAS—So, the government gave \$1.2 million to an entity that was, potentially, going to have an agreement with a dairy farm, but there was no formal agreement at that point in time?

Mr Stewart—No, not with Mungalli at that time. But, again, that is up to the government and not up to me.

Senator McLUCAS—I understand that.

Mr Stewart—I am just protecting myself.

CHAIR—There are no further questions, Mr Stewart. Thank you for your attendance today and for your answers and evidence in what was a rather lengthy session.

Proceedings suspended from 1.14 p.m. to 1.54 p.m.

[1.54 p.m.]

STRAZZERI, Mr Joe, Private capacity

CHAIR—I welcome Mr Strazzeri to this afternoon's hearing. There are just a couple of procedural matters. Firstly, the committee prefers that all evidence be given in public. If at any time you wish to put evidence to the committee in private, you may request to do so at that time and we will consider it.

The other thing I need to point out to you is that all the evidence given to the committee is protected by parliamentary privilege. That means that witnesses are given broad protection from any actions that arise from what they say and that the Senate has the power to protect them from any action which may disadvantage them on account of the evidence that they give. But it is also a requirement that the evidence given by all witnesses be truthful and any false or misleading evidence given to the committee may constitute a contempt of the Senate. We are requiring all witnesses to be sworn in. Mr Strazzeri, do you have any comments about the capacity in which you appear?

Mr Strazzeri—I represent many farmers on the Atherton Tableland. I have been a supplier to the dairy factory for 32 years. I spent six years as a ward leader for Dairy Farmers. During that time—

CHAIR—Before you start reading your statement, I should ask: you are appearing here today as a private individual, are you, as a dairy farmer?

Mr Strazzeri—Yes.

CHAIR—I understand you wish to make a statement. If you do so we will then proceed to some questions.

Mr Strazzeri—During that time I fought for all suppliers large or small. I kept my suppliers well informed. The biggest disappointment during that time was that the ward system only worked one way—getting news from the top to the bottom—but they never listened to the bottom going upwards. During that time, the devastation of the dairy industry on the tableland, was when we had the price drop of 3c. That was the last straw for many of our producers on the Atherton Tableland and the farmers have not been able to recover yet. Their morale has been destroyed.

Just to give you an example, in February this year the production was 233,000 litres a day. The production two or three years ago was 320,000 litres a day. So the daily average production for the month of February has dropped by almost one third. The prices are misleading: the average they give you is not right, as most of the NQ dairy farmers are on penalties because we suffer from failing to meet their standards, which are set very high, for protein and butterfat. That standard is set by Dairy Farmers. The milk usage has dropped from 50 million litres down to 36 million litres. They never cared about losing suppliers.

There seems to be some sort of tradition here in North Queensland of putting farmers against farmers. One of the biggest examples we have is that, about three or four years ago when the quota system was given out, 22 farmers appealed that they did not have enough quota—mainly small producers and fellows who had put big investment into the Atherton Tableland, where they wanted to produce more milk at the time. They were given that opportunity and then the rug was pulled from underneath them. It was Dairy Farmers, the people responsible, the leaders of the industry and the QDO which caused this thing.

From the previous speaker I heard about the wedge. The wedge has been caused from the top: the people who are leaders in our industry. That is why I am here to represent all my fellow farmers—because they have been hurt badly. It is blokes like me who have made the difference. Whether it is going to A2 or whether it is for Parmalat, what you have to realise is that, if I lived anywhere interstate and I had the opportunity of two or three suppliers that I could supply my milk to, I would become a price negotiator and not a price taker. I never had the chance in the Atherton Tableland.

I do not believe that pitting farmers against farmers is the way to do it. That issue should have been resolved right at the top. You have bodies such as the QDO, you have government bodies and you have the leaders of the industry. The outcome for those 22 farmers is that since then we have lost some of our best farmers. They have gone mainly to beef. Some of our best dairy land has been lost because of high beef prices. Also, farmers have been forced to export heifers. Another thing I want to highlight is that about two or three years ago there were 27,000 dairy cattle on the Atherton Tableland. My judgment is that within two to three years there will be fewer than 10,000 head because of the radical way that people have gone about making decisions.

The remaining farmers who are on the tableland, as I said before, have been forced to sell cattle and export heifers. At present I am President of the Holstein-Friesian Association. We have many requests from people wanting to sell heifers because they need a quick injection of income, and that is the only way they can get it. We have approached two or three exporters, and the best they can do for us is to tell us to wait two or three months, and the prices are \$800 to \$900. If you live in Victoria the same product costs \$1,400 up to \$2,000. Why don't we have this opportunity in North Queensland? That is why I am glad you are all from different areas. This is what I feel has happened to my North Queensland. This is why people like me and everybody else are out there looking for any radical decision—anything we can pick up, no matter what. We believe that anybody comes to that stage.

A lot of money has been put into the Malanda factory by the state government and federally funded through ATSRAC. I have all the proof here, and it has not been written by me; it has been written by the Malanda dairy people. They say that in the last two years \$9.8 million was injected into the Malanda factory. It is here in the files, which they wrote. The latest amount, \$1.6 million—which was the A2 money—has gone to them. The way I look at it is that if this money were given directly to farmers, each farmer would receive \$16,000 on average. Farmers would be able to catch up and pay their bills. That is the biggest problem that farmers are facing. Many of them have had to refinance because they cannot go ahead the way they want. Farmers are struggling very hard. They cannot meet their bills. I know people who have bought silage or machinery two or three years ago as another way of improving protein and all that sort of thing. They have done that themselves. They would not need government assistance if they were paid

right. But they have not been able to pay for those sorts of things and have not been able to fully develop.

I think that money should be injected directly for the farmers, not injected in this little organisation where a few people—a few professors—go on a trip here and there. In today's world I can get all the technology. I know all about protein and I know all about feeds. Many farmers, like me, are well aware of that and we can cope with all that. What I have learned in my experience over the last few weeks, especially seeing 50 farmers, is that the only thing we can get cheaper is what we produce here. There are only two or three things we can access to improve our protein. The first is cotton seed, because it is cheap and the closest place we can get it from is Emerald, and there is \$120 freight price on that. The next thing is that this year the tableland has the biggest plantings of corn ever. So, with a bit of luck, again by being competitive in the market for grain, we might be able to access corn for \$30 a tonne cheaper.

Another thing is for farmers to produce silage. I remember talking to De-Anne Kelly. She told me not to have too much say. She called me the expert on the dairy industry, but that is one field in which I am very expert. I know that, after 32 years and breeding some of the best dairy cattle in Australia—I have won Australian Cow of the Year—on the Atherton Tableland I can never feed my cows well enough. We have spent a lot of money on the Atherton Tableland breeding cows.

To give an example, in 1985 I went to a convention in Victoria. I travelled with a busload of people, including a couple from North Queensland, to that convention. In 1985, 75 per cent of our dairy farmers knew how to AI their own cattle. We used nothing but the best genetics. We were on the top price range at that time: 35c to 36c a litre for milk. We have gone from the best paid to the worst paid. It has happened only in the last three or four years, mainly through the fault of Dairy Farmers.

People are making so many radical decisions because they are trying to find a way to make money. At the present moment, you have got wagyu bulls running with herds and you have got sahiwal bulls with herds so that people can access money by exporting. Where does this leave our dairy industry? Like I said before, there were 27,000; in a few years there are only going to be 10,000 head of dairy cattle. There is no quick solution to fix a dairy industry once you have devastated it. My other disappointment with Malanda dairy factory is this: if you do not like a company like A2 coming into your region, why aren't you approaching them and processing the milk? For that matter, why aren't you approaching Pauls, Parmalat—or whatever you like to call them—or National Foods to process milk for them? As I understand it, there is a lot of money in processing milk.

With A2, I saw that there was at least someone out there promoting milk, telling you it was good for you and that people and kids would be able to drink milk again. The only other promotion I see on our local TV is for Parmalat. Dairy Farmers has done no promotion at all. This is why the 50 million litres that we used to sell have gone down to 36 million. You say, 'Righto, but you've got to give the opposition some area,' but we are going down as far as Mackay. If that company were run properly, it would still be processing 50 million litres. If the dairy farmers on the Atherton tableland were processing 50 million litres today, we should be on at least 40c a litre. The previous figures given here were something like 29c. The average farmer on the Atherton tableland last year was not averaging 26c a litre because of the penalties and the

high standards set for protein and butterfat. Why should I be dictated to by them as to who I have to sell my milk to? Why haven't I got that chance? Where are your national competition policies and all those sorts of things? Why haven't we got competition here? Why has Dairy Farmers, if it is this good, lost 41 suppliers in south-east Queensland?

CHAIR—Mr Strazzeri, I do not wish to prevent you from saying what you want to say, but the main focus of this inquiry, as you are aware, is the Regional Partnerships program and Sustainable Regions Program. I understand your interest in what happened with A2 Milk.

Mr Strazzeri—That is why I am saying this to you. This is what I had to say to De-Anne Kelly. What I have said to you here is exactly what I said to Mrs Kelly. She was very understanding.

CHAIR—When did you say that?

Mr Strazzeri—When she came to Cairns. Mr Tomas Vieira was also there. I can still remember every person—

CHAIR—When was that?

Mr Strazzeri—That was in June, I think. I do not actually know the date, but it was—

CHAIR—Was that in June last year?

Senator O'BRIEN—At the dinner.

CHAIR—That was at this dinner that she was at?

Mr Strazzeri—No, there was no dinner. We met with her during the day in a little room. I can tell you every person to my left and to my right. There were nine dairy farmers there at the time. There was a young girl, as young as 13 years of age, and she ran the meeting. I was very surprised with the way she ran it because she kept me in line; she said I had too much to say.

CHAIR—Was this meeting in regard to the A2 grant?

Mr Strazzeri—Yes.

CHAIR—And you were there. As I understand it, what you are putting to us—

Mr Strazzeri—I was one of the nine farmers—

CHAIR—is that you were there to support an application for a grant?

Mr Strazzeri—Not to support the application of a grant; I was there for myself. I was there to tell them—I did not know this grant was going to come about—how farmers were hurting on the tablelands.

CHAIR—Okay, I understand that.

Mr Strazzeri—As I said, Tomas Vieira was there from the department, and Tomas was quoting figures. I said to Tomas, ‘Sorry Tomas, but since then we’ve dropped another 3c a litre.’ This all happened in that six-month period when the farmers were really hurting.

CHAIR—Do you have anything more you wish to say at this stage directly relating to the application for a grant or the awarding of a grant of money and the operations of A2 Milk? I know you were sitting here this morning. We do want to get to questions.

Mr Strazzeri—On A2 milk, my son, who is 25 years of age, saw this as a great opportunity to market milk for 50c a litre. When he came and told me that, I said: ‘You’re kidding yourself. You’re not going to get that. You might get that for a while.’ At the same time, in about May, there was a sale on the Atherton Tableland, where Chris Saddler, one of the fellows involved in A2, was the auctioneer. We saw a jersey cow of 11 years of age, which would probably be worth \$150 at the meatworks, sell for about \$1,100. There were friesian cows, to give a comparison, which would have been making \$600 or \$700 but, because they were A2, they were making \$1,100 or \$1,200—almost double. So we were convinced.

My son really looked into it, and he was thrilled. At 50c a litre we would only have to milk a third of the cows we are milking at present. The young people want to stay in it, so I said, ‘Okay, I’ll support you.’ We were on the list to test. When I went to see De-Anne Kelly I told her exactly what I told you before about how we were hurting. It was then that I made up my mind: ‘Yes, I’m going to go ahead and supply A2 milk.’ But I had no contract or anything. All of a sudden, we heard that the grant had been given and I thought it was great. So I came down to Cairns and sat upstairs in one of the hotels. They put a microphone in front of me, and I was made head spokesman for Mrs De-Anne Kelly for that group of nine dairy farmers. That is all I can tell you about it. I was very excited because someone was out there to promote milk again. That is all I saw. I saw the opportunity of going to the overseas markets from Cairns, right out on the doorstep. Asia and the biggest cities are close to you here; why not?

Senator MURRAY—You have been in the industry for 30 years, did you say?

Mr Strazzeri—Thirty-two years.

Senator MURRAY—What is the highest price per litre you have ever got for milk in those 32 years?

Mr Strazzeri—It is a bit hard to say. It was right back nearly 20 years ago when we were on a percentage system—that is what it has always been in North Queensland, a percentage system. There was one time when I was only a young boy and I use to irrigate and do it all by hand shifts. We were getting up to 70 per cent of the market price for milk at the time, so I was no stranger to getting around 35c or 36c a litre 20 to 25 years ago.

Senator MURRAY—If in 32 years the highest you have ever got is 36c a litre, why would anyone of your experience and background believe that 50c was achievable or sustainable?

Mr Strazzeri—Like I said to you before, I didn't quite believe it. But, if they were going to pay me that and have a contract, why wouldn't I believe there was a chance? This is about marketing. Why isn't a litre worth 50c? Most of the milk here in North Queensland should not be manufactured; it should all be bottled and sold in the Asian markets. That is what I believe. So it is quite achievable. We had a regulated market which gave us 58c a litre. Why can't I believe that somebody else is going to give me 50c?

Senator MURRAY—Now you have confused me. You said earlier that the highest you got was 36c, but then you just said the regulated market gave you 58c.

Mr Strazzeri—Yes. In the regulated market, all white milk that was sold here in Queensland was paid at 58c a litre.

Senator MURRAY—So that was the highest you got in 32 years?

Mr Strazzeri—Yes, in the regulated market.

CHAIR—That was prior to deregulation?

Mr Strazzeri—Yes, prior to deregulation. That was only for the white milk. But you got paid on a percentage, and it may have been only 30 per cent of your milk that got paid at that.

Senator O'BRIEN—There is probably a bit of confusion.

Mr Strazzeri—You are looking at the average.

Senator O'BRIEN—The white milk that Joe is talking about is marketable drinking milk, and there were two markets. The regulated market was for the drinking milk, and the non-regulated market was for what is termed manufacturing milk, which is used in butter, cheese, powder et cetera.

Senator MURRAY—Let me get this very clear—I am not a dairy man. For the non-drinking milk the highest price you ever got was 36c and for the drinking milk the highest price you ever got was 58c?

Mr Strazzeri—They are the average prices for the drinking milk and the manufacturing milk.

Senator MURRAY—My question to you was: what is the highest price you have achieved in 32 years?

Mr Strazzeri—I could not really say. An average of around 35c or 36c and up to 37c a litre was no stranger to us.

Senator MURRAY—What I am trying to get to—and I need some assistance from you—is that as a layperson it would seem to me that, whilst in a deregulated market 50c a litre might come along now and again, that would be unlikely to be achievable over the longer term. So I am interested as to why a bunch of experienced farmers would have believed it. You seem to be

saying to me, if I understand you correctly, that what helped you believe it was the government grant.

Mr Strazzeri—The government grant was only a start. It was nothing to do with this. What I believed about the government grant was that it would help everybody to test their cows, which was a great help.

Senator MURRAY—Let me interrupt you there because I am trying to understand what you have said. You said that you were sceptical and that your son was more of a believer than you but that once the government grant came through you felt much more positive about it. You did not use exactly those words.

Mr Strazzeri—Yes, we had a market out there. Like I said, in my opinion 50c a litre should be paid for all milk that is bottled to drink. It should average that sort of price today. That is my belief. When you go to manufacturing milk, we should still be able to achieve 20c a litre in this country. The Dairy Farmers group should achieve a higher price than anybody else because they are not exporting a lot of their products. They mainly produce fresh products like yoghurts which give a higher return. This is why I have probably been disappointed with Dairy Farmers. We have not been able to achieve the prices that we deserve for our milk.

Senator McLUCAS—You just said that the grant moneys were to fund the genetic testing of the cattle. Did I understand you correctly?

Mr Strazzeri—That is what I understood: that so much of the \$1.2 million was going to be put into the testing of cows, which was going to help every farmer. Every farmer was entitled to put his name on the list and test their cows with part of that grant. The other part of that grant, as I understood it, was to go to Mungalli Creek Dairy, an organic company, to help build a separate processing plant where they could handle the A2 milk. I understood that they were going to be processing A1 milk as well. This would have given them a chance to compete with Dairy Farmers in the local market for budget milk, like everybody else is doing at the present moment.

Senator McLUCAS—How much does it cost to test a cow?

Mr Strazzeri—I think it was \$22 or \$25 a cow. With the government grant, I think it would only have cost \$8. Do not quote me, but that is the sort of figure that was given to us at the time. I never got to test mine. I had mine booked in to be tested, but I am still waiting.

Senator McLUCAS—Who told you about the cost and what the government grant was going to support?

Mr Strazzeri—Chris Saddler was the main person who gave us that sort of information. He was the person I spoke to a few times.

Senator McLUCAS—I recognise that you did not get your cows tested but others did.

Mr Strazzeri—I wanted to because most of my cows were stud cattle and I would have had to sell the A1 cows if I were to move completely to the production of A2 milk. That was my attention: to go into it wholeheartedly or not at all. I was not going to have half and half like the

A2 company were telling us to. I did not want to do that. I wanted to go into it wholeheartedly. At the same time, I was not sure what they expected of me or what sort of production they wanted. I had no idea at all.

Senator McLUCAS—That troubles me but we will get to that in a moment. How many farmers had their cattle tested?

Mr Strazzeri—I could not tell you, Senator. I know that there were about 35 to 36 on the list. I think that only two farmers got done that same afternoon when we had the opening at Mungalli Creek. There were roughly 50 people at Mungalli Creek. That same afternoon I know they were starting to test cows.

Senator McLUCAS—Do you know how much those farmers paid per head to have their cows tested?

Mr Strazzeri—I don't. As I said, I never got to test mine. Around that time, they were saying it would cost you \$25 a head.

Senator McLUCAS—So they were not being subsidised at that point?

Mr Strazzeri—No, they were not going to be subsidised then. If the subsidy came through, you would probably be looking at \$8 to \$10—I think that was the figure given to me.

Senator McLUCAS—Were you ever shown the contract you were going to have with A2, the contract to supply?

Mr Strazzeri—No, that was the next thing. They were negotiating then to show us a contract and see who they were going to take on board. At that time we were told that they were hoping to get going by Christmas, if the grant came through.

Senator McLUCAS—They would be under production by then?

Mr Strazzeri—Yes, they would have been going by Christmas. At the latest, it would have been February. That is the only thing we were told. When all this other saga happened, they did not keep in touch with us anymore.

Senator McLUCAS—You were left out on a limb then, I suppose?

Mr Strazzeri—Yes, we were sort of left out on a limb. My son made the decision that he was going to stay in dairy. I said, 'If you're going to stay in dairy, the only way to go is A2.' One fellow who had been tested—Mr John Jones—had his cows for sale. He was one of the farmers who moved to Victoria. So we purchased 34 head of dairy cattle from him, which were A2 tested. I have all the proof here, with the numbers of the cows and so on.

Senator CARR—How much did they cost?

Mr Strazzeri—They cost \$1,000 each.

Senator McLUCAS—How would that compare with the going price of an A1 cow?

Mr Strazzeri—The same fellow sold the rest of them for \$600.

Senator McLUCAS—So you paid a premium of \$400?

Mr Strazzeri—I paid \$400 more than I should have.

Senator McLUCAS—I now go to the meeting you were talking about earlier—

Mr Strazzeri—With Mrs De-Anne Kelly.

Senator McLUCAS—Yes. Is that the same meeting that some farmers call the May meeting? I have heard this term: the May meeting. Can you explain how a May meeting can happen in June? Or are there two meetings? I just do not understand it.

Mr Strazzeri—I did not keep the dates, but I can tell you that it was at the same time that the National Party convention was held in Cairns, and we met with De-Anne Kelly then. We were in a little room. There were some state members of parliament there, and I can recall every single farmer there. There were nine of us, and Mrs De-Anne Kelly made sure that every one of us had a say, including a 13-year-old girl who wanted to stay in the industry.

Senator McLUCAS—Who arranged that meeting, Mr Strazzeri?

Mr Strazzeri—Chris Saddlier would have been the fellow, the A2 who did the testing. He was the one who was always talking to my son and who convinced us to go to A2—

Senator McLUCAS—He invited you to come along?

Mr Strazzeri—Yes. They sent out flyers to all dairy farmers, but only nine of us came down. They did the same thing later, and there were about 40 to 50 farmers at the Mungalli Creek opening.

Senator McLUCAS—At the launch of the grant?

Mr Strazzeri—Yes.

Senator McLUCAS—We will go to that in a moment. Mr Saddlier invited people there. He was there at that meeting?

Mr Strazzeri—Yes, he was at the meeting.

Senator McLUCAS—Who else was there?

Mr Strazzeri—Mr Lindsay Stewart.

Senator McLUCAS—Can you recall anyone else who was there?

Mr Strazzeri—The state members were Mr Horan and Mr Ray Hopper. There was also an older gentleman. I do not know what his name was, but he kept on making a goat of himself. He always interrupted, and she pulled him right into line. That is why I said I was very impressed by the way she held the line. He was from south-east Queensland, and she told him many times that it had nothing to do with him.

Senator McLUCAS—He was a member of the National Party?

Mr Strazzeri—No, he was just a nobody, as far as I know.

Senator McLUCAS—It is probably better that we do not know—

Mr Strazzeri—He was somebody; sorry.

Senator CARR—He was just a blow-in, was he?

Mr Strazzeri—Yes, just a fellow who came into the room to see what was going on.

Senator McLUCAS—He might have been a National Party member at the conference.

Mr Strazzeri—Yes, I imagine that is what he was. There were also ex-National Party members outside. Tomas Vieira was also there. I can even name the nine farmers who were there with me.

Senator McLUCAS—No, we probably do not need—

Mr Strazzeri—None of us were forced to say anything; we were there of our own accord and will. We thought it was an excellent opportunity.

Senator McLUCAS—Did Mr Stewart or Mrs Kelly open the meeting?

Mr Strazzeri—Mrs Kelly ran the meeting. She was the up-front person.

Senator McLUCAS—So she opened the meeting. What happened then? Did she ask the farmers to say something?

Mr Strazzeri—Yes, all nine of us had a say. The reason she chose me as a leader was because I referred to figures, whereas the other farmers did not know the figures. I want to clarify another thing. One of the farmers there was a bloke by the name of John Jones. John Jones was one of the biggest dairy farmers on the Atherton Tableland. He has now shifted down to Victoria. There was potential there to milk 1,000 cows. I told you before how we lost that much production. He approached Dairy Farmers, as he said to the minister at the time, to see what they were going to do to keep him there, because he could not survive on those prices. Dairy Farmers did not even attempt to answer that. I think that is a sad and poor state. This farm had a state-of-the-art dairy and a 60-strand rotary hoe. It had unlimited potential. Today it is a beef block, like many others.

Senator McLUCAS—After Mrs Kelly invited all the farmers to speak, what happened then? Did she invite someone from A2 to speak?

Mr Strazzeri—She gave us a briefing and promised that she would do something about it, because she wanted us to be able to negotiate for prices and get better returns.

Senator McLUCAS—So she gave a commitment to do what?

Mr Strazzeri—She gave a commitment that she would look into the grants and see what she could do. That is all we knew, as farmers. After that, we went home.

Senator McLUCAS—Did Mr Stewart or Mr Saddlier have anything to say?

Mr Strazzeri—Mr Stewart had a lot to say. Actually, it was very exciting to hear about his advertising and that there were contracts to supply milk to McCafe, the cafeterias in McDonalds. He said a lot of things that really made sense to us—these fellas were out there to really promote milk. I became a believer for the simple reason that they were out there promoting milk.

Senator McLUCAS—You have heard evidence this morning from Mr Stewart. I have to say that I was somewhat concerned with the seeming lack of accountability that the company had. Did it trouble you that you were going into a venture that you did not have a contract over? There was no contract about supply or about the cost of testing. Did that trouble you?

Mr Strazzeri—Yes, it did. We were forever ringing Mr Saddlier and those fellas down there. We could not get hold of them a lot of the times. They were always ‘coming next week’ and were going to do this, and this or that was going on. Meanwhile, all this saga happened about the grant being given and then withdrawn. That is where I stood as a farmer. I did not know that any of this was going on.

Senator McLUCAS—You were at the launch at Mungalli Creek.

Mr Strazzeri—Yes.

Senator McLUCAS—I understand it was launched in Cairns on the same day.

Mr Strazzeri—We came here in the morning to meet with the minister for the TV stations. Then we went out to Mungalli and they supplied nibblies and that sort of thing.

Senator McLUCAS—That was on 3 September. Is that right?

Mr Strazzeri—Yes, and we were told that they would be all up and running by Christmas.

Senator McLUCAS—When did you find out that the grant had been withdrawn?

Mr Strazzeri—I could not tell you. When the election was on, I was rung up by one of the media fellas to go to Dimbulah, where the National Party member was going to be. It was only a day or two before that that they withdrew the grant from us.

Senator McLUCAS—Was it on 8 September that they announced the grant?

Mr Strazzeri—I could not tell you the exact dates, because—

Senator McLUCAS—The 9th.

Mr Strazzeri—I was there, in the blind, and I have moved ahead—I was going to try and move my business ahead.

Senator McLUCAS—Can you tell me what you were told and by whom about why the grant was withdrawn?

Mr Strazzeri—One of the QDO members rang me and told me that the grant had been withdrawn, and I thought, ‘You’re kidding. This is a government thing. They can’t announce one thing and then say another.’ I thought, ‘What sorts of clowns have we got here?’ I thought he was having me on to start with. Then it was real, when the newspaper fellow rang me to go to Dimbulah. I took four other farmers with me and we attacked the then National Party member standing for election, Mr James Doyle. As soon as he saw me he came up to me and told me how everything was going to be okay. But I could see behind that; I was no fool. I told him exactly what I thought, that I did not like being backstabbed—that is not the sort of thing you do to people. There was not only him; information was given by certain dairy farmers, certain people in the QDO. The same people are running every little organisation and every little bunch. Then they have got the hide to come up here and say there is a wedge. They have caused the wedge.

Senator McLUCAS—When the National Party candidate, Mr Doyle, said to you that everything was going to be okay, what did he mean by that?

Mr Strazzeri—That they would still probably look into it. They were trying to make excuses. Today his word is only as good as mine. He is nothing. At least I am a dairy farmer. He might be employed. But this is the same fellow who went out of his way to ring me when all this talk was on and told me that he was glad that he had listened to both sides of the story. I am telling you the truth, and the truth is what I see. I have got figures in front of me for dairy farmers, figures as written here—I have many newspaper clippings here where people say that they did not do this and they did not do that; well, it is all there. I have all that evidence here.

Senator McLUCAS—But Mr Doyle is the same man who is in the newspapers taking credit for having the grant withdrawn.

Mr Strazzeri—Yes. First he took the credit. Also, just to give you an example of how ticked these people are—I thought you had to be ticked to be a farmer!—this same person stood beside me at Mungalli Creek and asked me to thank the minister for giving us the grant.

Senator McLUCAS—So, on the date that the grant was given, Mr Doyle—

Mr Strazzeri—He was there at Mungalli Creek.

Senator McLUCAS—was there congratulating you?

Mr Strazzeri—And he asked me to make sure I congratulated the minister, which I did and which I was going to do anyway; I did not need him to tell me that. But it is no good for me to

attack just Mr Doyle or, say, Lyn O'Connor here from Dairy Farmers. I think that the people responsible for this thing are none other than Mr Anderson, Senator Boswell and the QDO. Let's not kid ourselves: this sort of thing has been going on in Queensland for the last 30 to 40 years. I have been involved for 32 years and I have minded my own business for a lot of that time. But the same thing happened with the quota business, the same thing happened with amalgamation and the same thing has been happening with this restructure of dairy farming. I did not go to court and find them to be misleading, but they were.

Senator McLUCAS—Why do you say Mr Anderson and Senator Boswell are responsible?

Mr Strazzeri—Because they had a lot to do with taking the grant away from us. Dairy Farmers and the QDO organised a bus tour of people to go to Innisfail to meet with John Anderson. That was the time—you don't have to be blind Freddy to work that out—the grant was withdrawn from us.

Senator McLUCAS—Sorry, Mr Strazzeri; when did the bus go to Innisfail?

Mr Strazzeri—When Mr Anderson was in Innisfail that day. I did not know this till later. But I can work that out, I think.

Senator McLUCAS—That was not the same time that the National Party dinner was on—that was after the grant was given out?

Mr Strazzeri—This was around the time of the election campaign.

Senator McLUCAS—Yes, the same time. I will leave it at that. I thank you very much, Mr Strazzeri.

Senator JOHNSTON—Mr Strazzeri, you just mentioned this business about the wedge. If I understand your evidence correctly, you were very supportive of the A2 marketing potential.

Mr Strazzeri—Yes.

Senator JOHNSTON—You mentioned Mrs O'Connor. At the same time, you seemed to indicate that she was with—what is the name of the other processor? Dairy something or other?

Mr Strazzeri—Dairy Farmers, yes. She works for Dairy Farmers. I have nothing personal against—

Senator JOHNSTON—Hang on—just pause there. I am interested to hear you say that. I did not understand that she worked for Dairy Farmers. Dairy Farmers is the sole processor—

Mr Strazzeri—Sole processor on the Atherton Tableland.

Senator JOHNSTON—on the Atherton Tableland. She works for them, does she?

Mr Strazzeri—As I understand it, she does.

Senator JOHNSTON—What do you understand?

Mr Strazzeri—She is in the office at Dairy Farmers. She works for the fundings and all this sort of thing.

Senator JOHNSTON—When you say ‘dairy farmers’, do you mean the organisation or do mean actual dairy farmers themselves?

Mr Strazzeri—Dairy Farmers, the organisation.

Senator JOHNSTON—The company?

Mr Strazzeri—The company, yes.

Senator JOHNSTON—And why do you say that?

Mr Strazzeri—She is in the office.

Senator JOHNSTON—She is in the office?

Mr Strazzeri—At Dairy Farmers.

Senator JOHNSTON—So when she talks about a wedge and she talks about not believing the 50c a litre, she has a vested interest. Is that what you are saying?

Mr Strazzeri—Dairy Farmers have a monopoly. I think you have got to realise that. The only thing I forgot to mention here was that at the same time, last October, Pauls/Parmalat was approached by many farmers on the Atherton Tableland to send milk down to the Rockhampton plant.

Senator JOHNSTON—Yes. I am interested to know this, because I did not understand her evidence to be that she had any other real interest other than the benefit of milk producers, but she is actually in the office of the sole processor.

Mr Strazzeri—Yes.

Senator JOHNSTON—Are you sure of that?

Mr Strazzeri—Of course. I am very sure. I spent six years as a ward leader and she was a young operator in that time. I know she works for many other organisations through the fundings there. I am not quite sure what her position is. I have never asked that. She has never stated her position, as far as I know. But, as I know today, we have only got two people who are the face of Dairy Farmers: there is her and there is Howard Smith, who is a field officer. Those are the only two people we know. They are the organisation and there are happy photos of families—I have them all in here if you want to see them.

Senator JOHNSTON—Thank you, Mr Strazzeri, for that information.

Senator O'BRIEN—You talked about Mrs O'Connor working in a Dairy Farmers office. She does work there, but isn't she engaged as a drought coordinator by the state Department of Primary Industries?

Mr Strazzeri—Yes. Mrs O'Connor has done a lot to help the local farmers.

Senator O'BRIEN—But isn't that the work she does out of that office?

Mr Strazzeri—Yes, but why is she a spokesperson telling me who I have got to sell my milk to or who I do not have to sell my milk to?

Senator O'BRIEN—I do not think she does tell you, does she?

Mr Strazzeri—She is in the newspaper. I have newspaper clippings here to prove that.

Senator O'BRIEN—Telling you to sell your milk to the only processor that is in town?

Mr Strazzeri—It is not done by her; it is done by Dairy Farmers.

Senator O'BRIEN—That is your supposition.

Mr Strazzeri—Yes.

Senator O'BRIEN—You did say in your evidence in relation to your view at the time that you decided to embark upon the A2 milk strategy for your property that—I wrote down the words—'We just believed anybody at that stage.'

Mr Strazzeri—Exactly.

Senator O'BRIEN—So things were that bad. If someone was coming along saying you could get 50c a litre, you were prepared to believe that.

Mr Strazzeri—Yes. At the time, most people's question was this: what happens if they do not go ahead, if they collapse in six or 12 months? I was saying, 'What the hell have I got to lose?' I was producing milk below the cost of production and that is what we virtually all did on the Atherton Tableland for the last 18 months.

Senator O'BRIEN—So you were prepared to take a risk—

Mr Strazzeri—Yes.

Senator O'BRIEN—because your enterprise was in a situation where, without that, it was difficult to see a positive future?

Mr Strazzeri—I am not afraid to give you my situation. We ran two dairy farms—my son, my wife and I and another son, who was then at home—and we produced two million litres of milk. When you produce two million litres of milk and you are on Centrelink payments, there has got

to be something wrong with the system somewhere along the line, and I do not think it should be two or three years later when it is addressed. That should have been addressed two or three years ago. Blokes like me, when I was a ward leader, were addressing those issues, and I have got plenty of evidence to show you what I said and what I did not say to them, and they did not listen.

Senator O'BRIEN—I understand the difficulties in the dairy industry. As I was trying to indicate before, I do understand some of the history of deregulation. You talked at some stage about getting 58c a litre but averaging 36c a litre.

Mr Strazzeri—That was our average price, yes. I was trying to explain to Senator Murray before that our average price was always, even 10 to 15 years ago, 35c to 36c a litre. If every single farmer on the Atherton Tableland was averaging 34c to 35c a litre over the last two years, they would be very happy. A2 would not even have bothered to come up here. They would not even have had a chance to stand on it.

Senator O'BRIEN—What proportion of your milk would be market milk in those circumstances? Was it 58c a litre for market milk—

Mr Strazzeri—At the time.

Senator O'BRIEN—and averaging 36c a litre?

Mr Strazzeri—At the time of deregulation we had gone from 40 per cent down to 31 per cent, and we probably went down as far as 29 per cent.

CHAIR—For market milk?

Mr Strazzeri—Yes. Production fluctuates on the Atherton Tableland because of the weather pattern.

Senator O'BRIEN—So if it was 40 per cent, I worked out that you were getting 21c a litre for your manufacture milk.

Mr Strazzeri—That is the best price we probably ever got for manufacture milk. For manufacture milk we were down to 11c at one stage on the Atherton Tableland, but 16c was probably the average that we were getting.

Senator MURRAY—Which is below cost?

Mr Strazzeri—It is well below cost, and this is what I want you gentlemen here to understand: the government has spent a lot of money in an area where you are not going to increase production. I am only a young boy at 54 years old, but most of the farmers are over 60 years of age. If you were going to leave your farm to your son, you would be up for child abuse.

CHAIR—Senator O'Brien and I were on the committee that looked very closely at the dairy deregulation package, and I think the evidence was that there were very few farmers who were likely to hand their farms on to their children, and in many cases they were much older than you.

Mr Strazzeri—They would soon tell you what to do with it. Many young people from dairy farms have looked for other alternatives, and you will find that one-third of the young sons of dairy farmers are working in coalmines in Mackay or somewhere. Some of them are on big money, it is just unbelievable, and here we are working for about \$3 an hour. That is what my income probably is on average.

Senator O'BRIEN—I have no further questions. I cannot think of dairying as an enterprise that demands anything other than hard work.

Mr Strazzeri—We have lost all the best land and all the best farmers on the Atherton Tableland. It is very hard to establish that industry and to keep it going unless you inject money directly into the dairy farmers' pockets, and that has to be done by putting pressure on the processors and by having competition. I mentioned to you before that a local firm has started in Mareeba, processing corn. Every farmer is going to benefit from that, even though that person has been crucified. This is the only way in this small community that we can go. We have not got many options. For fertiliser and things like that we are paying up to double the New Zealand prices. We are going to compete next with the New Zealanders—but we cannot compete with them.

CHAIR—As there are no further questions, I thank you, Mr Strazzeri, for coming along today. We understand you have had to take the day off from your enterprise and we appreciate it. We wish you and your farm colleagues good luck.

Mr Strazzeri—Thank you.

[3.44 p.m.]

BLANCKENSEE, Mr Robert Michael, Chairman, Far North Queensland Area Consultative Committee; and Chairman, Atherton Tableland Sustainable Region Advisory Committee

VIEIRA, Mr Tomas Artur, Executive Officer, Far North Queensland Area Consultative Committee

CHAIR—Thank you for your appearance today. We are somewhat behind time and we appreciate that you have been able to come along a bit later than originally scheduled. I need to inform you of a couple of administrative things. Firstly, the committee prefers all evidence to be given in public but, if there is anything you wish to put to the committee privately, you can request your evidence be given in camera and the committee will consider your request. All evidence is protected by parliamentary privilege, which means that any evidence you give to us is fully protected. If any action is taken against you arising out of evidence that you give, the Senate will view that seriously and has the power to deal with it. As you would appreciate, all evidence must be truthful. Any false or misleading evidence may well be deemed to be a contempt of the Senate. They are the broad rules that we advise everybody of. We have received documentation from your committee, which we appreciate your sending through. The committee has made a decision today to accept that material and to make it public. I invite you to make some opening comments, and then there will be questions from the committee. If you wish to make an opening statement, please do so.

Mr Blanckensee—The only statement that I would make is that I believe the area consultative committee has worked very hard to support everyone in the region. It is a large area, from just under Cape York—just below Bamaga—south to Cardwell and west to the gulf. It is a diverse area, with six separate areas within it. The tablelands is one area. There is the Cape area, the gulf area, north of Cairns, south of Cairns and Cairns central. Our committee is representative of those areas. We rely on our committee to pass on and to give us as much reconnaissance about those regions as we can possibly get before we make decisions.

Senator CARR—I have here an email dated 21 June 2004, from Mr Crooke to Mr Lindsay Stewart. The email says:

After some further ‘negotiation’ had been successful in cutting out the first phase of the Cairns application, the requirement to submit a brief to the board, and with the board then considering whether to invite a full application, we have been invited to go direct to the full application. However they have asked for it to be in Cairns by close of business, Wednesday, 23 June.

I wonder whether you could assist me here. Do you have any understanding of what was meant by the expression ‘after some further “negotiation” had been successful in cutting out the first phase of the Cairns application’?

Mr Blanckensee—I am not able to answer that because I am not aware of any negotiations.

Senator CARR—Was it the case that, in regard to A2 milk, the grant application was able to short-circuit the processes at all?

Mr Blanckensee—The grant application came through the department. There are two ways Regional Partnerships applications can be forwarded—through the area consultative committee or directly through the department. When an application comes into the department, their process is to automatically send it back to the area consultative committee for comment. They get their information from the area consultative committee.

Senator CARR—Is that how you became aware of this application?

Mr Blanckensee—We became aware of the application when it was received in the office.

Senator CARR—On what date was that received?

Mr Vieira—I think it was about 15 June that we had our first inkling that this concept of A2 was being looked at by ATSRAC on the tablelands, which is part of the stronger regions initiative, and that we would shortly receive an application.

Senator CARR—Was the application received later on?

Mr Vieira—Yes.

Senator CARR—We were told that the application was received in the department on 9 July. Was that the same date on which you received it?

Mr Vieira—It might be; I cannot confirm that date.

Senator CARR—It appears that a meeting was held on 11 June 2004 to discuss the project. You are saying you first got wind of this on 15 June. So you were not aware of a previous meeting to be held on 11 June with Mrs Kelly and Mr Crooke?

Mr Vieira—No.

Senator CARR—You say you became aware on 15 June that an application might be coming through. Do you recall where you heard that?

Mr Vieira—There was an email from the department to us around the 15th saying that. We did the usual—we went: ‘Okay. There is something coming through; we will look out for it.’ My first actual interaction in relation to this, according to the records that I have here, occurred when I met with Lindsay Stewart on 6 July. That meeting was to say, ‘Let’s have a look at what you’ve got here,’ and, as is the role of the ACC, provide feedback about where or how this application might be strengthened and even what it would look like.

Senator CARR—So there was clearly discussion of an application by 6 July.

Mr Vieira—Yes.

Senator CARR—Do you recall who in the department sent you that email advising you that there would be an application coming through on 15 June?

Mr Vieira—I believe it was Lee Chaney from Townsville.

Senator CARR—Were there any discussions with Mr Crooke about these projects?

Mr Vieira—I know that name occurs right through this but, in terms of discussions, I do not know if I had any phone discussions with him or not prior to the meeting on the 6th. It might just have been with Lindsay Stewart or his PA to arrange that.

Senator CARR—Did you contact Mr Stewart to set the meeting up or did someone else?

Mr Vieira—No. They contacted us.

Senator CARR—They approached you for a meeting to discuss a possible application.

Mr Vieira—Yes.

Senator CARR—When do you recall first speaking to Mr Crooke about this application?

Mr Vieira—I do not actually have anything that says I spoke to him, and I do not recollect whether I did or not. The main proponent was Mr Stewart. That is who I did my business with.

Senator CARR—Is that the same for you, Mr Blanckensee?

Mr Blanckensee—From my records, the A2 milk application came through to the committee at the meeting on 6 August. That is where we had some discussions. I never had any direct discussions with the proponents. I believe that is the role of the EO and I do not believe that we should confuse the EO's role with the chairman's role.

Senator CARR—That is fair enough, but you did not see the application or hear of it before 6 August?

Mr Blanckensee—6 August is when it was presented to the committee, yes.

Senator CARR—Presumably it was received in the department on 9 July and you did not see it until that time, is that so?

Mr Vieira—That is correct.

Senator CARR—Were there any discussions with Mrs Kelly's office or Mr Anderson's office about the project application?

Mr Blanckensee—Not with me.

Senator CARR—Was there anyone else in the ACC where there was a discussion?

Mr Vieira—I did attend after the 6th when we looked at it. It is pertinent to point out the nature of our involvement. Our role is economic development. We had a scenario where the dairy farmers were not receiving a hell of a lot for their milk up there. This project came along and, as we do with any project—it is ‘benefit of the doubt stuff’—we will follow that path for as long as we can to establish whether or not it has legs. In the course of that, I did attend a meeting during the National Party conference, which Joe alluded to before.

Senator CARR—Do you remember what date that was on?

Mr Vieira—My record is 31 July, which was a Saturday, I reckon. At that meeting, my role was to gauge: ‘Is there any support for this or not? What are the local dairy farmers saying? What do they want?’ I attended that meeting and Mrs Kelly chaired the meeting. We heard from A2, then we heard from dairy farmers as to how they were hurting, and so on. The nature of my work with them was principally to say, ‘Look guys, we have to look at the viability of the existing industry that we have up there.’ But at the same time, if you are saying you are going to give them 50c—and I stress it is not our role to do due diligence—our role is to go in and ask, ‘How does it look?’ My thing was to ask, ‘What support do you have? Can you demonstrate support for this project?’ It was within that context that I attended that meeting: to try to gauge whether A2 could demonstrate that they had farmers on board as opposed to just the proponent putting up an idea trying to get some money out of the government.

Senator CARR—That is fair enough. So you do not see it as your role to do the due diligence.

Mr Vieira—No.

Senator CARR—The department says that they do not see it as their role to do the due diligence on your behalf, so whose role is it to do the due diligence?

Mr Vieira—Let us be very clear about our understanding of what due diligence is anyway. Our thing is to look at it and make a balanced recommendation of what we believe. We certainly do not have the resources, Senator, as you well know, with a staff of three, to be doing due diligence. It is certainly not in any part of our contract to do any kind of due diligence, but it is within our scope to make some comment about what we see. If you look at the official comments we gave you in the papers, in the TRAX, I think you will see that they are very balanced. They demonstrate that the committee in its own right, without my interference, came up with a very balanced picture. They said that the current industry is suffering so if someone is going to give them 50c that would be terrific. However, there needs to be some real due diligence done around the competitive neutrality issue.

Senator CARR—But who did that?

Mr Vieira—It is not for us to do it.

Senator CARR—You did not do it?

Mr Vieira—No.

Senator CARR—Are you aware of anyone else who did it?

Mr Vieira—It is our awareness that the department does that.

Mr Blanckensee—Our awareness is that the department does it. If they do not do it, they subcontract that out. That is my understanding of how the process works.

Senator CARR—I want to come back to the meeting of the 31st, but I want to be clear here. I asked the department a question on 27 May. They replied to me that the department does not undertake the due diligence on behalf of the ACC. So you did not do it.

Mr Blanckensee—We do not do that. As I said, if it is not done by the department, I believe it would be subcontracted out by the department.

Senator CARR—Okay. Can you advise me: at the meeting on the 31st, did—

Senator MURRAY—Before you move on, can I clarify something. Did you think that the department was doing due diligence?

Mr Blanckensee—We were of the belief that due diligence would be a responsibility that would belong to the department or would, as I said, be subcontracted out by someone from within the department.

Senator MURRAY—Why did you have that belief? Were you told that or did you just think that would be the natural thing?

Mr Vieira—That has always been our understanding.

Mr Blanckensee—It has been the understanding and it has been a carry-through from all the processes with RAP and Dairy RAP; in particular, through Dairy RAP, because Dairy RAP was, basically, the beginning of the Regional Partnerships program in its current form.

Senator MURRAY—Are you surprised, then, that Senator Carr has told you what they told him?

Mr Blanckensee—To a certain extent, yes.

Senator CARR—It is in black and white. I have not misunderstood this. This is in black and white. It was a parliamentary question, so it has gone through the minister's office. The spin doctors have done the white pencil on it, and we still got that statement.

Mr Blanckensee—I will say here that the due diligence process is not the responsibility of the area consultative committee.

Senator CARR—It will be up to us to find out who it is, but it seems to me that, on the face of what you are saying to us, there was no due diligence.

Mr Blanckensee—I cannot comment on what has transpired. With regard to what we were asked to do, I believe we exercised everything we had to do and we did a very good job.

Senator CARR—Thank you. With regard to the meeting on the 31st, did Mrs Kelly indicate support for the project?

Mr Vieira—My view of that was that she was keen to see whether something could be done so that dairy farmers, as in individual dairy farmers, could get a better price. If that was through a project like A2—

Senator CARR—Was there any encouragement for you to accept this project?

Mr Blanckensee—From my point of view, no, because I have made it very clear that we are a non-partisan organisation and we will do what we have to do.

Senator CARR—Fair enough. I have read your comments here: you have community feeling to say that this is a great idea—the best thing since sliced bread.

Mr Blanckensee—However, I think our TRAX comments quantify our position with regard to—

Senator CARR—I can read between the lines here, too, but I am just wondering whether this has been presented after a meeting in which the parliamentary secretary says that we have to do something about these people. There was a meeting in the parliamentary secretary's office on 11 June involving a whole lot of big hitters. Have you had no comment from Ms Leslie Riggs about the project?

Mr Blanckensee—There was no comment that I can recall from any member of the minister's office or from Leslie Riggs with regard to providing support for the A2 milk. The process that we undertook was basically at the committee level. We were concerned that there were some issues there. We had heard through our relationship with the ATSRAC committee that there were some concerns that there could be some negative outcomes on the table. So, as part of our process, we delved a little deeper than normal into finding out what was happening on the table.

Senator CARR—Fair enough. Mr Crooke is saying, 'This whole process has been fast-tracked. There's been some negotiation,' as he puts it, 'and we can jump a few steps and go directly to application.' How often does that occur?

Mr Blanckensee—The fast-tracking to which you are referring is that it is going straight through to the department. It has happened a couple of times prior. One of them was with the Cairns City Council with a process called the Memorial Garden. We advised the department it would not proceed because it was retrospective funding, which the program is not set up to do. I cannot think of any others, actually.

Mr Vieira—I will say to proponents, 'You don't have to go through us; you can actually lodge your application directly with the department. However, we will be asked for comment, and it's probably in your interests to have us on board, because it's not going to be very nice for us to

have to comment on a project that we know nothing about. It's probably not in your best interests.'

Senator CARR—Do you recall any other projects that were fast-tracked in the way in which A2 Milk was?

Mr Vieira—No.

Senator CARR—Have you had any conversation with the minister's officers, any minister's officers or any parliamentary secretary's officers about special attention being applied to any project?

Mr Vieira—Not from my side of things.

Senator CARR—So it is just this one that has had special treatment?

Mr Vieira—I think you are saying that it has had special treatment. From where we sit, we applied our effort in the way we would do to any project for the kind of money that it was talking about. That is a significant amount of money. It is in our interest to apply as much effort as we can in exploring it. Those are your words. But, great: if we can get \$1.2 million into the region, we will work for it.

Mr Blanckensee—The other thing is that the ability to, as you say, short-circuit the system is a process which we are aware of. It has happened with a previous application, which was the Cairns City Council one which I referred to, where it came through the department process. That is not unusual in the sense that we are aware that it does occur, but we actively try to have all our proponents come through the ACC because we have a better understanding of what is happening in the region. Our role is to give advice to the department, and that is the way we see the role.

Senator CARR—Was there any application for funding under the Sustainable Regions Program?

Mr Blanckensee—I cannot comment on that at this point in time, because I was aware there was an application possibly pending, but my relationship with ATSRAC at that time was not as it is currently. I gleaned that through some comments that I had heard as an observer at that meeting.

Senator CARR—You do not recall seeing any formal paper?

Mr Vieira—No, I never saw a formal application or expression of interest for A2 Milk through ATSRAC.

Senator CARR—Mr Vieira, were you aware of any other applications for funding for this project?

Mr Vieira—My understanding is that the ATSRAC committee had heard of it—whatever that means. Had they seen a full application? I do not know. Maybe it was just an expression of interest or whatever, but my understanding is that there was no support for it.

Mr Blanckensee—If memory serves me correctly, this was also at the time when that \$3.5 million worth of Dairy RAP money was coming back in to be acquitted. I think it was getting lost in the discussion of whether it fitted into Dairy RAP, ATSRAC or RP. That is where it may have gotten lost—in the understanding of where it actually fitted. I think that is the context of the conversations that may have occurred, and it was clouded. I do not know whether an EOI was ever pushed forward.

Senator CARR—We will come to that later. You cannot recall seeing any specific application for money in a formal sense?

Mr Blanckensee—No, not at all.

Senator CARR—Your processing of the application was concluded on 26 August 2004. You say it was received about 6 August.

Mr Blanckensee—We saw the application on 6 August.

Senator CARR—So there is a three-week period from the time you received it to the time you completed it. Is that right?

Mr Blanckensee—Yes.

Senator CARR—Why is some of the response typed and some handwritten?

Mr Vieira—The TRAX box does not open up, so we could not print off the whole thing. Our admin manager had to write it in. That is why it looks like that—to give you the full picture, otherwise you would have only got one-third of the wording.

Senator CARR—So this was for our benefit.

Mr Vieira—Yes.

Senator CARR—It is not a facsimile of the application?

Mr Vieira—No.

Senator CARR—When were you aware of the allegations of misleading advertising regarding A2 Milk?

Mr Blanckensee—Was this with regard to the Queensland public health issue?

Senator CARR—Yes, it was. At one point there were only allegations, then there was a judgment and a fine.

Mr Blanckensee—I do not think we were aware of anything pending until I read in the paper that they had been charged, and that led to the whole sad and sorry debacle that we are experiencing now.

Senator CARR—Was that after the application had been received?

Mr Blanckensee—Yes, it was.

Senator CARR—It was not revealed to you through any means other than that newspaper report?

Mr Blanckensee—That is correct.

Senator CARR—The concerns you have expressed about the project in your written report highlight that some of the ACC members were concerned about the timing of the project itself. Would that be fair?

Mr Blanckensee—That is a fair comment because, at the time, you have to remember that the Atherton Tableland was still suffering in the grips of a drought that had virtually crippled the area. It saw milk production sink to probably an all-time low. The other concern we had was that, if you throw a competitor into such an economic situation as we had there, which was very depressed, you may have enough to sink the other organisation. I believe that Dairy Farmers was on a knife edge with regards to the critical level of production. We saw that, if you brought a competitor in, you may push Dairy Farmers over the edge—that is what we were led to believe at the time. I do not think that we would all be happily sitting around the table here with the \$1.3 million being given to one organisation while 134 permanent jobs disappeared from the region. I do not think we would have been doing our job if we had not brought that to the attention of people.

Senator CARR—Were Dairy Farmers putting any pressure on you about this application?

Mr Blanckensee—No, not at all.

Senator CARR—So how were you aware of the potential impact on a competitor?

Mr Blanckensee—Through conversations that our board and the office has had with people in and about the region.

Senator CARR—So your market intelligence came from—

Mr Blanckensee—From members of our own organisation.

Senator CARR—customers of the co-op.

Mr Blanckensee—Yes.

Senator CARR—Were there any concerns expressed about the undercapitalisation of A2 Milk?

Mr Blanckensee—I am not aware of any undercapitalisation.

Senator CARR—There is some reference here to project set-up costs and whether or not there was sufficient capital. Would that not be a reflection of people's concerns about undercapitalisation?

Mr Vieira—I think those were checklist questions. Remember that we talked about due diligence and believing that it was the department that was going to do it. What we are flagging is that we should check these things.

Senator CARR—So you are relying on a checklist and rumour—that is, the opinions of other people operating in the district—as to the consequences of this project. You have some letters of support. Did you check those letters of support?

Mr Vieira—Yes, we check letters.

Senator CARR—What did you discover when you checked those letters of support.

Mr Vieira—A range of letters of support were furnished that said, 'We're up for this project' and 'We'd like to see this happen.' But I think, Senator, that the thing is that it is not our role to do due diligence as far as we are concerned. Our role is to flag the issues that we believe are important so that when that gets done those kinds of things are investigated much more deeply.

Senator CARR—No independent study though?

Mr Vieira—We have no funds to do an independent study.

Senator CARR—I just want to be clear about the processes here. We are talking about a grant of \$1.3 million—that is the ultimate grant that was made. There was no independent study of this. On the surface of it, it is a pretty shallow way of assessing this application.

Mr Vieira—I think our TRAX comments reflect—

Senator CARR—But that is more intuition than independent judgment. It may well be soundly based in effect of what has happened.

Mr Vieira—I think it was pretty good.

Senator CARR—I am not disputing that you were accurate in foretelling the future. I am just wondering how you got to those conclusions.

Mr Blanckensee—I think the important thing is to understand what the area consulting committee is about. It is a group of people who are concerned about the region that they represent and about putting forward what they believe would be in the best interests of the region. We are focused as an economic development organisation, to a certain extent. We drove out of the original DEWRESB concept where we were employment based. I think the important thing is that in my organisation we have 22 people who give up their valuable time away from their jobs to pass on reconnaissance information to the government. What the government chooses to do with it is their responsibility. You refer to rumour and innuendo—we are not furnished with the ability to go in and do the due diligence. We have never been set up to do that.

What exactly are the expectations, what do you want us to do? It is very difficult. We are working within the guidelines that we believe are correct. We work within the strategic plan which we have circulated and we make that a public document. The information we glean and pass on is very important.

Senator CARR—Indeed it is, and that is the question that we come back to, because the government places great emphasis upon your recommendations and advice, as they put it. They said they could not give us the documents because it was advice to the minister. You are giving us an entirely different picture of the process from what the department gave us. You were placed in a position by the department whereby you are seen to be the critical point of reference. That is clearly not the case. Without resources and without any capacity to undertake independent investigation, you are providing advice to the department about what you understand to be the situation. When I asked them a question about due diligence they said that it is your job; you are telling me that it is not. I come back to the point, though, that your concern was about competitive neutrality, and in particular the fact that dairy farmers had to send 100 per cent of their milk to Dairy Farmers. What was your concern there?

Mr Blanckensee—As I said earlier, we were coming out of the back of a drought and production for the tablelands was down to an all-time low. Dairy Farmers needed every bit of milk that they could get to maintain a viable operation. This is what we were led to believe. If 40 or 50 farmers moved to A2 Milk and took their milk with them, where would the viability and long-term sustainability of that factory sit? It is an unknown quantity and we believed we had to draw that to the attention of the people who read the report.

Senator CARR—It would be fair to say that you had some pretty deep reservations about this application.

Mr Blanckensee—We had some concerns, yes. I do not like spending a lot of taxpayers' money in a region which may have ramifications down the track. As I said, I would not like to be sitting here trying to explain to you why we spent \$1.2 million and built a successful A2 milk factory, but saw the demise of Malanda milk and, down the track, lost 134 jobs and the general input of the income that that factory brings to our region. We cannot accept that as well. It is a tightrope that we have to walk.

Senator CARR—Can I go through some of the other issues that are raised in your paperwork? The main contribution, in terms of the funding commitment, was an in-kind commitment of land and a patent. What did you understand that to mean? What was the nature of that in-kind commitment?

Mr Blanckensee—From A2 themselves?

Senator CARR—Yes.

Mr Blanckensee—For the land that they were—

Senator CARR—Yes.

Mr Blanckensee—They were purchasing the land on behalf of what was going to be a type of cooperative, from what I could understand. That was going to go back to the collection of farmers—there were 45 or 50 farmers. That patent of land, that parcel of land, was going to be purchased and go back to them as the site to build the factory on.

Senator CARR—There was also a patent with regard to the New Zealand company, was there not?

Mr Blanckensee—I believe the New Zealand company was the parent of A2 Australia.

Senator CARR—Where did you get your understanding of how that relationship worked?

Mr Blanckensee—Basically just through the press that you would have read that was available at the time.

Senator CARR—But it was not in any of the documentation that you saw—there was no explanation of that relationship?

Mr Blanckensee—I suppose it is the same relationship that you have with Pauls and Parmalat. You assume that Pauls is an Australian company, but the parent company is an overseas company.

Senator CARR—The value of the patent was \$750,000. Do you know how that figure was arrived at?

Mr Blanckensee—No, I do not.

Senator CARR—The land that was offered up was in fact owned by Mungalli Creek Dairy—is that the case?

Mr Blanckensee—That is what I am led to believe, yes.

Senator CARR—Were they a party to the application?

Mr Blanckensee—I believe they were, yes.

Senator CARR—That relationship was clear as far as you were concerned?

Mr Blanckensee—To us it was clear, yes.

Senator CARR—Did you seek to have any security attached to that land in regard to this project?

Mr Vieira—Again, I go back to where we saw our responsibilities end. We are not there to make the contracts. The contract is between the government and the proponents. Our role is not to—

Senator CARR—I take you to the next section of the application, where it talks about project viability. You say there that proponents seem to know what they are doing.

Mr Vieira—Seem to.

Senator CARR—Do you still hold that view? Would you put that in today?

Mr Vieira—Obviously not.

Senator CARR—The capital value of the company was \$2 for two directors. What was the level of debt the company was carrying at the time the application was made?

Mr Vieira—I do not know.

Senator CARR—Do you have any idea of any of the contracts that had been entered into at the time the application was made?

Mr Vieira—No.

Senator CARR—Was there any understanding about the relationship between the A2 Dairy Marketers and Cash Flow Finances Australia?

Mr Vieira—No.

Senator CARR—Were there any assessments of any of the finances of the company?

Mr Vieira—We did not do any.

Senator CARR—Do you know of anyone who did do them?

Mr Vieira—No.

Senator CARR—You had no discussions with the department?

Mr Blanckensee—What we were led to believe is that that was part of the due diligence process.

Senator CARR—So you worked on the assumption that the department was doing the checking?

Mr Blanckensee—The department or someone subcontracted by the department.

Senator CARR—If I can return to the issue of competitive neutrality, your report says that some members are concerned about how the government was involved and how that would affect current farmers. Is that anything beyond what you have told us already?

Mr Blanckensee—No. That is basically what we just discussed.

Senator CARR—It also says that there was a definite threat that had to be clarified. Do you think it was ever clarified?

Mr Blanckensee—The definite threat? Can you—

Senator CARR—You were concerned about the government investing funds to establish a plan in competition with Dairy Farmers.

Mr Blanckensee—The threat that we were alluding to there was with regards to the competitive neutrality and the possibility of an existing supplier or an existing processor falling over if you took away part of their supply.

Senator CARR—Did you communicate any of your concerns to Mrs Kelly?

Mr Blanckensee—Why would I communicate those concerns to Mrs Kelly when I am dealing with the department?

Senator CARR—So you addressed these concerns to the department?

Mr Blanckensee—That is correct.

Senator CARR—In what form did you address those concerns?

Mr Blanckensee—Through the TRAX comments and through the process of having the department attend our meetings on a regular basis.

Senator CARR—So there were departmental officers present when these things were being discussed?

Mr Blanckensee—Departmental officers are present, yes.

Senator CARR—So, as far as you are concerned, there would be no question in your mind that they were aware of the worries that you had on these matters?

Mr Blanckensee—I thought we made it very clear.

Senator CARR—Were there any discussions with any other politicians about these matters?

Mr Blanckensee—Not with me.

Senator CARR—Were there any discussions with Senator Boswell, for instance?

Mr Blanckensee—No. As I said before, I like to keep politics out of ACC business. It is very prudent.

Senator MURRAY—That is true.

Senator JOHNSTON—Certainly today it is.

Senator CARR—The minutes of the ACC indicate that on 6 August a request had been made by Mrs Kelly. Do you recall those minutes?

Mr Blanckensee—Yes, I recall those minutes.

Senator CARR—It is on page 5 of the minutes.

Mr Blanckensee—This was the advice. On the point of having this meeting, Tom made a comment—

Senator CARR—Who is Tom?

Mr Blanckensee—This is Tom, our executive officer.

Senator CARR—So, Tom, you made the comment?

Mr Vieira—Yes. It was made indirectly through the department. The way it is recorded there, it was made through the minister's officer. It was made via the department to us.

Senator CARR—I am not arguing the toss as to how you got the message. So, as far as you were concerned, the minister's office was reflecting the minister's request that this application be brought forward directly through DOTARS?

Mr Blanckensee—That is our understanding.

Senator CARR—How was that request communicated?

Mr Blanckensee—It would have come through general conversation with regard to the process that is in place. The application is lodged with the department. If it does not come through the ACC, it will come automatically to the ACC via the department. The department may have made a comment that this was something that the minister's office thought may be worth looking at. I am not too sure in what context. That is where we were alerted that this was something that was of interest.

Senator CARR—That was the first time you saw the application?

Mr Blanckensee—That is correct.

Senator CARR—So at the same that you receive the application you get told that the minister's office wants this dealt with?

Mr Blanckensee—Yes—and the minister is the person who is at the top of the chain.

Mr Vieira—I do not think the time frame is right.

Senator CARR—I would like to be clear about this. Mr Blanckensee said that the first time he saw the application was 6 August and the minutes of Friday, 6 August show that the same day that you see the application you are told that the parliamentary secretary wants a bit of a hurry-up on this?

Mr Blanckensee—I do not think that was the word.

Senator CARR—No, I am being a bit licentious here.

Mr Vieira—Can we separate this. The board had a look at this on 6 August. I, as the operational officer, was told about this earlier than that and, as we do with other briefs, we develop them and—

Senator CARR—I would expect that. Fair enough—you have to prepare the board. So when were you told about the application?

Mr Vieira—As I said, around the middle of June, there was an indication that there would be something coming through.

Senator CARR—When did you see the application itself?

Mr Vieira—I do not actually have that.

Senator CARR—When did you find out about Mrs Kelly's interest in the project?

Mr Vieira—Our understanding from that first email was that there was something coming through that had been approached and the minister's office had advised that they were going through the department. That is how we found out about it.

Senator CARR—So you are saying that on 6 July you were told that Mrs Kelly had an interest in this matter? What was the date of your first contact regarding this matter?

Mr Vieira—The first date that I have is 15 June—to alert us.

Senator CARR—So on 15 June you are told that the minister has an interest in the matter?

Mr Vieira—No, that there is a project coming through. 'Interest' is your word; what we are saying is that there was a project coming through.

Senator CARR—I want to know when you found out that the minister's office had an interest in the project.

Mr Vieira—I guess it was on the 15th, if you are using those words as 'interest'.

Senator CARR—That is what I am trying to establish. So, within four days of the meeting occurring in Brisbane between the parliamentary secretary, Mrs Kelly, Mr Crooke, A2 Dairy and

Ms Leslie Riggs, the CEO of the ACC is being advised that a project is coming through that the office of the parliamentary secretary is interested in. Is that what you are saying to me?

Mr Vieira—Yes.

Senator CARR—Were there any discussions about that project with Mr Crooke after that point? Did you have any contact with Mr Crooke?

Mr Vieira—If there was any contact, the contact would have been when we met on 31 July at the National Party—at which time I believe he was the chief of staff or whatever.

Senator CARR—So his contact with you was as chief of staff?

Mr Blanckensee—Did he contact you at any time with regard to that project? You were dealing with Lindsay Stewart all the time.

Mr Vieira—It may have been—I do not know. I do not have any dates that tell me when he was the chief of staff et cetera.

Senator CARR—It is an obvious question that I have to follow up. I was not aware that he was the chief of staff on 31 July. But you believe that you were dealing with him on—

Senator McLUCAS—On 28 June.

Senator CARR—So after 28 June you were still dealing with Mr Crooke on this project?

Mr Vieira—I may have, but it would have been limited if there were any conversations because Lindsay Stewart is really the main opponent in this.

Senator CARR—I would be interested to know how limited these conversations were and what the nature of those conversations was.

Mr Vieira—There could not have been much if I cannot recall them. My main interest has always been and always is: what is the project and what are the guts of this project?

Senator CARR—I appreciate that. I can see from your minutes and from the records that there is obviously considerable concern about this project. I am not trying to challenge your veracity and the way in which you have done the job; I am trying to understand how you have done your job. I repeat: I do appreciate that you have deep reservations about this project reading between the lines. I am interested to know why it is that Mrs Kelly has such an interest in the project and why Mr Crooke who worked for A2 Milk and became her chief of staff still continues to deal with you on this project. Some might suggest that there is a bit of a problem about moving from one side of the fence—being an applicant and associated with an applicant and then being the decision maker on a grant. That is the nature of the concern that I have. Could you understand why that might occur?

Mr Vieira—Yes. I can understand that.

Mr Blanckensee—We can appreciate your concern, and I think the important thing for us is: when did we become aware that Mr Crooke, shall we say, jumped ship from being the requester to the provider? I do not know. As Thomas said, we have dealt with Lindsay Stewart as the proponent all the way through the process. Crooke may have been at certain meetings, but we have always dealt with Lindsay Stewart.

Senator CARR—The other thing that interests me is how the project changed. Could you have another look at your records to see what dealings you have had with Mr Crooke?

Mr Vieira—I have looked in my diary. There are no entries.

Senator CARR—You have no further records whatsoever.

Mr Vieira—No.

Senator CARR—But you do recall discussing it perhaps on 31 July?

Mr Vieira—Yes. If there was a meeting he would have been at that meeting.

Senator CARR—Can I ask you about the way in which the project changed. Originally, the proposed structure was 80 per cent A2 Dairy and 20 per cent to Cuda brothers. Then it changed to 33 per cent A2 Milk, 33 per cent Mungalli Creek and 33 per cent Farmers. Can you tell me how that occurred?

Mr Vieira—I cannot tell you how it occurred but I can probably tell you why it occurred from my perspective. My perspective was around: where is the community benefit and the community ownership, how do we get more partnership into it—given that it is about regional partnerships, and how can we best do this? Then I was informed that they were going to bring Mungalli into it, and we thought that was a good thing in the sense that it strengthened it. It is a local existing enterprise that is doing well and by bringing them on board that strengthened the partnership, so we thought yes.

Senator CARR—Do you recall when that change occurred?

Mr Vieira—No, I do not. I would hazard to say somewhere in that end of July period.

Senator CARR—At the time of the National Party conference?

Mr Vieira—I would say around that time—at least that is when I discovered it.

Senator CARR—The 31st? So when was the regional project entered into the TRAX system?

Mr Vieira—We entered it into TRAX system on 24 August.

Senator CARR—When did the change occur—about 31 July?

Mr Vieira—I think so.

Senator CARR—Did you get any sense that the National Party had an interest in changing the preconditions for the application being processed?

Mr Vieira—No.

Senator CARR—You were not made aware of that in any way?

Mr Vieira—No.

Senator CARR—Who proposed the change?

Mr Vieira—I learnt about it from the director.

Senator CARR—The director of?

Mr Vieira—From Lindsay Stewart.

Senator CARR—And he did not give you an indication as to why it was necessary to change?

Mr Vieira—Really we were the ones suggesting, ‘Hey we need to broaden this and look what we can do to create more local ownership.’

Senator CARR—You initiated it. Thank you very much. I appreciate your evidence.

Senator JOHNSTON—Mr Blanckensee, may I ask what you do when your valuable time is not taken up with the area consultative committee?

Mr Blanckensee—I manage the Pacific International Hotel here in town.

Senator JOHNSTON—I have stayed there many times. It is a very nice hotel too, might I say.

Mr Blanckensee—Thank you.

Senator JOHNSTON—Are there are eight members of your committee?

Mr Blanckensee—That is of the management committee, yes, and then we have a broader membership across the region.

Senator JOHNSTON—But your consultative committee itself that deals with the minutes?

Mr Blanckensee—The management committee is composed of seven people.

Senator JOHNSTON—Can you just tell me who they are and what they do.

Mr Blanckensee—Jim Petrich is the CEO of the CYPDA. I cannot remember what the acronym stands for. It is Cape York—

Mr Vieira—Cape York Peninsula Development Association.

Mr Blanckensee—Thank you. We have Angela Toppin, who is from Mareeba, and she is involved with the education department. She is the Principal of Mareeba State High School and is in the business liaison association. We have Kate Sutcliffe, who is the executive officer of the Gulf Savannah Development organisation. We have Julia Leu, who is a development officer from the Douglas Shire Council. We have Barry Moyle, who is no longer the Mayor of Johnston Shire but is representative of the Johnston south-eastern part of the region. With his knowledge of the region, he has stayed on after the election. We have Morrie Cunningham, who has just been promoted to the position of Chief Executive Officer of Cairns Region Group Training.

Senator JOHNSTON—Do any of those people have any relationship with the dairy industry?

Mr Blanckensee—I would say that none have any direct relationship as of now, no.

Senator JOHNSTON—What about back in 2004 and what about indirect relationships?

Mr Blanckensee—I am just trying to think who was in the committee in 2004, because the committee does change from time to time. Can you think who was on the committee at the time, Mr Vieira?

Mr Vieira—Nobody that I know that had a direct dairy relationship.

Senator JOHNSTON—Good. I take it that some of those cape and gulf people have a great distance to travel. How often do you meet?

Mr Blanckensee—We try to meet on a six-weekly basis. Sometimes it is monthly; sometimes it is six-weekly.

Senator JOHNSTON—Where do you usually meet?

Mr Blanckensee—We usually meet here in Cairns.

Senator JOHNSTON—Excuse my lack of knowledge of the region, but I think three of those people are in fairly far away regions. How do they get into Cairns?

Mr Blanckensee—Some of them are Cairns based people that actually are out in the region. Their organisations require them to travel to the region and that is where they are getting their reconnaissance from.

Senator JOHNSTON—Have you got anyone who lives something like 400 or 500 kilometres from Cairns?

Mr Blanckensee—Not on the management committee, but on the association—

Senator JOHNSTON—We talked about the minister's interest. Mr Vieira, my learned friend at the end put it to you that you became aware of the minister's interest I think around 15 June. The 'minister's interest' is an interesting expression. Did you actually become aware of the minister's interest as in the name of the minister and her personal interest, or was it simply the generic 'the minister', from the office point of view?

Mr Vieira—That is right, it was from that.

Senator JOHNSTON—So it is a generic phrase that refers to the fact that the office sitting on top of the pyramid was interested. Can we just clear up the evidence regarding Mr Crooke's involvement? Have either of you ever been personally approached by Mr Crooke with respect to this project?

Mr Blanckensee—I certainly have not.

Mr Vieira—As I said, I may have talked to him about it, yes.

Senator JOHNSTON—On the 31st?

Mr Vieira—He would have been there on the 31st, but it may have been in the early stages. I have to say this: we work with a lot of projects. Right now we have six on the go and there are another five or six proponents. Until it actually hits the deck, my God, if I were to try and really recollect every conversation with every person that I met, I would not be functioning. There is some part of my file system that starts remembering when we are getting a bit fair dinkum and there might be something on the go. I have an admin manager who works part-time on projects as well. It may even have been that I might have said, 'Check that out.' That is the kind of thing I often do. Or if a person phones, I might say, 'These are our details. I'll send you through some guidelines. Have a look at them and get back to us.' In that context I cannot sit here and say I have not spoken to him.

Senator JOHNSTON—I accept that. Let us clarify that, then. If he were to walk through that door over there, would you recognise him?

Mr Vieira—No.

Mr Blanckensee—Nor would I.

Senator JOHNSTON—So your involvement, if there was any—and you are uncertain as to whether there was—was not something where it was at the forefront of your mind that you were being heavied. You were being engaged for the purpose of seeking a government grant by someone who was not doing anything out of the ordinary. There is nothing that springs to mind or is in the forefront of your mind that a person with the name of Ken Crooke ever did anything with respect to an application?

Mr Vieira—What I can say is that, at some point in all of this, I learnt of his prior involvement with A2. I remember thinking, 'That could be a bit odd here.' But at the end of the day it is, 'What is this project?' That is the way we try to work—as professionally as possible.

Mr Blanckensee—Can I just say, if someone came to do that to me or to Tom, I would be very disappointed. I would make sure the due process system stalled or ran longer, because I resent that sort of interference and I do not think that is appropriate.

Senator JOHNSTON—I am very pleased to hear you say that. Let us look at the other side of the coin. After 31 July, do either of you have any recollection of a Mr Crooke or a person using that name applying any pressure to you to hurry the application or to do anything out of the ordinary in your day-to-day duty with respect to the role of the consultative committee?

Mr Blanckensee—No.

Mr Vieira—No, and I think that is reflected even in our time frames. You can see there when it finished, when the board got up and when the TRAX comments were put in.

Senator JOHNSTON—Let us go back one little step, with the Chair's indulgence. I take it that the dairy industry on the Atherton Tableland has been through a very rough trot. A corporation offering, and indeed in some respects paying, 50c a litre on a daily basis would have been something that your committee, the growers and the industry at large would have been very interested in.

Mr Blanckensee—That is exactly right. It is like if someone came and offered the sugar industry \$1,000 a tonne. We would nail their feet to the ground to keep them here.

Senator JOHNSTON—This was potentially the greatest shot in the arm this industry had seen for five or six years.

Mr Blanckensee—Exactly.

Senator MURRAY—Just to conclude that line of questioning, would it be in the interests of Dairy Farmers to have torpedoed that proposition?

Mr Blanckensee—That is a very interesting question to ponder.

Senator MURRAY—Is your answer, 'It might be'?

Mr Vieira—It might be.

Mr Blanckensee—It could be speculated that it may have been, but I would not like to say that was the case.

Senator MURRAY—It was a competitive issue, wasn't it?

Mr Blanckensee—Yes.

Senator MURRAY—You specifically made the point. I cannot remember whether you said 134 or 142 jobs, but it was a substantial enterprise—

Mr Blanckensee—A significant employer in the region and we cannot afford to lose it.

Senator MURRAY—which could be affected by the competition.

Mr Blanckensee—Exactly—a significant employer.

Senator MURRAY—Mr Blanckensee, how long have you been chair of this ACC?

Mr Blanckensee—It sort of blurs after the fifth year, but it is probably six to seven years.

Senator MURRAY—Were you a member prior to that?

Mr Blanckensee—Yes, I was.

Senator MURRAY—So you are very experienced?

Mr Blanckensee—Experience is a relative term.

Senator MURRAY—You have indicated that you have a high turnover of members, so I would not think many people have seven-plus years of experience on your committee—is that right?

Mr Blanckensee—Yes.

Senator MURRAY—The name of the committee is very particular. It is the ‘area consultative committee’. Are you aware of the importance that parliamentarians and bureaucrats give to the word ‘advice’ in a government context? It has a very formal meaning—are you aware of that?

Mr Blanckensee—Would you like to elaborate?

Senator MURRAY—Advice is, generally speaking, thought to be provided to a minister or the executive on a formal basis, resulting from a proper process of appraisal and a proper disciplined approach—an empirical approach wherever possible—to the provision of information. It has a very specific meaning. I want to know if your opinion is that you provide advice in that context or you provide views.

Mr Blanckensee—I would have to say it would probably be more the latter than the former in that context.

Senator MURRAY—Would you be surprised if my impression—and perhaps it is shared by other members of the committee—is that the department’s evidence to the committee so far has been almost to picture the area consultative committees as a government entity that provides advice on the way to making a ministerial decision?

Mr Blanckensee—I think that is the reason I refer to the word ‘reconnaissance’ rather than ‘advice’.

Senator MURRAY—Let me pursue the point I am making. Do you consider yourselves a government entity or an independent body providing—

Mr Blanckensee—Definitely not a government entity—I would run a million miles.

Senator MURRAY—But you appreciate the importance of it? Senator Carr has very specifically put his finger on the same point—that is, that the committee has been presented with a view that the buck might stop with the minister but the advice is very much affected by your advice as opposed to your views.

Mr Blanckensee—I appreciate where you are coming from there, but my understanding is we provide information that to the department and it eventually goes to the minister, and the decision is a decision that the minister would make and they make that decision based on all the information before them. Whether they choose to accept or not accept the information is the minister's prerogative.

Senator MURRAY—But bear in mind where we have been already with this discussion. You see, an important component of good professional advice from a public servant includes, in the relevant circumstances, due diligence. For example, you would not give advice on a contract without having either recommended or highlighted a fact that there should or should not be or has or has not been due diligence. Here we are in a circumstance where, as far as we can establish, due diligence has not occurred anywhere. Do you understand why I am asking?

Mr Blanckensee—With respect to due diligence, exactly what are you referring to? What is your definition of due diligence?

Senator MURRAY—Due diligence, in a formal accounting and legal sense, would require an assessment of the feasibility, framework, structure and parameters of a particular proposition. The evidence that we have from Mr Stewart is that there was no independent expert who did that. All his evidence was that his feasibility work, forecast and projections were internally generated. Your evidence is that you did not do due diligence, because you do not have the resources or the expertise. And you do not; you do not have accountants and lawyers in your group. The on-the-record evidence of the department to Senator Carr is that there was no due diligence done by the department—because, they said, you did it. But you did not.

Mr Blanckensee—I come back to the statement I made before. I understand what you are referring to with regard to due diligence from a fiscal point of view, and I concur with that view. But I think the important thing is that we do not do due diligence. We provide the reconnaissance information for the department and the minister for their consideration. What they do with that information is their business and whether to accept or decline that information is a decision for them to make. I appreciate your comment with regard to due diligence. It is not our responsibility—

Senator MURRAY—I understand that.

Mr Blanckensee—and I will categorically state that.

Senator MURRAY—But what we have established today—and it will be an important component of the committee’s report—is that there is an accountability and professional hole, a gap, because something which should occur as a natural process in the determination of expenditure of taxpayers’ money has not occurred.

Mr Blanckensee—I appreciate the comment.

Senator MURRAY—I want to ask you about an independent expert’s advice. You said you manage a hotel. Is your formal qualification in marketing, accounting, law?

Mr Blanckensee—I did it the hard way, from the bottom up; from the university of life.

Senator MURRAY—So you are a hotel keeper with life experience. You are familiar, in the formal sense, with an independent expert’s advice?

Mr Blanckensee—Yes, definitely.

Senator MURRAY—Is it open to the ACC to say to a proponent that you will not consider the matter until they provide you with an independent expert’s advice? Can you do that? Have you any authority or right to do that, or could you suggest it?

Mr Blanckensee—We could suggest it as a way of ensuring that their project has better fiscal viability for the due diligence process which we are speaking about. As we have said before, we are under the impression that the process is that the department does subcontract out due diligence.

Senator MURRAY—And, just for the record, neither the board nor Mr Vieira as the executive officer suggested to the proponent that they should get an independent expert’s advice on this. Is that right?

Mr Blanckensee—That is correct.

Mr Vieira—I did not suggest they do that. But, as with all of the proponents, we would have asked them to have a business plan.

Senator MURRAY—But that is not independent, of course.

Mr Vieira—No, it is not.

Senator MURRAY—Let us just stay with the issue. Did you in your recommendation or notes to the department say that you thought they should ask for an independent expert’s opinion?

Mr Blanckensee—From my understanding of what the due diligence process is, that would have been automatic. That is what I understand as part of the due diligence process and, as I said, I am under the impression that there is a due diligence process conducted by the department. That responsibility lies there, and it comes at the time of the contract between the government and the proponent.

Senator MURRAY—But did you specifically ask that? Did you specifically say, ‘There should be due diligence done on this’?

Mr Blanckensee—We did not specifically say ‘due diligence’. We referred to the fact that there was an issue with competitive neutrality, and I would imagine it would be part of the due diligence process to look at that.

Senator MURRAY—In retrospect, given the circumstances that developed with regard to this particular project, do you now think that was a mistake? Would it have been better if the board had specifically said, ‘Our concerns are such that we would ask you to do due diligence,’ instead of just assuming that they would?

Mr Blanckensee—That we would do the due diligence?

Senator MURRAY—No, that they—the department—should.

Mr Blanckensee—With 20/20 hindsight, it would have been great to say that. But at the time, when you are working under the assumption—and I am very aware of that word—

Senator MURRAY—I am not being critical; I am actually asking you to exercise hindsight.

Mr Blanckensee—As I said, with the benefit of hindsight, yes.

Senator MURRAY—Again what I am leading to is that it may be open to the committee to decide to recommend that that is an automatic box you must tick in the future for projects dealing with a department.

Mr Blanckensee—As I alluded to before, I am under the impression that in the process that is an automatic thing that occurs.

Senator MURRAY—You were wrong and we were wrong.

Mr Blanckensee—As we say in the same hospitality industry, assuming makes an ass of you and me, and it certainly has done that job.

Senator MURRAY—I want to talk to you about your experience of accountability. Have you or your committee had to appear before a parliamentary committee before, either state or federal?

Mr Blanckensee—Never.

Senator MURRAY—Have the resources that service your board ever been audited internally or through the department?

Mr Blanckensee—The department does an audit every two years.

Mr Vieira—Every two to three years. It has been about two years.

Senator MURRAY—And is that a financial audit or a performance audit?

Mr Blanckensee—Both. An independent financial audit of the books is done on an annual basis, and the systems audit is done by the department every two years or thereabouts. There is also a self-assessment process which we undertake.

Senator MURRAY—You might not be aware of it, because they might do what is known as a desktop audit, but have you ever been audited by the Auditor-General?

Mr Blanckensee—Not to my knowledge, no.

Senator MURRAY—So the understanding of your obligations, your responsibilities and your interaction is almost entirely a matter for the relationship between yourselves and the officers you deal with out of the department? That is where it happens?

Mr Blanckensee—Could you repeat the question?

Senator MURRAY—You heard in the earlier questioning as to whether your board or your officers had direct relationships with the minister's office. The answer was no; your relationships were only with the department.

Mr Blanckensee—The regional departmental office, yes.

Senator MURRAY—I am just broadening it to see if your relationships with the political system, the parliamentary system and the bureaucratic system are broader than with the department. Your answers indicate to me that your sole relationship is with the department at whatever level.

Mr Blanckensee—That is correct.

Senator MURRAY—My fairly long experience over a wide range of committees has been that area consultative committees and their structure and operation are highly regarded by parliamentarians generally. They think it is a very good connection into the community. Are you aware of that?

Mr Blanckensee—I am aware of that comment, yes.

Senator MURRAY—Do you think that arising from this particular area, which is sensitive from both a political perspective—and you clearly understand that—and a process perspective, which is what we have been talking about in respect of due diligence, the nature of the relationships and the protection of the integrity of the ACCs need to be reviewed as a result of this experience that you have gone through?

Mr Blanckensee—That is an interesting question.

Senator MURRAY—Let me put the framework for you. Essentially the assertion is that the Regional Partnerships scheme, with all its hundreds of millions of dollars, is a basic pork-barrelling rort—I am putting it at its crudest and hardest—of which the ACCs are an important

component; in other words, in ticking off or giving credibility to what is otherwise a sleazy, vote-buying deal. That is not my view; I am putting a view to you which has been put at its harshest.

Mr Blanckensee—I appreciate your comment.

Senator MURRAY—What happens as a result is that it erodes or attacks the integrity of the ACCs and of the whole system and structure. My question to you is: arising from this environment, do you think that some regard has to be paid to giving you more protection than you might have had before?

Mr Blanckensee—It is a very difficult question to ponder, purely out of the fact that I only represent one ACC out of 56. The relationship that I believe we should have would be specifically at an arm's length from both government and the department. The fact that the project or program is regarded as a pork-barrelling exercise by the government is an interesting statement because the way I understand and operate in this area is to look for quality projects that we believe will support the region and support the common goal for our region. Each region has different needs and different wants and I think we all would like the money spent in our region. I have no qualms in going on record as saying that I will go and do whatever I can to get as much money as possible into my region. However, I understand that there are protocols that have got to be followed. For those protocols and procedures we have checks and balances which we follow, and we follow them rigorously and religiously. That is the important thing: the systems and processes need to be adhered to. If they have to be strengthened we need to bear in mind that we should be trying to depoliticise the process and that we need to keep it, as I have said, at an arm's length from government.

Senator MURRAY—I am searching for whether you have any ideas whereby that could be tightened up. The allegation is that those who make the final decision—parliamentary secretaries or ministers with specific delegated authority in this area—have an absolute discretion in their final decision. That leads to a view, of course, that it can be self serving, self interested and so on, particularly if we discover that these projects have not been through all the hoops they should have from the bureaucratic point of view.

Mr Blanckensee—That is a very relevant comment. I cannot even contemplate how you could resolve that issue. I would say the following: I would not like to see the program disbanded, because I think there are great merits in the program. It gives the reconnaissance information of the region to government. Unfortunately, at the end of the day, it becomes a situation of who needs it the most, and that is a decision I would not like to be sitting there making—I would leave that to the politicians. As I have said, I would like to say: 'Give it all to my region. We could certainly do with \$150 million over three years.' But I do not think that is going to happen.

Senator STEPHENS—Following on from Senator Murray's questions, in terms of your ACC's experience, have there been any occasions when you have rated a project as not being recommended for funding where it has eventually been funded?

Mr Blanckensee—Where we have rated a funding project?

Senator STEPHENS—Where you have recommended a project not be funded but, once it has gone back to the department, the project has been funded against your recommendation?

Mr Blanckensee—I cannot recall a project or an instance. I think one of the briefs that we give our officers is that we would like to think that all projects that are worthy are brought forward. We do not want to see projects that will not meet the criteria. It is just a waste of time. I think it is more the latter with regard to projects which have been approved or suggested for approval being declined. Obviously, that comes back to the amount of money in the bucket, so to speak. Why would you go through the process of putting a project up that is not going to make the grade? That is just counterproductive and time wasting, and I think everyone around the table does not need to waste their time asking, ‘Why go and put this trash up in the first place?’ That is how I feel about it. That is the direction we have given. We want to back winners.

Senator STEPHENS—Would it surprise you to know that that has been the situation in other regions?

Mr Blanckensee—Yes, it would.

Senator STEPHENS—Things that the ACC have recommended not be funded, such as Tumbi Creek—which I am sure you have heard about—have, in fact, been funded.

Mr Blanckensee—I have heard about it, but I am surprised that it would even get to that situation. I would not have the gall to send it up to the department if I did not think it was going to be supported.

Senator STEPHENS—I come back to your own circumstances and, Mr Vieira, perhaps you can help too. With regard to the A2 proposal, I have here a copy of the application form that you provided. I refer to section 20, the additional considerations. The application says, ‘Applying for funding for a project that will operate in a commercial environment and/or over \$250,000 requires the business plan for the project, including where applicable a feasibility study.’ Was that provided to you for this project?

Mr Vieira—I do not recall a full business plan feasibility study in front of me. I do recall saying that they were going to need to have it for that kind of money.

Senator STEPHENS—Was any independent industry data or research provided?

Mr Vieira—We saw some data to support what they are saying.

Senator STEPHENS—But, as Senator Murray said—

Mr Vieira—The independence of it is another question.

Senator STEPHENS—Yes. You did not get to sight cash flow projections or risk analysis for the period or any of the basic assumptions?

Mr Vieira—No.

Senator STEPHENS—Or a SWOT analysis or a marketing strategy?

Mr Vieira—I think they had the marketing strategy stuff there.

Senator STEPHENS—Is it the usual situation where, if you were dealing with a project proposal and working with a proponent, they would supply that kind of information to you?

Mr Vieira—Definitely.

Mr Blanckensee—This is the interesting thing. When the process goes the way this one has, it has come through a different channel. When we are working with the ACC or the proponent, we are trying to say, ‘This project has legs but you need this, this and this.’ We are making sure all the i’s are dotted and all the t’s are crossed so that the considerations can be made. Sometimes when it comes the other way, there is a disjunction in the information flow. That information may have been tabled but it was not presented. I do not know.

Mr Vieira—I go back to my point about why the TRAX comments reflect what they do as far as we are concerned. That is why we keep saying to proponents that we want them to come through us and work with us all the way through it.

Senator JOHNSTON—To wrap up this due diligence issue, how many projects are you aware of that your ACC has funded or been successful in having funding for over the years? I would have thought it would be hundreds.

Mr Vieira—No, it would not be hundreds.

Mr Blanckensee—We would love to think it was hundreds!

Senator JOHNSTON—Mr Blanckensee, you have been there seven years.

Mr Blanckensee—Are you talking about the whole period, with RAP, DRAP and all that sort of stuff?

Senator JOHNSTON—Absolutely.

Mr Blanckensee—I can get the information for you.

Mr Vieira—I think it would be somewhere between 70 and 100.

Senator JOHNSTON—Has due diligence been an active consideration of your board such that you underlined it in any of those applications in the past? Can you recall ever addressing it as you pass on to the department the fact that due diligence needs to be done on this?

Mr Vieira—It is an assumption on our part.

Mr Blanckensee—With all due respect, Tom, in the early days we used to make some comment through the DRAP process such as. ‘We believe this is a good project but due diligence may be an issue here.’

Senator JOHNSTON—But, when you did that, it was on the assumption that was in the next phase.

Mr Blanckensee—That is exactly right.

Senator O’BRIEN—Mr Vieira, was the 31 July event that you went to where you think you may have had some interaction with Mr Crooke a meeting chaired by Parliamentary Secretary Kelly?

Mr Vieira—Correct.

Senator O’BRIEN—She was the chair?

Mr Vieira—Yes.

Senator O’BRIEN—Mr Crooke was there with her?

Mr Vieira—I believe so, yes.

Senator O’BRIEN—Do you remember who else attended?

Mr Vieira—Lindsay Stewart and another guy—

Senator O’BRIEN—Saddler?

Mr Vieira—Yes, Saddler.

Senator O’BRIEN—Roberts? It does not matter. If it does not ring a bell, he probably was not there.

Mr Vieira—Mrs Kelly opened the meeting and then, as Joe mentioned earlier, we heard all the views—the fors and againsts, the issues and how the industry was going. At that time we were in the development stage of this, and my thing was that you had to have support. You had to demonstrate that there were enough farmers behind this and that this was not just your proposal. That is what we were looking at. I think that is where I learned of the change—when we talk of the change—with Mungalli’s addition. I thought that was a great move because at least that meant greater local ownership in the project.

Senator O’BRIEN—Was it clear from the meeting that Parliamentary Secretary Kelly wanted the project to succeed or get up?

Mr Vieira—My understanding or my feeling was that, yes, she would have liked to support the dairy farmers on the tablelands. That is how I saw it; she would have liked to support the dairy farmers on the tablelands.

Senator O'BRIEN—I take you to the actual form of words used on TRAX, which you have written out because it does not print out. Although you have given the project a 3 at the end, you did not recommend its approval; you recommend further research. Is that a fair understanding?

Mr Vieira—Yes.

Senator O'BRIEN—You did not recommend that the project be approved at that stage?

Mr Vieira—That is right. As we have said in there, we used words like 'could be a threat'. We were cognisant of the issues.

Senator O'BRIEN—So the ACC recommendation was not for approval but for further research?

Mr Vieira—Yes, that is right.

Senator CARR—I have just reread the answer that the department has given me. It says that in mid-June 2004 Mr Crooke had a conversation with you: 'Far North Queensland ACC has advised the following discussions: mid-June 2004 phone conversation, Mr Crooke.'

Mr Vieira—Yes, maybe.

Senator CARR—Presumably you were the one who advised the department that—

Mr Vieira—It could have been me or Julie-Ann who spoke to him. It could have been me.

Senator CARR—I turn to another matter. I have here a list of the projects that you have approved over the last 12 months. This is for the year October 2003-04. Three projects were knocked back as well. There is over \$2 million worth of expenditure. How many projects went to Indigenous communities?

Mr Vieira—Do you have those figures there?

Senator CARR—I have them in front of me. I cannot see any. You might be able to correct my record on that. You have talked about need, and I am told there are some 16,000 Indigenous people in the region.

Mr Vieira—Yes.

Senator CARR—I would have thought they were amongst the people with the greatest need in this country.

Mr Vieira—Yes.

Senator CARR—I wonder why there are no projects here for Indigenous communities.

Mr Vieira—I could go on for a long time about this, because we are really into it.

Senator CARR—A short while will help me.

Mr Vieira—It takes a long time. There is a great deal of predevelopment that needs to be done. However, I am happy to say that we have been working on them. In the TRAX document that we have provided to you there are comments on a project called Bundunyu, which did get funded recently—

Senator CARR—This is in the confidential section of your submission, is it?

Mr Vieira—No.

Senator CARR—What page is that on?

Mr Vieira—It is with our handwritten stuff.

Senator CARR—Right.

Mr Vieira—So there is a project there with our comments—and it recently got funded so we are really happy about that one. We also had an announcement last week of some funding to support the Lockhart River Art Gang which we are really happy about. At this coming board meeting, on the 21st, we have five projects for the board to look at, and four of them are Indigenous.

Senator CARR—So there has been an improvement since the list that we have got here.

Mr Vieira—It just takes a while, that is all. But we spend a lot of time on it—we do.

Senator McLUCAS—I have one final question, and it follows on from Senator O'Brien's comments. When I read the TRAX document, there was a fairly clear message that this maybe had potential, but they could not see the potential then and could see real threats that came out of it. How, then, did it get a rating of 3 out of 4? I was a teacher in another life and 3 out of 4 is 75 per cent; that is pretty good. How come it did not get a rating of 1?

Mr Blanckensee—Medium priority is 3. If you look at the description of 'medium priority', it fits. It was not a low priority, and I think that may be something—talking about the process—that needs to be clarified. If it were a medium priority it certainly, overall, would be a benefit for the region. But, if it were a high priority, it would be something we would strongly recommend should be done now.

Senator McLUCAS—But how can you say that, Mr Blanckensee? It is a benefit for the region—that is what you are saying a rating of 3 is. But the words in the TRAX document make me think that the board thought it could have an enormous disbenefit for the region.

Mr Blanckensee—I think that is the thing. The project met a lot of the criteria for the strategic plan and it had medium priority based on that. The comments that are in that section should be read in context, as you have read them, and they say, 'This is a concern.' At face value the project looked as if it could have had potential for the region and could have delivered the panacea that we needed for the dairy industry. The concern we had was that if it went ahead it might have destroyed the dairy industry, because we would have seen another organisation go under. That is where we are with our pipe laying, with balancing the scales: which way do we go? So, on the fundamentals it probably did stack up as an okay project, but knowing what is happening behind the scenes and on the ground is how the concern came in.

Senator McLUCAS—Does the TRAX system allow you to provide advice to government in the way that you want to? Because I think what you are telling me is that a project may have merit but you cannot ascertain that. For a rating of 1, 2, 3 or 4, you cannot tick a box that says what I have just said.

Mr Blanckensee—No.

Senator McLUCAS—So maybe there is a fault—not a fault but—

Mr Blanckensee—There is some finetuning required.

Senator McLUCAS—we need to look at the TRAX system and see whether it does elicit advice from these ACCs that is in fact beneficial. Have you ever made no recommendation when you have received an application, especially one that has come from government back to you? I recognise that that is rarely done with FNQ ACC.

Mr Blanckensee—If you have a look at the TRAX comment on the memorial garden project, that is a classic example of where you have to rate it: it would have been good but, as we made very clear in the comments there, it was retrospective funding—

Senator McLUCAS—So it does not fit the criteria?

Mr Blanckensee—so it does not fit the criteria. You still have to go through the process, but in that instance we knew the department had read it, because it did not get funding.

Senator O'BRIEN—My final question of the ACC is: are you aware of the SONA procedures?

Mr Blanckensee—The SONA?

Senator O'BRIEN—SONA. Have you ever heard of it?

Mr Blanckensee—What does 'SONA' stand for?

Senator O'BRIEN—It is the Strategic Opportunities Notional Allocation—ever heard of it?

Mr Blanckensee—Not really, no.

Senator O'BRIEN—Thank you very much.

Mr Vieira—At the operational level, I have. But it is only within the last year that I would have heard of that.

Senator CARR—Through the newspapers?

Mr Vieira—No, I heard of it through the department.

CHAIR—That concludes the evidence for this group. Thank you, Mr Vieira and Mr Blanckensee.

Proceedings suspended from 4.20 p.m. to 4.31 p.m.

BLANCKENSEE, Mr Robert Michael, Chairman, Atherton Tableland Sustainable Regions Advisory Committee

LAWRENCE, Mr Michael William, Executive Officer, Atherton Tableland Sustainable Regions Advisory Committee

CHAIR—I welcome our next witnesses. Mr Lawrence, for your information may I say that we do like to have all evidence given in public hearing, and we are proceeding that way at the moment. I do note, however, that you have provided some material to the committee which is, at this stage, still confidential. The proceedings are protected by parliamentary privilege, so any action that may be taken against you arising out of any evidence you give could well be deemed to be in contempt of the Senate. The Senate has the power to enforce that protection. Also, any false or misleading evidence given to the committee may also be deemed to be in contempt of the Senate.

I should indicate that, given that we are running over time, we intend to try to finish this session of your evidence around 5 o'clock, as we have one further witness. I ask senators to bear that in mind. If the evidence is not completed, around that time we will give consideration as to how we may deal with it on another occasion. Mr Blanckensee and Mr Lawrence, are there any opening comments that you wish to make before we proceed to questions?

Mr Blanckensee—The only comment I would like to make is that I have only taken over the role of chair since about June or July of last year. The process of ATSRAC has been new to me. Michael Lawrence has been on board as an EO for the last six weeks. The issue is that we will try to assist you with whatever your line of questioning is and we hope that we can help you.

CHAIR—Thank you. Mr Lawrence, do you have any opening comments?

Mr Lawrence—I will just confirm what Robert has said.

Senator O'BRIEN—Mr Blanckensee, you have been a long-term member and chair of the ACC. In that position, you were an observer with ATSRAC?

Mr Blanckensee—I had the ability to observe. Initially, my executive officer, Tom Vieira, was going to be the observer on ATSRAC from the ACC. He took a sabbatical sometime towards the end of 2003, and I assumed the role of being the observer. I did attend a meeting in 2002—I think it was December—as an observer to see just how that meeting was rolling along, and I have observed other meetings. Because of work commitments, I have not been able to attend all the meetings.

Senator O'BRIEN—So you have got some idea of what went on?

Mr Blanckensee—I have got a little bit of an idea of what is going on.

Senator O'BRIEN—The committee requested the production of ATSRAC minutes and the documents that have been supplied are far from a full record of each meeting. Can you tell the committee why full minutes have not been supplied?

Mr Blanckensee—Can I defer to Michael on that one?

Senator O'BRIEN—Sure.

Mr Lawrence—I actually put the minutes together. What I provided when I put the information together was the minutes of the ATSRAC meetings that related to the applications or any expressions that came through. I suppose I have just taken a narrow view that that was what was sought in relation to any recommendations or discussions for the projects where the funding was either approved or declined.

Senator O'BRIEN—So the minutes we have cover the consideration of every application whether approved or declined?

Mr Lawrence—As far as I can tell, yes. I have gone through each of the minutes. Where a project is dealt with specifically under those headings, that is what I have provided to you. That is obviously one of the reasons for the delay.

Senator O'BRIEN—Thanks for that. Mr Blanckensee, in your capacity as chairman, can you explain ATSRAC's current approach to decision making in terms of its internal systems and processes and the guidelines for sustainable regions projects?

Mr Blanckensee—Yes. With regard to the current approach, it has been along similar lines as previously but I have applied, I suppose, what I do with the ACC with regard to using the people around the table and facilitating them to come to the decision, because at the end of the day they are the ones that are supposed to be making the decision on what is good for the region. We follow the guidelines of the sustainable regions document which we have as part of our process. I try to engender the debate around the table about each and every one of those projects.

Senator O'BRIEN—Is the practice now different from the practice prior to your becoming chair?

Mr Blanckensee—Not really. I think there was a lot of discussion around the table previously led by the chair. I do not wish to speak ill of Peter McDade's role, but he had a difficult role in that the four mayors had an issue with the territorial aspects of the tablelands whereby they said, 'This is my region. I really want something here and I'm going to try to get it through.' He had to break down those barriers. I think that was one of the hard things that he had to do. He had to lead the discussion and be provocative, whereas now provocation is not required as much.

Senator O'BRIEN—Is that broken money spent?

Mr Blanckensee—It is not far from spent. They have grown with the idea that this is for the benefit of the region. There was an analogy that in one end of the tablelands it was a responsibility that the money was here because of the tobacco industry's demise. There was an issue in the region and they were breaking it down as to their shire boundaries rather than

looking at what was required across the whole tablelands to build a strong region. I think the important thing here is sustainability, and that is the reason for the grants.

Senator O'BRIEN—So how has that changed? Do we have the same people?

Mr Blanckensee—We have the same people. I think it is just that they have seen the process has benefits. They are more attuned to understanding that this is greater than just their own shire and that it is for the long-term viability of their region. I think they are seeing it from a regional rather than a shire perspective.

Senator O'BRIEN—Do any of the mayors declare a conflict of interest when discussing a matter in their shire?

Mr Blanckensee—They do.

Senator O'BRIEN—Do they leave the meeting?

Mr Blanckensee—In some instances they have, depending on the significance of the issue. Other times they have stayed in the meeting.

Senator O'BRIEN—Does it depend on the mayor to some extent?

Mr Blanckensee—No, it does not actually. It is pretty much uniform across the four of them.

Senator O'BRIEN—In the minutes of 21 March 2002 it is stated that members discussed the issue of conflict of interest and 'pending advice to the contrary from DOTARS, proposals put forward by councils need to have no ATSRAC member abstain'. They were awaiting advice from DOTARS. Did DOTARS ever provide that advice?

Mr Blanckensee—I could not comment.

Senator McLUCAS—Maybe Mr Lawrence could have a look in the files.

Mr Lawrence—I can try to find it for you.

Senator McLUCAS—Not now but subsequently.

Mr Lawrence—Yes, I will make a note of that.

Senator McLUCAS—Thank you, Mr Lawrence.

Senator O'BRIEN—Do you feel that there is scope for undue political pressure to be applied to the ATSRAC?

Mr Blanckensee—When you refer to undue political pressure, from which level of government do you mean?

Senator O'BRIEN—From any level.

Mr Blanckensee—I would like to go on the record to say that I think the moment you have an elected political official on a committee you have politicised it. That is one of the great difficulties with that organisation.

Senator O'BRIEN—So how would you change the system to improve it from this perspective?

Mr Blanckensee—I understand the reasons why and how the ATSRAC developed out of the mayoral task force. However, I think the Tablelands are a unique area, and I think the committee need to engage more with industry representatives around the region to get a greater perspective of where they should be spending the dollars. I think the important thing for moving forward in the Sustainable Regions program, if it goes forward, is to look at having a good balance of people who can provide reconnaissance on the industries of the region and make meaningful input into those sorts of discussions, so that you can get an informed decision.

Senator O'BRIEN—The Cradle Coast Authority model.

Mr Blanckensee—Yes. That is a very good model, from what I can understand and from what I have seen. Obviously checks and balances would have to stay in place.

Senator O'BRIEN—Due diligence appears to be a central issue in the entire Sustainable Regions and/or Regional Partnerships program. There appears to be substantial confusion about it. Wendy Key at Senate estimates on 27 May 2004 said:

...for the bigger, high-risk projects, the department will organise for independent bodies to provide due diligence advice before the advice goes up to the minister for consideration.

But in relation to other projects there is conflicting advice about ACCs. What happens with due diligence and ATSRAC?

Mr Blanckensee—From my understanding of the process, the due diligence is the responsibility of the department. As I mentioned in my evidence on the ACC, I believe it to be the same process, where an independent due diligence operator is subcontracted by the department. I believe that is what happens with ATSRAC.

Senator O'BRIEN—So that is not a matter for ATSRAC. It is a matter for the department.

Mr Blanckensee—I believe so, yes.

Senator O'BRIEN—According to ATSRAC minutes, it seems to have become the practice of the committee to recommend the level of due diligence to be undertaken by DOTARS. That is from October 2003. Was that a practice that was adopted then? You may not know and may need to take that on notice. Was that a one-off or is it a continuing process now? In other words, do you say, 'We want due diligence conducted at this particular level,' for all projects?

Mr Blanckensee—I believe due diligence is done at all levels of project, irrespective of value.

Senator O'BRIEN—Due diligence is a risk assessment process.

Mr Blanckensee—Yes, that is right.

Senator O'BRIEN—Were you satisfied with the due diligence processes that took place when you assumed the chair, as the practice was then?

Mr Blanckensee—From what I have seen of the processes, yes. The processes I have seen to date have been that the department has done the due diligence, and the recommendation is that the department will always appoint due diligence operators.

Senator O'BRIEN—So that has not changed?

Mr Blanckensee—To the best of my knowledge, it has not changed.

Senator O'BRIEN—Competitive neutrality is also an issue in some projects.

Mr Blanckensee—Definitely.

Senator O'BRIEN—In the case of the grant to Rose Gums Wilderness Retreat, is it fair to say that ATSRAC had a particular view about obtaining information about that project? Are you aware of that?

Mr Blanckensee—I am aware there was some discussion there, but I cannot recall to what level. I know that there were some concerns and, from recollection, they did make a recommendation.

Senator O'BRIEN—That would not be the only application where there was a competitive neutrality issue.

Mr Blanckensee—Competitive neutrality occurs. As soon as it is flagged it is always noted.

Senator O'BRIEN—The Atherton Hotel was one area. Are you aware of that one?

Mr Blanckensee—I am aware of the project, yes, but I was not at those meetings when that declaration was made.

Senator O'BRIEN—The Kalamunda Caravan Park?

Mr Blanckensee—I do not know about that one.

Senator O'BRIEN—JAM Custom Kitchens and Furniture?

Mr Blanckensee—I did not attend that meeting but I do believe there were some concerns with that.

Senator O'BRIEN—So we should ask Mr McDade about those?

Mr Blanckensee—It might be appropriate.

Senator O'BRIEN—How would you rate ATSRAC's knowledge of the economic system of the tablelands and the extent, timeliness, relevance and applicability of information and data that underlie the Sustainable Regions Program in the tablelands?

Mr Blanckensee—I am saying this from my observation rather than from fact but I think that that was one of the issues that challenged the committee in the first place. There had been a lot of hearsay and innuendo but to find something concrete was difficult. The nature of the tablelands also poses a problem. It is a difficult issue. A person will say that this person should not get this but at the end of the day they made the application. I suppose that is the thing you have to be aware of. It is sometimes very parochial in the tablelands with regard to how certain things get around.

Mr Lawrence—This is probably a different angle as far as the resources and the information that the committee and the previous executive officer had access to and how involved they are in the region. I have worked in the region in a different role with economic development so I have worked with the previous EO—nothing to do with this side of it. There was a lot of work done and information put together as to what was going on, what gaps there were and what needs there were. So there was a lot of work done in that area. That is just a slightly different angle.

Senator McLUCAS—I have a question you may not know the answer to given you are both new to your respective roles. Do you know who made the decision to structure the committee in the way it was structured?

Mr Blanckensee—I cannot answer who had the final determination. I can only surmise. That might be incorrect and it may even mislead so I would not like to have that view made.

Mr Lawrence—I do not know, Senator.

Senator McLUCAS—You talked about the mayoral task force. What was its role?

Mr Blanckensee—From my understanding, the mayoral task force was designed to pull together the four shires to look at the strategic development of the tablelands, which sort of fits right in where the ATSRAC process is supposed to be moving. That is what my understanding of the mayoral task force was, in a nutshell.

Senator McLUCAS—Mr Blanckensee, you talked about the Cradle Coast model and its structure. I know it is speculative but if we were starting back where we were in 2001—if we had our time again—what sort of structure might you have used?

Mr Blanckensee—I think everyone has contemplated that. I would say what I reiterated previously with regard to finding industry people who have a strong, broad knowledge about industry on the tablelands and how they do business. That would probably be a better way of going. I would like to not see any political representatives. As I said, I have a firm belief that as soon as you have an elected official you have politicised the position and the organisation. You cannot afford that. You need to seek out and find as much talent as you possibly can.

Senator McLUCAS—In my view—this is a comment more than a question—I really feel for the mayors because they have an inherent conflict. They are elected to represent their local government area and they are meant to stop doing that and start thinking strategically.

Mr Blanckensee—It is a very difficult situation for them.

Senator McLUCAS—It is an almost impossible task for them to undertake.

Mr Blanckensee—I concur.

Senator McLUCAS—That is a concern that I have had from the beginning.

CHAIR—There being no further questions, thank you for your appearance, Mr Blanckensee and Mr Lawrence.

[4.51 p.m.]

McDADE, Mr Peter Joseph, Private capacity

CHAIR—Mr McDade, thank you for appearing today. We appreciate your coming up from Brisbane. Firstly, there are a couple of administrative matters. I would advise you that the committee prefers that all evidence be given in public. If at any time you wish to deal with matters before the committee in private, you should advise us at that time and we will consider such a request. Your evidence is covered by parliamentary privilege, which means that any evidence you give to this committee is fully protected and any action that might be taken as a result of that evidence that is injurious to you would be a serious matter, and the Senate has the power to deal with that. Also, we expect all evidence to be truthful, and any false or misleading evidence could well be a contempt of the Senate. We are requiring witnesses in this inquiry to be sworn by oath or affirmation. Do you have any comments to make on the capacity in which you appear?

Mr McDade—I appear here as the immediate past chairman of ATSRAC, the Atherton Tableland Sustainable Regions Advisory Committee.

CHAIR—I invite you to make some opening comments and then we will proceed to questions from the committee.

Mr McDade—I think it is useful to have an understanding of how I came to be appointed as the independent chairperson of the committee. In a previous life I was a bureaucrat—God rest my soul—in the Queensland Department of Primary Industries, where I was heavily involved in the restructuring of statutory marketing organisations and in industries throughout Queensland. In that capacity I did a lot of work restructuring or effectively deregulating the tobacco industry and the Atherton Tableland maize industry. I was also registrar of primary producer cooperatives, so I had a lot to do with the cooperatives in peanuts, potatoes and Athmaize itself, as well as tobacco. So I had a lot to do with the Atherton Tableland over a fairly long period of time, and I had a fairly sound knowledge of the industries and the difficulties they were going through. I knew most of the major players in those industries right across the tableland—not in every industry but in most of them.

I am an accountant by profession. I hold a master's degree in business administration. When I left the DPI I joined KPMG as a senior manager. I left them two years ago as an associate director, and I now have my own business in Brisbane with my wife and son, supplying and installing split airconditioning systems. I also undertake some general management consultancy work. Whilst I was in KPMG we undertook a fairly significant study of the impacts of the deregulation and the demise, or reduction, of the tobacco industry for Mareeba Shire Council, who put a proposal to the Commonwealth for some sort of critical assessment of the tobacco industry impacts. As a result of that, I was then contacted—without any prior knowledge of the regional funding program coming along—by Wendy Armstrong, whom I knew from a previous life in the DPI when she was with the Queensland government, to see whether or not I was interested in being on the committee. I said that I was.

I have a great fondness for the Tablelands. I have been going there for a long time, and I think they happen to be the world's best kept secret. I think the future of the Tablelands is quite phenomenal if they can overcome some major difficulties. They then asked me if I would be interested in being an independent chairperson and I said that I would. When they told me who they were proposing to put on the committee—and when I say 'they', most of the conversations were with Wendy Armstrong—it was the four mayors. That was a flow-on of the mayoral task force that was previously outlined. Then I understood clearly why they needed an independent chairperson: because of the parochialism between the four mayors up there and the difficulty in having elected people. But the mayoral task force had had a fairly high public profile, so politically it made sense to continue that because of the work they had been doing. Along with me, a sixth member was appointed—Associate Professor Bob Beeton, another independent member. That was seen as being a good counterbalance to the vested interest arguments that Senator McLucas raised earlier, in that at least there would be two independent persons with some rigour, prepared to put forward the hard questions to the committee and make sure they did not ignore them.

I also have to say at the outset that at no stage—and I would not have taken the job on in that light—was any political pressure brought to bear on me, in my position as chairperson. I made it patently clear to the minister's office and in conversations I had with Minister Anderson that I have no political connections or affiliations, that I have never been a member of a political party, that I have no intention of being a member of any political party and that I would immediately resign if there were political pressure put on me as chairperson to do anything that I thought was inappropriate. They accepted that, so I took the position on. I got paid the princely sum of \$440 per meeting, so I was not in there for the gold lining of my limousine back in Brisbane. It was seen by me more as a form of offering some community service back to the Tablelands, which I have a great deal of affection for—as I do for all of Queensland.

Senator MURRAY—So it is not true you were having two meetings a day?

Mr McDade—No. Some of our meetings went for two days, but that was more a function of the travel and of Bob Beeton and me having to get up there et cetera. With those few words, that ends my opening comments. I will certainly endeavour to answer questions. I will be relying on memory. As you would realise, as previous chair I have some limited access to records but I do not have access to records of ATSRAC. All of the projects that were mentioned in the previous session I have a very good recollection of at this point.

Senator CARR—When were you approached? I did not quite catch the date.

Mr McDade—I could not give you the exact date. I believe I was appointed in August 2001. I had been appointed to a senior management role with KPMG on a project in Hong Kong. For the first three months of the chairmanship, I was in Hong Kong. Before the committee was appointed, we had our first informal meeting in Cairns just to get to know the people. We had our first formal meeting by teleconference while I was in Hong Kong. I was back from Hong Kong in December 2001. I would have been approached in probably June-July 2001, with the appointment to follow.

Senator CARR—What position did Wendy Armstrong hold at the time that she approached you?

Mr McDade—I do not know what her title was, but she was employed in Minister Anderson's office—

Senator CARR—Was she a senior adviser or something?

Mr McDade—I do not know what her title was.

Senator CARR—At the time she was in the minister's office?

Mr McDade—Yes. I do not know what her role was in the office. I don't know whether it was a political role or a management role.

Senator CARR—I understand that the CSIRO were interested in providing some additional advice to the committee on the nature of the economy of the tableland. Were funds available from DOTARS to do this work?

Mr McDade—They did not do any work for us.

Senator CARR—CSIRO did not do any work at all?

Mr McDade—Not for us.

Senator CARR—Who did they do the work for?

Mr McDade—They had done some work and had their own proposal. They came to ATSRAC and made a presentation to ATSRAC to see if they could secure additional funding from ATSRAC to pursue their particular line, as they saw it, in allegiance with ATSRAC. Their presentation to us was extremely difficult to understand. Bearing in mind that if four mayors, Professor Beeton and I had a great deal of difficulty in understanding it, it was going to be a long, arduous job to get it in bed in the time frame that we had to make any use of it.

It was also considered by the committee, as I recollect it, that we would keep the proposal in the back of our minds for when we might be able to use it, if and when we needed to. As the life of the committee progressed and we went through the various stages of development—not the least of which included some fairly solid arm wrestling and some bloodying of noses; we went through some arduous times—we did not really need the CSIRO input.

Senator CARR—On what basis was the action plan for 2002-05 prepared?

Mr McDade—That was prepared by a subcommittee of ATSRAC, chaired by Professor Beeton, in association with the Atherton Neighbourhood Centre. The committee used certain people like Marjorie Gilmore, who had done a great deal of research on the history of the tableland and on some of the more current issues that were being developed. The committee had access to data from various government departments. Bob Beeton, in his role in the university area, had a great deal of data on regional Australia and tableland specific data. We used a lot of ABS data as well.

Senator CARR—Could you refresh my memory: that document provided a set of priorities.

Mr McDade—It identified the major sectors of the region—and by ‘region’ I mean the four shires—and their strengths and weaknesses. ATSRAC sought to have partnerships with industry in those areas. We put in that document certain priorities—for example, ‘ATSRAC will seek to do these things under each of those sectors’.

Senator CARR—What was the level of public feedback and consultation on that document?

Mr McDade—ATSRAC commenced a round of public meetings. We published that document. We put it out to the press and to the community. The document was available through the council offices, through the Tableland Economic Development Corporation, and through our own office. We also called meetings. Each time we had a meeting it was rotated around the various areas of the tableland. We called a public meeting to which we invited industry leaders and members. We sought and received their feedback on that document. Where it was appropriate, we made changes to that document. From memory, there were about six of those meetings.

Senator CARR—So there was a series of meetings. The minister, in a question on notice to the Senate in May 2004—

Mr McDade—The minister? Do you mean—

Senator CARR—I mean the Minister representing the Minister for Transport and Regional Services, Senator Ian Campbell. He said that you had identified priorities based on prior reports and community consultations. What were the prior reports that he was referring to, do you know?

Mr McDade—There were the reports prepared by the mayors. There were the reports prepared by the KPMG study that the Mareeba Shire Council made available. There were historical studies or stuff that Marjorie Gilmore had made. Through the committee with Bob Beeton, they identified other documents, the names of which I do not remember at this point in time, which they referred to and reviewed in putting that document together. So there was a broad genre of information and research done to get that priorities listing.

Senator CARR—Did you take any independent information other than from the mayors and KPMG?

Mr McDade—We did not take just the mayors’ information. In fact, the KPMG study was independent of Mareeba Shire Council. The ABS could hardly be described as being biased in favour of the shires. Their data was just there as it is available to anyone. And the data available through Bob Beeton’s own professional capacity was not taken through the mayors, so it was independent of the mayors. So most of the information was independent of the mayors.

Senator CARR—The politicisation of the committee has been an issue that has been raised in a couple of submissions. Dr Stocker’s report to us for instance makes the observation:

The makeup of the ... committee, especially the dominant presence of the four local Mayors, was bound to introduce at least a suspicion of parochialism into deliberations.

He said it was likely to have:

... been divisive in that they reinforce the widely held perception among small businesses (in which I include the farming community) that governments only bailout influential groups.

What do you say to that?

Mr McDade—I reject it.

Senator CARR—Why is that?

Mr McDade—Particularly the latter part. The politicisation, the four mayors on the committee, was a difficult situation. I would say, without breaching any confidence of the committee, that on 90 per cent of occasions they did put aside their mayoral hats and tried to look at the region as a whole. But there was a particularly strong view held by one mayor—namely Mick Borzi—that the money should really go to Mareeba Shire because they put up the initial submission. This was their argument, their line—that they put up the submission that brought the money to them. That is part of the arm wrestling and the nose bleeding that I was talking about. There were occasions when we had to be rather frank and forthright with each other and say, ‘Put aside your particular concerns, Mayor Borzi’—or Mayor Portess or Mayor Chapman or whoever—’and if you can’t put them aside then I will ask you to leave the room.’ It was difficult.

As I have said publicly in the past, I think it would have been better not to have had the four mayors on the committee, but I think the political reality of the time was that it was probably the best outcome that could have been achieved at that point in time. That is a political judgment made by other people, not me. As far as the processes were concerned, we had the four mayors and I think they contributed greatly to the committee. The unfortunate part about it was that the fact that we had the four mayors there led to a great deal of interest from the local press in a very negative way, because that parochialism followed on and they were seen as four mayors on the committee, not as people representing the region on the committee. So the press—the local press in particular—took to us in a way that I think was unprecedented and was well undeserved.

Senator McLUCAS—Did you express your concern about the structure of the committee to the minister?

Mr McDade—At the beginning?

Senator McLUCAS—At any time.

Mr McDade—He was in Brisbane in October 2003, I think it was. I think there was a National Party conference there and I went in to have a meeting with the minister to give him a briefing on how the process was going. I suggested then: ‘The amount of publicity we’re getting is such that we need to restructure the committee.’ But that is a political judgment, a call by the minister. He took my suggestion on board and the decision was made in Canberra not to make that change. So I have to respect that and get on and work with the committee that I am given to work with. However, having been that far down the track, I do not know that changing the

mayors on the committee would have made that much difference to the particular journalism that we were getting on the tableland.

Senator CARR—I will come back to some of these issues, but first of all I want to deal with the issue of due diligence. It is a major question for us, as you have heard from the proceedings. How did you see the role of ATSRAC in due diligence? Was that your responsibility or the responsibility of someone else? Was it the committee's responsibility or somebody else's?

Mr McDade—Definitely not. Right from the very beginning it was very clearly explained to us, and I wholeheartedly supported it, that the committee was not part of the due diligence process, that the department would engage independent contractors for the performance of due diligence and that we the committee would not know who the due diligence contractors were. This was partly as a result of my insistence also, simply because, in my view, if you have four mayors on the committee and they know who the local due diligence contractor is, you at the least give them an opportunity to present pressure on that contractor to do something other than be independent.

Senator CARR—Really?

Mr McDade—The due diligence was certainly something that I was strenuous about ensuring occurred on every single project that we recommended to the minister. Our process, though, did not always have due diligence done. We had a two-tier process: in the first instance we would put out an invitation for an expression of interest, and those expressions of interest would come forward to the executive officer. If they were of a standard suitable to go to the committee—that is, all of the formal documentation was completed and there was sufficient information there to form an expression of interest—they were sent on to the committee. There were occasions where that did not happen because some flexibility was allowed where people just did not have writing ability or capacity to easily put together an expression of interest.

If the committee decided at the expression of interest stage that it would like to invite a full application from a proponent it did so, or it resolved not to take it any further and would advise the proponent that it would not be inviting that particular proponent to a full application. If they did invite an application, 90 per cent of the time—and I cannot recall but there might have been some for which we did not need to do it—where we thought it was necessary we would always say to the proponent, 'We would like your attention paid to these particular issues,' or points which we thought might need beefing up or we needed more information or clarification on. Then, when we received the application and considered it in the meeting, if it was approved by the committee—'approved' meaning that it was approved for recommendation to the minister for funding—then it was forwarded to the department with a letter from me to the minister outlining the committee's deliberations, what the project was, how it met the criteria set down in the program and the recommendation. Generally, the wording was 'subject to satisfactory due diligence being performed, we recommend approval of this particular project'.

Senator CARR—In your minutes, some of which I have here, I was surprised to see that projects requiring roughly the same amount of money, being \$305,000 to \$500,000—

Mr McDade—Which period are you talking about?

Senator CARR—This was the period 9, 10 and 11 October, the minutes of which I have before me.

Mr McDade—Of which year?

Senator CARR—It would have been 2003.

Mr McDade—Okay, let me explain. When we started, the department clearly had three levels of due diligence, which they had set themselves. They said that at a certain dollar level we perform this type of due diligence and at this second level, this type, and at over half a million, I think, they had an intensive process. At about the time you are talking about, if my memory serves me correctly, a change was made to senior executives in the department who were asking, ‘Why are we spending all this money on due diligence for these particular projects? Surely the committee can recommend to the department whether due diligence is required in certain projects.’

Senator CARR—That is right.

Mr McDade—I believe that officer was Leslie Riggs. I certainly took that up very strenuously with the department to find out what was going on. We had been working on the basis of due diligence and all of a sudden it had changed. Comments were even made that it was partly ATSRAC’s fault that the change had been made because we were getting due diligence done on everything and it was costing them an arm and a leg, to which I took fairly strong exception because we had nothing to do with the due diligence. It was being done by the department; they were engaging the contractors carrying out the due diligence and, I think, quite appropriately.

So, for a couple of meetings, there were a couple of projects on which—I cannot remember what they were exactly—we might have recommended that level 2 due diligence be done, but it was never less than what I thought the project due diligence required. It was, rather, the other way: if the project was a level 1 under the old standard, I would put to the committee that we might need to do level 2 on it. With some projects I had concerns about the veracity of the proponent or the information just did not gel—from my own intuitional reading of the proposals something more needed investigation—so we would recommend that a higher level of due diligence was required. There might have been some. For instance, the department put to us that council proposals and the like probably did not need to have due diligence done on them. I said that I did not accept that. Simply because it is a council, does not mean that due diligence need not be done. It is not a matter of whether they are going to go broke; it is a matter of the viability of the project that you are talking about.

Senator CARR—I understand the point you are making You are saying that departmental change some time around this period, was your advice—

Mr McDade—I think it was 2003.

Senator CARR—I understand that as of May 2004 the minister was still telling the Senate by way of questions on notice that these threshold levels of due diligence were operating.

Mr McDade—Yes, they did, but what they changed was that the committee could then recommend what level of due diligence was required, which I took exception to. I said, ‘No, they should do that themselves; we want to be independent of it.’

Senator CARR—So that is why you are saying that your recommendations go to full due diligence, medium due diligence or limited due diligence.

Mr McDade—That is right.

Senator CARR—And your view is that, with public money being spent, due diligence should apply.

Mr McDade—Absolutely.

Senator CARR—That is the principle.

Mr McDade—Absolutely. It should apply to anything, even when it is not public money. You should do due diligence on any commercial project that you are going to invest in.

Senator CARR—I can understand that point of view. I am wondering whether we can look at a couple of projects. The wildlife park—

Mr McDade—Marine wildlife.

Senator CARR—Yes. What happened there? Did the due diligence pick up major questions?

Mr McDade—We did not see the due diligence report on the Mareeba one, as far as I can recall. We saw it on a couple. The practice was that if the due diligence came back and said, ‘It’s not quite satisfactory,’ it would be referred back to the committee to consider whether or not they would accept that as a failed due diligence or give the proponent more time and opportunity to provide additional information. We could not allow a project to sit there for 13 months, as happened with one, with the due diligence contractor waiting for information.

Senator CARR—Which project was that?

Mr McDade—I cannot remember it now; it will come back to me. One fellow took 13 months to refer back, so we wrote to him. I think we wrote to two or three and said, ‘Unless you provide adequate information to the due diligence contractor’—without naming him, because we did not know who the due diligence contractor was—‘within a certain period of time, we will presume that your application has lapsed.’

Senator CARR—Was there at any point consideration of reducing the amount of grant to get under the due diligence level?

Mr McDade—No.

Senator CARR—Why was the figure of \$490,500 set for the wildlife park?

Mr McDade—Due diligence performance levels had nothing to do with any figures. Mareeba Shire Council applied for \$4.2 million. We reduced that to \$1.5 million. It was nothing at all to do with due diligence. We went through the project and, with the consent of the committee, I argued strongly that if any public moneys were going into private investment, we should be funding infrastructure on the tableland rather than funding overdrafts for that particular project. In other words, we would look at the proponent's project and we would say, 'He's building a shed here,' or, 'He's doing a road here,' or whatever, 'So we'll look to those areas, and we'll see, in regard to the amount of money we have left in the tin, how much we will be prepared to put forward for that project.'

Senator CARR—Then why was it the case that the wildlife park was awarded an amount of \$490,500 when the recipient of the grant had been refused membership of the zoo association in England, had problems with health and safety performance, went into receivership shortly thereafter, had 18 trade creditors, had debts to the employees of \$430,000 and had a taxation bill of \$50,000? Why weren't these things established in the due diligence process?

Mr McDade—You would have to ask the due diligence contractor that.

Senator CARR—Who was that?

Mr McDade—I understand it was KPMG Cairns, which has nothing to do with KPMG Brisbane, for whom I previously worked but was not working at the time. I was not aware of who the contractor was at the time they appointed the contractor.

Senator CARR—What steps did ATSRAC take to protect public money in that regard?

Mr McDade—We recommended it to the minister, having regard for the information that we had in the proposal at the time: all appropriate licences were held, he was a highly esteemed person within the industry—internationally as well as in Australia—he had spent nearly \$1 million already on the Mareeba Wild Animal Park, the project was going to be in excess of \$2 million in total expenditure, and it was seen by the committee and the tourism strategic plan for the tablelands as being a critical development in attracting tourists from Cairns onto the tablelands past Kuranda at the top of the range. The main aspect of the tourism problems was that the tourists went to Kuranda and then back down to Cairns and those that went onto the tablelands normally went for a day trip and back down again. Also, the Mareeba Wild Animal Park, the Mareeba Wetlands and Skybury Coffee were infrastructure developments which were significant for the region from a strategic point of view and made it attractive to make sure those projects got up and going.

Senator CARR—However, is it not also the case that the local priorities specified that projects must be consistent with regional priorities, which went to the issue of the environment and its history rather than theme parks?

Mr McDade—Sorry?

Senator CARR—The local guidelines proposed that the priorities—

Mr McDade—Whose local guidelines?

Senator CARR—I am told here that, for instance, the tablelands tourism strategy report prepared by Tourism Tropical North Queensland and funded by one of your grants stated that tablelands tourism is best served by promoting natural elements of the tablelands, its environment and its history and not by attracting theme parks or supporting theme parks.

Mr McDade—That was their view, but, in discussions we had with them around the time that the Mareeba Wild Animal Park was being considered, even tropical tablelands tourism did not disagree that it was a significant development and it would be of benefit to tourism on the tableland. It was not as though ATSRAC was going out and saying, ‘We think from a tourist point of view you should do this and that is what the strategic plan is telling us.’ If you are going to go out and try and attract investment dollars into the region, then we would suggest you do not particularly chase theme parks. But if there was a theme park development happening—and it was happening; it had already started and it was a significant one—which was strategically located on the tablelands and fed into the stream of points, then it was strategically important to the region.

Senator CARR—That is an arguable point. The question of the relevant permits and management capacity—‘long-term management issues required clarification’—were all references in your minutes. So you were clearly aware of a number of problems.

Mr McDade—Professor Beeton is significant in this area in his professional capacity in another Commonwealth committee. He raised the issue of whether or not this particular person had the appropriate licences to be bringing in the types of animals that he was talking about bringing in. That was pursued to the point where we received advice on 3 March from the department:

I’ve just heard back from the Wildlife Australia Branch of Environment Australia and it seems all is okay with the Mareeba Wild Animal Park Applications.

They have recently been approved for 7 African lions and their other applications are progressing nicely. EA have no reason to suspect that they won’t be approved as the operator of the Park is pretty reputable in the field and has accreditation with a lot of the associations that matter in the industry.

So the committee was officially advised that this person was a reputable person, that the licences were in place and that infrastructure was going ahead. Mick Borzi and I went to visit the park. We had deferred their application when they first applied for it because of the development of the tourism strategy. The implications of that were quite significant for this park because of the investment they were putting in. It brought into play the retrospectivity criteria under our program, where once money has been expended you cannot get money paid back, as retrospective dollars, by the government. We were looking for something like at least a two to one investment for the dollars that we put into a private enterprise project. If we were not able to get the funding in the appropriate period of time when this development was occurring, and if he spent all of his money, then the money that was coming from the government was at least at risk of being declared as retrospective and therefore not payable.

Senator CARR—Did the state government approve the park?

Mr McDade—I could not tell you; I assume they did. A branch of Environment Australia seems to always have carriage of the Mareeba Wild Animal Park applications.

Senator CARR—My information is that the state government had not approved it.

Mr McDade—I cannot answer that; that might be right. I do not know.

Senator CARR—What troubles me is that the money—the half a million dollars or thereabouts—was paid to them.

Mr McDade—Yes.

Senator CARR—They went belly-up shortly thereafter. Clearly, the state government had not approved them, so they did not have not a licence in that regard.

Mr McDade—I do not know whether or not that is true. I will take your word for that.

Senator CARR—People from Cairns tell me that that is the case, so I presume it is true.

Mr McDade—Again, if that is right, I ask: why didn't the due diligence pick that up?

Senator CARR—That is right. That is my point; that is exactly where I am going. If they have all these financial problems and it would appear these regulatory problems, why was the money paid?

Mr McDade—Exactly, and it was due diligence. Having been in the practice myself, I know that the very best of due diligence contractors sometimes do not turn up information. If something dishonest is going on or information is being concealed, it is just not accessible to the due diligence contractor.

Senator CARR—Do you think that might be an explanation in this circumstance?

Mr McDade—It could be; I do not know. All I am saying is that, having been in the practice in the past myself, I know that on many occasions due diligence contractors or due diligence operators find out information after the event—information that should have been made available to them beforehand that may well have affected their particular judgment.

Senator CARR—Do you remember what happened with the money? Was it recovered?

Mr McDade—I do not believe it was. I checked with the department and asked them to find out whether there was any way that we could recover any of the money, and I was told that we could not recover any money and that, in fact, it was outside of ATSRAC's hands to do any thing whatsoever about it.

Senator CARR—So is that half a million dollars down the tube?

Mr McDade—It depends on what you mean by 'down the tube'. The half a million dollars that we put into that project was spent on infrastructure which is still on the tablelands now. If they do make a successful theme park out of it with some other owner, it will still be of benefit to the region. But none of the money that ATSRAC put in there went overseas; it went into infrastructure on the tablelands.

Senator CARR—I will turn to A2 milk. Do you recall an application for a sustainable region's grant?

Mr McDade—No, I do not.

Senator CARR—Do you recall any discussions regarding it?

Mr McDade—Yes, I do. There was definitely no application submitted to us by A2 Milk. Let me go back: I had a phone call from Ken Crooke, and I arranged to meet with him at the Ferny Grove Tavern to discuss a possible application by A2 Milk down the track. I met with him there, and three other representatives from A2 Milk turned up. I do not recall their names. Unfortunately, I do not remember the exact date. I have it in my other diary.

Senator CARR—Do you remember roughly what month it was?

Mr McDade—It was prior to August last year, so it would have been probably June or July, but I can confirm that as I have it in my diary.

Senator CARR—Thank you. The minutes that we have before us say:

The Committee considered a number of issues and aspects of the A2 Milk Marketing project including:-

Impacts of A2 Milk initiative and possible establishment of processing facility in the Tablelands region—how would the existing processor and industry be impacted?

Consideration of regional dairy industry initiative—this has been developed through long-term planning since deregulation and the Advancing Grow Malanda forum supported by ATSRAC in October 2003.

No indicated financial input from A2 apart from in-kind—the ATSRAC criteria have always considered a commercial entity should contribute at least 50% of future actual cash contributions to any project.

There is no information on what would occur past the initial testing—there are references to a processing facility but no firm indication how this might be established.

There is no information as to the market situation or supply chain development process.

The issues of competitive neutrality in relation to the existing industry are not addressed.

So it is quite clear that there has been considerable consideration—

Mr McDade—Absolutely, but that is not an application. Under the process I have outlined to you, we had an expression of interest first and then we had an application.

Senator CARR—So there was an expression of interest.

Mr McDade—It did not even rate, and the reason it did not get past the first point was because the information they provided to us did not satisfy our criteria for an expression of interest. So it did not get to the expression of interest stage.

Senator CARR—The minutes also say:

ACTION: ATSRAC endorsed decline of the Expression of Interest as the proposal does not address the criteria of the program.

Mr McDade—Yes—decline what they have submitted to us as an expression of interest.

Senator CARR—Thank you very much for that. I asked some questions before on this issue, and I want to clarify the status of that application. Do you recall in that discussion whether Mr Crooke indicated the involvement of any other politicians?

Mr McDade—I recall the conversations with Mr Crooke and the other people at the meeting pretty well, but there was no reference made to ministers or politicians' names anywhere in the conversation.

Senator CARR—It is just that I have an email here from Mr Crooke to Mr Chris Saddler on 6 May, and he says that he has a meeting with your executive officer, Yvonne Tunney, on 17 May.

Mr McDade—That would have been after they met with me, but it might have been before. I might even have met with him in May.

Senator CARR—So you think it might be May. The meeting was in the CSIRO building in Maunds Road in Atherton.

Mr McDade—Yes. That was after I met with them.

Senator CARR—So you met with them before 6 May?

Mr McDade—Yes.

Senator CARR—I understand that Mr Crooke said:

Behind the scenes I have opened the door a little and it should be possible for us to have a suitable letter tabled at the next meeting of the Committee (scheduled for May 28th/29th).

Mr McDade—I do not know, but I assume what he meant by 'opening the door' was that he had met with me in Ferny Grove. They were asking, 'What sort of time limits do we have on the processes here?' I explained our processes to them and said: 'You know, we cannot rush things through. This is government money. It is a public program. But, if you get something to my executive officer and it is in a suitable form, then I will ask the committee to consider whether it is appropriate to consider it as an expression of interest.' I think that is what he is referring to. The information that we then received at the committee did not meet the criteria as being

suitable for an expression of interest, therefore we declined that information as being a suitable expression of interest.

Senator CARR—Mr Crooke also said:

I had discussions with Senator Ron Boswell today—

that is, 6 May—

He has special responsibilities for the region and is going there tomorrow. He undertook to speak with Yvonne and come back to me.

Mr Crooke then said that Mr Saddler should not raise the conversation between Yvonne and the Senator ‘unless she volunteers to tell you about any conversations with the Senator’. Are you aware of that?

Mr McDade—No, I am not aware of that.

Senator CARR—Is it usual for your executive officer not to inform the chair at the time about those sorts of conversations?

Mr McDade—It is an allegation—it is an alleged conversation. That is an email, is it not, from Ken Crooke to Saddler—

Senator CARR—Yes.

Mr McDade—alleging or—

Senator CARR—Alleging that there has been this process.

Mr McDade—A conversation between Boswell and—

Senator CARR—And your executive officer, the executive officer of the committee.

Mr McDade—I do not recall her making any comment to me about it. If he had spoken to her about it and in any way put weight on her or leaned on her to do something special or out of the ordinary she certainly would have told me and I certainly would have made some very strong representations against that if it happened. But if it happened, I was not aware of it and she made no mention to me about it that I can recall here and now. I do not have any recollection. In the conversation I had in Ferny Grove with the A2 people, there were no politicians mentioned. They were more interested in what we could do for them and how quickly we could do it for them, and I outlined to them the processes that we had in the program. That is the extent of it. Then they sent me some information which I then made available to the committee and studied before the meeting.

Senator CARR—It is of interest to us the way that the processes worked. The approaches that were made to you under a different program were rejected. We can say that; you have rebuffed the approaches. Meetings were held with the parliamentary secretary on 11 June, and then

approaches were made through the ACC, or through the department to the ACC, which ultimately ended up in a grant of \$1.3 million being made available on the same information that you rejected.

Mr McDade—I cannot make any comment. I accept your—

Senator CARR—That is the characterisation I draw from the evidence—what you have put.

Mr McDade—What I have put?

Senator CARR—You have indicated to us that an approach was made and rejected on the grounds I have indicated.

Mr McDade—Yes.

Senator CARR—Which do not seem to have changed when the subsequent—

Mr McDade—At what meeting were they rejected? I think it was later than the May meeting, was it not?

Senator CARR—As I understood it, they were rejected on 6 August.

Mr McDade—So it was not in the chronological sequence that you just outlined.

Senator CARR—At what point did you tell them, though, that they were not going to get off the ground?

Mr McDade—Immediately after the meeting.

Senator CARR—Which meeting?

Mr McDade—The meeting at which we decided not to accept that information as an expression of interest.

Senator CARR—On 6 August you had advised—

Mr McDade—The executive officer would have advised either one of the A2 people or Ken Crooke. I would have to check the records to find out whom she advised but she would have advised them that it was not going to go any further.

Senator CARR—Can you check the records for us?

Mr McDade—I do not have access to the records. I am no longer chairman of the committee.

Senator McLUCAS—My recollection is that the 6 August meeting was an ACC meeting rather than an ATSRAC meeting, so I do not know the date of the ATSRAC meeting that would have reviewed the application from A2.

Mr McDade—In August 2004 I left the chair. I think it was about 12 August. I am pretty sure it was not long before that that there was a meeting of ATSRAC.

Senator CARR—Yes. I understand that there was an ATSRAC meeting on 6 August.

Mr McDade—That is right. There could have been an ACC meeting at the same time, I don't know.

Senator McLUCAS—Possibly.

Senator CARR—What I am trying to establish is whether there were two approaches being made: one through you, which was rebuffed; and one through the ACC, or through the department back to the ACC, which led to the granting of \$1.3 million or thereabouts. I think I can say that there appear to have been two approaches made.

Mr McDade—Certainly there was an approach made to us.

Senator CARR—Thank you. I now turn to the caravan park.

Mr McDade—Kalamunda?

Senator CARR—Yes. Was it the case that grant moneys were paid to the applicant prior to approvals being granted by the local shire?

Mr McDade—I am not aware of that. Once we had recommended to the minister that a project be approved, if the minister approved it, his approval would have been on the basis of satisfactory due diligence having been performed. Then the contract was managed between the department and the proponent, and ATSRAC had nothing more to do with it. The question we raised was what role ATSRAC has in monitoring projects on an ongoing basis. We were effectively told, 'None; the department does that on a contractual basis with the proponent.'

Senator CARR—Do you recall when the grant moneys were paid?

Mr McDade—No, I do not.

Senator CARR—I appreciate that that would be a bit difficult when you do not have the records.

Mr McDade—It should not be too hard to find out because—

Senator CARR—We will find that out. I am interested to know whether or not grants were made which met the regional priorities criteria and whether or not the project assessment criteria were met.

Mr McDade—The grant for Kalamunda park is one that I am surprised is seen as being in any way contentious, because for a long time itinerant workers have been very scarce on the tablelands in peak harvest time. One of the reasons for that which has often been given or cited

is that there is nowhere to accommodate them. This particular park is strategically located between Atherton and Mareeba, so it has a good shooting distance in all directions—

Senator CARR—And that is the only park in the region?

Mr McDade—Effectively, yes. It is the only park of this nature where there is backpacker accommodation. That is the information we were given.

Senator CARR—I have read the material before me and it appears that the evidence you are giving is contested. There are alternatives, and people want to know why this particular park was given over \$200,000 when it is an existing business. People want to know whether or not it was appropriate that they were given that money.

Mr McDade—The committee thought it was; otherwise, we would not have recommended it. Can you tell me or suggest to me—and I do not mean to be impertinent by asking this—what the competing places would be? That particular place had a strategy that was put to the committee, and that was to accommodate backpackers in peak harvest season and to get people onto the tablelands as part of the tourism strategy. Where else was that locally available?

Senator CARR—Fair enough. We are hearing evidence tomorrow from another person who has made submissions on this matter, Mr Nasser.

Mr McDade—I do not know him.

Senator CARR—There are others who have put in confidential submissions.

Mr McDade—Yes.

Senator McLUCAS—What was the level of support provided by the applicant for Kalamunda caravan park?

Mr McDade—The level of support?

Senator McLUCAS—You got to ascertain that the proposal was supported, didn't you?

Mr McDade—All of the proponents put together proposals—and I would have to look at their particular proposal to review it—and from practice there would have been letters of support from other people or people around the area, such as other businesspeople around the area et cetera. That does not always necessarily mean that it is going to go through without being contested or without people not being happy about it. Tolga Woodworks is a classic example of that. We had expressions of support for that. We did further investigation of that and the Tolga Woodworks people have taken a strong exception to that proposal. A similar situation occurred with the Atherton hotel, where there were letters of support tabled and the committee looked at the particular strategy and the criteria and said it was an appropriate proposal. Subsequent to that, objections were received. We sat down and talked to those people.

Senator McLUCAS—Okay. Let me go the process question. When you receive these letters of support, how do you judge them?

Mr McDade—With great difficulty.

Senator McLUCAS—How do you judge that they are not my sister and my brother and my auntie?

Mr McDade—It is very difficult. In fact, in a lot of cases people put together letters of support from the different local government departments. We got to the point of starting to really doubt whether we could put a great deal of weight or credence to this supporting evidence. It would be also fair to say that the four mayors around the table had a pretty good idea as to which projects would receive the local community support and which ones would not.

Senator McLUCAS—This one in particular, you will recall, only got through Atherton Shire Council on the casting vote of the mayor.

Mr McDade—I do not recall that.

Senator McLUCAS—That is the case.

Mr McDade—I do not know that he had a casting vote.

Senator McLUCAS—He did.

Mr McDade—He only had a deliberative vote. As the chair, I was the only one with a casting vote.

Senator McLUCAS—No, at the council.

Mr McDade—At the council? Sorry, I thought you meant at ATSRAC.

Senator McLUCAS—The recommendation from officers was that it not be approved because it did not fit with the appropriate land use of the area and it was only approved on the casting vote of the mayor, who is the same person who sits at ATSRAC.

Mr McDade—Yes.

Senator McLUCAS—I am trying to understand how a person can be at arms-length, dispassionate and making a proper judgment about a proposal for \$200,000 worth of taxpayers' money.

Mr McDade—How do you make any government grant to any private enterprise organisation an appropriate mechanism in today's economy?

Senator McLUCAS—Extremely carefully.

Mr McDade—Extremely carefully, but it is a political judgment. It is a program that is there. When you are on the committee charged with making those decisions, you have got to use the best judgment that you have available at the time. Like the ACC, we did not have the resources

to go out on every single proposal that we got and check the amount of public support, because there will be any number of people prepared to put their hand up and say, ‘No, they should not get the money.’

Senator McLUCAS—But if you do not ask the question, you then cannot make a judgment about whether or not it is tall poppy syndrome or truly the wrong application.

Mr McDade—There is a risk there, but when you look at the fundamentals of the proposal—not just whether it has local support—and its differentiating aspects, such as how they fit with the criteria of the program, that has got to be the driving force in the decision that the committee makes. So it could well be, for instance, that you might get significant opposition from certain members of the community—and this happens when councils make a decision to approve a particular development. They know that overall it is for the benefit of the community, region or area, and they go full steam ahead and to hell with the torpedoes, so to speak, but if you went out and asked people, ‘We have a proposal here to do this, does anybody object to it?’ you would get any number of people who would object, in particular on the tablelands. It was once described to me as a feature of the tablelands that it is not just the green eye of envy that makes people object, but that they take a particular stance and say, ‘If I can’t get it, I’m going to make sure they can’t get it either.’ So there is a certain characteristic on the tablelands which is very difficult to manage and you have got to walk through it.

Senator McLUCAS—With reference to backpacker accommodation for pickers, are you aware that there was a consultation in Dimbulah—it must have been those rounds of meetings that happened back in 2001—where the need for accommodation in Dimbulah was discussed.

Mr McDade—With ATSRAC?

Senator McLUCAS—With ATSRAC—it was some time ago now.

Mr McDade—In Dimbulah?

Senator McLUCAS—I have been advised that ATSRAC officials advised the people from Dimbulah that funds to build cabins to house backpackers who were going to pick mangoes did not fit with the guidelines of ATSRAC. Do you have any recollection of that?

Mr McDade—I have no recollection of that. I vaguely recall a meeting in the Dimbulah hall where we talked generally about the program.

Senator McLUCAS—I think that is the meeting that people are referring to.

Mr McDade—I was the main source of the address to the meeting. I cannot imagine for the life of me why I would make a statement in public that the structure of any backpacker accommodation or accommodation for infrastructure on the tablelands anywhere would not be an appropriate part of the region. It clearly is part of the criteria for the program. There is nothing of an anathema to it at all.

Senator McLUCAS—As a result of that advice, I am advised that the Dimbulah people did not make an application. I am advised that the advice was not from you.

Mr McDade—Oh? I am not aware of that.

CHAIR—I am aware that senators had a lot more questions and issues that they wanted to cover this afternoon and we appreciate that you have come up from Brisbane especially for the hearing. We have literally run out of time today because of evidence given by earlier witnesses. We also have witnesses tomorrow who are going to be giving evidence with regard to a number of the projects that are obviously under discussion. I have discussed it with my colleagues on the committee and we will adjourn these proceedings shortly and make arrangements with you to appear at a further hearing of the committee, most likely in Canberra or Brisbane, at a later date—we appreciate that you are flying back to Brisbane first thing tomorrow. Also, if there is evidence tomorrow from other witnesses it may be relevant for you to have an opportunity to respond after that evidence has been given. If that is okay with you, I think that is the way we will deal with it at the moment. I apologise if that has caused any inconvenience, but I think you appreciate that there are a lot of issues that we are trying to cover today and we have run out of time. Thank you very much.

Mr McDade—From the questions that have been asked, is there anything in particular the senators would like me to pursue and get information on or are you going to get that information yourself?

Senator CARR—If you could find out about the discussion with Mr Crooke that would be helpful.

Mr McDade—I can do that from my records but if there is something else that you want me to pursue I am happy to try and get it.

CHAIR—It is the general process of the committee that if we want to communicate with the witness and ask them to provide further material or documents or respond to something that has been said, the secretariat will contact you in that regard. The secretariat will get in touch with you in the not too distant future and make arrangements for a further hearing.

Committee adjourned at 5.51 p.m.