



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Consideration of Budget Estimates

MONDAY, 3 JUNE 2002

CANBERRA

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SENATE
ECONOMICS LEGISLATION COMMITTEE
Monday, 3 June 2002

Members: Senator Brandis (*Chair*), Senator Jacinta Collins (*Deputy Chair*), Senators Chapman, Murray, Schacht and Watson

Senators in attendance: Senators Bartlett, Brandis, Calvert, George Campbell, Collins, Conroy, Harradine, Heffernan, Lundy, McLucas, O'Brien and Watson

Committee met at 9.18 a.m.

CHAIR—I call to order this public hearing of the Senate Economics Legislation Committee. On 14 May 2002 the Senate referred to this committee the particulars of proposed expenditure in respect of the year ending 30 June 2003, for the two portfolio areas of Treasury and Industry, Tourism and Resources. The committee will consider proposed expenditure for departments and agencies in the order in which they appear on the circulated agenda, which was agreed to by the committee last week. Today the committee will begin with the Industry, Tourism and Resources portfolio.

While the Senate Finance and Public Administration legislation committee oversees the format of the portfolio budget statements, I remind you that the Senate Economics Legislation Committee is continuing to monitor the format of the PBSs presented to it. This is in accordance with the recommendation by the Finance and Public Administration legislation committee in its third report on the format of PBSs that the legislation committees report on the adequacy of the PBSs provided for their use.

The committee has authorised the recording and rebroadcasting of its public proceedings in accordance with the rules contained in the order of the Senate of 31 August 1999 concerning the broadcasting of committee hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. I also direct to witnesses the resolutions agreed to by the Senate on 23 February 1988 concerning the conduct of Senate committees, in particular resolution No. 9, which reads:

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

And resolution No. 10, which provides that:

Where a witness objects to answering any question put to the witness on any ground including that the question is not relevant or that the question may incriminate the witness, the witness shall be invited to state the ground upon which objection to answering the question is taken. Unless the committee determines immediately that the question should not be pressed, the committee shall then consider in private session whether it will insist upon an answer to the question having regard to the relevance of the question to the committee's inquiry and the importance to the inquiry of the information sought by the question.

If the committee determines that it requires an answer to the question, the witness shall be informed of that determination and the reasons for the determination and shall be required to answer the question only in private session, unless the committee determines that it is essential to the committee's inquiry that the question be answered in public session. Where a witness declines to answer a question to which a committee has required an answer the committee shall report that fact to the Senate.

I also remind officers that an officer shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister.

Witnesses should note that the evidence given to the committee is protected by parliamentary privilege. I also remind you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. At the conclusion of the hearings the committee will set a date for the receipt of written responses. The committee will prepare a report on its examination of estimates which will be tabled on or before 19 June 2002.

[9.22 a.m.]

INDUSTRY, TOURISM AND RESOURCES PORTFOLIO

In Attendance

Senator Minchin, Minister for Finance and Administration

Department of Industry, Tourism and Resources

Mr David Baussmann, Manager, Tax Concession Program, AusIndustry

Mr Jeff Beeston, Manager, Regional and Niche Tourism, Tourism Business Development Group, Tourism Division

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

Ms Vicki Brown, General Manager, International and Energy Best Practice Branch, Energy and Environment Division

Ms Chris Butler, Manager, Marketing, AusIndustry

Ms Trish Cattell, Acting Manager, R&D Start, AusIndustry

Mr Drew Clarke, Executive General Manager, AusIndustry

Mr Alan Coleman, Manager, TCF Policy Unit, Manufacturing, Engineering and Construction Division

Mr Philip Constable, General Manager, Business Development Group, AusIndustry

Mr Robert Crick, Head of Division, Analytical Division

Mr Ian Cronshaw, General Manager, Domestic Energy Branch, Energy and Environment Division

Mr Chris Dainer, Chief Financial Officer

Mr John Dean, General Manager, TCF and Construction Branch, Manufacturing, Engineering and Construction Division

Dr Russell Edwards, General Manager, Program Management Group, AusIndustry

Mr Malcolm Farrow, Head of Division (designate), Energy and Environment Division

Mr David Gallagher, Manager, Competitive Industry Innovation Programs, AusIndustry

Ms Hellen Georgopoulos, Head of Division, Industry Competitiveness Division

Dr Michael Green, Director, Space Licensing and Safety Office, Industry Competitiveness Division

Mr Paul Griffin, General Manager, Business Entry Point

Mr John Griffiths, General Manager, Offshore Resources Branch, Resources Division
Dr Jason Hajinakitas, Australian Government Analytical Laboratories
Mr Denis Hally-Burton, Manager, Energy Policy Section, Energy and Environment Division
Mr Jeff Harris, General Manager, Resources Development Branch, Resources Division
Dr Sandra Hart, General Manager, Australian Government Analytical Laboratories
Ms Kerri Hartland, Executive General Manager, Biotechnology Australia
Mr John Hartwell, Head of Division, Resources Division
Ms Carolyn Jenkins, Manager, Innovation and Industry R&D Section, Innovation and Industry Policy Division
Ms Marie Johnson, Head of Division, Business Entry Point
Mr Barry Jones, Executive General Manager, Invest Australia
Mr Wayne Kathage, Manager, Syndicate Monitoring, AusIndustry
Ms Patricia Kelly, Head of Division, Tourism Division
Mr Peter Livingston, Acting General Manager, Downstream Development Branch, Resources Division
Mr Terry Lowndes, Head of Division, Innovation and Industry Policy Division
Mr David Luchetti, Manager, Venture Capital Programs, AusIndustry
Mr David Mazitelli, Tourism Strategy Group
Mr David McCarthy, General Manager, Tourism Strategy Group
Mr Peter Morris, General Manager, Space and Aerospace Branch, Industry Competitiveness Division
Ms Janet Murphy, General Manager, Tourism Market Access, Tourism Division
Mr Philip Noonan, Head of Division, Corporate Division
Mr Kevin O'Brien, General Manager, Energy Market Reform Branch, Energy and Environment Division
Mr Mark Paterson, Secretary, Department of Industry, Tourism and Resources
Mr Steve Payne, General Manager, Greenhouse and Environment Policy, Branch, Energy and Environment Division
Mr Bill Peel, Deputy Executive General Manager, AusIndustry
Mr Craig Pennifold, General Manager, Pharmaceuticals Branch, Industry Competitiveness Division
Mr Mike Perri, Manager, Printing and Action Agenda Unit, Manufacturing, Engineering and Construction Division
Mr Ken Pettifer, Head of Division, Manufacturing, Engineering and Construction Division
Dr Peter Robins, Director, Bureau of Tourism Research
Ms Kerry Rooney, General Manager, Best Practice, Tourism Division
Mr John Ryan, Deputy Secretary, Department of Industry, Tourism and Resources
Mr Paul Sexton, General Manager, Customer Services, AusIndustry
Dr David Swanton, Manager, Bioprojects, Biotechnology Australia
Ms Louise Vickery, Manager, Energy Efficiency Best Practice Program, Energy and Environment Division
Mr Garry Wall, General Manager, Automotive and Engineering Branch, Manufacturing, Engineering and Construction Division

Ms Sue Weston, General Manager, Office of Small Business

Ms Margaret Wilson, Manager, Product Implementation, AusIndustry

Geoscience Australia

Dr Chris Pigram, Chief, Minerals Division, Geoscience Australia

Dr Trevor Powell, Deputy CEO and Chief, Petroleum and Marine Division, Geoscience Australia

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

Mr Phil Symonds, Petroleum and Marine Division, Geoscience Australia

Dr Neil Williams, Chief Executive Officer, Geoscience Australia

Australian Tourist Commission

Mr Ken Boundy, Managing Director, Australian Tourist Commission

Mr John Hopwood, General Manager, Business Services, Australian Tourist Commission

Department of Industry, Tourism and Resources

CHAIR—I welcome to the table Senator the Hon. Nick Minchin, the Minister representing the Minister for Industry, Tourism and Resources; Mr Paterson, the secretary to the department; and officers of the department. I have been asked by Senator George Campbell to indicate that Senator O'Brien wishes to direct questions to the Energy and Environment Division, the Petroleum and Electricity Division, and the Coal and Mineral Industries Division but will be unavailable until after 9 p.m. So I will ask that officers in those three divisions be available from 9.15 p.m.

Senator Minchin—Mr Chairman, Mr Paterson would like to check on which officers might be needed.

Mr Paterson—If you want the energy, petroleum and coal and mineral divisions from 9.15 p.m., does that mean that you do not want them before then?

CHAIR—No, I do not think it means that. It means that one senator, Senator O'Brien who will be asking questions on behalf of the opposition, will not be available until 9.15 p.m. this evening. Senator Watson and Senator Heffernan, do you have questions for the officers of the Energy and Environment Division, the Petroleum and Electricity Division and Coal and Mineral Industries Division? Do you have any questions that cannot be asked after 9.15 this evening? I think we can excuse those officers then.

Senator GEORGE CAMPBELL—They will have to do a day's work as well as stay back late.

Senator Minchin—Absolutely.

Senator GEORGE CAMPBELL—Mr Paterson, going back to the corresponding estimates 12 months ago, I asked a question about this at that time and the department informed us that there was no single document which outlined the range and scope of the different industry assistance programs that are provided by the government and certainly not the ones that are administered by this department. Is this still the case?

Mr Ryan—When you say 'the range of industry assistance programs', do you mean more than our department's programs?

Senator GEORGE CAMPBELL—I think at the time I was trying to find out whether or not there was a document which set out all of the industry assistance measures that were provided by the government. That would have included not only industry but rural primary industries et cetera. There are a substantial number of programs in that sector. I was

particularly concerned with the programs administered by this department. I was given the impression in those estimates that no document existed but that such a document could be put together. I would like to know whether or not any thought has been given to that and whether or not there has been any attempt to put together in one document all of the industry assistance programs that exist, because there is a range of them. I think AusAID administers about 30-odd programs and I do not know whether or not that is the totality of the programs that are in the department. So it is a question of having something you can look at to identify the range of programs that are in existence.

Mr Ryan—There are a range of industry programs, as you rightly point out, whether that be in the employment department or in the education department. Often there are grey areas between what is an industry support program as against an employment development program. There is one report that might be able to assist. It is done by the Productivity Commission and it lists all the assistance programs.

Senator GEORGE CAMPBELL—Is that in their annual report?

Mr Ryan—The *Trade and Assistance Review* is a one off. It was done in 2000-01.

Senator GEORGE CAMPBELL—The problem with that is that it becomes dated on an annual basis or even more often than that. Essentially I am looking for something like that but something that is kept up to date by the department so we can know and see exactly what the programs are, what moneys are allocated to them and where any shifts in support occur. It does not seem to be an unreasonable request for that type of document to be put together. It might save us a lot of time at these estimates hearings, too, trawling through to find out exactly what is there.

Mr Ryan—I think the simple answer is that, for across government, other than—

Senator GEORGE CAMPBELL—Let us just focus specifically on your department. Can it be done for your department?

Mr Ryan—The only document I can think of is our annual report. In that list there are programs which are administered by AusIndustry, but there are other programs within different divisions.

Senator GEORGE CAMPBELL—Yes, but I am looking to see the totality of the support programs that exist, not just those that are administered by AusIndustry. The question I am asking you is: is it possible for the department to compile such a document and to make it available?

Mr Paterson—Certainly it is possible for us to compile a document with respect to our department and the portfolio.

Senator GEORGE CAMPBELL—Can I ask you to do that, Mr Paterson?

Mr Paterson—I am happy to.

Senator GEORGE CAMPBELL—And you will make a copy available to us?

Mr Paterson—Certainly.

Senator GEORGE CAMPBELL—Just moving on to this year's budget, the appropriations for this budget, 2002-03, are \$38 million less than that allocated in the previous budget, which I think represents a cut of 3.3 per cent. Can you outline to us where these cuts have taken place and what proportion of that is related to the administrative changes within the department?

Mr Dainer—I am not quite sure about the \$38 million you are referring to. I will give you an overall summary of the department's appropriation movements between the financial years. For 2001-02 our total appropriation funding—that includes departmental administered expense and administered capital—was \$1.252 billion. The coming financial year, 2002-03, it will be \$1.124 billion, a reduction of \$128 million or approximately 10 per cent. Running through the make-up of that reduction, departmental drops from \$205 million to \$193.6 million, a six per cent reduction. On the administered appropriations, outcome 1, bill 1, drops from \$280.9 million to \$279.3 million, a one per cent reduction; outcome 1, bill 2, drops from \$3.3 million to \$2.6 million; outcome 2, bill 1, drops from \$286.9 million to \$196.2 million, about a 30 per cent reduction. On the special appropriations, there was a reduction of about 18 per cent this year, from \$423.7 million to \$347.8 million next year. Administered capital appropriations increased from \$52 million this year to \$105 million next year.

Senator GEORGE CAMPBELL—So the overall cut is 10 per cent?

Mr Dainer—Overall on the appropriation base.

Senator GEORGE CAMPBELL—How much of that is related to the administrative changes in the department—the shift of some of the innovation programs to education, for example?

Mr Dainer—As a result of the administrative arrangements orders and the transfer of AUSTLIG from the department into Geoscience Australia, the impact is a reduction of \$25 million on the departmental front. That is a net figure, because we also had Business Entry Point and the Office of Small Business coming in. On the administered front there is a net reduction of about \$170 million.

Senator GEORGE CAMPBELL—There is a percentage of the 10 per cent. What does that represent?

Mr Dainer—That is the full year effect next year, so I would need to net it off. The net effect is a \$3 million reduction on departmental and about a \$70 million net reduction on administered. As a percentage—

Senator GEORGE CAMPBELL—It is about half; is that right?

Mr Dainer—A bit more than half.

Senator GEORGE CAMPBELL—What component of that relates to program cuts?

Mr Dainer—There is a reduction in PICS of 1.415.

Senator GEORGE CAMPBELL—I will come to specific programs on the way through. I am looking at the total impact across all the programs.

Mr Dainer—Of budget related decisions?

Senator GEORGE CAMPBELL—Yes.

Mr Dainer—For 2002-03, about \$21 million.

Senator GEORGE CAMPBELL—Is that essentially in the area of TCF and PICS?

Mr Dainer—Yes. Page 26 of the PBS shows a reduction of \$10.3 million for the rationalisation of assistance to the printing industry in 2002-03 and savings of \$11 million from the rationalisation of assistance to the TCF industry.

Senator GEORGE CAMPBELL—Are no other programs affected?

Mr Dainer—There are the contributions to the mineral organisation, which is \$200,000 and does not take effect till 2003-04, and \$500,000, which again does not take effect until 2003-04, for a tourism operations program.

Senator GEORGE CAMPBELL—What has been the impact on employment in the department?

Mr Paterson—At the present time there are no reductions in the appropriation available to the department. I have indicated that we will be managing the reduction in resources within normal staff turnover arrangements. There are anticipated reductions. We cannot be firm as yet on what the final numbers would be. We have anticipated in the discussions that I have had with staff a figure approximating nine per cent. There will be some variation as we adjust temporary staff and contractors, but it could be in the vicinity of 120 to 150 staff across the whole of the portfolio.

Senator GEORGE CAMPBELL—Is that across the whole of the department?

Mr Paterson—It is.

Senator GEORGE CAMPBELL—They will all be voluntary redundancies?

Mr Paterson—There will be no voluntary redundancies. We will manage it within the normal arrangement of people departing by resignation, retirement, promotion or transfer; there are no voluntary redundancies and no forced redundancies.

Senator GEORGE CAMPBELL—So what happens if you do not get the 120 or 150?

Mr Paterson—I am confident that we will.

Senator GEORGE CAMPBELL—Is this a time line thing?

Mr Paterson—We recognise that it will take some time in terms of implementation. We will have programs concluding where the funding for those programs has ceased, there will be some wrap up arrangements and there will be new programs that have been funded as part of the budget that will require additional resources. We will be transferring people between activities. There will obviously be a natural turnover of staff, and we have looked at the historical position which suggests to us that we can manage the transition from the current staffing levels to the anticipated new staffing levels within those parameters.

Senator GEORGE CAMPBELL—What will happen to the personnel with the programs that have gone to other departments?

Mr Paterson—All of the staff that were transferred to other departments as part of the administrative arrangements went at the time, so there are no legacy arrangements.

Senator GEORGE CAMPBELL—So this nine per cent is on top of what is already transferred?

Mr Paterson—We lost staff to the Department of Education, Science and Training with the transfer of the Science portfolio and the administration of that and we gained staff from what was the Department of Employment, Workplace Relations and Small Business when the Office of Small Business and the Business Entry Point transferred in. So we are dealing with the appropriations available to the department after those administrative order changes and the programs that were being brought to a conclusion by the recent budget or the programs whose funding concluded on 30 June.

Senator GEORGE CAMPBELL—Can you provide us with the staffing levels for 2001-02? What were the numbers in the department prior to these cuts?

Mr Noonan—The ASL for 2001-02 was 1,533.

Senator GEORGE CAMPBELL—Do you expect that to come down too?

Mr Noonan—According to numbers in the PBS that falls to 1,366; although the exact number, as a result of the matters that Mr Paterson referred to, are still being worked through.

Senator GEORGE CAMPBELL—Is there a time frame for these reductions or not, Mr Paterson?

Mr Paterson—I announced the changes probably four or five weeks ago. We are working through that and some changes have already occurred: there have been some departures from the department, some promotions, some transfers, anticipated retirements and some individuals have been placed in new positions within that time frame. I do not want to be too hard and fast in terms of the time frame. Obviously we would like to bring it to a conclusion at the earliest opportunity for the sake of both the department and the individuals who are affected by it. In some areas it will take the best part of the remainder of this year, but in many other cases I anticipate that we will be resolving those issues over the coming months.

Senator GEORGE CAMPBELL—Do you have a gender breakdown of the staff cuts? There are 167 people. What is the gender mix in that?

Mr Noonan—There is no gender breakdown. At the moment we are still finalising what the numbers will be, so I cannot answer that question for you.

Senator GEORGE CAMPBELL—You must have a potential list.

Mr Noonan—We have not finalised structures within a couple of key areas so we do not have a final list. I must admit that I have not counted the gender for the names that have so far come forward, but I do not think there is any disproportionate pattern.

Senator GEORGE CAMPBELL—Can you take that on notice and give us an answer at the appropriate time?

Mr Noonan—I will.

Mr Paterson—For completeness, and so that I have a sense of the nature of the information you are looking for—given that we have not settled on a list—can we pick a particular date and report to you on the list identified at a particular point in time?

Senator GEORGE CAMPBELL—Yes, I am happy for you to do that. When do you think you will have a list pretty much finalised?

Mr Noonan—It should be by the end of June.

Senator GEORGE CAMPBELL—That is fine. Can you advise us as to any staff who received performance bonuses in the department over the past 12 months?

Mr Noonan—Yes, there would have been performance bonuses paid during the last 12 months.

Senator GEORGE CAMPBELL—How many staff would have received performance bonuses?

Mr Noonan—Many of those payments would have related to the last financial year, and the numbers would have been in the annual report. For the last completed financial year I have the numbers for the SES and the total payments for the SES are in the order of \$64,000.

Senator GEORGE CAMPBELL—That was in total?

Mr Noonan—That is right.

Senator GEORGE CAMPBELL—What did that average out per person?

Mr Noonan—We had about 60 SES staff at the end of that financial year, so that is a bit over \$1,000 per person.

Senator GEORGE CAMPBELL—Were there any bonus payments made to any non-SES people?

Mr Noonan—Yes, there were. The figure for that year is about \$93,000.

Senator GEORGE CAMPBELL—How many were recipients of that?

Mr Noonan—I have 22.

Senator GEORGE CAMPBELL—Were they above the SES level or below the SES level?

Mr Noonan—The last couple of answers were related to non-SES staff.

Senator GEORGE CAMPBELL—The 22 persons who received bonuses?

Mr Noonan—Yes, they were 22 non-SES staff.

Senator GEORGE CAMPBELL—Were they below the SES level?

Mr Noonan—Yes.

Senator GEORGE CAMPBELL—All 22?

Mr Noonan—Yes.

Senator GEORGE CAMPBELL—And they received bonuses in the region of \$4,000—per person, on average?

Mr Noonan—That is correct. I might take on notice the question you asked about whether they were all below SES level to give me the chance to provide further information about that, because the table I have is not absolutely clear.

Senator GEORGE CAMPBELL—I am happy for you to do that. If you could give the committee a breakup of that, it would be appreciated. Of the persons who were on the list for redundancy, how many of those received bonuses over that period?

Mr Noonan—This is matching up those staff who will be relocated? I do not know the number, but none of those staff will be made redundant; they will be simply moving from one part of the department to another.

Senator GEORGE CAMPBELL—But I understood Mr Paterson to say that there would be a net reduction in staffing of 167 or thereabouts.

Mr Paterson—That is correct, but I did indicate that there would be neither voluntary nor forced redundancies as part of that. There will be people who will be transferring, who will be promoted, who will be retiring and who will be resigning as part of the normal turnover in staff. I indicated that we would be managing the reduction in required numbers of staff through that process, not making anybody redundant.

Senator GEORGE CAMPBELL—I understand that, but how many people who received bonuses—obviously, their work is above average—will avail themselves of that redundancy?

Mr Paterson—There will be no-one availing themselves.

Senator GEORGE CAMPBELL—Well, who will terminate their employment with the department?

Mr Paterson—Termination is a matter for the individuals themselves. The department will not be terminating people. It is not something that we can clearly answer at the present time. We anticipate, by having looked at historical turnover of staff in those four key areas, that we will see the numbers change—that we will be able to manage the reduction during that process. We will be transferring those staff wishing to retain employment with the department between functions.

Senator GEORGE CAMPBELL—I understand that. You say that there will not be any redundancies—voluntary, forced or otherwise. Will there be any incentive payments for people to leave?

Mr Paterson—No, there will not.

Senator GEORGE CAMPBELL—I also understand, Mr Paterson, that the impacts of these cuts will extend beyond our national borders and that there is a decision to close the councillor posts in Seoul and Jakarta?

Mr Paterson—That is correct.

Senator GEORGE CAMPBELL—Why was this decision taken?

Mr Paterson—We looked at all areas of expenditure throughout the department. There have been examinations of the post representation offshore. We have, until 30 June, in addition to the Seoul and Jakarta post, representatives in Tokyo, in Washington and in Paris. Given all the circumstances of available resources, our conclusion was that we would not proceed with the posts in Seoul and Jakarta.

Senator GEORGE CAMPBELL—Has there been an examination of the role that these councillors are playing?

Mr Paterson—There has.

Senator GEORGE CAMPBELL—And the conclusion of the department is that it does not warrant maintaining the posts there?

Mr Paterson—These were decisions being made amongst a variety of desirable objectives, but with limited resources available to us. I am not making a judgment that, with unlimited resources, you would not continue those activities. Making choices amongst a variety of desirable activities, and being required to manage with lower levels of resources available to us, they were the decisions that were taken on balance.

Senator GEORGE CAMPBELL—So it is not necessarily a decision that the councillors are not effective in the areas they are in, but is a matter of you being able to meet your budget requirements and having to make choices in that process?

Mr Paterson—As I said, we did have to make choices. In part, the funding of some of these activities was impacted on by decisions taken as a result of the changes of administrative orders, because some part of the prior funding of these posts had fulfilled a science function as well as the industry and resources functions. So we had lower levels of resources available as a result of those administrative order changes, and we are examining on an ongoing basis how we will continue to provide the service that is required from those posts.

Senator GEORGE CAMPBELL—Isn't it true that the councillor in Seoul has been heavily involved in the Asia-Pacific Space Centre project?

Mr Paterson—There are a variety of people from the department who have been involved in that project.

Senator GEORGE CAMPBELL—But they have been used extensively in negotiations around that issue?

Mr Paterson—That is not the way that I would describe it.

Senator GEORGE CAMPBELL—How would you describe it?

Mr Paterson—That they have been involved. I would not say that they have been heavily involved in the negotiations. The responsibility for our activity rests with staff based in Canberra. That is not to say that they have not been involved in discussions, but certainly the primary carriage of that issue rests with the department in Canberra.

Senator GEORGE CAMPBELL—How much money does the department expect to save from closing each of those posts?

Mr Paterson—I will take the question on notice. It is in the hundreds of thousands all up for the two posts.

Senator GEORGE CAMPBELL—Could you break it up for each post?

Mr Paterson—We will come back with a response. The posts are Department of Foreign Affairs and Trade posts, with officers located within those posts. So the posts will be continuing, it is merely the department's representation—

Senator GEORGE CAMPBELL—It is the department's representation, yes. I am interested because I also heard that Austrade have pulled their representatives out of Detroit, just when we are in the middle of signing a very substantial contract. I wonder what effort goes into looking at what these people are actually doing when making the decisions to cut them for budgetary reasons. That is not necessarily related to you, but surely it had a major impact on this company's operations. What does the \$3.1 million in table 1.2 of the PBS for increased assistance to small and medium enterprises relate to?

Ms Georgopoulos—The \$3.1 million relates to a range of activities to assist SME to access major projects. It is primarily to boost the funding for the Industrial Supplies Office Network, the Supplier Access to Major Projects Program and a number of other initiatives to help SMEs build consortia, access global supply chains and register their capabilities.

Senator GEORGE CAMPBELL—Will that be done through the ISO?

Ms Georgopoulos—Yes, the majority of it will be done through the Industrial Supplies Office Network and the Supplier Access to Major Projects Program.

Senator GEORGE CAMPBELL—Will this require any additional staffing?

Ms Georgopoulos—For the Industrial Supplies Office Network, yes.

Senator GEORGE CAMPBELL—How many additional staff?

Ms Georgopoulos—They are currently going through their business plans. Clearly there will need to be strategic planners, business planners and IT people. At the moment we are aware of four, but as I mentioned they will be putting together a business plan to roll out how much will be needed in the future.

Senator GEORGE CAMPBELL—What type of assistance is going to be provided? It is not grants or loans; is it in the nature of advice?

Ms Georgopoulos—At the moment the Industrial Supplies Office provides advice for companies to find and assess the capability of Australian suppliers. That is provided through a series of consultants through the Supplier Access to Major Projects Program.

Senator GEORGE CAMPBELL—That is provided by consultants to?

Ms Georgopoulos—Who are appointed by the Industrial Supplies Office Network.

Senator GEORGE CAMPBELL—But you said the major projects program?

Ms Georgopoulos—Under the Supplier Access to Major Projects Program. That is part of the \$3.1 million. It has been part of the previous program for ISONET and SAMP, as it is otherwise known. They are a series of grant programs that up until this current financial year have provided assistance for companies to identify their capability and to access major projects.

Senator GEORGE CAMPBELL—So this has focused on major projects?

Ms Georgopoulos—Yes.

Senator GEORGE CAMPBELL—That will be left purely to the ISO?

Ms Georgopoulos—The Industrial Supplies Office Network calls for applications. It is a very public and open process. Applicants apply for assistance under the program and the Industrial Supplies Office Network, which is a national network, agrees on the applications and provides assistance to the individual projects.

Senator GEORGE CAMPBELL—What relationship is there or will there be between this program, the ISO, and the Invest Australia program?

Ms Georgopoulos—The relationship that has existed for some time now is that the Industrial Supplies Office Network provides early advice to Invest Australia and major proponents on the availability of Australian capability. In many cases, the Industrial Supplies Office Network also helps facilitate Australian access to those major projects.

Senator GEORGE CAMPBELL—Is there any assessment done on the major projects that make application for funding as to the capacity of the local industry to supply? Are there any requirements on those companies that receive the grant to give focus to the local industry?

Ms Georgopoulos—Yes, Senator, that is the whole purpose of the program—to maximise Australian participation. Clearly, the applications that come forward have had some assessment about the degree to which the Australian industry can participate and influence procurement decisions by the major project proponents. That level is generally measured throughout the period of the project in an effort to maximise Australian participation.

Senator GEORGE CAMPBELL—What focus is there in this process to get access for Australian companies at the front end of these major projects, in the engineering design component?

Ms Georgopoulos—There is a reasonable focus on that. Clearly, over the last few years the program has been focused on major resource projects that have been underway in Australia. I can try to get some more details on engineering in particular, but I understand that the focus has been right throughout the whole supply chain, including the front end.

Senator GEORGE CAMPBELL—How is this amount of money distinct from the \$8.9 million that is allocated for the Small Business Assistance Program?

Ms Georgopoulos—I understand that they are two separate programs.

Senator GEORGE CAMPBELL—How does the \$3.1 million specifically allocated for increased assistance to small and medium enterprises differ from the \$8.9 million allocated in the PBS for the Small Business Assistance Program?

Ms Weston—That \$8.9 million is separate and goes to making up the Small Business Assistance Program, which is a separate program from that \$3.1 million.

Senator GEORGE CAMPBELL—What sorts of subprograms are contained in the program?

Ms Weston—The Small Business Assistance Program, as announced in the budget, comprises three subprograms: one is a continuation of the theme that was the Small Business Enterprise Culture Program, which provides skills to small business to improve the enterprise culture of them; the second is a continuation of the Small Business Incubator Program, which is to help small businesses start up; and the third element is the provision of referral and advisory services, particularly in regional Australia, for small business to access Commonwealth government programs.

Senator GEORGE CAMPBELL—Is that in addition to the AusIndustry regional offices?

Ms Weston—Yes, it is separate from that.

Senator GEORGE CAMPBELL—Are these located in different areas from the AusIndustry regional offices?

Ms Weston—They are called small business assistance offices. There has been a 12-month pilot, which will conclude on 30 June. Currently there are 47 of those, associated with 46 area consultative committees in the regions.

Senator GEORGE CAMPBELL—So they are linked into the ACCs?

Ms Weston—Yes, that is right.

Senator GEORGE CAMPBELL—Will there be any attempt to mesh these programs?

Ms Weston—We are in the process of doing a review of that 12-month pilot. We have had submissions from quite a number of groups, including area consultative committees, business enterprise centres, state governments and AusIndustry about whether there is any duplication, how the programs have been working and so on. Part of that review will be to look at the best way to go forward with the new program money to provide referral and advisory services for small business.

Senator GEORGE CAMPBELL—But to some degree, it seems, that both of you are providing consultancy—

Ms Weston—That is being looked at as part of this review.

Senator GEORGE CAMPBELL—When will that review be completed?

Ms Weston—We are almost there. The minister has provided a six-month extension to the current arrangements with area consultative committees just so there is no break in the service, but I expect in the next month or so that the new arrangements will be announced.

Senator GEORGE CAMPBELL—Can I have a list of where these regional facilities are located?

Ms Weston—Yes, that is not a problem.

Senator WATSON—My question is directed through the minister to Mr Mark Paterson, the head of the industry department. I ask Mr Paterson to outline the particular benefits as well as the wider benefits that are likely to emerge from the government's recently announced change to the depreciation infrastructure regime.

Mr Paterson—There were changes announced on budget night in relation to elements of depreciation regimes for gas and petroleum development and infrastructure. You would be aware that, as a result of the new tax system, there were changes made which impacted on accelerated depreciation regimes that would have affected many of those projects. Also, there has been an examination of effective life depreciation regimes for a range of projects, including pipelines, gas development projects and petroleum development projects. As I understand the announcements, they have introduced effective life caps on depreciation in each of those key areas. That should ensure that we continue to provide both a competitive investment structure and a depreciation regime, both for development and for investment in pipelines that support those developments.

Senator WATSON—How competitive are those regimes compared with others offered around the world with similar energy potential?

Mr Paterson—Certainly individual companies have given indications about the regime returning to a competitive international regime. Obviously any comparison made on an international basis needs to take into account the whole of the taxation treatment and other support that might be provided in relation to major projects. But certainly there has been support, for example, from the North West Shelf partners in the joint venture. They indicated, following the budget, strong support for those budget measures.

Senator WATSON—Are any other projects likely to move ahead that were previously placed in abeyance?

Mr Paterson—I am not sure that there were necessarily projects placed in abeyance. There were certainly significant reservations expressed about the potential for much longer effective life regimes which may have affected the competitiveness of new projects, and any of the major petroleum or gas development projects were likely to have been negatively affected by a longer regime. The effective life caps for depreciation have been well supported by the industries most likely to be affected.

Senator WATSON—And the second part of the question: the wider benefits to the economy generally?

Mr Paterson—I think any significant major investment in that style of project has a positive contribution not just directly for those who are involved in construction and then the ongoing management of individual projects but for rural and regional areas. Rural and regional areas are often significantly assisted by those changes, because many of those projects are located in them.

Senator WATSON—Can you quantify the benefits in dollar terms, both the direct as well as the indirect, that will flow from that decision?

Mr Paterson—I could seek to take that question on notice. That is not something that I could quantify off the top of my head.

CHAIR—Back to Senator Campbell with questions in relation to outcome 1.

Senator GEORGE CAMPBELL—Who is dealing with TCF questions?

Mr Dean—I think there are three of us here who can deal with those issues.

Mr Pettifer—We have at the table someone who can look after policy issues, and AusIndustry will look after any programs related issues.

Senator GEORGE CAMPBELL—Before going to the specifics of each program, I have a general question. Why was a decision taken to cut these programs at this point in time, given that the TCF industry will be subject to either a review or the back of the axe come 2005?

Mr Pettifer—As Mr Paterson said early on in the hearings this morning, it was a matter of setting priorities. It is difficult for me to answer that question right across the portfolio and right across government. It requires a consideration of the revenue, the expenditure projections and the savings that need to be required. So it was in that context that we needed to look at cutting those programs.

Senator GEORGE CAMPBELL—But why specifically these programs? This was something that was introduced for the industry in 1996, with a 10-year time frame. It was part of a structural change program to allow the industry to adjust to reducing tariffs. The program is currently up for review and, I presume, following the automobile industry, it will be subject to Productivity Commission analysis. Also, there is a time line of 2005 for the current tariff regime to phase out. Why the decision to cut these programs at this point in time?

Mr Pettifer—I think it is important to keep it in perspective. The cuts only represent three per cent of the assistance that is provided to the textiles, clothing and footwear sector. There is still over \$700 million worth of assistance being provided to the industry.

Senator GEORGE CAMPBELL—But, with all due respect, the programs that are being cut I would have thought are probably the most critical programs in the whole subset that are available to the industry. You are talking about a technology development fund, education and training in the industry, and market development. We are looking to wean people off mother's milk, to use that term, and those three programs would seem to have been fairly critical to that.

Mr Pettifer—They were certainly addressing competitiveness issues for the industry. I would have to say that, since the programs were introduced—they have only been operational since March last year, I think—we have been pretty disappointed in the quality of the applications that came forward under the training elements. We had better quality applications in relation to market development, and a number of those were funded. Under the programs, that funding will continue and provide about \$2.2 million worth of support to the industry next year. But I think it comes back to the issue that budgeting is about setting priorities, and we needed to do that. I do not know that I can add to that. Just to reiterate, the program cuts only represent three per cent of the support that is given to the industry; and the TCF Strategic Investment Program, which provides \$678 million to the industry, will continue.

Senator GEORGE CAMPBELL—Of that \$670 million, how much is allocated to SIP?

Mr Pettifer—The \$678 million is all SIP.

Senator GEORGE CAMPBELL—Then that has a specific framework around it?

Mr Pettifer—Yes, it has. It supports investment and research and development in the industry.

Senator GEORGE CAMPBELL—Is it \$678 million or \$800 million?

Mr Pettifer—The TCF scheme is \$678 million, but there are other elements of the post-2000 TCF package as well. For example, the expanded Overseas Assembly Provision Scheme has a budget of about \$40 million in revenue forgone. So the total package is actually over \$700 million.

Senator GEORGE CAMPBELL—As I understand it, the cuts to these three programs are expected to save \$21.5 million over four years, which includes a figure of \$3.3 million in the 2001-02 financial year. Why is that money being cut in that financial year? That is money that has already been allocated. Has that money not been spent?

Mr Pettifer—It was not allocated. There were applications in the pipeline that, had they been judged as suitable to fund, would have used some of that money. But all the projects where the department had agreed to provide grant funding will be funded, and so those projects will go ahead as normal. This affects some projects that were in the pipeline. For example, we had 24 projects in the pipeline, I think it was, in relation to the market development program, and we had thought that about 12 of those would be worth funding. This was before the budget issues needed to be considered: we did not think any of the projects in relation to the education and training elements warranted funding; and we were still considering the technology projects, of which there were three, I think, in the pipeline.

Senator GEORGE CAMPBELL—What has happened to those companies that had the applications in for funding?

Mr Pettifer—They have been informed that those projects will not be funded.

Senator GEORGE CAMPBELL—So this is the set of circumstances we have had. In the previous budget we said, ‘There’s a pot of money available for these projects; please get your applications in.’ Companies then applied but have now been told, ‘Sorry, we’ve just withdrawn the bucket of money and there’s no money available; see you later.’ Is that basically what has happened?

Mr Pettifer—That is factually correct, but there are other programs around that might be able to support some of the activities that would have been supported under those programs—and, where appropriate, we will certainly be aiming to make those connections.

Senator GEORGE CAMPBELL—What programs are they?

Mr Pettifer—For example, in relation to market development, there is the Austrade Export Market Development Grants Scheme. Also, ANTA provides funding for training activities. On the technology development front, there are programs that would support research and development and those sorts of things. So where they are relevant, we will—

Senator GEORGE CAMPBELL—But we have just cut back access to those programs too.

Mr Pettifer—I cannot comment on that.

Senator GEORGE CAMPBELL—We have just told applicants to the R&D Start program, ‘Go away and come back when we have some money to give you.’ So where do they go for research and development money?

Mr Pettifer—I cannot comment on that. It would be on a case-by-case basis.

Senator GEORGE CAMPBELL—But you say that there are other funds available which they can access.

Mr Pettifer—Sure. It would be a matter of looking at each project case by case and seeing whether it was something that could be looked at under those other programs. The problem is that I cannot answer that in the broad. They may not fit those criteria; I am not saying that they all would. We would need to look at each one of them and see what could be done.

Senator GEORGE CAMPBELL—Has that been done?

Mr Pettifer—No, not at this point.

Mr Peel—The research and development funding that you have just mentioned is covered under the TCF scheme, and that is not part of the programs that have been cut.

Mr Pettifer—I am sorry; there was a TCF Technology Development Fund element to the programs that were cut.

Senator GEORGE CAMPBELL—So that pot of money is still sitting there?

Mr Peel—You asked earlier where the money for research and development was. There is the TCF's SIP Scheme support for research and development in the TCF sector. That program has not been cut; there is still \$678 million.

Senator GEORGE CAMPBELL—But I am assuming that, for people who are applying for the TCF Technology Development Fund, that would be money that would not be available under the SIP Scheme.

Mr Peel—No, but I was just referring to your comment about R&D.

Senator GEORGE CAMPBELL—I was asking Mr Pettifer where else they go to get these moneys.

Mr Peel—I thought you said, 'Where do they go to get R&D moneys?' My apologies if I have misunderstood.

Senator GEORGE CAMPBELL—It probably was the use of the term. Obviously, if these schemes were not reduced, that was done for a purpose. Presumably they were introduced because other arrangements did not suit this particular set of objectives that were set out for TCF. Why would you introduce a specific scheme if these companies were able to access the R&D Start program and achieve funding from that pot of gold?

Mr Pettifer—I agree. They were introduced for a purpose, but it was a matter of establishing priorities at the end of the day. The industry, as I mentioned, still receives a very substantial level of support from the government.

Senator GEORGE CAMPBELL—Has there been a reasonable demand for access to these programs?

Mr Pettifer—We had funded 22 projects over all. Most were for TCF market development activities, and funding for those projects will continue. As I have mentioned, next year I think we will provide about \$2.2 million worth of funding for the programs. There were 49 projects in the pipeline: 24 related to the TCF market development program; three to the Technology Development Fund; and 22 for the National Framework for Excellence in TCF Education and Training. We had been through the assessment process in relation to the education and training program and had judged that none of those warranted funding. We had not looked at all three Technology Development Fund projects that were in the pipeline. We had looked at

the TCF market development program projects and judged that, of those, 12 would warrant funding of about \$1.7 million.

Senator GEORGE CAMPBELL—Out of a total pool in that area of what? What is the break-up of those three programs?

Mr Pettifer—In terms of projects that are not going to proceed?

Senator GEORGE CAMPBELL—No, in terms of the amount of money that was earmarked for them originally.

Mr Pettifer—The amount of money was \$10 million for the National Framework for Excellence in TCF Education and Training.

Senator GEORGE CAMPBELL—And that was over four years, wasn't it?

Mr Pettifer—Yes. There was \$10 million available for the Technology Development Fund over four years and \$12.5 million available for the TCF market development program over four years.

Senator GEORGE CAMPBELL—And you had bids in for this financial year in all three areas?

Mr Pettifer—We did.

Senator GEORGE CAMPBELL—If I understood you correctly, you said you had about 12 companies that would have qualified for the market development program?

Mr Pettifer—Yes, 12 projects that we thought warranted funding.

Senator GEORGE CAMPBELL—And what would they have taken up?

Mr Pettifer—They would have taken up \$1.7 million.

Senator GEORGE CAMPBELL—Out of a pool of what for the 2001-02 year?

Mr Pettifer—It was \$2.7 million.

Senator GEORGE CAMPBELL—About two-thirds. What about the excellence in education and training program?

Mr Pettifer—We did not think any of those projects warranted funding. The amount of money available this year for that program was \$2 million.

Senator GEORGE CAMPBELL—Why didn't you think they warranted funding?

Mr Dean—We did not believe that the quality of the applications was up to standard.

Senator GEORGE CAMPBELL—When you say the 'quality of the application', do you mean the quality of the outcomes or the actual application itself?

Mr Dean—It could have been both. Normally what would happen if the program was continuing is that we would work with the applicants, if there was something of merit in there to come back to at a later point, to get the thing up to scratch.

Senator GEORGE CAMPBELL—But you did not go back to the applicants in this case?

Mr Dean—No.

Senator GEORGE CAMPBELL—When was the actual decision taken to cut these programs? When were you advised to stop processing applications in respect of these programs?

Mr Dean—This decision was announced in the budget context, and there is a process behind that.

Mr Pettifer—They were budget line announcements.

Senator GEORGE CAMPBELL—So companies were not aware until budget night that funding was not available?

Mr Pettifer—That is correct. Nor were those administering the program.

Senator GEORGE CAMPBELL—When were these applications made for access to this funding?

Mr Dean—They vary. For the MDP, the round came in in January-February. The Technology Development Fund people can put in at any point in time and the NFE came in in March.

Senator GEORGE CAMPBELL—It was two months before the budget announcement, and you did not attempt to process these applications in that period? Would it normally take you two months to process applications?

Mr Dean—Yes, it would. There is a selection committee with outside experts, and in the MDP's case that includes officers from the department of foreign affairs and Austrade. That would be about a two-month time period for assessment.

Senator GEORGE CAMPBELL—So in relation to the process you were going through, had you actually made decisions to grant applications under these funds?

Mr Dean—No, we had not made decisions to grant. We had come up with a shortlist that we thought we might be able to make offers to.

Senator GEORGE CAMPBELL—So you had a shortlist that you were prepared to offer funding to under this grant. When was that shortlist available?

Mr Dean—I do not have that date with me, Senator.

Senator GEORGE CAMPBELL—You do not have it with you, or you are not sure?

Mr Dean—I can get a date for you if you wish, but I do not have it here now.

Senator GEORGE CAMPBELL—Can you get that date for me? Presumably that date was before the budget.

Mr Dean—Yes, it was.

Senator GEORGE CAMPBELL—What acted to prevent you from making an offer to these companies you had selected?

Mr Dean—I think we were aware of the fact that we would not be able to make those payments for the period that the grants were sought for.

Mr Pettifer—Perhaps if I could explain. The projects do not just involve expenditure in this financial year. Once the projects are funded, they involve expenditure in future years. We were not able to achieve the fiscal outcomes that were sought and continue to fund those projects. It was a budget decision.

Senator GEORGE CAMPBELL—So at the end of the day it has nothing to do with the quality or otherwise of these programs and whether they were necessary or otherwise to assist the industry? While they were important, this was purely done in the context of your budgetary requirements; you had to cut somewhere. Is that what you are saying?

Mr Dean—It was a government decision to terminate these programs. So our requirement was not to enter into commitments that would create obligations when there was no funding to cover it.

Senator GEORGE CAMPBELL—I understand. I am trying to make sure in my mind that these programs were not cut because either they were inappropriate, there was a lack of demand for them or they would not have achieved the outcomes they were seeking to achieve; the cuts were made purely on the basis of meeting budgetary requirements of the department and the budgetary requirements of the government.

Mr Pettifer—They were cut in the context that the industry would continue to receive very substantial benefits under the TCF SIP Scheme. That scheme is most important to the industry. It directly funds firms—their investment and innovation activities. Were the programs serving a purpose? They would not have been introduced if they were not going to serve a purpose. Were we comfortable with the way they were proceeding? We think the quality of the applications we were getting under some elements of the program were very poor, hence the decision not to fund a number of those.

Senator GEORGE CAMPBELL—But that could apply to any of your programs.

Mr Pettifer—Of course, it could. But at the end of the day the industry continues to benefit from a very major assistance program. Apart from the automotive industry, it is a very large program.

Senator GEORGE CAMPBELL—I understand what you are saying in terms of the SIPS program, but the objectives that were sought to be achieved by these three programs were not available under SIPS, otherwise why would you introduce these three programs? You obviously saw a need in these three areas to do something specific for the industry. Obviously a need was identified—whenever that might have been—in the last budget for a specific activity in this area. I presume, given the nature of these three programs, it was a specific activity because that was related to decisions coming down the track about other forms of assistance. Suddenly there is a decision to cut off access to those programs. What discussions have there been with the industry about the impact of this?

Mr Pettifer—There were not any discussions prior to the announcements, because of the budget conventions that apply. Since then we have spoken with the TFIA, which is the TCF industry association. I think they understand the thinking behind the decisions and are grateful that the TCF scheme was not cut in the budget and will continue. There are some companies or associations which had applications in the pipeline which are naturally disappointed that they will not be funded.

Could I just make another point about the scheme. Certainly these things were funding activities that were not funded under TCF SIP. A number of projects have been funded, as I mentioned earlier on. There is going to be continued funding. Hopefully, we have catalysed some useful activity as a result of those programs and the industry will go on with those.

Senator GEORGE CAMPBELL—Isn't this also going to lead to presumably some more of these companies out of this industry competing with some of the other programs that are available?

Mr Pettifer—Yes, to the extent that what they wanted granted would fit with some of those other programs. That would be the effect, yes.

Senator GEORGE CAMPBELL—This has the potential of putting pressure on the other programs that are running and on other industries as a consequence?

Mr Pettifer—Yes, but I wouldn't expect, in the total scheme of things, that it would be large.

Senator GEORGE CAMPBELL—You wouldn't, but that does not necessarily mean to say that it will not happen.

Mr Pettifer—That is my best judgment.

Senator GEORGE CAMPBELL—In all three of those program areas that we are talking about, did the application for funding exceed the funds that were available?

Mr Pettifer—No.

Senator GEORGE CAMPBELL—To what extent did they not meet the available funds in each of those three areas? You said that in market development it was \$1.7 million out of \$2.5 million.

Mr Pettifer—That is right. What we had in the system in relation to the Technology Development Fund was \$1.1 million and I think we said that we had \$2 million available, was it?

Mr Dean—That is correct.

Mr Pettifer—We had \$8.9 million worth of grants under the National Framework for Excellence in TCF Education and Training.

Senator GEORGE CAMPBELL—That is over the four years?

Mr Pettifer—No, that was currently in the system. We judged that none of those warranted funding. My comment was in relation to what we thought was worth supporting under those programs compared with the funding that was available, not the applications through the system.

Senator GEORGE CAMPBELL—What about the Technology Development Fund?

Mr Pettifer—As I said, there were \$1.1 million worth of applications in the pipeline—there were three of those—and there was \$2 million available.

Senator GEORGE CAMPBELL—It was \$1.1 million out of \$2 million?

Mr Pettifer—Yes. We have funded two projects in that area already.

Senator GEORGE CAMPBELL—Will that funding continue?

Mr Pettifer—Yes, it will. Everything that has been approved will continue and, as I say, I think about \$2.2 million worth of funding will go to the programs next year, in 2002-03.

Senator GEORGE CAMPBELL—As I understand it, you have called for applications for these programs on your web site. How often is your web site updated?

Mr Dean—I do not believe that is correct.

Senator GEORGE CAMPBELL—When was it taken off?

Mr Dean—I believe it was taken off the day after budget night.

Senator GEORGE CAMPBELL—I will check that out because that is not my information; my information is that it is still there. Does that relate to all three funds?

Mr Dean—Yes, it does.

Senator GEORGE CAMPBELL—If I knew how to get onto your web site, I would look now. Minister, my next question on the future of the industry is to you: when is the government looking to refer this to the Productivity Commission? Are you looking to refer it to the Productivity Commission?

Senator Minchin—I will ask Mr Dean to answer that.

Mr Dean—There will be a submission to cabinet on this by about September. There is no decision to go to the Productivity Commission at this stage. The minister has said that he has discussed this with the industry and that he wants to see the total outcome of this process concluded by the end of 2003 and that is very acceptable to the industry.

Senator GEORGE CAMPBELL—So there is no decision to go to the Productivity Commission at this stage?

Mr Dean—No, there is not.

Senator GEORGE CAMPBELL—Is there an indication that it may not go there?

Senator Minchin—No decision has been made. It is a neutral comment; it is not ruling out the possibility of going there, it is just saying that no decision has been made to do that.

Senator GEORGE CAMPBELL—Does that mean a similar approach may be taken in terms of the auto industry?

Senator Minchin—No, the decision has already been made that—

Senator GEORGE CAMPBELL—I understand that. What I said was: does that mean that there may be a similar approach taken to what occurred in the auto industry?

Senator Minchin—Again, no decision has been made on that.

Senator GEORGE CAMPBELL—In the case of the auto industry, there was a decision made to refer it to the Productivity Commission with a short time frame and fairly specific terms of reference, to avoid a wide ranging navel-gazing exercise by the commission, I suppose.

Senator Minchin—With respect, it was under my tenure that we made a commitment and we approached the last election based on the fact that the industry itself was very keen to get a resolution of post-2005 assistance arrangements—for good reason because of the long lead times and massive nature of investment in the auto industry—and we complied with the industry's very specific request to do this posthaste. But each industry is considered on its merits. We are now dealing with the textile industry on its merits and in accordance with, I trust, the wishes of that industry.

Senator GEORGE CAMPBELL—And I congratulate you for it; I think you are right in terms of the auto industry. The only point I was making was whether or not a similar approach of having a truncated review was going to be followed here or it was going to be a wide ranging traverse-all-angles situation, given that there are still a substantial number of people employed in this industry and a substantial number of them are employed in regional Australia.

Senator Minchin—I appreciate that comment. That will certainly be taken into consideration when the government does come to consider the nature of the review to be undertaken. I think it is a different industry—it does have more smaller players and a much more regional focus—and, as I said, each industry has to be considered on its merits as to how you undertake such a review.

Proceedings suspended from 10.38 a.m. to 10.57 a.m.

Senator GEORGE CAMPBELL—I would like to come back to the issue that I raised about the web site. It is true to say that there is an acknowledgment there that the programs are to be discontinued from the 1 July 2002, but when you go immediately behind that all the application forms are still on the web site, and they say that projects must be completed and the final grant payment must be made prior to 30 June 2005. To say the least that has to be extremely confusing for people out there who are visiting your web site.

Mr Dean—I checked over the break and it may be correct that the application forms are still there. However, I think the wording is quite clear that the programs discontinue as of the end of this financial year.

Senator GEORGE CAMPBELL—I find that interesting, Mr Dean, because it says that the National Framework for Excellence in TCF Education and Training is to be discontinued from 1 July 2002. Then straight underneath that are the links: background, guidelines for projects, call for applications and application form. All the other information says that this goes through to 2005.

Mr Dean—I think we thought it was better to leave the information there. If you think it is confusing, it is not a problem to delete it.

Senator GEORGE CAMPBELL—I am making the point that it could be extremely confusing to individual companies. They may well have thought that their applications had to be in by 1 July 2002.

Mr Dean—There was a system of rounds for those programs. I do not believe that confusion would have arisen. They are not able to put applications in at any point. The rounds are always advertised and in the absence of that notification there would not have been a point in putting an application in.

Mr Pettifer—We will remove that information. If you and your staffers are finding it confusing, obviously the message is not correct.

Mr Paterson—Before you move to a new range of questions, you asked a question before the break with respect to the Seoul and Jakarta posts. The maximum savings are: for Jakarta, \$285,600 and for Seoul, \$231,000. That is on a full-year basis for all costs associated with our involvement with the posts. The actual savings will be somewhat less than that: we are in negotiations in relation to lease commitments and the like for space which are not yet resolved. If we were able to withdraw from 1 July from those commitments, those would be the maximum savings for each of those cases, but they are still subject to some ongoing negotiations. There are also some continuing discussions about the possibility of a very part-time arrangement in Jakarta which have not yet been brought to a conclusion. So the maximum savings from the closures would be \$285,600 in a full year for Jakarta and \$231,000 for a full year for Seoul.

Senator GEORGE CAMPBELL—How is it intended to follow through on the work that is undertaken by these councillors now that you have withdrawn them or are in the process of withdrawing them?

Mr Paterson—In Jakarta, as I said, there are some continuing discussions about how we might be able to approach that in a different way with a reduced commitment.

Senator GEORGE CAMPBELL—How would you do that? Through Austrade?

Mr Paterson—Either directly through the post or from Australia—a lot of these things can be done with stronger support using information and communications technology. If there are special requirements that would require an officer to travel for face-to-face discussions that could not otherwise be done by the post, our judgment is that that is a more cost-effective way of dealing with these issues, given priority constraints that are imposed upon us. But we look at these on a regular basis. In earlier evidence we indicated that some of this activity was a shared responsibility between the industry and resources part of the portfolio and the science part of the portfolio. We lost the science part of the portfolio but retained the individual within the post. The funding in relation to that activity moved to another agency, but we retained the obligation in relation to the individuals concerned. So it is a rationalisation of activity.

Senator GEORGE CAMPBELL—Have you had any discussions with Education about picking up responsibility for the area now that science has gone into their area?

Mr Paterson—There are some ongoing discussions and they have not been brought to a conclusion. It is possible that there may be some element of a shared resource that would continue in Jakarta, but there are quite contemporary discussions taking place on that. I had a discussion with the post last week—personally—and those discussions will continue.

Senator GEORGE CAMPBELL—Thank you for that. What was the rationale for cutting the PICS and EPICS programs, Mr Pettifer?

Mr Pettifer—The same rationale as for textiles, clothing and footwear: it was a matter of setting budget priorities to meet commitments within the portfolio and across government.

Senator GEORGE CAMPBELL—So it is essentially expenditure focused? When and why were these schemes established?

Mr Pettifer—PICS was a 1998 commitment established in 1999 to offset the cost of the tariff on paper as an input to the industry. The tariff on paper, I think, is five per cent.

Senator GEORGE CAMPBELL—Wasn't it also related to the introduction of the GST?

Mr Pettifer—No, that was EPICS. EPICS was established in July 2000. It was a commitment of \$48 million over four years and it was established in the context of the introduction of the goods and services tax on books.

Senator GEORGE CAMPBELL—Why is it now assumed that that impact is no longer there?

Mr Pettifer—It is not assumed that the impact is no longer there. The industry, though, is performing quite well. If you look at its growth over the last couple of years and the forecast growth, it is above the manufacturing average. There were some benefits from the GST for the industry. The economic modelling that was done indicates that their input costs were reduced by about four per cent as a result of the goods and services tax.

There were a number of elements to the book industry assistance package. The program we are talking about was only one element. There is still \$220 million worth of support available under the other elements of the book industry package that were introduced at that time.

Senator GEORGE CAMPBELL—What is the total saving to the government by cutting these programs?

Mr Pettifer—I think the saving is \$25.1 million.

Senator GEORGE CAMPBELL—What is the break-up between the two programs?

Mr Pettifer—For EPICS, \$19.2 million; for PICS, \$5.9 million.

Senator GEORGE CAMPBELL—At the time the decision was made to cut this funding, how many applications did you have?

Mr Pettifer—I will defer to my colleague in AusIndustry who has that information.

Mr Peel—We had 64 applications from 41 firms at the time the decision was made.

Senator GEORGE CAMPBELL—That was under EPICS or PICS?

Mr Peel—Under EPICS. Under PICS we had three applications worth about \$7,000 on hand when the announcement was made. They will be processed in the normal way.

Senator GEORGE CAMPBELL—When were these 64 applications received, and how long did it take to process them?

Mr Peel—Most of them were received in April. There were a few from March and, from memory, there was one from December. They normally take about two months to process.

Senator GEORGE CAMPBELL—Is that standard?

Mr Peel—Yes, it is. They are not decided upon on a continuous basis like other programs. We have a committee that meets about once every six weeks to consider applications.

Senator GEORGE CAMPBELL—Are they grants or loans?

Mr Peel—They are grants.

Senator GEORGE CAMPBELL—Are the grants in this area the same as in other areas? Do they have an ongoing effect, or are they one-off?

Mr Peel—They carry on over a period of time.

Senator GEORGE CAMPBELL—So they can carry on from year to year over the four-year life of the program?

Mr Peel—That is right.

Senator GEORGE CAMPBELL—Will the grants of those companies that are lucky enough to have grants on the go continue through?

Mr Peel—Yes, they are unaffected. The grants that were approved are unaffected by the decision.

Senator GEORGE CAMPBELL—When are these programs due to cut out?

Mr Peel—Are you asking when the existing grants are due to cut out?

Senator GEORGE CAMPBELL—Yes.

Mr Peel—I will take it on notice, but I think it is at the end of 2002-03.

Senator GEORGE CAMPBELL—What implications does the cutting of EPICS have for the government's action agenda?

Mr Pettifer—We think the action agenda will continue as before. There were a number of projects funded that related to action agenda activities, and the funding for those will continue. They were funded under the infrastructure element of the EPICS program. The industry I think has very much embraced the action agenda itself. It has catalysed some significant change within the industry, and we are pretty confident that it will continue to unfold. It is important to realise that the programs cut related only to book printing, and the action agenda is about the printing industry overall.

Senator GEORGE CAMPBELL—But it says at some point in the government's own words that EPICS has been developed bearing in mind the findings of the action agenda.

Mr Pettifer—Yes. When we developed the action agenda, we were keen that there be synergy between the two elements.

Senator GEORGE CAMPBELL—You are saying that now withdrawing it will not have a serious impact?

Mr Pettifer—There are a number of projects that will continue to be funded. I do not think it is going to have a serious impact. Obviously there may have been some activities that came up under the action agenda that you might have considered funding under the program—and I do not know what they would have been—but I do not think the cutting of the program prejudices the implementation of the action agenda.

Senator GEORGE CAMPBELL—How are these action agendas managed? Is there a committee or a group?

Mr Pettifer—That one is managed by a small team within my division. It is well and truly in the implementation phase, and very much responsibility for the implementation of that action agenda has now transferred across to the industry itself.

Senator GEORGE CAMPBELL—Is there a group within the industry that looks after the action agenda? Who in the industry looks after the action agenda?

Mr Wall—The implementation of the printing industry's action agenda is being led by a steering group comprising the industry itself. It is led by the PIAA, the Printing Industries Association of Australia, and includes representatives from the Graphic Arts Merchants Association of Australia and the paper industry. It is very much an industry led and industry driven group.

Senator GEORGE CAMPBELL—Have you met with the steering group since the budget to discuss with them the implications of these changes?

Mr Wall—I have not met personally with the steering group, but I have met with—

Senator GEORGE CAMPBELL—That is the royal 'we'.

Mr Wall—In terms of the royal 'we', I do not believe we the department have met with the steering group since the budget, but we met with representatives of the Printing Industries Association the day after the budget.

Senator GEORGE CAMPBELL—What was their response? How do you know whether or not there is an ongoing commitment to the action agenda by the steering group if you have not met with them yet?

Mr Wall—The action agenda is not conditional on funding for the printing industry programs, and I would not expect the action agenda to be affected by the changes that have been made to those programs.

Senator GEORGE CAMPBELL—I understand what you are saying, but I am more interested in trying to find out what the industry steering group thinks about the decision to cut the funding rather than in your assumption of what their response might be.

Mr Wall—The short answer to your question is that we have not met with the steering group since the budget.

Senator GEORGE CAMPBELL—So they have not expressed a view about it to the department in any form other than through a formal meeting?

Mr Wall—There have been representations made to the department—and one of those was from the head of the Printing Industries Association—and they expressed disappointment at the government's decision.

Senator GEORGE CAMPBELL—They expressed just disappointment? Did they give any indication in that correspondence to you as to whether or not this would impact upon the action agenda?

Mr Wall—I do not have the letter in front of me, but I do not believe they mentioned the action agenda in the terms that you have described.

Senator GEORGE CAMPBELL—Can you make a copy of the letter available to the committee, as long as it is not a confidential document or cabinet in confidence?

Mr Wall—The letter is actually on the industry web site.

Senator GEORGE CAMPBELL—When I learn how to access your web site, I will go and look for it.

Mr Wall—I will certainly make sure that you can.

Senator GEORGE CAMPBELL—Technology is a bit difficult to pick up. How many firms have actually used PICS and EPICS since their introduction?

Mr Peel—For EPICS, we have had 108 customers over the life of the program. For PICS we have had 78 claimants—that may be fewer customers, but I can check the number of customers later.

Senator GEORGE CAMPBELL—So there has been a reasonable interest in the programs from the industry?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—Has that been consistent over the period the programs have been in place?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—I presume the industry was not consulted at any stage prior to the budget announcement.

Mr Wall—Normal budget conventions were followed, so no.

Mr Peel—To clarify an answer I just gave, both of the programs started off slowly and built up, so when I said the number of customers had been consistent over the period I think you will probably find that they have grown over time.

Senator GEORGE CAMPBELL—The interest in the programs from the industry has been consistent over the period?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—It is not something that people have had a look at, virtually applied and said, 'This just doesn't suit our needs. We are just not interested in it,' and then go elsewhere. Who would be responsible for consultations with the industry? Is it you, Mr Wall?

Mr Wall—Yes.

Senator GEORGE CAMPBELL—How do these steering group meetings get convened?

Mr Wall—They are led by the industry itself, so they would be convened by the industry.

Senator GEORGE CAMPBELL—They are not initiated out of the department?

Mr Wall—No. The development of the action agenda was initiated from the department, even though the steering group at that stage was chaired by an industry member. In this case, the implementation committee is operating with the support of the industry itself.

Senator GEORGE CAMPBELL—Does the department sit on the steering group?

Mr Wall—We do not sit on that steering group. We may be invited to go to the meetings.

Senator GEORGE CAMPBELL—Do you go to the meetings? How do you keep appraised of what the group is discussing or deciding?

Mr Wall—We receive regular reports from the industry on its progress.

Senator GEORGE CAMPBELL—Do you receive the minutes from the steering group meetings?

Mr Wall—No, but we do ask for reports from time to time, and reports are given to us.

Senator GEORGE CAMPBELL—Do you know when the last meeting of the steering group was?

Mr Wall—No, I do not.

Senator GEORGE CAMPBELL—When was the last time a departmental officer attended one of these steering group meetings?

Mr Wall—We have not been invited to a steering committee meeting for some time now.

Senator GEORGE CAMPBELL—What does ‘some time’ mean—one year, two years, three years?

Mr Wall—Not in this calendar year.

Mr Pettifer—If I could intervene, I think one of the great things about action agendas is that the government catalyses some action and then industry actually gets on with the job of implementing it, so I think the fact that the industry is getting on with the job and is not relying heavily on the department is not necessarily a bad thing. In fact, it is one of the things you would want to happen.

Senator GEORGE CAMPBELL—I did not suggest it was. The point I am looking at is that you obviously developed an action agenda in conjunction with the industry—it was not developed just by the industry; you were involved with the process—and I would assume that at the very least the department had an interest to ensure that the action agenda was being implemented as was agreed out of those discussions. It is not unknown for industry groups or others to get off the track occasionally with these things.

Mr Wall—Just by way of clarification, the balance of the recommendations were for industry initiation. That is why they are taking this particular role. There are recommendations there for the attention of government, and we are proceeding with those, but the bulk of these recommendations that are being progressed by the industry are for the industry itself to follow up.

Senator GEORGE CAMPBELL—Is that a similar set of circumstances with all the action agendas which come under your department? I understand there are a number of them in other departments. We will have to ask them.

Mr Paterson—There are different approaches across a variety of the action agendas. There are different stages of development—some of them complete, some of them with work in process—both on the government side and on the industry side, but the predominant focus is about getting the industry together to identify the issues that it can deal with collectively. In many cases, it has brought together otherwise disparate groups where there was no traditional industry association activity and it has brought a group of people together as industry participants. So they are at different points in time and, as you note, in different portfolios.

Senator GEORGE CAMPBELL—For the action agendas underneath your portfolio, are there any for which there is a continuous involvement with the department, even after they have been developed with the industry? I am not talking about the process of developing the action agenda; I am talking now about when you get from a process of development to implementation.

Ms Georgopoulos—Yes, there is regular involvement by the department. At a minimum, there are annual reports to ministers on the progress of action agendas. There are a number of action agendas where, both within our portfolio and outside the portfolio, the departments have taken an active role in being in the implementation group and taking forward the implementation of particular action agendas. It really depends on the balance of actions that the action agendas identify to take forward whether many of those actions are with industry to take forward or with government. You will see a variety of involvement right across the portfolio and across government.

Senator GEORGE CAMPBELL—Can you give us an example of where you have substantial involvement or of where you have minimum involvement?

Ms Georgopoulos—Certainly. I will take one that is just about to be released: the Freight Transport Logistics Industry Action Agenda. It is an example of where another portfolio—the Department of Transport and Regional Services—is taking the primary lead. In that case, both their minister and their department are taking an active role in the implementation of that action agenda.

Senator GEORGE CAMPBELL—Do you have an involvement in that? Does this department have an involvement in that action agenda?

Ms Georgopoulos—We keep across key issues.

Senator GEORGE CAMPBELL—Do you keep a cross-portfolio watch on all these action agendas?

Ms Georgopoulos—Yes, we do. In terms of some examples internally, the Downstream Petroleum Products Action Agenda and the Liquefied Natural Gas Action Agenda are two examples where the department continues to play an active role in the implementation—in measuring, in meeting regularly with the industry parties and in seeing through the implementation of that action agenda.

Senator GEORGE CAMPBELL—What are the ones where there is a minimum of government involvement? We have just heard about this one.

Ms Georgopoulos—Some of the earlier action agendas would have seen that lighter touch. For example, the Information Industries Action Agenda and the Digital Broadcasting Industry Action Agenda—there would have been a light touch involved with those.

Senator GEORGE CAMPBELL—What about the Building and Construction Industries Action Agenda?

Mr Pettifer—Maybe I can comment on that one. That is an example where the industry very much did take responsibility for driving the actions forward, through the establishment of the Australian Construction Industry Forum. The department has been involved in funding some specific projects and there are some regulatory reform issues and those sorts of things that required government action, but a lot of the action was about industry taking up the recommendations and moving forward with them. Another good example, I think, is the Heavy Engineering and Infrastructure Action Agenda, where the industry established the National Infrastructure and Engineering Forum as the vehicle to drive it forward. That was very much industry taking responsibility for that.

Senator GEORGE CAMPBELL—Can you describe what the projects that you are funding in the building industry are? What are they funded out of?

Mr Pettifer—I can describe it in broad terms, but I will have to rely on John Dean to do it in more detail. We funded a benchmarking project, for example, and we funded some work on innovation in the industry. It was funded from some money that was available until recently. The funding on that one has just finished, I think.

Senator GEORGE CAMPBELL—Is this funding provided for in the budget or is it out of your administrative funding?

Mr Pettifer—No, that was money that was previously in the department of housing or something and which followed through. But John Dean can explain in more detail.

Mr Dean—There is a range of projects funded under the Building and Construction Industries Action Agenda. I think the total value of them is about \$3.2 million over three years. They range, as Mr Pettifer said, from benchmarking studies through to some studies on innovation and the nature of innovation in the industry.

Senator GEORGE CAMPBELL—What was the benchmarking study?

Mr Dean—That was the development of a tool to enable Australian firms to compare their performance against industry norms and see how they were rating.

Senator GEORGE CAMPBELL—Is there documentation on these projects?

Mr Dean—I think it might be on the web site.

Senator GEORGE CAMPBELL—Is it? I had better learn how to read your web site.

Mr Dean—Certainly, there is documentation that we can supply. There are a lot of documents on the action agenda that we can supply to you.

Senator GEORGE CAMPBELL—How long has the building industry action agenda been running now?

Mr Dean—Three years. It concludes at the end of this month.

Senator GEORGE CAMPBELL—Is there any endeavour to renegotiate or renew it?

Mr Dean—I do not believe there will be an action agenda per se. I think we will continue to work with ACIF on ongoing and outstanding matters, but not in a formal action agenda sense.

Mr Pettifer—An example is that there were some regulatory reform issues, including matters relating to minimum energy efficiency standards and those sorts of things. That is an ongoing agenda which is being prosecuted by the Australian Building Codes Board. Things like that—unfinished work—will continue on.

Senator GEORGE CAMPBELL—Getting back to PICS and EPICS: what is the current commitment under both of those programs for ongoing funding?

Mr Pettifer—The total level of expenditure that we expect under EPICS, including some small departmental running costs, is \$28.3 million. Under PICS, it is \$6.4 million.

Senator GEORGE CAMPBELL—That runs out in June 2003; is that right?

Mr Pettifer—Yes. There is a little bit of EPICS money in 2003-04, but we expect that all the money will be spent in 2002-03.

Mr Wall—I would like to explain: for 2003-04, I think we have a very small allocation which must relate to existing commitments that run that far where there are contract deeds in place.

Senator GEORGE CAMPBELL—Again, to satisfy myself: the savings over the period as a result of the decision to cut these programs are \$19.2 million in respect of EPICS. Is that right?

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—And \$5.9 million in respect of PICS.

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—Has the department prepared a submission to the Productivity Commission in respect of the auto industry review?

Mr Pettifer—No.

Senator GEORGE CAMPBELL—Will you be putting in a submission?

Mr Pettifer—No. We are, though, engaging closely with the industry through the Automotive Council. We are working with them on the competitiveness challenges that the industry faces and what the government and industry might do to address those, but we are not proposing to put in a submission as such to the Productivity Commission.

Senator GEORGE CAMPBELL—How will that information get into the process of the Productivity Commission? Will you respond to their outcomes?

Mr Pettifer—All the companies that are represented on the Automotive Council have made their own submissions to the Productivity Commission. I would have to check that, but if they have not I would be quite surprised.

Senator GEORGE CAMPBELL—At what stage will the department respond to the Productivity Commission?

Senator Minchin—The department will be the central source of advice to the government in the formulation of our response to the Productivity Commission report.

Senator GEORGE CAMPBELL—But it will be a whole of government response?

Senator Minchin—Yes, it will. I would imagine the industry minister, together with the Treasurer, will be formulating a government response based on advice from their department. So this department will be centrally involved in advising the government on the appropriate response.

Senator GEORGE CAMPBELL—You would expect that to occur very quickly?

Senator Minchin—I personally would, and I am sure Minister Macfarlane would, given that the whole purpose is to give the industry the certainty it quite reasonably expects in relation to post-2005 arrangements.

Senator GEORGE CAMPBELL—What is the expectation in terms of the Productivity Commission completing the review and having its draft recommendations available?

Mr Pettifer—It is going to produce a position paper in late June, and it expects to complete its final report in September.

Senator GEORGE CAMPBELL—Is the position paper for public dissemination?

Mr Wall—That is correct. It would be the framework paper for the commission's public consultations or hearings.

Senator GEORGE CAMPBELL—So this is a normal process? This is the draft report.

Mr Pettifer—It is equivalent to a draft report.

Senator GEORGE CAMPBELL—That is proposed to be available in late June?

Mr Pettifer—Yes. We expect it to be publicly released on the 27th.

Senator GEORGE CAMPBELL—Has the industry council been meeting on a regular basis?

Mr Pettifer—Yes. There are three working groups, and they have been meeting on a regular basis. The full council has met with ministers once and will be meeting again with ministers on 26 June. There are three working groups: one dealing with global integration, one dealing with competitiveness and investment and one dealing with workplace capability issues.

Senator GEORGE CAMPBELL—Who is on the council?

Mr Pettifer—On the council are of the four car companies, the four component companies and representatives from the importers. I could take that on notice if you are interested in the full list.

Senator GEORGE CAMPBELL—Is there no union or employee input into the council?

Mr Pettifer—There is no union representative on the council.

Senator GEORGE CAMPBELL—How is the working party dealing with workplace capability processing its material without any input from the work force?

Mr Wall—It is dealing with a range of issues that go to productivity, skills formation and the level of industrial disputation affecting the industry. It is dealing with these issues in, I guess, a systematic way. It has representatives from those who are involved in the HR departments of the industry. It is basically working up its own recommendations, on reference from the automotive council.

Senator GEORGE CAMPBELL—Presumably those recommendations will find their way through, without any knowledge of whether or not they will be supported or embraced by

the work force in the companies? What knowledge do you have of the consultative process involving the work force at a company level? These things can only be implemented if the work force is favourable towards implementing them.

Mr Wall—I do not have any knowledge of the processes undertaken within each company. But, presumably, the representatives are coming forward with recommendations based on their experience and knowledge of the individual company processes and the consultation mechanisms they have in place.

Senator GEORGE CAMPBELL—In terms of the priorities of the council, how do these issues rate? Do they see those three issues being worked on by the parties as being equal, or do they give more weight to one than to the others?

Mr Pettifer—They are all important issues. It was a matter of deciding on what the key issues were early in the process, and that is why they have been focused on.

Senator GEORGE CAMPBELL—But, if you know the industry—I presume you do, Mr Pettifer—you would know that some of those issues would rank more highly with some companies than they would with others. The nature of the production process differs from company to company.

Mr Pettifer—Yes, it depends a bit on the industry's experience. Obviously of great interest to them is what the future tariff arrangements might look like and what the future assistance arrangements post the current ACIS program might look like; they are obviously interested in that particular issue. There was quite a degree of concern about industrial relations issues in the light of the difficulties the industry has recently had with the supply line, and so obviously that has been a matter of interest.

Senator GEORGE CAMPBELL—Historically; not recently. But the first two issues you talk about are external; they are issues that are important in terms of dealing with externalities of the industry. The third issue, workplace capability, is very much about internal competitiveness of the industry.

Mr Pettifer—Sure. I think the industries understand very much that, if they are to be viable long term, they need to be competitive internally. So it is part of trying to create a policy environment and that policy environment being embraced by the industries and companies to put themselves in that position.

Senator GEORGE CAMPBELL—I suppose the issue is that the first two items are not totally within their control but the third issue is. I just wonder how they can come to a recognition or a realisation of the policy agenda in that area without any consultation with the work force or their representatives—presumably, there is no consultation. There is none that I am aware of.

Mr Pettifer—I think Mr Wall has already responded on that point. I cannot add to it, other than to say—

Senator GEORGE CAMPBELL—Does the department have a leading role on this council?

Mr Pettifer—We are providing secretariat support to the council.

Mr Wall—It might be useful for you to know that the secretariat contains some secondees from other departments, including one from the Department of Employment and Workplace Relations; they are actively assisting this particular working party.

Senator GEORGE CAMPBELL—That does not mean to say it resolves the issue, but I take your point.

Mr Wall—There is some expertise there, and there are also some external issues relating to the legislative framework for industrial relations issues that are being addressed as well.

Senator GEORGE CAMPBELL—Has there been any discussion between the council and the department of industrial relations or the minister with respect to future industrial relations in the industry?

Mr Pettifer—The department has provided secretariat support to that working group, and that is still in the process of formulating recommendations. So I think we will need to wait and see what comes out of that process before there is any formal interaction with ministers.

Senator GEORGE CAMPBELL—But that is your department?

Mr Pettifer—Yes, our department is providing this secretariat support.

Senator GEORGE CAMPBELL—I understand Mr Wall to say that the department of workplace relations has a representative on the working group relating to work force capability.

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—My question goes to whether or not, as part of this process, the council has had meetings with either departmental representatives or the minister for workplace relations with respect to workplace relations in this industry.

Mr Pettifer—At this stage it has not.

Senator GEORGE CAMPBELL—There have been no meetings, formal or informal, that you are aware of?

Mr Wall—I am not quite sure what you are trying to establish, but I think I can say categorically that there has been no expression of view about workplace capability put formally by the automotive council or the workplace capability group to the minister.

Senator GEORGE CAMPBELL—No. I am trying to establish the exact opposite. I am trying to establish whether or not there has been a point of view—and you well know what I am trying to establish—put to this working group or the auto industry council by the minister or the department as to what their expectations might be in terms of future industrial relations in the industry.

Mr Pettifer—To my knowledge, the minister has not put a view on expectations, and it would not be appropriate for the department to put a view at this point in time. What we are doing is providing secretariat support to the council, so that the industry can come up with its view of these particular issues. So we are facilitating that particular process; we are not trying to influence it.

Senator GEORGE CAMPBELL—I understand that, but I am not talking about your department; I am talking about the department of industrial relations.

Mr Pettifer—I am not aware that any such direction or view has been put, certainly at ministerial level. I doubt that any direction would have been made through the officer we have seconded onto the secretariat.

Mr Wall—I would just confirm Mr Pettifer's understanding that the staff member concerned is aiding the workplace group in its own work, not injecting particular views.

Senator GEORGE CAMPBELL—Who is the staff member involved in that particular committee?

Mr Pettifer—Sue Beitz is her name.

Senator GEORGE CAMPBELL—What level is she?

Mr Pettifer—She is an EL1 officer.

Senator GEORGE CAMPBELL—That is a senior level, I presume.

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—An SES level?

Mr Wall—Under the SES level.

Mr Pettifer—Under SES, yes.

Senator GEORGE CAMPBELL—Does this person have much experience in this area?

Mr Wall—I believe that the officer concerned has considerable experience in the area of the manufacturing industry, in the IR policy area, yes.

Senator GEORGE CAMPBELL—Do they have much experience in the area of the auto industry?

Mr Wall—I believe that her previous span of interest has been across manufacturing and includes automotive, but she would not be an automotive specialist.

Senator GEORGE CAMPBELL—I am not too sure whom these questions ought to be directed to. They relate to the Comalco alumina refinery grant and the Rio Tinto grant or loan. Mr Paterson, I will direct this question to you, but you can direct me to the appropriate officer. In the budget measures on page 25, there is an allocation of assistance to Rio Tinto of \$50 million I think in the year 2004-05 and \$50 million in 2005-06. On table 1.3, 'equity injections', you will see 'Loan to Comalco/Rio Tinto \$45.6 million 2002-03; \$45.7 million 2003-04; and \$45.7 million 2004-05'. Can somebody explain to me what the relationship is between those two tables? Are they the same or do they relate to different moneys? Why have they been put in that form?

Mr Dainer—One is a loan and one is a grant.

Senator GEORGE CAMPBELL—Is the \$50 million a grant?

Mr Dainer—The Rio Tinto assistance, yes. That is \$50 million and that is the grant.

Senator GEORGE CAMPBELL—What does the loan relate to?

Mr Dainer—It is part of the strategic investment coordination process. It is a loan of \$137 million over three years, commencing in 2002-03. It is \$45.6 million next year; it is \$45.7 million in the two following years.

Senator GEORGE CAMPBELL—So that is \$137 million?

Mr Dainer—Yes, \$137 million.

Senator GEORGE CAMPBELL—Per year, over those three years?

Mr Dainer—Over the three years: \$45.6 million next year, \$45.7 million the following year, and the same number in the year after that.

Mr Jones—There are two different projects here; they are not the same thing. We are talking about two different projects here.

Senator GEORGE CAMPBELL—I understand that.

Mr Jones—They both involve Rio Tinto.

Senator GEORGE CAMPBELL—I am trying to understand. This has ‘Loan to Comalco/Rio Tinto’. Is that two loans or one loan? Are they joint partners in some venture that we do not know about?

Mr Jones—The table 1.3 loan relates to the assistance provided to the alumina refinery run by Comalco in Gladstone. The ultimate owner of Comalco is Rio Tinto.

Senator GEORGE CAMPBELL—That makes it a bit understandable. So the loan was to Rio Tinto, through Comalco.

Mr Jones—The loan will be provided through Comalco; that is correct.

Senator GEORGE CAMPBELL—So this is a loan; the other one is a grant?

Mr Jones—That is correct.

Senator GEORGE CAMPBELL—Why the difference?

Mr Jones—The type of assistance provided through the strategic investment coordination process can vary on a project by project basis. It just so happens that decisions made in respect of these different projects related to different types of assistance.

Senator GEORGE CAMPBELL—What are the terms of the loan to Comalco-Rio Tinto?

Mr Jones—It is a loan that is repayable after 25 years.

Senator GEORGE CAMPBELL—At what rate of interest?

Mr Jones—It is interest free.

Senator GEORGE CAMPBELL—And it is repayable at the end of 25th year?

Mr Jones—I would have to check on that. I am not sure exactly when it is repayable and when the clock starts ticking for the 25 years. But it is repayable after 25 years.

Senator GEORGE CAMPBELL—That relates to the alumina smelter there?

Mr Jones—The alumina refinery.

Senator GEORGE CAMPBELL—The alumina refinery in Gladstone?

Mr Jones—That is correct.

Senator GEORGE CAMPBELL—The \$100 million grant to Rio Tinto is also interest free but not repayable?

Mr Jones—A total grant of \$125 million—there is another \$25 million payment that appears the year following that, which does not appear on those tables—would be provided to Rio Tinto in respect of the HIs melt technology in Western Australia.

Senator GEORGE CAMPBELL—And it is a grant?

Mr Jones—That is correct.

Senator GEORGE CAMPBELL—What is the difference between these two projects which determines whether or not you provide a grant or a loan?

Mr Jones—The type of assistance required is determined by cabinet on the advice of the Strategic Investment Coordinator depending on the Strategic Investment Coordinator’s view, reached during negotiations, as to what is required to win the project for Australia. In these

two cases the decision was taken that in one case a loan was appropriate and in the other a grant was required.

Senator GEORGE CAMPBELL—Does that say that we thought it would be harder to retain the HIsmelt project than the alumina refinery?

Mr Jones—Not necessarily. It is a case by case assessment of the individual details of the project.

Senator GEORGE CAMPBELL—Are there any guidelines which are used by the Strategic Investment Coordinator to judge these issues or is it simply a totally discretionary position adopted by that person which then is ultimately a matter for decision by cabinet?

Mr Jones—There are published criteria that the projects have to meet before they will be considered for assistance. But those guidelines or criteria do not relate to the form of the incentive that can be provided. The decision on the form of the incentive is a matter for advice by the Strategic Investment Coordinator to cabinet depending on his judgment of the individual circumstances of the case and reached in negotiation with the company.

Senator GEORGE CAMPBELL—There is no capping on this particular program is there?

Mr Jones—No. In a technical sense it is not a program as such. There is no amount of money set aside for it. It is decided on a project by project and a case by case basis.

Senator GEORGE CAMPBELL—Minister, where is this money allocated within the budget, seeing as you are now the minister for finance? Do these funds come out of the contingency reserve?

Senator Minchin—At the end of the day an appropriation has to be made in the year in which the funds are required. That is done up front in the budget without it being a specific departmental appropriation per se. Obviously the government seeks an appropriation through this process to cover the funding required. It is not some hidden fund or anything of that sort and we do not set aside money per se and say, 'That is strategic investment fund money,' and then run that down. We take each case on its merits. At the end of the day the government decides whether the project meets the criteria. It is in the national interest for the government to make an appropriation to win that project for Australia and it then seeks the appropriation through parliament, as we are doing.

Senator GEORGE CAMPBELL—So this fund—is that how you describe it?—is not a competing fund?

Senator Minchin—No.

Senator GEORGE CAMPBELL—In fact, you could have multiple projects currently being assessed by the Strategic Investment Coordinator.

Senator Minchin—Which is the case. I will comment further on the nature of the incentive provided. At the end of the day it is a matter of coming to a resolution as to what benefit is required to win the project for Australia—that is based on a hard-headed analysis of what the company says to us will win the project for Australia as opposed to it going to any one of 100 other countries—and then working out how, within the law and appropriate to government financial arrangements, we deliver the benefit to close the gap for the company as to the project coming here or going to Timbuktu. Each one is done on a case by case basis.

Senator GEORGE CAMPBELL—Given that criterion, how was the decision arrived at in respect of this HIsmelt technology? I know nothing about it. What is HIsmelt technology? What is so significant about this technology?

Mr Jones—HIsmelt is a new iron ore processing technology developed in Australia.

Senator GEORGE CAMPBELL—Developed in Australia by Rio Tinto?

Mr Jones—By HIsmelt Corporation, which is a subsidiary of Rio Tinto. It provides for the direct smelting of iron ore, which is more efficient than the traditional process—involving a couple of steps—of producing pig iron and then producing iron. It allows the use of lower grade iron ore than the traditional processes and therefore potentially opens up significantly more resources than were previously possibly used to produce iron. It is also more cost effective and potentially is more greenhouse efficient as well.

Senator GEORGE CAMPBELL—When did Rio Tinto first approach the Strategic Investment Coordinator about this grant?

Mr Jones—I do not have that information in front of me.

Senator GEORGE CAMPBELL—Can you take that on notice?

Mr Jones—Yes. Typically, details of when—or even whether—companies approach the Strategic Investment Coordinator are not publicised but I will see what I can do for you. There can obviously be commercial advantage in some companies finding out that other companies are requesting assistance. So we tend to be a little careful even publicising the fact that some companies have sought assistance.

Senator GEORGE CAMPBELL—But this is in retrospect. The decision has already been made. There is no commercial disadvantage, I would presume, to Rio Tinto.

Mr Jones—We sometimes have to be careful with the kind of commercial details we release.

Senator GEORGE CAMPBELL—I presume the Strategic Investment Coordinator does not run around the country approaching companies.

Mr Jones—He does not.

Senator GEORGE CAMPBELL—How else do they get into the scheme if they do not approach him?

Mr Jones—They approach him but the precise timing and nature of those approaches are usually kept confidential.

Senator GEORGE CAMPBELL—I can ask the question in another form if that makes you more comfortable: what is the normal time lag between the Strategic Investment Coordinator being approached and decisions being made to provide either loans or grants to companies?

Mr Jones—There is not a norm; some decisions are reasonably quick—a matter of months—while others can potentially extend over years, depending on the nature of the project. A typical time line from the time of first approach to a time of decision is of the order of six months.

Senator GEORGE CAMPBELL—About six months?

Mr Jones—Yes. There is an intensive process of checking the information.

Senator GEORGE CAMPBELL—When is the HIsmelt technology project due to commence? I think the funding is provided in 2004-05 or 2005-06. We are not waiting until then for the project to commence, are we?

Mr Jones—No. The funding is provided from 2004-05. I do not have the information in front of me as to exactly when that is going to get started; I will have to take that on notice.

Senator GEORGE CAMPBELL—With regard to the rigorous assessment process that you talk about, who is involved in making the judgment? I am referring not just to the providing of the funds—I understand that is a cabinet process—but to who is involved in making the judgment of whether or not it is worth while us having this technology—whether indeed the technology is worth the investment. How do we do those assessments?

Mr Jones—Invest Australia has the primary role of advising the Strategic Investment Coordinator on the assessment of the project's application. In providing that advice we draw on assistance from other areas of the Department of Industry, Tourism and Resources, typically the area with specific industry development responsibilities for the technology or for the industry that we are dealing with. We get more general advice from areas of the department on financial and taxation aspects of the application; and, through the cabinet process in particular, we draw in other departments and areas of government as required, to provide advice on individual aspects of the proposal or on how it lines up with government policy, for example.

Senator GEORGE CAMPBELL—Do you draw on any engineering capacity to make these assessments?

Mr Jones—The type of information we need obviously varies on a project-by-project basis. We usually require a lot of detailed information from the company themselves on the type of technology involved. As I said, we draw on expert advice from the industry development areas of the department. We would not normally go and engage, for example, a specialist consultant engineering firm to provide advice on aspects of the technology. We would rely on the kind of information available to the industry development areas of the department and their knowledge of what is going on in the industry.

Senator GEORGE CAMPBELL—Would you have people in the department who have an engineering or a technical background in this area and could make those assessments? I assume they may well know about the industry—I mean, I know how to drive a car, but not too much about the mechanics of how the motor works.

Mr Jones—The kind of expertise available in the department is generally very technically expert, drawing on a long experience and observation of the industry.

Senator GEORGE CAMPBELL—When you say that they are technical experts, are these people who have actually been employed in the industry?

Mr Jones—Sometimes. There is a lot of information around about the different types of technology—through specialist journals, through the trade press, through discussions with the industry—and we are able to draw on a very large range of information and advice in making those assessments.

Senator GEORGE CAMPBELL—Would you go out and engage an engineering firm to make an assessment of the technical capacity of a project?

Mr Jones—Usually not, no.

Senator GEORGE CAMPBELL—Why? Do you not see that as being important?

Mr Jones—There is usually specific information available from other sources so that we do not need to engage a separate consultant. In the case of technologies like this, for example, their development phase, or their research phase, is usually fairly long. There is a fair bit of information around about what the technology is supposed to be doing and how it compares with other types of technology. The company, in making its application, provides a large amount of that information, which we are able to assess.

Senator GEORGE CAMPBELL—You say the grant was made in this instance to keep the technology here. What other countries were competing? Where else was being favoured to establish or commercialise this technology?

Mr Jones—In this particular case the United States was competing for this technology.

Senator GEORGE CAMPBELL—Do they have an ore supply there? Presumably the supply of ore is also pretty relevant to it.

Mr Jones—Yes, there are iron ore reserves in the US.

Senator GEORGE CAMPBELL—Low-grade?

Mr Jones—I am not an expert in that area; I would imagine so.

Senator GEORGE CAMPBELL—It would not have been a fact that was taken into consideration when you made the assessment of whether there was a need to provide Rio Tinto with a grant?

Mr Jones—Yes, but a number of aspects were taken into account. We had in mind the prospect for gaining some first mover advantage by developing the technology in Australia and then being able to export the technology to other countries. For example, China has extremely large reserves of low-grade iron ore and is a prospective user of this technology a bit further down the track. To the extent that it can be developed here first and then exported, we would gain more of the benefits from the technology than if it were developed in another country first and then exported from there.

Senator GEORGE CAMPBELL—That is a set of circumstances that will occur irrespective of what you do. That is pretty common with any technology: once it is developed and becomes available, it will usually travel to the lower wage countries in terms of exploitation, if the resources are there. It does not surprise me that it would travel to China. Certainly we get benefits out of developing the technology—there is no doubt about that. How do you assure yourself that it would not have been developed here anyway, without the grant?

Mr Jones—That is a major part of the assessment process. One of the most important criteria is whether the project would have gone ahead in Australia without the incentive. In this case, the very strong recommendation from the Strategic Investment Coordinator was that it would not have gone ahead in Australia without the incentive. It would most likely have gone to the US. The US was also offering incentives to develop this technology there, and we were competing against the US directly for this development.

Senator GEORGE CAMPBELL—I understand that we may well have been competing against them directly, but the bottom line is whether or not that \$100 million grant is what made the difference to the investment taking place here.

Mr Jones—The grant would not have been made unless cabinet and the Strategic Investment Coordinator had reached that conclusion.

Senator GEORGE CAMPBELL—How many applications do you get for grants or assistance over a period of 12 months?

Mr Jones—It would be of the order of 10.

Senator GEORGE CAMPBELL—In each 12-month period?

Mr Jones—It is hard to make an average, but of that order, yes.

Senator GEORGE CAMPBELL—How many projects have you backed so far?

Mr Jones—Eight.

Senator GEORGE CAMPBELL—You have backed this one, you have backed the Comalco smelter and you have backed the Tumut mill.

Mr Jones—Yes.

Senator GEORGE CAMPBELL—What other ones?

Mr Jones—There was the IBM e-Business innovation centre in Sydney, the Syntroleum gas-to-liquids project, the Methanex gas-to-liquids or methanol production project, the Asia Pacific Space Centre and the Holden V6 engine plant.

Senator GEORGE CAMPBELL—The last two projects that have been backed have been both Rio Tinto, haven't they—this one and the aluminium smelter?

Mr Jones—Yes.

Senator GEORGE CAMPBELL—I wonder why we find it important to back a company whose after-tax profit is \$1.57 billion?

Mr Jones—It is a very competitive environment for investment in that kind of industry and, as I have said, the assessment was that these projects would have gone to other countries had the government not provided some assistance.

Senator GEORGE CAMPBELL—Were there any other projects that missed out in support as a result of this decision?

Mr Jones—Not that I am aware of, no.

Senator GEORGE CAMPBELL—How many projects do you have currently before you seeking funding?

Mr Jones—There are projects seeking funding at the moment.

Senator GEORGE CAMPBELL—I am not asking you to identify them, but how many?

Mr Jones—There are really only a couple that are what I would call 'active' at the moment.

Senator GEORGE CAMPBELL—There are a couple that are active; does that mean that there are a number that are passive?

Mr Jones—Yes, there are usually a few that are hanging around for some time.

Senator GEORGE CAMPBELL—Are they passive because they are unlikely to attract financial assistance?

Mr Jones—It can be that the application is at a very early stage; it can be that the world situation or the industry situation is changing so that the company circumstances are such that the application goes off the boil for a while—there are a range of reasons why these things are not exactly at the front of the mind.

Senator GEORGE CAMPBELL—Thank you, I have no other questions on that subject.

Senator LUNDY—Welcome to officers of the Australian Government Analytical Laboratories. This might not come as a surprise, but my question is related to ASDTL. Good afternoon, Mr Crick.

Mr Crick—Good afternoon, Senator.

Senator LUNDY—I was wondering where you went.

Mr Crick—I am never far away.

Senator LUNDY—Excellent. Perhaps you can tell me how it is that a government laboratory with over \$1 million worth of illegal substances comes to be robbed?

Mr Crick—Your question is posed in a way that probably needs some clarification. ‘Illicit drugs worth \$1 million’ needs a bit of explanation. The value that has been put on the contents of that safe was somewhere in excess of \$1 million. It has nothing to do with any street value or purchasable value; it is an intrinsic value that is attributed to the reference material that was in the safe and reflects the enormous amount of intellectual and physical work that had gone into producing those reference materials over some years.

The other part of your question, as to how it managed to get stolen: the laboratories do have a pretty good security system hooked up to a security firm. Sound alarms go off if perimeters are breached. Police come in attendance, the safe itself was a very heavy class B container, but the thieves who broke in obviously had equipment to cope with all of that in a very short space of time. An extensive review of security procedures and arrangements for the laboratory is now being undertaken.

Senator LUNDY—You mentioned that you have an audible alarm system in place. Can you provide more detail about the security that you had and whether or not that alarm system was a back to base type of alarm?

Mr Crick—There is an alarm system. It was sounded within a couple of minutes of their breaking into the building. It is a back to base alarm system. The police were notified, and they were there within 20 minutes of the alarm being sounded.

Senator LUNDY—In terms of your review of security, can you inform the committee of your plans at this point to ensure that this does not happen again?

Mr Crick—The Australian Protective Services were immediately asked to conduct an urgent review of all of AGAL’s premises. That is being done at the moment. That will be assessed and new arrangements as recommended or as judged necessary will be put into effect.

Senator LUNDY—When will that report be completed? Do you have the resources to put in place that security strategy?

Mr Crick—The report is expected to be completed within days. Certainly the resources will be made available. There is no question about that.

Senator LUNDY—Will you have to find the resources within your existing budget?

Mr Crick—I would think that is a reasonable expectation.

Senator LUNDY—How do you replace the substances that were stolen? Were you insured?

Mr Crick—It would not matter if we were in that case; the great loss is the intrinsic value of the substances. It will take about 12 months work to reproduce the most important of them and possibly up to a couple of years to reproduce them all in the state that they were when they were stolen.

Senator LUNDY—Notwithstanding that, that will obviously cost more money. Can you answer whether those substances were insured? Have you claimed on that insurance policy?

Mr Crick—I understand that they were insured. The estimated value is still being worked through.

Senator LUNDY—So you cannot tell me whether they were insured for a specific amount?

Mr Crick—No, we cannot.

Senator LUNDY—Is that because you do not know the figure? If so, can you take that on notice?

Mr Crick—The answer is that the monetary value was not pre-agreed. What we will have to work through with the insurance company is the precise samples that were taken and the value we agree can be attributed to them.

Senator LUNDY—Given that insurance companies are not known for their generosity, are you optimistic of recovering what you describe as the ‘intrinsic value’ of those substances of \$1 million?

Mr Crick—I would not feel confident or competent to make a comment on that at this stage.

Senator LUNDY—Can you detail exactly what was stolen from the laboratory, with particular focus on how that will impact on ASDA and their testing program?

Mr Crick—I cannot detail orally because the inventory goes for several pages. The impact on ASDA’s testing program is nil.

Senator LUNDY—Have you responded to ASDA’s request for a full report?

Mr Crick—We have been in daily contact with ASDA from the time it first happened, and I think we have been responding to all their needs pretty promptly.

Senator LUNDY—Can I take it from that that you have responded to ASDA’s request for a full report and provided it?

Mr Crick—That depends on how you interpret ‘full report’.

Senator LUNDY—What they asked for.

Mr Crick—Certainly, orally, they have everything they have asked for. I do not know whether we have given them a formal written report at this stage.

Senator LUNDY—That is my understanding of what they asked for: a full written report.

Mr Crick—I suspect we have not given them that at this stage. They have asked for a written report by 14 June.

Senator LUNDY—Can the committee also have a copy of that report when it is available?

Mr Crick—Yes.

Senator LUNDY—You said it had a nil effect on ASDA; what about on drug testing generally in Australia? What effect will this theft have had?

Mr Crick—In the drugs in sport area I think it will be fairly negligible, but the loss of the reference materials in other areas will obviously be a set back to servicing several clients. Remedial action will need to be taken fairly promptly to be able to put those services back into place.

Senator LUNDY—How many urine samples were stolen in the robbery? I understand there were some samples from athletes there. Can the athletes be identified from these samples?

Mr Crick—I have read the transcripts from last week and I think Mr Mendoza identified that there were four unopened samples. No, the athletes certainly cannot be identified from them. The rest of the contents of the fridge were minute parts of samples.

Senator LUNDY—Were they samples which had already been tested?

Mr Crick—They were samples which had already been tested, samples being prepared for testing and samples half way through. Essentially they were little test tubes of urine.

Senator LUNDY—Athletes could not be identified?

Mr Crick—Absolutely not.

Senator LUNDY—Could any subject of those tests be identified?

Mr Crick—Even the laboratory does not know the identity of the athlete.

Senator LUNDY—What interim measures are being undertaken to secure the lab? Given that you have a security strategy under way, what are you doing in the interim?

Mr Crick—Repair work was immediately undertaken to the breaches that had been made, the locks were restored and a 24-hour guard was instituted straight away.

Senator LUNDY—Going back to the question about replacing those reference samples that were stolen, what is your program to do that and how much do you think it will cost?

Mr Crick—The program will commence as soon as it can. The correct materials need to be obtained and the people need to be allocated to do that work. That will start straight away, if it has not already started. As I said before, it will take some time—probably the best part of 12 months—to get a good selection of the most important ones into the state that they were before. The cost will be the staff time involved, and I could not estimate that offhand.

Senator LUNDY—Are you in a position to recover some of those costs from the insurance claim?

Mr Crick—That is my understanding, but I will seek to clarify that for you.

Senator LUNDY—Please take that question on notice. That is all I have. Thank you.

Senator GEORGE CAMPBELL—I will go back to one item. I have a couple of questions for Mr Peel on the PICS and EPICS. I think you said there were currently 64 applications under EPICS. Is that correct?

Mr Peel—That is correct.

Senator GEORGE CAMPBELL—How many of those will be processed prior to the program being phased out on 1 July?

Mr Peel—With the EPICS program I think the answer is that none of them would be. The decision was taken that applications that had not been approved at the time of the budget would not be processed.

Senator GEORGE CAMPBELL—But I understand that these are done on a quarterly basis; is that right?

Mr Peel—It takes about two months to process a claim. They are looked at on a six-weekly basis by a committee that determines the claims.

Senator GEORGE CAMPBELL—But for the program itself, you can make an application for funding on a quarterly basis. Is that how the program works?

Mr Peel—You can make an application at any time.

Senator GEORGE CAMPBELL—So you can make an application at any time and the funding is for 12 months?

Mr Peel—It is for the period of the particular project that the company wishes to undertake.

Senator GEORGE CAMPBELL—So all of these 64 applications were all made within the—

Mr Peel—They were all on hand at the time the decision was made. Most of them, as I said earlier, were received around April, there were a few from March and one from an earlier period, as I recall.

Senator GEORGE CAMPBELL—Why did the one from the earlier period not get processed?

Mr Peel—I can only assume that there may have been queries with the application—people might have been checking some details. That sort of thing occurs on a regular basis.

Senator GEORGE CAMPBELL—Can you give me the exact number of applications that were made in April?

Mr Peel—It might be best if I take it on notice.

Mr Paterson—You asked some questions earlier in relation to the Automotive Council. I have a list before me of all the members of the Automotive Council and the membership of each of the working groups that we undertook to provide to Senator Campbell. The documents that I have had faxed up have contact details and support staff details on them, but I am happy to table them in their current form, if that would satisfy Senator Campbell.

CHAIR—Do you want the contact details to remain confidential?

Mr Paterson—I am sure that common courtesy will prevail.

CHAIR—Except that it becomes a public document. Why don't you edit it over lunch and after lunch table a list without the contact details? Is that all right, Senator Campbell?

Senator GEORGE CAMPBELL—Yes, that would be fine.

Proceedings suspended from 12.27 p.m. to 1.33 p.m.

Senator LUNDY—I want to clarify some points on organisational matters, particularly relating to what the New Economy Branch is, whether or not the New Economy Branch is still there and what sort of shape it is in.

Mr Ryan—The activities that were in part taken up in the New Economy Branch are now involved in the Business Competitiveness Branch. It is still headed up by Rob McKeon.

Senator LUNDY—What is the broad area of responsibility for the Business Competitiveness Branch?

Ms Georgopoulos—The Business Competitiveness Branch looks after action agendas; Australian industry participation in major projects, which includes a national AIP framework and the assessment of Australian industry participation plans; and business competitiveness issues generally, whether they are the Trade Practices Act, competition policy or anything that affects the business environment.

Senator LUNDY—What research has that Business Competitiveness Branch done in relation to the new economy—that is, preconditions for a knowledge based economy, policies which should be adopted for Australia to take advantage of the knowledge based economy as it develops and those sorts of things?

Ms Georgopoulos—The current branch, as it is configured, does not undertake any analysis on those particular issues. The previous Modern Economy Branch looked after some analysis and also contributed to that assessment in conjunction with the Innovation Policy Branch.

Senator LUNDY—Can you point out to me the branch that actually does that work in relation to the knowledge based economy, from an industry policy perspective?

Mr Ryan—One of the arrangements that we made with the reorganisation was to pull a lot of the analytical activity that was done across a range of branches more into one division, which is called the Innovation and Industry Policy Division. The work that is done on the new economy would be in part in the Innovation Policy Branch, some might be done in the Industry Analysis Branch and some might be done in the Industry Policy Branch. So there are three different branches there.

Senator LUNDY—So effectively what the Knowledge Economy Branch used to do is now being split up into a whole range of different areas in the department?

Mr Ryan—Certainly the analytical activity has been consolidated into one division. Some of the other activities would be represented in the Business Competitiveness Branch and some activities would just cease to be conducted at all.

Senator LUNDY—What are the activities that have ceased to be conducted?

Ms Georgopoulos—By our department: our contribution to the APEC Economics Committee, which is now being taken forward by the Department of the Treasury—that would be a key outcome—and some of the fundamental research on some of the key economic indicators. But, as Mr Ryan has said, that may well be picked up in future work programs of some of those three other areas.

Senator LUNDY—It does not send a very strong signal that the department is focused on the knowledge economy, does it?

Mr Paterson—I do not think that it in any way undermines the focus of the department on those sorts of issues. We do not draw a distinction between the new economy and the old economy. There are those who adopt new technologies and new approaches and those who choose not to. Our focus is on ensuring that, to the extent that government is involved in industry policy developments, we are at the forefront across all of the areas of the economy that we have responsibility for. Maintaining a new economy branch, division or grouping of

offices that just focuses on somebody else's artificial distinction is not something that we sustain. Across key areas there will be collective work that can be done within this portfolio; there is a significant focus on ICT and communications, and the National Office for the Information Economy has a lead role on a whole-of-government basis in that area. But certainly there are no signals in relation to the change of structure which would suggest in any way that there is a reduction in focus on how innovation and improvement in both technology and process can be applied in the key industry sectors that we have responsibility for.

Senator LUNDY—You just mentioned in your reply some arbitrary divisions. There has certainly been a great deal of intellectual thought put into what constitutes a knowledge economy and analysis of what constitutes strength in an economy like Australia's for use and application in the knowledge economy. I would like to ask you whether or not you think that type of work deserves a priority, because these changes appear to indicate that in fact it is not the view of the government at all that they constitute a priority and that those issues are being devolved back into various sections. Minister, I am certainly looking for a comment from you with regard to that, because your department has been organised in a way where the emphasis seems to have been removed.

Mr Paterson—Many of the drivers of the knowledge economy as described by some will find their homes in different elements of government. Certainly the Department of Education, Science and Training is an important part of both the government's commitment and developments on a national basis to skills that will underpin a knowledge economy. As a department, within our portfolio budget statement there is a discussion of major objectives and planned achievements, and an identification of the priorities that have been established for the department for 2002-03. On page 12, business expenditure on R&D and innovation is one of the 10 key priorities the department is focusing on. We do not want just an element, section or branch of the department focusing on those issues; we want to be recognising innovation and business competitiveness across all of the divisions within the department. It is by no means something that is underplayed. In fact, it was given very significant attention at a recent forum of all the SES officers where the priorities were considered, debated and reinforced.

Senator LUNDY—What reports have been done by the department into areas related to the knowledge based economy?

Ms Georgopoulos—There have been a number of reports. Some of them focus on selected indicators of the knowledge based economy and others are broader discussions of the different elements of the knowledge based economy and economic growth. All of those are posted on our web site.

Senator LUNDY—I am looking at a report here called *The social impacts of the new economy*, by the Department of Industry, Tourism and Resources, dated March 2002. Are you familiar with that report?

Ms Georgopoulos—It is a discussion paper.

Senator LUNDY—That was obviously pulled together by the New Economy Branch.

Ms Georgopoulos—That is correct.

Senator LUNDY—That is no longer in existence.

Ms Georgopoulos—The team exists until the end of this financial year.

Senator LUNDY—What happens now to the issues raised in discussion papers like this, which is titled *The social impacts of the new economy*?

Ms Georgopoulos—That particular discussion paper has been aired in a whole of government approach. Officers of other departments that might be interested in taking forward some of the issues identified have been exposed to them. There was a seminar put on by the team for officers both within the department and outside the department to go through some of the discussion topics, to share with them some of the conclusions and to leave with them the corporate knowledge and taking forward of some of those issues.

Senator LUNDY—What process do you have that would allow me to revisit what action was taken by the department on a report like that, say, in six months time when the structures have changed?

Ms Georgopoulos—That particular discussion paper is exactly that: a discussion paper for other areas of the department and indeed other departments to take forward. In that particular case, there would not be anything for you to do other than ask us again. On other issues, clearly where there are specific recommendations and where there are reports, there are processes in place or they are part of the handover to the other divisions and other branches that Mr Ryan was referring to.

Senator LUNDY—So if we wanted to pursue those, we would have to ask each of those new divisions taking up this area questions about their specific aspect of responding to that report?

Ms Georgopoulos—On specific reports; but on that one, as it is a discussion paper, it has a whole of government application.

Senator LUNDY—No, my question was in relation to other reports which require a more formal response or more formal actions by the department.

Ms Georgopoulos—Yes.

Senator LUNDY—That seems to illustrate a devolving of the focus on the knowledge economy and its impact. Can I ask you to respond to that point about whether or not it is your intention to reduce the emphasis on knowledge economy related issues within your department? That is certainly how it looks.

Senator Minchin—I am sorry if it looks that way. I think it is more a reflection of the reality that the issues surrounding that matter of the knowledge based economy cut across a whole range of departments and ministers, but most particularly this department, the department of communications with its Office for the Information Economy, and the Department of Education, Science and Training. They are brought together under the auspices of the Prime Minister's Science Council, which is really primarily devoted to this subject. Rather than just having it siloed in one department, we do have activities across a range of departments. Coordination is always an issue, but I think that is done well through the Prime Minister's Science Council and also, certainly, as a result of our extremely good Backing Australia's Ability program, brought together with a particular focus there and in the group of ministers responsible to the Prime Minister for implementation of the Backing Australia's Ability program. So while it might appear on the face of it in relation to the restructuring of this department to be some loss of emphasis, that is not the reality and I would not want it to be thought that that was the case.

Senator LUNDY—Is there a branch or section within the department that carries the title or name of ‘knowledge economy’—the ‘knowledge economy branch’ or anything like that any more? Do you make reference to the knowledge economy in the structure of the department any more?

Mr Paterson—We do not. There is no branch called that. As I indicated earlier, there is an acknowledgment that elements of what has been described by some as the knowledge economy will find its home in a number of parts of the department. We do have an Innovation Policy Branch within the broad Industry and Innovation Policy Division. Innovation in all its forms will find a home in each of the divisions. Mining technology and service exports, something that Australia did not use to do, is now \$1.9 billion a year. That is an indication of what are regarded as old industries taking up new innovations and new technologies, implementing them and then finding exports for them. We want to make sure that within the department there is a focus of attention throughout the activities in each of the industry policy areas that we are involved in on taking up issues that relate to knowledge, that relate to the skills base and that relate to the application of technology to ensure that they are not isolated within a single branch.

Senator LUNDY—What report specifically has the department either prepared or commissioned that makes recommendations about Australia’s transition to becoming a knowledge economy?

Mr Ryan—Something in the order of 27 different action agendas have been run. I would say that almost every action agenda would have elements of what you are referring to as the knowledge economy. These are dealing with issues about skills training and development for the particular industry sectors. There are a number of new suggestions around under that sort of program. So, while we are talking about reports, I think the action agendas are probably the most comprehensive set of reports in that line.

Senator LUNDY—Could you take on notice providing a list of all the reports that could conceivably come under the description of being related to the knowledge economy and identify the recommendations in those reports and the government responses, or the timing of expected government responses, to those recommendations?

Mr Ryan—Do we want to set a period for that? How far back do you want to go?

Senator LUNDY—I do not know—you tell me.

Mr Ryan—Would you like the last three years, say?

Senator LUNDY—Yes, certainly no longer than that. That would be fine. One of those reports is *The Internet’s impact on global supply chains*. Can you tell me if you are aware of that report and, if so, which division put that report together?

Ms Georgopoulos—Yes, we are aware of that report. The Industry Competitiveness Division put that report together. It is one of three reports on the impact of global supply chains on industry competitiveness. There are two other reports that are related to it.

Senator LUNDY—Is the industry competitiveness branch different from the Business Competitiveness Branch?

Ms Georgopoulos—Sorry—I mentioned the Industry Competitiveness Division. It is different from the branch.

Senator LUNDY—Perhaps you could tell me what the overall direction of that report was and what it recommended that the department do.

Ms Georgopoulos—I do not have it in front of me but, as I mentioned, it was one of three reports. Of those three reports, one was commissioned by the Queensland government with contribution from the federal government, one was on the Internet impact and one is currently in the final stages of being commissioned. The intention is to consolidate all three reports along with their conclusions and to decide what governments should do.

Senator LUNDY—Will the recommendations arising from those reports be a part of that consolidation exercise?

Ms Georgopoulos—Yes.

Senator LUNDY—You would be able to provide me with both the consolidated report and the recommendations?

Ms Georgopoulos—In due course, yes.

Senator LUNDY—Will the report identify which branch, section or division of Industry or indeed of other departments is responsible for implementing any recommendations that are agreed?

Ms Georgopoulos—It will seek to identify whether an industry or government should take forward particular recommendations.

Senator LUNDY—It will identify who within government will pursue it?

Ms Georgopoulos—Indeed.

Senator LUNDY—You have not got the report in front of you, but I put to you that the report identified deficiencies within small to medium enterprises regarding the adoption of e-commerce. Can you tell me what the department is doing now to provide support to small to medium enterprises to engage in e-commerce and why the recommendations of that report have not been acted on to date?

Ms Georgopoulos—My colleagues from the Office of Small Business will be able to give you the detail on that. I think it is fair to say that the recommendations have been acted on in the sense that they have been passed on to the National Office for the Information Economy, NOIE, which has primary carriage for the adoption of e-commerce throughout industry.

Ms Weston—Can I clarify with you: you are after what the department is doing in relation to assisting small to medium enterprises become more e-savvy?

Senator LUNDY—I am referring to an article published in the *Financial Review* on Thursday, 16 May. It makes the observation that:

Large businesses are leading the way and multinational companies are well advanced in their use of internet technologies, but the small- and medium-sized companies are adopting e-business techniques only because major customers adopt them.

Hence the relevance of the report you did on the Internet impact on global supply chains. It is obviously an issue that can affect the survival or otherwise of many small businesses operating in Australia. Could you, for now—because I am conscious of the time—describe how you are approaching that issue and what initiatives have been taken specifically by your office to date?

Ms Weston—The key small business facts we have to date are that around 18 per cent of small businesses are directly involved in e-commerce, in either making or receiving payments on the Internet, which was an improvement, 53 per cent are connected to the Internet and 67 per cent of small businesses own a computer. Last September the government announced

funding for new online services to improve access by small business to government information services—and my colleague will be able to describe a little more on that. NOIE are using some funding to produce practical guides and tools to encourage the take-up of e-commerce by small business. Also, one of the job tasks of the small business assistance offices in regional Australia is to help small business become more familiar with the Internet and with how it can be used to help them in their business. Marie will outline the online services.

Ms Johnson—I am able to provide some commentary on the usage by businesses of the Business Entry Point and the Australian Business Register. I probably will not be able to break it down by use of small businesses in general but the indications from our statistics over the last 12 months are that the usage of the Business Entry Point—and it is predominantly by small business—has increased by 30 per cent. The usage of the Australian Business Register online facility, which the Business Entry Point manages, has increased significantly over time as well. All our indicators are that the usage of online technology is increasing.

Senator LUNDY—What about issues further up the supply chain as opposed to the usage by businesses here? When decisions about purchasing are taken on a global scale and they affect suppliers and producers in this country, what does the department do about educating and informing our SMEs here in Australia about those significant shifts and changes in supply chain management of global companies?

Ms Johnson—There are several comments that could be made. From the Business Entry Point's perspective, we deal with agencies across the Commonwealth level, the state level and the local level. At each of those levels there is interaction between businesses large and small. The focus on assisting small business to become more technology literate and enabled is being worked on collaboratively across many agencies. The work the Business Entry Point does in relation to initiatives at the local level indicates that small business identify their suppliers through a whole range of means, particularly through their intermediaries, their financial institutions, their industry associations and so forth, as well as working with their local government authorities.

At the Business Entry Point, we work collaboratively together. We have colleagues at the National Office for the Information Economy. The Business Entry Point has contributed to all of the reports that have been discussed here today, because the statistics that we see are actual usage. I have probably gone broad of your question, Senator. Would you be able to repeat it again?

Senator LUNDY—I am looking to see specific activities. I do not know whether the right person to ask is you or Ms Weston, but I am now moving upstream. When there are global shifts in the way multinational companies make purchasing decisions, what is the government doing to ensure that SMEs in this country are fully aware of the trends and the impacts as well as the activities they could possibly engage in to ensure that, firstly, they have that information and, secondly, they do not find themselves falling out of those chains as a result of technology or business practice at a global level? I am asking this question because I know this is what this report that I referred to traversed, and I am yet to be convinced that the department has the right structure or capability or team working on those big picture responses. I want to know whether you have put it in the too-hard basket or whether it is something you see as a government responsibility to address and to assist small business with, remembering that small business is just about every business in the context of the global knowledge economy anyway. We are not just talking about little businesses here; we are

talking about the vast majority of Australian businesses which are somehow engaged in a global supply chain.

Ms Georgopoulos—One of the initiatives is the \$3.1 million that has been allocated this year and a further \$3.1 million next year to boosting the access of SMEs into major projects and global supply chains. That is predominantly through the Industrial Supplies Office Network and the supplier access to major projects programs, both of which are focused on being across international trends, ensuring Australian industry gets a fair go at bidding for those contracts, being across the developments and the changes that the major procurement and multinational procurement agencies are undertaking and, again, showcasing and building the information base and sharing the information on those prospective projects with SMEs.

Senator LUNDY—Can you tell me whether ISONET has got carriage—or at least some of the carriage—of implementing the recommendations from that report?

Ms Georgopoulos—It does not have carriage of implementing the recommendations, but it is obviously a major contributor to providing the assistance that government is facilitating to progress the particular recommendation that you are referring to.

Senator LUNDY—Can you take on notice to provide me with more detail about how they are handling that aspect in response to the report?

Ms Georgopoulos—Certainly.

Senator LUNDY—And the work of ISONET in promoting the accessibility of global markets by Australian producers, suppliers, services and products?

Ms Georgopoulos—Certainly.

Senator LUNDY—I would like to ask some questions about the Spatial Information Industry Action Agenda. I know the government released this report last year with some fanfare and how enthusiastically it was accepted by that particular industry sector. I would now like to know what is happening with it.

Mr Morris—The Spatial Information Industry Action Agenda will turn on a raft of initiatives that rest in the public sector and a second raft of initiatives that rest with the emerging industry itself. The actions that lie with the public sector largely form the reform agenda that is being undertaken by the Australia-New Zealand Land Information Council at Commonwealth-state level. Within the Commonwealth itself, those initiatives are being prosecuted by the Office of Spatial Data Management, which is coordinating the reform of spatial information supply within the Commonwealth as a whole.

Senator LUNDY—Where is that office? Is that what you are?

Mr Morris—No, I am not from that office. That office is supported by a secretariat out of Geoscience Australia.

Senator LUNDY—Okay.

Mr Morris—Within the industry itself, the recent formation of ASIBA, the Australian Spatial Information Business Association, will provide the vanguard for focusing industry efforts to realise the potential of export-market-led growth and to ensure that there is an effective interface between the emerging industry and the Commonwealth suppliers of spatial data—the need being to manage a progressive transition from a public-sector-dominated industry to a better mix of public-private sector shares within that market.

Senator LUNDY—Does that include a strategy to privatise or corporatise the current collection and management of spatial data?

Mr Morris—No, it does not.

Senator LUNDY—I do not have a copy of the report in front of me, but I know it had a series of recommendations for both government and industry.

Mr Morris—That is correct.

Senator LUNDY—Could you take on notice to provide the committee, listed against each of those recommendations, action to date and action planned with time frames and as much detail as is possible about the implementation of the particular action planned?

Mr Morris—Yes.

Senator GEORGE CAMPBELL—Can we move on to the R&D Start program?

CHAIR—That is outcome 2, isn't it? Are there any more questions from senators in relation to outcome 1?

Senator LUNDY—That depends. Can I just run through a few of my issues. I have questions about COMET, IIF, the Pre-seed Fund—

Senator GEORGE CAMPBELL—They are all under outcome 2.

CHAIR—I am just a little concerned as I am sure the officials have arranged their time on the basis that we would move reasonably sequentially from outcome 1 to outcome 2. Could senators who have any other questions in relation to other aspects of outcome 1 ask them now, so that we can then excuse those officers who are only interested in outcome 1?

Senator GEORGE CAMPBELL—The main focus of my questioning from here on is on innovation, but some of them actually flow backwards and forwards. It is always been an experience with this department that it is very hard to separate outcomes 1 and 2 in a precise way.

CHAIR—I understand that.

Senator LUNDY—Especially when they keep changing.

CHAIR—I am really in your hands, Senators Campbell and Lundy: are there any areas which are so specific to outcome 1 that we can deal with them in the expectation that officers concerned only with that could then excuse themselves?

Senator GEORGE CAMPBELL—To my knowledge I have not got anything that looks specifically at outcome 1, but I may be disillusioned once I start questioning the officers.

Senator LUNDY—I am the same; I have tried to do that, but if there are any outstanding questions that do cross over I am happy for them to be taken on notice.

Mr Paterson—When you started proceedings today you identified a range of issues that at least one senator wanted to have on later tonight, and they are all outcome 1 issues.

CHAIR—Yes, they are all Senator O'Brien's questions to be taken from 9.15 p.m.

Mr Paterson—There were also outcome 1 issues in relation to tourism and I anticipated, in terms of a mindset of scheduling and the way different senators were participating in the process, that we might have those issues immediately after the dinner break.

Senator LUNDY—It would certainly suit my organisation if we could go straight to the Tourism Commission and departmental officers associated with tourism after the dinner break and then make way for Senator O'Brien at 9.15 p.m.

CHAIR—Does that help in terms of the convenience of your officers, Mr Paterson?

Mr Paterson—It certainly does. We have tried to ensure that there will be a significant degree of overlap and I suspect that those who might wish to find themselves in another place will, out of an abundance of caution, hesitate. Certainly, if we know that the tourism issues are going to come up immediately after the dinner break and then precede those on the environment, energy, minerals and petroleum divisions that would certainly be convenient. I understand that we would be moving now to outcome 2 and focusing on the array of innovation areas; I think Senator Harradine has indicated a desire to look at some related questions in that area as well.

CHAIR—Senator Harradine has indicated through the secretariat that he thinks he has about three-quarters of an hour's worth of questioning in relation to stem cell research. Subject to those several qualifications, we will move to outcome 2.

Mr Paterson—Before Senator Campbell asks his first question in that area, just prior to the break I indicated that I had a list of the auto council membership. Those lists have been curtailed, if that is the right word, and have the name and position details of each of the members of the automotive council and the three working groups: the automotive council competitiveness and investment working group, the workplace capability groups, and the global integration working group. I would like to table that documentation.

CHAIR—Is it the wish of the committee that the document be received? There being no objection, it is so ordered.

[2.09 p.m.]

CHAIR—We will now move to outcome 2.

Senator GEORGE CAMPBELL—Mr Clarke, can you explain to me what implications, if any, there are for funding for the R&D Start program that was outlined in Backing Australia's Ability and whether or not that is impacted by the current budget arrangements?

Mr Clarke—I would be pleased to answer that question directly. I am sure you have a number of questions about the R&D Start program—

Senator GEORGE CAMPBELL—Quite a number.

Mr Clarke—Would it be helpful for the committee if I made a short statement outlining the situation with R&D Start before answering the specific question?

CHAIR—Yes, by all means go ahead.

Senator GEORGE CAMPBELL—Have you got this in writing?

Mr Clarke—Yes, I do.

Senator GEORGE CAMPBELL—Could we have it tabled at the same time?

Mr Clarke—I am quite happy to do that.

Senator GEORGE CAMPBELL—It will be very helpful to have that document for any subsequent questions.

Mr Paterson—While Mr Clarke is getting that out, I should make the point that it is a series of dot points; it is not a speech.

Mr Clarke—I will make my remarks under five headings. Firstly, I will briefly give some background to the R&D Start program; secondly, I would like to outline the underlying problem and why an intervention of the scale that has recently been announced was necessary; thirdly, I would like to touch briefly on the key measures that were implemented and announced on 24 April of this year; fourthly, I will touch on the timing of the announcement; and, finally, I will give some information about the reopening of the program. These are the five areas in which I have had the most consultation with industry and discussion with people who are affected. The information that I am giving you reflects the information that has already been stated.

Firstly, as you are aware, the R&D Start program commenced in 1996 and around 1,000 companies have benefited from R&D Start to date. It has multiple elements, but it mostly comprises competitive grants for 50 per cent of R&D costs, ranging between \$50,000 and \$15 million. It is a broad based program with a diverse range of company sizes, grant sizes and industry sectors. It is designed to change company behaviour enabling research, development and commercialisation that would otherwise not occur. The program is highly competitive. Currently around 40 per cent of applications, worth around 50 per cent of the applied-for dollars, are rejected by the IR&D Board. It has a history of underspending and that underspending has, of course, been criticised, but the program is now at its highest spending level ever.

The program was evaluated by the Allen Consulting Group for the government in the year 2000. I will mention three highlights from that evaluation: 83 per cent of the companies reported that the new or improved products had a high to very high impact on their competitiveness, 70 per cent reported a high to very high impact on their ability to enter new markets, and 62 per cent reported a high to very high impact on future R&D behaviour—that is the point that goes to that underlying objective of changing long-term R&D behaviour.

The government announced an extension to the R&D Start program in the 2001 Backing Australia's Ability program. R&D Start was extended by five years to 2005-06 with total funding of \$535 million. Of course, R&D Start is just one part of the \$3 billion innovation plan which also included other IR&D Board programs such as COMET, BIF and IIF, which are more targeted than R&D Start.

The second issue relates to the recent announcement about a suspension. I would like to talk about why an intervention or a suspension of that nature was necessary. The program had record levels of new approvals in the last financial year, 2001-02. From AusIndustry's perspective, we regarded this as a sign that our work in promoting and marketing the program had finally hit the mark. AusIndustry sought rephasing of the program in August 2001 to help smooth out that future program profile. At that stage, our view was that rephasing was desirable to take some of the peaks and troughs out of the program, but it was not essential. That rephasing was formally rejected by the government in the budget process in October 2001. At that time, AusIndustry considered that all the commitments that were already made in the R&D Start program could still be met and that the only impact of the rejection of rephasing would be a reduction in new approvals in the latter part of the current financial year.

It was in January 2002 that AusIndustry identified a fundamental change that undermined those projections. This was a significant increase in the program spend rate that was driven by

a change in R&D Start company behaviour: shorter projects and faster spending—I would be happy to elaborate on those phenomena later, if you wish. With that identification, it was apparent to us that the financial model that we had used for programming forward commitments in this program was no longer valid. This had obvious and severe cash flow implications for 2001-02 and beyond. There is a paradox in this, because of course the acceleration in industry R&D is welcomed and entirely consistent with overall policy objectives, but I must acknowledge that the cash flow problem should have been identified earlier and had it been the magnitude of the intervention would have been considerably smaller.

The third item is to identify the measures that were implemented on 24 April. There are four of them. Firstly, the government had agreed to bring forward \$40 million through the advance to the finance minister process from uncommitted loans elements of the programs. This is as outlined in the budget papers in front of us today. This bring-forward enabled all current contractual obligations to the 650 current Start companies to be met. That included to the 32 companies that had received a letter of offer from the board but had not yet concluded their contracts. We regarded those 32 companies as current obligations. The second measure was a suspension of new applications until later in the 2002-03 financial year, when we expect uncommitted funds to become available. The third measure was that applications on hand—115 of them—were to be withdrawn and the balance that did not agree to withdraw have subsequently been deemed to have been refused. The fourth measure was a review of the R&D Start program delivery model and financial management systems, the latter being conducted by KPMG. I note—and I think this does answer your opening question—that these measures make no change to the total R&D Start funding envelope as announced in *Backing Australia's Ability*, and they have no direct impact on any other innovation programs in the portfolio.

The fourth item relates to the timing of the announcement. I emphasise that the underlying issue—the magnitude of the cashflow problem—was identified by AusIndustry in January 2002. We advised our minister of that in a brief on 23 January. At that time, the IR&D Board immediately suspended new commitments in the R&D Start program. The government then went into a process of examining the options for dealing with this issue. That timing of course coincided with the 2002 budget process, so the examination of options was in the budget context. The government considered moving the program to a payment in arrears model but ultimately rejected that due to the impact it would have on current Start companies. Consideration during this period involved balancing the interests of those 650 current customers, future applicants to the program and the overall viability of the five-year Start program with budget considerations. The final decision was taken on 23 April. AusIndustry advised most companies within 24 hours, on 24 April. Any earlier advice in that period 23 January to 23 April would have been speculative and, potentially, considerably more damaging to companies that were ultimately unaffected by these measures.

The fifth item is about the reopening of the program. The minister has made clear—and this is supported by our own financial projections—that the program will recommence in the 2002-03 financial year, but the exact timing depends entirely on the actual spend rate within the program, which is something that we are monitoring very closely. The process for the reopening and the form of the announcement are currently being considered and are within the terms of reference for the review that I mentioned earlier. We are very conscious that we need to get this reopening process right in both the timing and details. We are being very careful in trying not to create false expectations amongst the companies. We are also very

conscious of the interests of the 115 companies whose applications have been set aside. The advice that we have given them is that they will receive the earliest possible opportunity to reapply.

Senator GEORGE CAMPBELL—I note in that outline, Mr Clarke, that you have answered my first question—that is, there is no overall impact on the totality of funding for the program. Had you not taken the action you took at the point you took it, what would have been the overrun in terms of expenditure this year?

Mr Clarke—It would have been \$40 million.

Senator GEORGE CAMPBELL—It is true, as you said, that in the past there have been underspends in this area. I can recall that one year I think \$50 million went back into consolidated revenue or somewhere else in the department. Why wouldn't you assume that something similar may occur with this program: that there may be a peak and trough over the period to the end of the out year, 2005-06? Why couldn't \$40 million have been accommodated in that context?

Mr Clarke—The question of accommodating the \$40 million is a budget question for government.

Senator GEORGE CAMPBELL—The moneys have already been allocated.

Mr Clarke—Moneys are allocated on an annual fixed appropriation basis for the grant elements of R&D Start.

Senator GEORGE CAMPBELL—What I am putting to you is that the applications could have been deferred without rejecting them and picked up out of the 2002-03 allocation.

Mr Clarke—Sorry, I misunderstood your question. Thank you, Senator. A small number of companies, amongst the 115 whose applications have been put aside, have said to us that they would have accepted that as a model. That was one of the options that was considered in this period January to April: whether there was some other way of dealing with those companies. The view ultimately reached was that that was not tenable. That was entering into some forward commitments that would have a longer-term impact on the future profile of the program. It was also clear to us that there were many companies for whom that option would not be appropriate—it would not fit their commercial circumstances—so on balance the decision was for an across-the-board suspension.

Senator GEORGE CAMPBELL—Are you saying that we always make these payments in advance, not in arrears?

Mr Clarke—The standard model within R&D Start is for payment in advance. Indeed, it is one of the design principles in the current program that in order to receive a Start grant the company have to demonstrate to us that they are not able to fund their 50 per cent share of the project without government support. Hence the concept was that the way the program has been implemented is payment in advance. It is a form of co-funding, if you like.

Senator GEORGE CAMPBELL—Why did you take the decision to request, or force, the 115 companies to withdraw?

Mr Clarke—The letter that I signed, that went out to the companies on 24 April, had the statement: 'I invite you to withdraw your application.' The reason for that was, essentially, a legal technicality in that under the act and the ministerial directions there was no provision for a suspension such as that which we needed to implement. So it was open to a company to take their application to an extreme and force the board to make a decision. In such a circumstance

the board would have approved the grant but given it a value of zero dollars. That would have been an administrative absurdity and hence the request was made to withdraw. The minister subsequently signed what I would call a 'technical ministerial direction' that had the effect of deeming those applications to have been refused. We have made it very clear to the 115 companies that this is not a merit assessment of their applications. It is an administrative process in order to set them aside until such time as the program reopens.

Senator GEORGE CAMPBELL—Have they expressed whether or not they are comfortable with that?

Mr Clarke—I received quite a few letters, in reply to my letter to the 115, from companies saying that they did not wish to withdraw. I understand the reason for that. Their desires have been overtaken by the subsequent ministerial direction. So from an individual company's perspective that was not the best outcome, obviously, but all companies were treated exactly the same in that process. There is no difference in the way those that chose to withdraw or those that were deemed will be treated in the future.

Senator GEORGE CAMPBELL—In the main, the R&D Start program applies to small to medium enterprises—the bulk are mainly small enterprises. Are you or the department concerned about the impact this is going to have on the view that exists amongst those companies that dealing with the federal government in terms of these programs is a natural disaster? You know the criticism in the late 1990s about the red tape that surrounded the applications for R&D Start grants—many companies said that they would not apply because they did not have the time or resources to do so. That was supposedly freed up and made more user friendly. Now 115 companies have been given notice that what they thought was there is no longer there. Are you concerned about the image that this portrays to that industry community generally?

Mr Clarke—I think it is pretty obvious and fair to say that I wish that had not happened.

Senator GEORGE CAMPBELL—Would you be surprised if I said that two or three companies I spoke to recently used more direct terms than that?

Mr Clarke—Like you, I have had quite a few discussions with companies—both directly or personally and through correspondence—so, no, that does not surprise me.

Senator LUNDY—One of those companies is Xylogy. An article in the *Financial Review* of 28 May 2002 said:

Ron Nissen is chief executive officer of Xylogy which is developing an IT management tool. The company had hoped to receive a two-year Start grant of between \$1 and \$1.5 million before the program was suspended a month ago.

Xylogy has now been forced to slow down its development effort in order to cash in on the more advanced parts of the product. This increases market risk, but trying to raise capital is not an attractive prospect.

Xylogy's valuation had dropped by one-third since the suspension of Start ...

Xylogy is a success story from a program called BITS incubators. The synergy between different government programs was clearly an opportunity for a start-up company which benefited from taxpayers' money through one program—albeit managed by a different department—but it was then hurt by what has happened with the R&D Start program. I am putting an emphasis on the point Senator Campbell made about the damage that this is doing to companies. Can you tell me what relationship this program has with programs like BITS, given there is a really strong opportunity for pull-through for companies which are supported

by public funds in public programs to achieve their goals and their visions. What can you do now to make sure that you do not irreversibly harm these companies by messing up the R&D Start?

Mr Clarke—Your question raises a number of issues that I would like to respond to before coming to your final point about linkages with other programs. It needs to be emphasised that R&D Start is a competitive program; it is not an entitlement. It is not simply a question of meeting eligibility criteria and then receiving a grant. As I indicated in my statement, the competitiveness of the program has now reached a point where 40 per cent of applications that get to final decision are rejected, and that has grown over the last three years—and that is after applications are, if you like, filtered out at the earlier stage with dialogue with AusIndustry, where we advise them that they are either not eligible or so uncompetitive that it is not worth while proceeding.

I guess there is a broader question about the nature of the program in that we cannot spend money in the program that we do not have. The funds are appropriated, the funds are fully committed and the 650 companies that have received Start grants are all having their obligations met as per their contracts. Those 650, as I indicated in the Allen Consulting Group report, are producing very good results within the programs. The question about linkages to other programs is very real, and I recognise that. The other programs within the IR&D Board suite are not affected by the funding issues within Start, so there is no direct impact on funds availability through the COMET, BIF and IIF programs.

Senator LUNDY—I was going to ask you specifically about those programs.

Senator GEORGE CAMPBELL—Mr Clarke, was the go-slow on the R&D Start program that occurred earlier this year a decision of the government or an initiative of the department?

Mr Clarke—The ‘go-slow’, as it was reported, was a slowdown in payments during that period, which was as we were getting to the point of running out of cash.

Senator GEORGE CAMPBELL—Was that a decision that you as a department took or was it a decision of the government?

Mr Clarke—It was a decision that AusIndustry took in order to manage the funds available at the time. That so-called go-slow was immediately reversed, rectified, upon the government’s decision with the \$40 million AFM instrument.

Senator GEORGE CAMPBELL—Were other grant programs subject to the same go-slow on applications?

Mr Clarke—No.

Senator GEORGE CAMPBELL—They were not? So it was only related to R&D Start?

Mr Clarke—Correct.

Senator LUNDY—Let me ask you about the preseed fund, because in an answer to a question on notice you provided last time there was quite a significant change to the scheduled expenditure across a five-year program to significantly reduce expenditure across a 10-year program. Was that as a direct result of being short of cash in the implementation over the next couple of years?

Mr Clarke—Absolutely not; there was no relationship at all. The forward profile of the preseed fund as revised simply reflects the timing in the selection of the preseed fund

managers and our updated expectations as to their requirement to draw down Commonwealth capital.

Senator LUNDY—When Backing Australia's Ability was first announced and the glorious figure \$5 billion or \$3 billion was bandied around—

Mr Clarke—Three billion dollars.

Senator LUNDY—What you have effectively done here is to spread this \$78 million program, which was originally to go across five years, across 10 years. Doesn't that mean that the overall total of the Backing Australia's Ability spend would be some \$30 million or \$40 million less?

Mr Clarke—There are a couple of points. Firstly, we are talking apples and oranges in terms of equity programs, as the preseed fund involves equity investments and Start involves expense grants. The preseed fund is essentially a venture capital program. The \$78 million equity has been appropriated in the forward estimates and the profile revised to reflect the expected cash draw-down.

Senator LUNDY—That still does not answer my last question, though, in terms of the value of what was announced by the government.

Mr Clarke—The \$78 million is all in the \$3 billion. Nothing has changed.

Senator LUNDY—Except that you would spend that money over a five-year period, not a 10-year period.

Mr Clarke—The \$78 million will all be committed—that is, the preseed funds that we would expect will have made their commitments in that program within that period. There can be an accounting argument about commitment and expenditure, but there is no change to the \$78 million allocation to the PSF.

Senator LUNDY—But there is in terms of the points in time at which you would draw down on that.

Mr Clarke—The timing of the cash draw-down will be driven by the actual investment pattern of the development company.

Senator LUNDY—What if there is a demand by the manager of the preseed fund—

Mr Clarke—There are four preseed funds.

Senator LUNDY—and the funds are needed in the first five years? Won't you run into the same sorts of problems?

Mr Clarke—Should that occur, we will approach government through the department of finance and outline the market requirement—the fund manager requirement—and seek agreement to bring it forward, as has happened with the IIF programs, where the funds have been appropriated or expended as driven by the fund managers themselves. The equity appropriations are not lapsing appropriations, so there is no potential for the same problem with R&D Start. They are appropriated and they remain available for the purposes for which they were appropriated.

Senator LUNDY—Can you tell me who the successful applicants were for the management of the preseed funds?

Mr Clarke—The four fund managers are Rothschild Genesis fund, Starfish Ventures, SciVentures and Allen and Buckeridge.

Senator LUNDY—Were all of the funds the same size? How was the funding allocated across each of those funds?

Mr Clarke—The Rothschild program comprises between \$28 million and \$30 million, of which Commonwealth capital is \$21.25 million; Starfish has \$24 million in total, of which \$17 million is Commonwealth; SciVentures have total capital of \$33 million, of which \$20.3 million is Commonwealth; and Allen and Buckeridge have total capital of \$20 million, of which \$14.1 million is Commonwealth.

Senator LUNDY—Can you clarify something for me? Against the preseed fund in the next financial year you have a notional allocation, if you like, of \$12 million for the whole of that financial year. Does that mean that investments made by each of those groups cannot exceed that amount at the time of placing that investment?

Mr Clarke—No.

Senator LUNDY—Do you know what I am trying to ascertain?

Mr Clarke—I do understand; and I believe you will note that there is also some capital in the current financial year allocated in the fund as well—

Senator LUNDY—Yes, my question stands for that too.

Mr Clarke—which in effect rolls forward. These are not lapsing appropriations so the fund accumulates through the life of the program. We have done our best to forecast the call on Commonwealth cash within the preseed fund, but this is a very difficult thing to forecast. We are still negotiating the final licences for the four funds, let alone seeing the actual rate at which they start making investments and the actual cash requirement of those investments. So, on an annual basis, we talk to the department of finance, update our forecasts and adjust the recall on Commonwealth cash accordingly.

Senator LUNDY—I might come back to that.

Senator GEORGE CAMPBELL—Mr Clarke, you said previously that the moneys in the Start fund was paid in advance. I am advised that there are four forms of payment under the program guidelines and that many companies have already commenced spending on R&D projects before receiving the first payment. As a result of the suspension in this area, a number of companies have actually been burnt and some companies are saying that payments are already in arrears. What do you say to that? Can you explain how the payments are made in advance, and what proportion of the Start payments fall into those four categories?

Mr Clarke—The Start program has lots of elements, and it is very difficult to generalise without creating some exceptions at the margin. The first thing to say is that you need to look at the first approval process for a Start grant. A company applies and then goes through an iterative process from their notification of interest, where they start talking to an AusIndustry person, through to when they actually lodge a formal application. That can take anything from weeks to many months, and perhaps even longer depending on the size, complexity et cetera of the application and of the company. Once the application is lodged and we give it a number it has a place in the queue and a commencement date. It is only expenditure from that date that is eligible to be claimed. Our service charter says that from that date we aim to make a yes or no decision on the application within 60 days. We hit that about 75 per cent of the time. That is our success rate on meeting our own charter. That does not allow for time when we have had to go back to the company and ask for yet more information, which is not uncommon.

Senator GEORGE CAMPBELL—So there can be circumstances where the payment is in arrears?

Mr Clarke—The first payment is, therefore, by definition, in arrears, because the first payment covers the period back to the date of application for eligible expenses from that moment.

Senator GEORGE CAMPBELL—And you are saying that no other payments, other than the first payment, fall into that category of ‘arrears’?

Mr Clarke—That is the normal model, yes. There are variations to this according to project and company circumstances and some of the older form contracts, but the normal model is that the first payment will be, if you like, a catch up from the date of application. Then it falls into a normal pattern of quarterly reports—the company says: ‘This is what I’ve done in the last quarter. I’m now at this stage in my project. This is what I’m looking at doing in the next quarter,’ and we make next payment in advance.

Senator GEORGE CAMPBELL—So you fund them for what they are looking to do in the forthcoming quarter?

Mr Clarke—Yes.

Senator GEORGE CAMPBELL—You have already funded them what they have done in the last quarter?

Mr Clarke—Based on milestone reports of the quarter completed. We are quite dependent on the company claims: we do not just send out a cheque at the end of the quarter; they actually have to put in a return to us. If it is the case that the company is slow in making that claim or return, or if there is some issue in the claim that we need to follow up, then it could well be that a good proportion of the payment ends up, in effect, in arrears, but that is largely in the hands of the company.

Senator GEORGE CAMPBELL—Are you saying that in this period—the beginning of the year when the slowdown occurred—that even despite the slowdown, payments were still made on the basis of payment in advance?

Mr Clarke—We were still processing the payments working through, but around March we were running out of cash—we were hitting this need for this \$40 million—so there was a slowdown in payments at that time.

Senator GEORGE CAMPBELL—So in those circumstances, some companies could have fallen into arrears?

Mr Clarke—Correct. It is probable—indeed, almost certain—that that was the case.

Senator GEORGE CAMPBELL—So the complaints that we are getting from some companies to say that they have fallen into arrears is in fact correct?

Mr Clarke—There would have been slow payments for one quarter this financial year, correct. But we have now caught up on all those payments, I believe, and part of the package of measures that was implemented on 24 April was designed to ensure that we could meet all of those contractual commitments in the normal advance payment mode.

Senator GEORGE CAMPBELL—The minister was reported in the *Australian Financial Review* on 20 May, and I do not know if this is a slight at the previous minister or not, saying that the situation was like opening the door and finding a dead body in there—very

descriptive words. When did the minister actually know that there were problems with this program? I think you said in these notes that he was briefed in January.

Mr Clarke—There may have been something verbal 24 hours earlier, but, formally, 23 January was the first time that the minister was advised that the magnitude of the cash flow problem in R&D Start was such that we no longer believed we could meet our commitments this financial year.

Senator GEORGE CAMPBELL—Why did it take from 23 January until April to act on this matter?

Mr Clarke—During that period, a whole range of options were assessed and considered by government—we were doing a lot of financial modelling, a lot of description of the profiles, we were looking at the legal contracts, we were going through numerous iterations of this budget measures process—and it simply took that long to bring the decision to ground.

Senator GEORGE CAMPBELL—Was the minister advised at each step of this process?

Mr Clarke—Yes.

Senator GEORGE CAMPBELL—So you were in constant communication with the minister from 23 January until the decision was made in April?

Mr Clarke—Correct.

Senator GEORGE CAMPBELL—He was apprised of all of your consultations and discussions?

Mr Clarke—Correct.

Senator GEORGE CAMPBELL—Yet you still allowed the thing to, essentially, get to a stage where more drastic action was required? Why did it take so long to make the decision?

Mr Clarke—It was a complex issue and it was being dealt within the budget context.

Senator GEORGE CAMPBELL—I do not think being \$40 million short is a complex issue.

Mr Clarke—There were numerous options considered by government during that period.

Senator GEORGE CAMPBELL—Other than just dealing with the financial shortfall?

Mr Clarke—Options for dealing with the cash flow problem, yes.

Senator GEORGE CAMPBELL—I presume that none of those options included an additional \$40 million?

Mr Clarke—The prospect of bringing forward funds was obviously amongst the options considered and indeed was ultimately part of the decision.

Senator GEORGE CAMPBELL—You probably know where I am heading with this, because we did have a set of estimates in February where questions were asked specifically about this fund and about funding of it. The clear impression given by you and Mr Peel was that everything was hunky-dory.

Mr Clarke—I listened very carefully to the questions you asked me during the 20-22 February estimates committee, and I answered them truthfully.

Senator GEORGE CAMPBELL—I am not suggesting you did not answer them truthfully; I am suggesting you gave the clear impression that everything was hunky-dory.

Mr Clarke—I simply answered the questions you asked me, Senator.

Senator GEORGE CAMPBELL—Mr Peel, at one stage you said:

... we have simply moved the money around.

You talked about transferring \$11.7 million from the industry innovation fund and the Start grants program.

Mr Clarke—No. What we were talking about then was that there was a measure in those additional estimates that moved \$11.7 million from the loans element of R&D Start into the grants element of the program—the Industry Innovation Program, IIP. That has been a standard tool that has been used in the administration of Start over the years. Prior to accrual accounting, the loans and grants funding were all disappropriated as one cash bag. Under accrual, of course, they are in separate elements and there has to be a formal budget process to move funds between the two elements.

Senator GEORGE CAMPBELL—But it is fair to say that, during the period of those estimates in February, you and Mr Peel were conscious of the state that this fund was in, yet both of you gave the impression that essentially there were no difficulties. There were several questions asked about the funding of the R&D Start program.

Mr Clarke—We simply answered the questions you asked us.

Senator GEORGE CAMPBELL—I will bear that in mind in the future, Mr Clarke. I do not have to assume I am necessarily getting all the facts when you answer questions in the future.

CHAIR—Senator Campbell, would you mind restricting yourself to questions rather than comments.

Senator GEORGE CAMPBELL—Is that what Mr Clarke is saying?

Senator Minchin—I think that is a rather unfortunate and unfair reflection on Mr Clarke. Having been the minister for three years, in my view he is one of the finest members of this department. He was obviously acting under a constraint last time in that the government had not made any announcement about this program or the funding pressure on it. He obviously is required to comply with the edicts of the government as such in terms of announcements. No doubt Senator Campbell is frustrated by that, but that is a fact. I do not think it is fair to reflect on Mr Clarke or to infer that he would maliciously or recklessly withhold pertinent information.

Senator GEORGE CAMPBELL—With all due respect, I did not say that.

CHAIR—Order! Minister, have you finished?

Senator Minchin—I have. I am happy to hear a response from Senator Campbell.

Senator GEORGE CAMPBELL—I did not say that; I simply said to Mr Clarke—and I think he said it himself—that I have to assume that when we ask questions here we do not necessarily get all of the facts when we get an answer. That is exactly what Mr Clarke has just said to me. He answered the questions as they were asked.

Senator Minchin—It is a fact of all Senate estimates hearings that officers will answer questions truthfully but there are always confidential matters or matters of government policy or decision pending that officers, in accordance with their responsibilities, cannot possibly reveal. They should not mislead and they should not tell lies—and they do not—but all

through the ages, in any estimates hearing of any department, there will be times where not all the facts will be able to be put on the table for a variety of reasons.

CHAIR—I might add, Senator Campbell, that in these committees there is a lot of latitude permitted, but I am mindful of my obligations under the Senate resolutions to ensure that all questions put to witnesses are relevant and necessary to the topic of this hearing. The topic of this hearing is the consideration of proposed expenditures within this portfolio for the 2002-03 year. I also remind you, Senator Campbell, that your function is to ask questions, not to comment on witnesses.

Senator GEORGE CAMPBELL—I am not going to have a brawl with you, Senator Brandis, because I do not see the point in it. I will determine what questions I think are relevant; you will not determine the questions I ask in any of these committees. I simply make the point that there was a series of questions asked of Mr Clarke in February, which you are conscious of. I presume you have gone back and read the transcript—bearing in mind the preparation you put into this—and I think it is fair to say that we were given an impression, as a result of the answers to those questions, which is different from what in reality was occurring in this program.

CHAIR—Senator Campbell, move on to your next question please. I will not allow comments!

Senator GEORGE CAMPBELL—Is that a fair assumption?

Senator Minchin—Mr Chairman, I do think that is a reflection upon the witness that is unfair and inappropriate. It was not for Mr Clarke to pre-empt his own minister in relation to announcements by the government about this program. He answered the questions truthfully today, as he always does and did at the February hearing. I am disappointed that Senator Campbell would seek to reflect upon Mr Clarke in the way he is.

Senator GEORGE CAMPBELL—I am not seeking to reflect upon Mr Clarke. I have the highest regard for Mr Clarke. I am saying that it is a reasonable assumption for me to have drawn the conclusion out the February estimates that there was nothing occurring in this program.

Mr Clarke—Senator, I can only reiterate my earlier comment. I was very conscious during the February estimates of the situation. As I have advised you, AusIndustry had informed its minister on 23 January that there was a serious issue that needed to be addressed in Start. I paid very close attention to the questions that you asked me in February. I answered them truthfully, I believe, and I in no way sought to mislead you.

Senator GEORGE CAMPBELL—I am not suggesting that you did not answer them truthfully, Mr Clarke. That is not the point I am making.

Mr Clarke—Nor did I seek to mislead you, Senator.

Senator GEORGE CAMPBELL—Can you explain what the process is from here with this program?

Mr Clarke—There are a number of things going on in parallel. Firstly, we are working within this financial year to make sure that we do meet all of those obligations to the 650 current customers. I mentioned in my statement that there is a review under way. The review essentially has two dimensions. The first is to look at the back office processes. It is quite clear, as I have acknowledged, that AusIndustry's forecasting model of the level at which we can make future commitments in the R&D Start is not valid, and we need to review that.

KPMG have been brought in to provide independent professional advice to us on the way in which we should structure and go about that process.

In terms of the front of the program, we now need to look at this issue of how we structure R&D Start so that an interruption of this magnitude never occurs again. You would appreciate that that is quite a complex issue. Essentially, it involves balancing the following factors. We have a program that makes, at the moment, virtually continuous commitments that vary between \$50,000 and \$50 million. It makes them for projects that vary in length between one and three years, and it does them under a contract that enables the company, according to its own commercial requirements, to vary the spend rate as it sees fit. We have to match that with fixed annual cash appropriations. We need to look at that structure and ask, 'How do we get the best balance between flexibility for our customers, which is an attractive feature of the Start program, and financial control, which is clearly a requirement in the budget management situation?' We are looking at all of those factors and trying to see what we need to change to ensure that this does not happen again.

Senator GEORGE CAMPBELL—When do you expect a decision to be made in relation to the forward operation of the program?

Mr Clarke—We are keen to make that as quickly as possible because it is part of the uncertainty that we now have in the marketplace regarding the Start program. There are essentially two uncertainties out there that we need to deal with. The first is the exact date on which we reopen the program and the second is what the program will look like when we reopen it. The latter we want to deal with as quickly as possible. We have been tasked with completing that review process, developing the options, by the end of this month—that is, June—for the department and the minister's consideration.

Senator GEORGE CAMPBELL—Have you or the department done any analysis or assessment of the implications of these decisions for companies which are in the R&D Start program or those that might have been second to enter, in terms of their capacity to access the premium tax concessional rate?

Mr Clarke—The rules for use of R&D Start history in the premium element of the tax concession, which you asked us about in February also, remain the rules. The Start history is part of the package. In essence, the companies whose applications have been set aside are no different, in terms of process, to the companies whose applications were rejected. They will not have a Start history.

Senator GEORGE CAMPBELL—That may well impact upon those companies down the track in terms of their capacity to access the premium R&D tax concession. It will at least be delayed.

Mr Clarke—Correct. For the hypothetical situation of a company that would have been approved in that period if the funds had been available, the scenario you outlined is correct.

Senator GEORGE CAMPBELL—Can I just go on with the pooled development funds. How many pooled development funds are in existence?

Dr Edwards—There are 122.

Senator GEORGE CAMPBELL—Do you have a break-up of those across the industry sectors?

Dr Edwards—We have an indication on our web site of the sectors that the PDFs generally work in. I could trawl that data for you and provide it to you. It is across a range of

sectors. We are seeing, in the last two years especially, the emergence of industry sector specific PDFs, which is a slightly new phenomenon. I do have some data on that that I could provide.

Senator GEORGE CAMPBELL—What does the PDF Board consist of?

Dr Edwards—I can give you the names of the members of the PDF Board, if that would be of assistance to you. They are Professor Frank Finn from Queensland; Dr Michael Vertigan from Tasmania, who is the chair; Professor Terry Walter from New South Wales; Mr Adrian Brien from South Australia; Mr Roger Harley from Victoria; and me as an ex-officio member.

Senator GEORGE CAMPBELL—Did the board have in circulation a policy paper on the legal interpretation of section 28A?

Dr Edwards—Yes, it did. It had in circulation its belief of the interpretation of 28A.

Senator GEORGE CAMPBELL—Why did it withdraw this document?

Dr Edwards—The board received some legal advice from the Australian Government Solicitor with regard to some concerns the board had about the interpretation of 28A, and that advice made the board unsure that its interpretation was correct so it withdrew the policy paper.

Senator GEORGE CAMPBELL—What are the implications for funds that have been operating using that as a guideline for their structure and operation?

Dr Edwards—The policy papers that are put out by the PDF Registration Board are quite clearly labelled as interpretative positions that the board takes when it is viewing things. It always prefaces and has always prefaced those by saying that it is a self-assessment program and the funds themselves need to take their own legal advice.

Senator GEORGE CAMPBELL—Why did the board go to the Australian Government Solicitor for legal advice on its paper?

Dr Edwards—It had some concerns about the way it had interpreted 28A that flowed from looking at some cases and some company specific activities where it had given those activities much deeper thought and much deeper investigation. It sought further legal advice as a result of that process and withdrew its interpretation of 28A.

Senator GEORGE CAMPBELL—So it drew its interpretation based on what was occurring in the market—

Dr Edwards—No, based on the legal advice it received.

Senator GEORGE CAMPBELL—Was the legal advice from the Australian Government Solicitor that the board's interpretation of section 28A was wrong?

Dr Edwards—Yes—it was that the board's interpretation of 28A may not be accurate.

Senator GEORGE CAMPBELL—How does the board then establish whether or not a company or an applicant meets the conditions of 28A?

Dr Edwards—It is a self-assessment program. The applicants need to make that assessment themselves based on their own legal advice. If the board were in a compliance investigation that relied on interpretations of any part of the act, it would seek legal interpretation of its own.

Senator GEORGE CAMPBELL—If I make an application to the board that is rejected but I have legal advice from my legal advisers that I am complying with section 28A, what grounds of appeal do I have?

Dr Edwards—The application process does not require detailed interpretations of areas of the act. The application process and the approval to become a PDF are about the skills and the knowledge that are brought to the PDF by those people who want to set up the PDF. There are some eligibility criteria that need to be ticked off, and there is a need to provide an investment plan. If the PDF Registration Board thinks that the people have the appropriate skills and that the investment plan looks reasonable then they register. They do not go to the detailed interpretations of the act; that is left for the PDF itself to work through with its legal advice.

Senator GEORGE CAMPBELL—But you have withdrawn registration on the basis that some companies do not comply with 28A. On what basis do you make that assumption, if their legal advisers tell them they do?

Dr Edwards—I need to be careful, as you know, because we are talking about one specific case. There was a process that the board was involved in as part of its compliance activity to investigate a fairly large PDF. That took a very long period of time. The board became quite concerned that section 28A may be being breached, took very extensive legal advice about the application of section 28A and then came to its decision based on that advice.

Senator GEORGE CAMPBELL—It made the decision based on advice from the Australian Government Solicitor?

Dr Edwards—And after extensive discussions with the company involved, yes.

Senator GEORGE CAMPBELL—There were extensive government discussions with the company involved, and it is also true that one of the officers of AusIndustry told the company that, if you had 10 different lawyers give an interpretation of section 28A, you would get 10 different interpretations because the section is so confused.

Dr Edwards—I am not aware of that. We have very clear advice on its application from AGS.

Senator GEORGE CAMPBELL—Isn't it true that this company offered to take the issue to the Federal Court and have it determined?

Dr Edwards—The decision to deregister the PDF, as I say, was taken after long consultation with the company and after extensive legal advice. It was taken after giving the company extensive time to restructure their operations, knowing full well that they had received advice that was different to the position that the board believed they should have been in. Then, after a further round of discussion where the company put forward a proposal to restructure, the board believed that that restructure did not go to the heart of the issue and took the decision to deregister. A process is then left available to the company that includes asking the board to reconsider its decision and appeal to the AAT and the Federal Court to clarify any issues of law. That is a normal process that is available to the company.

Senator GEORGE CAMPBELL—But they say that they did propose a restructure but that the board rejected it out of hand for what they say are less than substantial reasons. In order to try and conclude the matter, they offered to take it to the Federal Court to have the legal point of issue determined, but the board refused. Why would the board refuse such an offer, given that there were a variety of legal opinions out there, some saying that they complied and some saying that they did not comply?

Dr Edwards—The board was very strongly of the view that the attempt at restructure did not go to the issues and did not address the problems that the board had with the way the company was structured. The board's legal advice was very strong. That included advice from senior counsel, and they were very strong as to their position. They were of the view that deregistration was the appropriate course of action.

Senator GEORGE CAMPBELL—But, if that is the case and they were so strong in their view of the legal circumstances, why didn't they have it tested in the Federal Court? Why didn't they put it beyond doubt?

Dr Edwards—That is a process that is available to the company to review the decision now.

Senator GEORGE CAMPBELL—I presume it is a process that is available to the company, but in a contested environment that would involve litigation; I presume what they were proposing would not have involved that.

Dr Edwards—They can choose to have a point of law looked at by the Federal Court; the review of the decision is with the AAT. That is a process that is available to the company.

Senator GEORGE CAMPBELL—Why wouldn't the board go along with this approach to helping them resolve the issue?

Dr Edwards—I can only say that the board was very confident of its opinion, and that is the position it took. It had taken extensive advice, had extensive discussions with the company and was of the view that deregistration was the appropriate decision.

Senator GEORGE CAMPBELL—This company had a number of discussions with various officers of AusIndustry in relation to this matter. Mr Clarke, are you aware of those discussions?

Mr Clarke—I am aware of the case to which you are referring at a high level. But I do not take a line management role in the PDF program; Dr Edwards does that.

Senator GEORGE CAMPBELL—But weren't you involved in some of these discussions?

Mr Clarke—I did have one lengthy phone discussion with a representative of the company concerned; yes, I recall that.

Senator GEORGE CAMPBELL—Essentially, Dr Edwards, you are saying that the only redress the company has is to challenge the board's ruling in the court?

Dr Edwards—You need to realise that the board was very conscious that the application of 28A that was being pursued by this particular company, in their view, undermined the credibility of the program. They believed it went to the heart of the policy intent of the program and were strongly of the view that deregistration was an appropriate response.

Senator GEORGE CAMPBELL—With all due respect, that is a different issue to whether or not they comply with the terms of the act.

Dr Edwards—Absolutely. As I said, they were very strongly of the view that they did not comply with the terms of the act, and they were also gravely concerned that the policy intent of the program was being undermined.

Senator GEORGE CAMPBELL—So you are saying that on both grounds it was rejected: not just that it may have offended the spirit of the act but also that it did not comply with the technical legal requirements of the act.

Dr Edwards—It did not comply with the act in the view of the board, and that was the reason that they deregistered.

Mr Clarke—Senator, in the interests of ensuring that I have not misled you—

Senator GEORGE CAMPBELL—I know it would not be deliberate, Mr Clarke.

Mr Clarke—you remind me, quite properly, that I did have some involvement in this case at one point. I had quite an extensive phone conversation with a representative of the company that you are talking about. The company made their case to me. I was not familiar with the details of the case prior to that. The action that I took was to consult with Dr Edwards and be advised about the process that AusIndustry and the PDF Board were following with regard to this case, and I was satisfied that the process was proper. I have not had any further involvement with it.

Senator GEORGE CAMPBELL—I think we have got the message. Other people will redress it in whatever way they seek to pursue it. I turn to the Innovation Access Program. In the Backing Australia's Ability program, there was an announcement of \$100 million for the Innovation Access Program. In advertising or promoting these programs, only something like \$16,000 has been spent out of the \$635,000 spent on all of the Backing Australia's Ability programs. Why such a small amount?

Ms Berman—I think I will have to ask you to repeat the question. I am a little bit confused.

Senator GEORGE CAMPBELL—I am asking you why only \$16,000 was spent on promoting the Innovation Access Program out of a total spend of \$635,000 on all of the Backing Australia's Ability programs.

Ms Berman—I think that refers to AusIndustry marketing. Is that right, Mr Clarke?

Mr Clarke—I can only respond that the direct advertising cost was commensurate with the scale of the opportunity available and the awareness of the program in the market. But I think you are going to something else that that does not really address.

Senator GEORGE CAMPBELL—I was going to ask you what specifically the \$16,000 was spent on.

Mr Clarke—To help me answer you, can I ask where you get the \$16,000 amount from?

Senator GEORGE CAMPBELL—That is a good question and I cannot answer it. I have not got it. Somebody gave it to me. That is what the breakdown was and what the spending was on each of the programs.

Mr Clarke—I am afraid it is not in my brief.

Senator GEORGE CAMPBELL—You do not think it was even \$16,000?

Mr Clarke—I have no idea. I am happy to take the question on notice.

Senator GEORGE CAMPBELL—Can you do that?

Mr Clarke—Yes.

Senator GEORGE CAMPBELL—Then we will both find out where the \$16,000 came from.

Mr Clarke—The only general observation that I would make is that a lot of the AusIndustry marketing that we do is broad based and not product specific. So it can be

‘misleading’—there is that word again—to take out the product specific advertising. That does not necessarily represent the broader promotion of the program 2 sectors.

Senator GEORGE CAMPBELL—I think this is just talking specifically about this particular program.

Mr Clarke—I am happy to take that on notice.

Senator GEORGE CAMPBELL—If the \$16,000 is right, can you find out what it was spent on?

Mr Clarke—Yes.

Senator GEORGE CAMPBELL—Then I presume you are not aware of who was specifically targeted by this promotional material.

Dr Edwards—I can only reiterate what Mr Clarke has said. We tend to promote in AusIndustry generically across a range of programs. I am not aware of the \$16,000 figure either, I am afraid.

Senator GEORGE CAMPBELL—Part of the provision of this program was to fund global specialists to come to Australia and also to promote overseas missions. Can you outline to us which overseas missions have been promoted so far or which specialists have been invited here?

Dr Edwards—I do not have that information with me but I can provide you with a list.

Senator GEORGE CAMPBELL—Has there been activity in this program?

Dr Edwards—Remembering that this program is the old TDP program and Innovation Access mixed in together in this year, there have been a number of overseas trips funded and a number of people have been funded to come to Australia, but I do not have that information with me.

Senator GEORGE CAMPBELL—Can you provide us with a list of funded overseas visits that have occurred?

Dr Edwards—In both directions?

Senator GEORGE CAMPBELL—I would like a list of funded overseas visits that have occurred in both directions which includes information as to who has participated in those visits, whether they have been totally funded by the department or whether there has been part funding by the department or part funding by individuals and what industry sectors, if any, have been targeted by these specific visits. Do you have the answers, Ms Berman?

Ms Berman—I have some of them. If you want a very comprehensive answer perhaps we can take it on notice, but I can mention two areas that have been funded.

Senator GEORGE CAMPBELL—I am happy to take a more comprehensive answer on notice, but if you have a couple of examples then that would be useful to give us a flavour of what is occurring.

Ms Berman—There was support for Hanover Messe, which is a large ITC in the Northern Hemisphere in Germany, and in relation to nanotechnology there were also a number of activities in South-East Asia and Japan to do with both sending experts overseas and bringing experts to Australia. They are two areas that I am aware of.

Dr Edwards—I think there was also one in the welding area that we funded, but I will get you a more comprehensive list.

Senator GEORGE CAMPBELL—It would be good if you would take that on notice and provide us with some detailed information, including the itineraries of those visits so that we know who they spoke to and what they were looking at et cetera. How many staff are allocated to coordinate and manage the Innovation Access Program?

Ms Berman—As you are aware, we have a policy area and a program delivery area. In the policy area we have five full-time ASL staff looking after that responsibility. Mr Clarke can advise you how many are in the delivery area.

Mr Clarke—The area we look after in AusIndustry is grants for international R&D technology access and we currently have nine people in that area. Three of them are in transition to DEST as part of the division of the Innovation Access Program into Innovation Access for Industry and Innovation Access for Science and Technology. After that transition at the end of this month we will have six people.

Senator GEORGE CAMPBELL—Have you received any complaints about the program?

Mr Clarke—Yes. In a program delivery agency such as AusIndustry, where we have 25 programs and thousands of customers, it is probably fair to say that there is at least one complaint in every program. I am aware of some recent issues that have arisen in the TDP/IAP space; indeed, one of them is currently being examined by the ombudsman.

Senator GEORGE CAMPBELL—Can you tell us who has complained?

Mr Clarke—I am reluctant to reveal the name of an individual company. Is that what you are looking for?

Senator GEORGE CAMPBELL—Is there only one company?

Mr Clarke—I am aware of one company and one researcher.

Senator GEORGE CAMPBELL—If you are reluctant to tell us who that is, I will not press you.

Mr Clarke—I am reluctant only from the point of view of not being aware of whether revealing such information would be of concern to the company or the researcher.

Senator GEORGE CAMPBELL—I am more concerned about the basis of the complaints than who the individual or the company is.

Mr Clarke—I am certainly happy to talk to you about that.

Senator GEORGE CAMPBELL—Ms Berman, when you put those details together on the Innovation Access Program, will you provide us with the funding for each one?

Ms Berman—Certainly.

Mr Clarke—The current complaint that I am familiar with is the case where an applicant to this program applied on the wrong form, to be blunt, and the application was rejected without a merit assessment. In my view, the case revealed a weakness in the way we process applications in that program. The program operates on a rounds basis—that is, there is a deadline for application and then there is a very short period of assessment and decision. The outcome of this particular case was to change our processes whereby as soon as we receive an application, we give it a preliminary assessment to ensure that it is a full, complete and appropriate application. If it is not, we give the applicant the opportunity to review. That was not done in this particular case, and so the applicant essentially missed out because of a non-

compliant application. In essence, it was a misunderstanding that we should have detected earlier.

Senator GEORGE CAMPBELL—Maybe you need to look at all your programs, not just the R&D Start program, and the terms under which they operate.

Mr Clarke—It is a complex operation. There is always room for improvement everywhere.

Senator GEORGE CAMPBELL—I did understand that we were moving towards a more flexible system. Ms Berman said at the last estimates that you were looking at adopting an approach to the application of these programs that would be much more flexible and less rigid.

Mr Clarke—This was one that related to these international collaborations, which operate on a rounds basis. To be very frank, I think our process was flawed and we need to change it.

Senator GEORGE CAMPBELL—Can you tell us where the Innovation Investment Fund is up to? Have we any more smart investments?

Mr Clarke—Look Smart.

Senator GEORGE CAMPBELL—Have you had any more look smarts?

Mr Clarke—Regrettably, none that we know of at this stage.

Senator GEORGE CAMPBELL—Have we had any returns on our investment?

Mr Clarke—There have not been any more divestments—actual exits—within the IIF program other than Look Smart. It remains the single and spectacular divestment within the portfolio.

Senator GEORGE CAMPBELL—That money is still sitting in Treasury, I presume, for future use?

Mr Clarke—It is still sitting out there, earmarked as funds arising from the IIF returns.

Senator GEORGE CAMPBELL—The minister in his new capacity has not taken it with him?

Ms Berman—No, it is still there.

Senator GEORGE CAMPBELL—Keep a big red ring around it!

Ms Berman—I look at it every day and make sure it is there.

Senator GEORGE CAMPBELL—We will come back periodically to make sure it stays in that pot.

Mr Clarke—I know you are interested in updates on the IIF generally; indeed, the board's fund management committee reviewed the portfolio about a fortnight ago. The round 1 IIFs are now almost fully committed in terms of the number of investments. They are still well short of drawing down all of the cash, but there are only one or two new investments—three at tops—that have not yet been identified in the round 1 group. Round 2 funds—those four funds—are still at their early stage. The number of investments range from zero to six. It is about three out of maybe 10. All up, there are probably 30 more companies that will be identified and receive investments under the IIF round 1 and 2 programs. That 30 is an estimate, but it would be of that order.

Senator GEORGE CAMPBELL—Is the focus still substantially on ICT and biotech?

Mr Clarke—There are 54 companies that have currently received investments in the IIF. The sectoral profile at this stage is 59 per cent are in the Internet communications technology sector; 24 per cent are in the life sciences and medical instruments sector; and around 17 per cent in 'other'. 'Other' includes mining equipment, electronics, plastics and construction.

Senator LUNDY—To follow up: at the last round of estimates you mooted an evaluation. Is that what you were just talking about?

Mr Clarke—No, this is simply a portfolio profile. A formal program evaluation is a separate exercise.

Senator LUNDY—Can you tell me where you are at with that formal evaluation, please?

Ms Berman—Yes; the evaluation commenced earlier this calendar year, after we last spoke. The report is due at the end of this month with a view to taking a report to cabinet in about August this year. It was a request when the program was set up that there would be an interim evaluation done and a report to cabinet on progress.

Senator LUNDY—I was just going to ask whether that report would be made public and you said it was going to cabinet. At what point will some information about that interim evaluation be made available to the public and to the parliament?

Ms Berman—The report will be coming back to us at the end of June. We will talk to the minister and he will make the decision about when and if it becomes public. But it was done independently, so there should not be a problem with its availability.

Senator LUNDY—Perhaps I could ask the minister whether it is his intention at this stage to make that interim evaluation public.

Senator Minchin—I have no idea.

Senator LUNDY—I thought it might be worth asking. What about the Biotechnology Innovation Fund and also REEF? Are they undergoing a similar evaluation?

Ms Berman—I do not have responsibility for those.

Mr Clarke—As the program deliverer of those funds, I can tell you that there is not an evaluation of BIF or REEF. The policy owner for REEF is actually the Australian Greenhouse Office, although it is delivered in an absolute IIF model and hence through the IR&D Board FMC.

Senator LUNDY—I do not know whether it is worth asking you to pass on the question on notice. I will see what I can do to get a question on notice about an interim review or report into REEF.

Mr Clarke—I would be happy to take it on notice and seek the information from the Greenhouse Office for you.

Senator LUNDY—I would like to refer back to an answer I received to a question on notice about the changes to the tax arrangements for qualifying investments for venture capital. I refer to an answer to a question that I asked. It is on page E291 of the answers to questions on notice from estimates of 22 February. The answer says:

Under the venture capital entities initiative, \$10.7 million has been initially invested by 21 overseas superannuation funds who registered concurrently into one qualifying Australian business.

I want to confirm that I am getting the context of this right. This was the \$10.7 million identified as being the upshot of the changes to the taxation arrangements made how ever

long ago it was. It says 'into one qualifying business'. Can you clarify what you mean by 'into one qualifying business'? Does that mean one VC was the recipient of all the \$10.7 million that the variation of that change to taxation arrangements created?

Mr Lowndes—This refers to the previous concession that was introduced a couple of years ago, not the current one that was announced more recently.

Dr Edwards—Yes, I can confirm that it was an investment into one business. From memory, it was in northern New South Wales, in the Hunter region.

Senator LUNDY—So out of all of that hoo-ha about changes to the capital gains tax, we got one investment of \$10.7 million into one business.

Dr Edwards—Correct.

Senator LUNDY—That is very interesting. I would like to confirm this, because I do not have the *Hansard* from our previous question. That \$10.7 million was identified by AVCAL, was it not, as the total net difference that changes to the taxation arrangements made in terms of incoming funds to Australia? I want to confirm that that \$10.7 million is not a subset of a greater sum of money.

Mr Lowndes—No, that was the amount that was received and which benefited the tax concession.

Senator LUNDY—It is no wonder that you moved to change it again, if you got one investment into one business.

Mr Lowndes—To clarify, it is not the full amount of foreign investment in venture capital, but it is the sum total of what utilised the previous tax concession.

Senator LUNDY—Yes, what utilised those changes to the capital gains tax. That took some time to argue and has been an interesting issue. Moving on, thank you for the answers to questions about the expansion of that program, which includes investors from other places—not just those qualifying funds from the US, but other investors from the US, the UK, Japan, Germany, France and Canada. The response also says that the Treasurer indicated that consultations would be held with industry to examine whether the list should be expanded. Has a decision been made to expand the list of places where qualifying investment funds could come from, that get that tax advantage?

Mr Lowndes—Consultation with industry on this whole issue is still in progress. At the moment that list will not be extended, but the idea is that it will be monitored on an ongoing basis. If appropriate, it will be extended in the future.

Senator LUNDY—I am not going to get much information from you about that. I did ask about Japan and Singapore. They are obviously not being included in the list. Are they being considered for inclusion?

Mr Lowndes—I believe Japan is, yes.

Senator LUNDY—What about Singapore?

Mr Lowndes—Not at the moment.

Senator LUNDY—What other countries are being considered?

Mr Lowndes—The UK, Canada, France, Germany.

Senator LUNDY—Sorry, I meant beyond that list.

Mr Lowndes—The decision to extend will be done in consultation with industry as issues arise. Essentially, it will depend a bit on where the interest of potential investors comes from. On the other side of it are concerns with the integrity of the tax system in those various countries. As you can see from the list that is there, we are looking at what you might call comparable tax countries. Decisions to extend that would need to be named pretty carefully.

Senator LUNDY—What is the process that that list of countries be expanded? Would that require legislative change?

Mr Lowndes—I do not believe so. I would have to check.

Senator LUNDY—If you could take that upon notice, because I would like to know what the formal process is to expand that list to a greater number of qualifying countries and what tests Treasury are requiring to be imposed as far as integrity of the tax system of qualifying countries is concerned.

Senator GEORGE CAMPBELL—What is the science, technology and innovation score card up to? It was promised by the end of last year.

Ms Berman—There has been an innovation score card prepared by the department. It intends to release it as part of the innovation statement. You will recall that the first one was released in August last year. There will be another in August this year.

Senator GEORGE CAMPBELL—So it will be released in August this year?

Ms Berman—That is correct.

Senator GEORGE CAMPBELL—Is it going to be an annual event or every six months?

Ms Berman—Annual is what is appropriate, because most of the indicators do not change in a six-monthly period, so annual is the preferred option.

Senator GEORGE CAMPBELL—What about cooperative research centres?

Ms Berman—That is no longer in our portfolio.

Senator GEORGE CAMPBELL—There are two sets of funding. There is funding under the PBS with your portfolio and there is funding under the PBS with education and training. I presume that funding is privy to the winding up of programs that you had in existence and then the process of transfer across?

Mr Dainer—That is correct.

Senator GEORGE CAMPBELL—So I should direct my questions to them?

Ms Berman—Yes.

Senator GEORGE CAMPBELL—I asked you last year about the regional and rural focus of COMET and I did not get any real response. I will ask you that question again, given that the rural and regional area is the fastest growing export area in terms of numbers, and I am interested to know what sort of support is being given in that area to underpin that.

Mr Clarke—So your question relates to the projects and start-ups that are being supported under the COMET program?

Senator GEORGE CAMPBELL—Yes, and what focus there is on regional and rural Australia.

Mr Clarke—I have in front of me a sectoral breakdown of the 518 companies that have been supported under COMET. Would it be helpful if I just work down the list and you will see the ones that perhaps have a more regional and rural focus?

Senator GEORGE CAMPBELL—Yes. I am happy if you want to take it on notice.

Mr Clarke—The ones that stand out to me are the agriculture sector; there are 22 in there.

Senator GEORGE CAMPBELL—So you have it aggregated in industry sectors?

Mr Clarke—Yes, so do you want me to run down that list?

Senator GEORGE CAMPBELL—Yes.

Mr Clarke—These are in rank order: manufacturing, 148; computer services, 126; communication, 62; biotechnology, 40; transport and storage, 16; agriculture, 22; property and business, 17; health and community services, 11; mining, 10; culture and recreation, six; retail, four; electricity, six—so much for my rank order, sorry; we are down into the smaller numbers.

Senator GEORGE CAMPBELL—That does not really tell us how many of those companies are actually regional.

Mr Clarke—Sorry, do you want the geographic breakdown?

Senator GEORGE CAMPBELL—Yes.

Mr Clarke—I apologise; I am happy to take that on notice.

Senator GEORGE CAMPBELL—Can you give it to us on notice?

Mr Clarke—A metropolitan/non-metropolitan breakdown?

Senator GEORGE CAMPBELL—Yes, that is essentially the break up that I am looking for.

Mr Clarke—I am happy to do that.

Senator LUNDY—I have a couple of follow-up questions about COMET. You said very specifically before that COMET was not affected by the problems with R&D Start and yet I notice that, as far as the forward allocations go, the money allocated to COMET sits within the R&D Start budget. What strategies do you have in place to ensure that COMET is not affected either directly or indirectly by what has occurred with R&D Start?

Dr Edwards—I think if you look at last year's PBS and the one for next year, COMET has been separated out from the Start program. You are correct that in its first two years it was just a subcomponent of the Start program. It is not any longer.

Senator LUNDY—In terms of the patterns of expenditure within R&D Start and that 'faster, more money quicker' pattern: are you seeing any more similar patterns emerging with COMET or any patterns of expenditure by the companies that concern you or require you to act in advance before we find ourselves in difficult—perhaps not identical—circumstances with this particular grant program down the track?

Dr Edwards—In both the COMET and BIF programs it would be fair to say we got off to a slow start this year. In COMET we had double funding this year; remember it went from \$10 million to \$20 million back to \$10 million. We got off to a slightly slow start in COMET in that we did not have the additional business advisers in place until November, so we are going to significantly underspend in the COMET program this year. What we have been able

to do to some extent is to take advantage of the problem in Start and lend some money to Start which will be paid back next year, so it has allowed us to broaden out the funding. We have had a similar strategy in BIF.

Senator GEORGE CAMPBELL—Is that because of the lack of demand?

Dr Edwards—No. With COMET it was purely because we had 12 months of double funding; we did not get the design model finalised until July. It took us two months to hire the additional seven business advisers; by the time they gave notice and got on deck we were into November. So we actually got a slow start because we only had a window of a year. We have taken this action to broaden out the funding into next year.

Senator GEORGE CAMPBELL—But the actual COMET program has not been impacted on at all?

Dr Edwards—No, there has been no impact at all.

Senator LUNDY—What guarantees can you give? You say that you are transferring money out of the COMET program to help the R&D Start program. What guarantees can you give that that will all come back at the appropriate time and that COMET as a program will not be disadvantaged?

Mr Clarke—That arrangement needed to go to the minister. It had his approval, and it is locked into the PBS and the budget allocations for those programs in 2002-03.

Senator LUNDY—Yes, but so was R&D Start.

Mr Clarke—It is a different problem.

Senator LUNDY—So you are guaranteeing that you will not have a problem with COMET?

Mr Clarke—I am saying that the COMET and BIF appropriations in 2002-03 incorporate the underspend from 2001-02, and it has been rolled across into 2002-03 so that those programs are not affected. That is enshrined in their program allocations in the budget papers.

Senator LUNDY—What sort of coordination is there between programs like COMET and the work of DOCITA in the management of the BITS program and other ICT industry development strategies, given that they have a similar target audience or similar target clients?

Dr Edwards—There is no formal coordination. We have had a number of discussions, particularly with people at NOIE and more broadly at DOCITA, about the interaction of the two programs because we are finding that some of the companies out of the BITS incubators are becoming targets for the COMET program. There are not a lot but there are some. There was no formal cooperation, just an awareness on both sides. There was some debate about how we could make sure from both sides that we do not have any double dipping and that we are not both funding the same activities. So we have cooperation at that very broad level but no further than that.

Senator LUNDY—Is there an interdepartmental committee? Do you have representatives who observe, for example, at the ICT framework for the future advisory committee?

Dr Edwards—Not as part of AusIndustry.

Ms Berman—There is ongoing liaison between our counterparts and us about what is happening in each of the programs because there is certainly a complementarity between the two. If issues arise about access—and one did recently—and the possibility of a project being funded by both components, we have ensured that that sort of thing cannot happen.

Senator LUNDY—Have you been briefed on the changes made in DOCITA with regard to the ICT development programs—that is, what NOIE is no longer doing and what the department now is?

Ms Berman—In terms of a formal briefing, no, but in terms of an informal briefing, we are constantly in contact with NOIE and DOCITA.

Senator LUNDY—With regard to the ICT Centre of Excellence, have you been briefed by that department as to the outcomes of the selection process?

Ms Berman—We have, yes.

Senator LUNDY—Can you tell me whether the ICT Centre of Excellence consortium and the start-ups that they may create are eligible to access funding under the Pre-seed Fund arrangements. Given that they could well come from a public institution, the winning bid is, certainly for the early part, primarily taking over the research programs in two universities.

Ms Berman—It would appear that that is the case, but we will be working closely as they set up their structures to see whether they fit within the current guidelines of the Pre-seed Fund. We may have to do some marginal adjustments to make sure that there are no difficulties there because, as you will understand, when we set up this Pre-seed Fund that was not an entity that we were looking at.

Senator LUNDY—I have to say, looking at the ICT Centre of Excellence, I did not think that it would end up being the research departments of universities either. So I am concerned about the issue of eligibility and double dipping. It was probably an outcome that people did not anticipate would lead to qualifying for access to the Pre-seed Fund.

Ms Berman—Yes, I think you are correct in saying that.

Senator LUNDY—Could you take that on notice?

Ms Berman—As to what arrangements they need?

Senator LUNDY—Could you give your view about the eligibility or otherwise of entities?

Ms Berman—When this new entity becomes a reality I will be able to give you an indication of its eligibility.

Senator LUNDY—Okay. That is a fair point—they have not, I understand, finalised their deeds of agreement anyway?

Ms Berman—No.

Senator LUNDY—So we might be waiting a while.

Ms Berman—A little while, yes.

Senator LUNDY—Could you take it on notice, and I will forgive you when the answer comes in the later than the rest of the answers on notice.

Ms Berman—Thank you.

CHAIR—Have you finished that bracket of questions, Senator Lundy?

Senator LUNDY—Yes, for the time being.

Senator GEORGE CAMPBELL—I have a number of questions for the Space Policy Unit.

CHAIR—These will be Senator Campbell's last few questions and then we will break for the afternoon tea adjournment.

Mr Paterson—We are getting officers from the next room, Senator Campbell.

Senator LUNDY—As Senator Campbell will finish up very shortly and as I too only have a few more questions and hope to get away at four o'clock, I would greatly appreciate being able to do them before the break.

CHAIR—Sure, but do you need the officers who are leaving the table to come back?

Senator LUNDY—Yes, they could probably stay there. Do not go too far.

Senator GEORGE CAMPBELL—Mr Morris, are you involved in the negotiation of a technical safeguards agreement with Russia?

Mr Morris—Yes, I am.

Senator GEORGE CAMPBELL—Will this agreement be specific to the space centre proposal on Christmas Island?

Mr Morris—Yes, it will.

Senator GEORGE CAMPBELL—Do you agree that no progress can be made on the space centre on Christmas Island without the ratification of the TSA?

Mr Morris—The better understanding of that, I suggest, is that the Russians are unlikely to agree to deploying their technology on Christmas Island without that agreement in place. So it is an agreement which is of primary importance to the Russian side.

Senator GEORGE CAMPBELL—Are you working with the Asia Pacific Space Centre in relation to this agreement?

Mr Morris—The agreement is between the two governments and is confidential to those two governments while it is under negotiation. It is a reality, of course, that the intergovernmental agreement will have some effects on the contractual relations between APSC and its Russian suppliers. Therefore, there are some matters in the intergovernmental agreement which we need to discuss with APSC to ensure that the two sets of negotiations do not pose some dysfunctionalities.

Senator GEORGE CAMPBELL—Does that mean that there will be intergovernmental negotiations and then a further set of negotiations between APSC and the suppliers?

Mr Morris—Yes, APSC has completed its contractual negotiations in the form of four contracts with its Russian suppliers. The point I am making is that the intergovernmental relationship, as expressed in the TSA, must not interfere improperly with what has been established in the contractual relations between APSC and its suppliers.

Senator GEORGE CAMPBELL—How many staff are working on this agreement at present?

Mr Morris—On average, it consumes something in the order of two person years consistently throughout the year. The workload fluctuates very significantly with the cycle of negotiations.

Senator GEORGE CAMPBELL—How many were working on the agreement in October last year?

Mr Morris—Do you mean: how many went to Moscow?

Senator GEORGE CAMPBELL—Has there been a reduction in staff over that period?

Mr Morris—There has not been a reduction in staff dedicated to those negotiations, no.

Senator GEORGE CAMPBELL—There hasn't, so it has been a consistent level of involvement?

Mr Morris—That is correct. And I should say that the staff employed do not just come from this agency but from other agencies as well.

Senator GEORGE CAMPBELL—What other agencies?

Mr Morris—The Department of Foreign Affairs and Trade, the Attorney-General's Department and the defence department.

Senator GEORGE CAMPBELL—When do you believe the TSA will be ratified?

Mr Morris—It would be impossible for me to speculate. The issues which are now being dealt with are quite difficult issues, and the agreement will not be signed by executive ministers on both sides until those issues are settled. We are doing all that we can to settle them very quickly.

Senator GEORGE CAMPBELL—Will that have any potential impact on the Asia Pacific Space Centre?

Mr Morris—It could in that the Asia Pacific Space Centre is working to a very tight commercial deadline, but I can assure you that the Commonwealth is taking every measure within its means to conclude that TSA arrangement very expeditiously.

Senator GEORGE CAMPBELL—Are you optimistic or pessimistic?

Mr Morris—I am optimistic. I think there are no issues which cannot be resolved if both parties want to resolve them. From the Australian side, we certainly wish to resolve them.

Senator GEORGE CAMPBELL—Can you outline to us what needs to be done to finalise the agreement?

Mr Morris—It would be improper for me to comment on the particulars but, suffice to say, we are in a situation of having to deal with sensitive technologies which are the subject of the Missile Technology Control Regime and which are of major economic importance to the exporting nation, Russia. These matters take time to resolve as to how the technologies will be protected when deployed in Australia.

Senator GEORGE CAMPBELL—You can put a time frame on when you expect these tasks to be completed?

Mr Morris—In the course of negotiations, it is simply impossible to put an absolute time frame on them.

Senator GEORGE CAMPBELL—Can you put an outer time frame on them? Is it going to be three months, six months or 12 months?

Mr Morris—We are endeavouring to conclude negotiations within the next two to three months.

Senator GEORGE CAMPBELL—We will move on to the technical recognition agreement. Is the SLASO involved in the negotiation of a technical recognition agreement with the Russian Aviation and Space Agency?

Dr Green—Yes, we are engaged in negotiation on technical recognition.

Senator GEORGE CAMPBELL—Will this agreement be specific to the space centre proposal on Christmas Island?

Dr Green—Yes, it will be.

Senator GEORGE CAMPBELL—Do you agree that no progress can be made on the space centre on Christmas Island without ratification of the TRA?

Dr Green—Yes. It would be very difficult for the project to proceed without recognition of Russian certification of their technology.

Senator GEORGE CAMPBELL—Are you working with the APSC in relation to this agreement?

Dr Green—The subject of the agreement is confidential to the government. It is a department to Russian agency agreement. It has some bearing on the licensing of APSC, and to that extent we have some discussions about general issues contained in the agreement with the APSC.

Senator GEORGE CAMPBELL—When do you believe the TRA will be ratified?

Dr Green—Indications are that we may be able to resolve outstanding issues reasonably quickly—within the next few months, perhaps.

Senator GEORGE CAMPBELL—Is that consistent with the requirements of the APSC?

Dr Green—I believe so.

Senator GEORGE CAMPBELL—Can you outline what needs to be done to finalise this TRA?

Dr Green—The principal point on which there needs to be resolution is the access by Australian experts to the testing of safety critical systems on the Russian launch vehicles, and we believe we have agreement in principle to that from the Russian side. The details of how that access would need to be managed from a procedural point of view are yet to be fleshed out.

Senator GEORGE CAMPBELL—You say it will probably be two or three months before those tasks have been completed?

Dr Green—Yes.

Senator GEORGE CAMPBELL—I might have one further question of Mr Clarke and, if I have, I will put it on notice.

Senator LUNDY—I will put the rest of my questions on notice, too.

CHAIR—Before we break for afternoon tea, I note that Senator Harradine has about 45 minutes of questions in relation to outcome 2 and, from about 5 p.m., Senator Conroy has questions for the Office of Small Business and Geoscience Australia. Senator Campbell, can you give me an indication of how much longer you expect to be with the department?

Senator GEORGE CAMPBELL—I have finished.

CHAIR—Thank you. We will adjourn for afternoon tea.

Proceedings suspended from 3.55 p.m. to 4.14 p.m.

Senator HARRADINE—I have a series of questions on the IR&D Board and the R&D Start program. As has been observed before, it is a fact, is it not, that the R&D Start program has been suspended due to all funds being committed already?

Mr Clarke—It has been suspended to correct it, and we expect it to reopen later in the 2002-03 financial year.

Senator HARRADINE—What current projects being funded by that program involve experimentation on human or animal embryos?

Dr Edwards—There are 650 current R&D Start contracts. I would be happy to do a search in our database to give you a precise answer to that question. From our previous discussions at the February estimates, my clear recollection is that it was the BresaGen contracts that were of particular interest to you with regard to ES cells, and that that was the only R&D Start contract that included that technology.

Senator HARRADINE—I thought, Mr Clarke, you might have expected this question from me.

Mr Clarke—There are no others. I can assure you that there have been no others.

Senator HARRADINE—I received a letter from Mr Macfarlane today relating to some questions that I posed at the last hearing, and I have not had a chance to look at that letter thoroughly yet. One question was: is any grant funding being used for cloning? And the answer was: BresaGen assumes you are asking about reproductive cloning, and BresaGen has no interest in human reproductive cloning and is not using mouse or human ES cells for reproductive cloning. I repeat that the question I asked was: is any grant funding being used for cloning? If you do not know the answer to this question now, you might take it on notice: is any use being made by BresaGen of embryos, developed either in Australia or elsewhere, by the process of cloning: somatic cell nuclear transfer?

Dr Edwards—We would not have that information; that would be something we would have to put to BresaGen. So, if we could take the question on notice, we could put the question to BresaGen for a response.

Senator HARRADINE—Could I have it a little quicker than the last one? It has taken four months to get the last one. Can you get the information fairly quickly?

Dr Edwards—As soon as we get the drafts of *Hansard* and have the words correctly, we will send them straight off to BresaGen.

Senator HARRADINE—Thank you. I now go to the Centre of Excellence. I have here a media release, dated 30 May, from the Hon. Ian Macfarlane MP and the Hon. Dr Brendan Nelson MP. That announcement says a number of things, but its key point is about the Biotechnology Centre of Excellence. It states:

The successful applicant is the *Centre for Stem Cells and Tissue Repair*, with the Centre's central node located in the Monash Biotechnology Strip Development, (currently under construction), as announced by Prime Minister John Howard today.

The Biotechnology Centre of Excellence is the biotech backbone of the Government's \$3 billion Innovation Statement, *Backing Australia's Ability*. The program was awarded \$46.5 million over five years through a joint funding arrangement between Biotechnology Australia and the Australian Research Council.

What is meant by 'currently under construction'? What is currently under construction?

Ms Hartland—The actual physical buildings and facilities in which this centre is to be housed are under construction in that Monash strip.

Senator HARRADINE—Who is paying for that?

Ms Hartland—It is a combination of funding. It is partly through an MNRF grant—a Major National Research Facilities grant—and partly through funding through Monash University itself, I understand.

Senator HARRADINE—So all that money is going into building that building. What was it: \$5.3 million?

Ms Hartland—It was \$5.5 million, I believe.

Senator HARRADINE—So that is going into this as well?

Ms Hartland—That is partly going into that construction work on the Monash strip, yes.

Senator HARRADINE—Was that amount of funding given for this particular purpose?

Ms Hartland—Could you clarify that, please?

Senator HARRADINE—Was the funding, the \$5.5 million, given for the purposes envisaged in this particular announcement?

Ms Hartland—No. There are two separate processes, and that is purely where it was being housed. The Centre of Excellence funding was a separate competitive process that was run, and it was not contingent at all about where it was located.

Senator HARRADINE—But I am interested in the quick shuffle. How it happened, I do not know. We are talking about the amount of \$5.5 million, which was granted by DEST to Professor Trounson, and that was on the basis of an application for funding for the purpose of producing stem cells.

Ms Hartland—I do not know all the details—

Senator HARRADINE—They were producing stem cells, not ransacking human embryos to obtain their stem cells; it was for the purpose of producing stem cells from existing lines. Are you saying that now they have somehow switched the \$5.5 million across to this?

Ms Hartland—No. The MNRF funds were for infrastructure for buildings and laboratories et cetera, and that was part of that funding that was going into the whole development of infrastructure, and the processes were not linked in any way. Then, as part of the Centre of Excellence process, an application was put in. You asked me where this was going to be housed, and that is where at least the Victorian node of the Centre of Excellence is to be housed.

Senator HARRADINE—Who signed the application for the Centre of Excellence?

Ms Hartland—I believe it was Alan Trounson.

Senator HARRADINE—When was that application received?

Ms Hartland—The applications closed on 15 February, and so it would have been received around that date.

Senator HARRADINE—What about the expressions of interest?

Ms Hartland—Expressions of interest were forwarded by 31 October.

Senator HARRADINE—Was any member of the department involved in suggesting that Professor Trounson put in an application?

Ms Hartland—Not to my knowledge.

Senator HARRADINE—Nobody in the department or any other associated agency made that suggestion?

Ms Hartland—Not to my knowledge. The selection process was undertaken by an independent advisory panel.

Senator HARRADINE—I will come to the panel in a minute.

Ms Hartland—The answer is no; not as far as I am aware.

Senator HARRADINE—Is it a fact that the membership of the independent panel is largely from business and drug companies?

Ms Hartland—I can list the members of the panel for you.

Senator HARRADINE—I have them here.

Ms Hartland—They are a combination of business people, legal people and research people.

Senator HARRADINE—Research people?

Ms Hartland—People with research backgrounds, yes. For example, Professor Denis Wade, Professor Grant Sutherland, Professor Marilyn Sleigh and Professor Vicki Sara.

Senator HARRADINE—We will go from Dr Peter Jonson. He is a Company Director and Chair of the Australian Institute for Commercialisation. So from the start you have a commercial focus—is that right?

Ms Hartland—That is probably correct in terms of his background.

Senator HARRADINE—Then you have Professor Marilyn Sleigh, who is vice-chair. She is the Chief Executive Officer of EvoGenics Pty Ltd.

Ms Hartland—She was formerly the Dean of the Faculty of Life Sciences at the University of New South Wales and had a CSIRO background as well.

Senator HARRADINE—Quite so. She is now the CEO of a proprietary limited company.

Ms Hartland—Correct.

Senator HARRADINE—You have got Professor Denis Wade—he is from a drug company, isn't he?

Ms Hartland—He is the Chairman and Managing Director of Johnson and Johnson. Previously he was at St Vincent's Hospital. He has been a visiting professor at the University of New South Wales.

Senator HARRADINE—You have got Dr Ian Pitman, former Fauldings director—another drug company.

Ms Hartland—That is correct.

Senator HARRADINE—You have got Professor Vicki Sara from the ARC and another company director, Stonier.

Ms Hartland—John Stonier is a patent attorney.

Senator HARRADINE—Those are the ones that made the examination. I think there is one more: Professor Sutherland.

Ms Hartland—He is now a private consultant, and he was previously Director of the Department of Cytogenetics and Molecular Genetics at the Women's and Children's Hospital in Adelaide.

Senator HARRADINE—In February last year on the *7.30 Report* Dr Sutherland said:

If we can prevent the birth of handicapped individuals, then I think that society would be better off.

Did you know that?

Ms Hartland—No, I was not aware of that.

Senator HARRADINE—And then of Dr Shakespeare, who was out here with disability groups and who has dwarfism, he said:

I'm sure for example that Dr Shakespeare would prefer not to be handicapped.

Dr Shakespeare replied, 'I'm happy the way I am.' He was quite clearly happy not to have been aborted. Are you aware that Professor Sutherland is very much involved in detecting so-called abnormalities in the foetus for the purpose of abortion?

Ms Hartland—I was not aware of the comments that he made and I am only broadly aware of his work.

Senator HARRADINE—Who appointed this panel?

Ms Hartland—It was a government appointed panel. There was a media release on 21 July 2001 by Dr Kemp and Senator Minchin.

Senator HARRADINE—Who made the recommendations?

Ms Hartland—There would have been a deliberative process by the government before the announcement was made.

Senator HARRADINE—What do you mean by a 'deliberative process'?

Ms Hartland—Normally, the process would be that a number of names are put forward, there is some discussion before there is agreement to see whether people are available and that sort of thing and willing to be on a panel such as this. I imagine that that was the sort of process that happened.

Senator HARRADINE—When and how many times did this panel meet? Can we have a summary of the reasons that they gave for this particular application being successful and not others?

Ms Hartland—I will take that in a few parts. I have not got the exact number of times that the panel met, but they had a series of meetings prior to the expression of interest phase. They met right throughout the process; sometimes they met in person and sometimes there were teleconferences between the group. In terms of how they judged applications, as you are aware there was an expression of interest process in which there were 24 applications received and after that process 11 full applications were received. They short-listed down to four applications—

Senator HARRADINE—After what process?

Ms Hartland—The panel met and assessed the applications against the six selection criteria. There was a short-listing process that occurred in early April and the panel then met and went through a series of independent referees and some expert opinions.

Senator HARRADINE—Who were the independent referees appointed by the panel for this particular application?

Ms Hartland—Can I take that on notice? I need to find out whether we can give the names of referees that were approached.

Senator HARRADINE—We are talking about \$46.5 million here; I am sure that the committee would want to know all of the information relating to the expenditure of that \$45 million, including how this recommendation came about.

Ms Hartland—With this particular application, there were in total six referees that the panel went to. My understanding is that four of those referees were nominated by the applicants themselves and I am sure I can provide their names to you. There were also two independent referees who the panel went to who had expertise in the area, and I need to check on those. They also talked to two other independent advisers and I can certainly give you the names of those people. One of those was Dr Paul Tolstoshev, who is a consultant with a background in stem cell work, and one was Professor George Petersen, who is Chair of the Assessing Committee for Biotechnology, Genetics and Food in New Zealand.

Senator HARRADINE—By the time this committee winds up tonight, could you the provide information as to who those two were?

Ms Hartland—We will try to check with those two referees as to whether they are happy for their names to be revealed, because they were approached without believing that their names may be provided. We will check with them and get you an answer as soon as we can.

Senator HARRADINE—There were four who formed the short list, were there not?

Ms Hartland—That is correct.

Senator HARRADINE—But there would be a number of others who would have been close to being short-listed?

Ms Hartland—I believe the panel drew a fairly distinct line between the top four and other applications.

Senator HARRADINE—The short list included the Australian Centre for Biotechnology and Biodiversity?

Ms Hartland—That is correct.

Senator HARRADINE—The Neuroscience Biotechnology Centre of Excellence?

Ms Hartland—That is right.

Senator HARRADINE—The application that is under review here?

Ms Hartland—Yes.

Senator HARRADINE—And the Biotechnology Centre of Excellence for Control of Infectious Diseases?

Ms Hartland—That is correct.

Senator HARRADINE—What was the major thrust of the final one?

Ms Hartland—As the title suggests, it was looking at infectious diseases. I have the technical fields that it was looking at, if that would be helpful. I could also table a precis of each of those short-listed applications, if that would be helpful.

Senator HARRADINE—Thank you. That would be useful. When did the panel finally make its decision?

Ms Hartland—The panel interviewed the four short-listed applicants on 22 and 24 April. They came to a decision on 25 April—

Senator HARRADINE—Anzac Day.

Ms Hartland—It was Anzac Day, yes. The panel worked on Anzac Day, and ministers were notified after that of the panel's decision. It was a unanimous decision by the panel.

Senator HARRADINE—When were the ministers notified? What ministers were notified and when?

Ms Hartland—I believe it was around 28 April, immediately after the Anzac Day long weekend. The Biotechnology Ministerial Council met to hear the advice of the panel of experts on 7 May.

Senator HARRADINE—Which applicants did the panel interview?

Ms Hartland—Of the successful applicants?

Senator HARRADINE—Yes.

Ms Hartland—Professor Alan Trounson was certainly the lead person. Bob Moses, who is to be the chair of the board of the centre, was in attendance and a woman by the name of Dianna DeVore was also there. I might have to take on notice the other people who were there. Sorry, I have the other names—Peter Rathjen and Paul Simmons were the two other people there.

Senator HARRADINE—Did Professor Trounson make it clear to the panel at the time that he believed that there was need to leave the door open for the cloning of human embryos?

Ms Hartland—I was not there throughout the whole interview process but I know that the centre intends that approximately 50 per cent of the work is to be on adult stem cell research and about 50 per cent on embryonic stem cell research.

Senator HARRADINE—I am asking you a very specific question. Did the panel know that Professor Trounson was advocating the cloning of human embryos?

Ms Hartland—I do not remember a discussion on that, specifically.

Senator HARRADINE—The final date was 25 April?

Ms Hartland—That is correct.

Senator HARRADINE—This is a very important, key question. Are you aware that Professor Trounson stated on 26 March—a month before—that he had a passion for supporting the use of therapeutic cloning ‘absolutely unreservedly’? Were you aware of that?

Ms Hartland—I do remember seeing reference to some comment in the press along those lines. In the guidelines for the establishment of the centre it was made very clear that, whoever was the operator of the centre, the centre would have to operate within all of the guidelines set down at Commonwealth and state levels. That was made clear in the interview process and it was in terms of establishment of a deed of agreement—

Senator HARRADINE—I am talking about cloning. I am talking about Professor Trounson indicating that he had planned to tackle embryonic research issues one at a time. This is very important. What about Professor Rathjen, since he is also part of this outfit? Were

you aware, or was the panel aware, of his address to a significant audience in Melbourne before the date on which the panel, who is supposed to know all things about this, made the statement that the use of embryonic stem cells would be problematic in that the stem cells would be histoincompatible for development and use in repair in another patient?

Ms Hartland—I do not know what information, outside the panel process, the individual members of the panel had. I know that they had assured themselves during the process that Professor Trounson and the bidding team would abide by all regulations and guidelines and that includes—as you know through the COAG decision—a ban on cloning. They said that it would be written into a deed of agreement that they would abide by all rules, regulations and guidelines.

Senator HARRADINE—So you appoint the panel, which makes a recommendation to provide all of this money to an outfit led by people who believe it will not work—people who state, quite clearly, ‘Because of the histoincompatibility, we will need to get stem cells from other more compatible sources,’ that is, the use of the somatic cell nuclear transfer technique—the Dolly technique—to obtain more histocompatible stem cells. Isn’t that a vital issue? Was that issue raised at all with the ministers who were on the biotechnology council?

Ms Hartland—I do not believe it went into some of the technical detail that you have raised. If it would help, in terms of the technicalities of the bid and the information that the panel was assessing, I have permission from the applicants to table the full application, which sets out all of the information that they provided to the panel, Senator.

Senator HARRADINE—And while they were providing that for the panel, each of them was going around the place saying, ‘We need to do cloning because the embryonic stem cells are likely to trigger an immune response, which will mean that they will not be useful; therefore, we need to do cloning.’ I want a bit of time to find that so that I can get what was said on the record. I am sorry, I cannot pick it up.

ACTING CHAIR (Senator Watson)—Take your time. There is no hurry.

Senator HARRADINE—Professor Trounson said this on Tuesday, 26 March, to a meeting. This is public information, Ms Hartland. I will ask you shortly whether the panel raised with Professor Trounson the statement that he made on that day. The article in the *Australian* of 1 April this year by Deborah Hope says:

By Tuesday of last week Professor Trounson had changed his mind. To the astonishment of an audience of about 100 scientists, biotechnology industry executives and reporters at a Melbourne forum, he declared with passion that he supported the use of therapeutic cloning, “absolutely, unreservedly”.

He called on AusBiotech, the umbrella group representing the industry, to change its recommendation to government to include support for therapeutic cloning, and said the issue must be on the agenda of this week’s crucial Council of Australian Governments meeting.

And it was—we know what happened there. He was then asked about the ‘floodgates’. Having heard what happened there, what did Professor Trounson say? On 5 April, commenting on what the COAG people had decided, he made a threat that he would like to go overseas. What did he say? This is taken from the *Australian* on 5 April:

Scientists welcomed the Prime Minister’s approval for stem-cells research on surplus embryos from IVF programs, but questioned the proposed ban on cloning.

Australia’s leading stem-cell research scientist Alan Trounson said a blanket ban on therapeutic cloning could stifle research and force patients overseas. ‘I don’t think it should be banned. I think it should be reviewed in two or three years, or Australian science may be left behind’ ...

Therapeutic cloning involves implanting a patient's adult cells into an efficient cell to produce embryonic stem cells used for medical treatment.

When did the panel decide to make this recommendation?

Ms Hartland—On 25 April.

Senator HARRADINE—That was after that. I am asking you and I want to know the answer: did the panel raise that with him? What does he mean? Why does he want to do human embryo cloning? In his view, is he accepting \$46 million for a program, part of which he says will not work? He has quite clearly inferred that it will not work.

Ms Hartland—What the panel asked was in light of the COAG announcement—

Senator HARRADINE—No, I am asking you a direct question. I asked for somebody to be here to give me an answer to the direct question. There has to be accountability for all of this. If the panel has not asked that very vital question, taxpayers are entitled to wonder what is going on. Is this being engineered commercially and for what purpose? Secondly, I want to know whether or not the ministerial council was advised of not only Professor Trounson's view but the views of other people involved in this so-called Centre of Excellence as well.

Ms Hartland—The direct answer to your question is that there was not a question asked on the specific newspaper articles that you referred to. But the application that was used to judge against the selection criteria did not have any reference to cloning or any other unacceptable practices as deemed by the NHMRC guidelines. Professor Trounson was asked whether he could undertake the work consistent with the policy decision of COAG and he said he could; as you know, that policy decision includes a ban on cloning, so there was no cloning involved.

Senator HARRADINE—Don't you think it would be important and appropriate for the panel and others—that is, the tax paying public—to know whether the principal of the organisation to which that panel was going to award \$46.5 million would be able to successfully carry out the purpose of the application?

Ms Hartland—I believe the panel was satisfied that the purpose for which the application was submitted could be carried out and that that did not include cloning.

Senator HARRADINE—And yet Professor Trounson, at least before the announcement of the money going to him, was saying publicly that he needed to leave the door open for cloning.

Ms Hartland—All I can say is that the panel judged the application that they had against the six selection criteria; the application did not have any reference to cloning in it and therefore it was not asked about in the interview process.

Senator HARRADINE—In the memo to the ministerial council, was the information as to Professor Trounson's views with regard to cloning brought to those ministers' attention?

Ms Hartland—No, it was not. The application was not based on media commentary; it was based on the application as received by the panel.

Senator HARRADINE—Did you understand that this was media commentary? I quoted what was being said.

Ms Hartland—Yes, but the application was being judged against the application, which did not include reference to cloning.

ACTING CHAIR—In terms of the charter of this new body, the Centre of Excellence, is cloning specifically prohibited from its activities?

Ms Hartland—The deed of agreement is being drafted, and within that it will quite specifically have a clause saying that the organisation has to abide by all rules, regulations and guidelines. Given the policy position that has been put by COAG as well as existing policy, things like cloning would be specifically disallowed. It is very clear in there that they have to abide by all guidelines, and that does include that they cannot do cloning.

ACTING CHAIR—Wouldn't it be possible for those guidelines to change, over time?

Ms Hartland—If the guidelines change because government policy changes, yes, it could. They have to adhere to whatever the guidelines, rules and regulations are at the time.

ACTING CHAIR—If I could perhaps paraphrase your comments, cloning is not specifically banned but it would not be allowed because of the existing guidelines; is that right?

Ms Hartland—The COAG decision specifically looks to a national approach to ban cloning, and legislation is expected on that in the next few months.

ACTING CHAIR—That does not suggest to me that, for example, there could not be a future policy or directional change within COAG which would permit cloning.

Ms Hartland—That is correct.

ACTING CHAIR—Wouldn't it be safer, to meet the current concerns, to effectively ban it? I think this was the point that Senator Harradine has been making.

Ms Hartland—That is the current intention, and they will abide by those rules and regulations.

Senator HARRADINE—Thank you, Acting Chair, I might say you have pointed to a crux of the matter. Who will be in charge of the deed of agreement?

Ms Hartland—The deed of agreement is between the Department of Industry, Tourism and Resources, the ARC and the successful operator of the centre.

Senator HARRADINE—Yes, but who will be drafting the provisions of the agreement? What department? Or will that be a matter for—?

Ms Hartland—The drafting of the deed of agreement is a joint exercise between us and the ARC—with legal advice, of course.

Mr Paterson—It is my expectation that the deed of agreement would be executed by me and my counterpart at the ARC, and so the responsibility for executing that deed would rest with me and my counterpart at the ARC.

Senator HARRADINE—Will you be insisting in the agreement that there be a provision that no institution or area in which persons who are benefiting from this funding find themselves will be able to become involved at all in the cloning of a human embryo?

Mr Paterson—I will not draft a deed clause on the run, but certainly the applications that have been considered and the decision that has been made are in light of an undertaking given by the applicant to comply with all ethical guidelines and restrictions, and there is a stated policy position, which the applicant knew of and the committee knew of, where the Council of Australian Governments has agreed to introduce a legislative framework to ban cloning. That would have a direct impact on that application, and there would be an expectation that,

in the deed of agreement, the applicant would meet those commitments. I would not draft it on the run, but they have given an undertaking to the committee that the application would comply with and meet those restrictions.

Senator HARRADINE—And that there will be no stem cells utilised which derive from cloned human embryos?

Ms Hartland—That is correct. As the secretary said, we have only just started to look at the draft deed of agreement, but we have got some requirements—compliance with the law, compliance with ethics, compliance with ethics committees et cetera—that are still in a drafting phase.

Senator HARRADINE—That is not what I asked or what the chair was asking.

Ms Hartland—The answer to your question is yes, because cloning is banned and therefore they will be complying with that law.

ACTING CHAIR—When that agreement is executed, can that be tabled with the committee?

Ms Hartland—The deed of agreement?

ACTING CHAIR—Yes, when that is finalised.

Ms Hartland—We would probably have to take that on notice and just check legally whether we can do that.

Senator HARRADINE—What would be the impediments of giving it to the committee?

Ms Hartland—I think if the committee decided as a committee that they wanted that tabled then we could probably table that. I would just need to check that out.

ACTING CHAIR—Would that be the agreement of the committee, Senator Harradine?

Senator HARRADINE—That is the draft deed of agreement?

ACTING CHAIR—Yes.

Senator HARRADINE—If they have got it, yes; it would be useful.

Mr Paterson—It would be my expectation that there would not be an impediment to tabling that deed of agreement, once executed.

Senator HARRADINE—The draft agreement?

Ms Hartland—The draft agreement will still be very much a deliberative process with all involved, and it will change probably hundreds of times. It will probably make more sense to table the deed of agreement when it is finalised.

ACTING CHAIR—The final agreement.

Mr Paterson—Sorry, I thought the question we were asked by the chair was whether we would be prepared to table the deed of agreement we entered into.

Senator HARRADINE—I think that might have been the question from the chair; there was another question from the sidelines.

Mr Paterson—Just as well I answered it.

Senator HARRADINE—It is a very important question, as we all know. It is a question of not only whether certain things are specifically included in the draft agreement but also how the agreement would be monitored, what steps would be taken, the role of each, who would

be responsible for monitoring, what would be the sanctions in the event of the deed of agreement not being honoured or being breached et cetera.

Mr Paterson—The challenge for me in responding to your question is that I do not know what process we would go through if we were to table the document in draft form. It could be varied subject to negotiations between the Commonwealth, a party that is not presently before the Senate and the applicant in this circumstance.

ACTING CHAIR—Senator Harradine, I think we might have to have the final agreement, because I can understand that there might be hundreds of drafts, being such a contentious issue.

Senator HARRADINE—I should not have thought that the applicant was in a very strong position, since he has not got the money yet. What other sources of finance is this centre receiving or to receive? We have been told that that \$5.5 million or whatever the amount is which was for a building is now going into this scheme, so that is \$46 million and you have come up to \$51 million. What other sources of finance are going to flow to this particular organisation?

Ms Hartland—To clarify, my understanding of the money going towards some of the facilities in the Monash strip is that it is not exclusively for this centre. I think there is a number of different uses being put for that infrastructure money, but I would need to clarify that. As you know, it is a different department administering that program, and I do not think the deed of agreement has been finalised on that amount of money.

Senator HARRADINE—I can ask that question of them.

Ms Hartland—I just wanted to clarify that. In terms of the additional funding, in the application the applicant said that there would be approximately \$105 million in total that was going towards this centre, with the \$43.5 million coming from the Commonwealth. So they were getting roughly \$60 million through other sources. A lot of that was through other universities. The copy of the application that I said I could table—I have the permission of the applicant to do that—has a specific breakdown of all the funds that are going towards this centre. I can read that out.

Senator HARRADINE—So are they public funds? How much was it?

Ms Hartland—There is a whole combination of funds—

Senator HARRADINE—How much?

Ms Hartland—The total centre was \$104,880,000—

Senator HARRADINE—How much of that was from the Victorian government?

Ms Hartland—I think in fact that the Victorian government have said that they would put up to an additional \$10 million into the centre. That is actually not included in that. It is from a range of institutions and companies. It is all spelt out here—it is quite detailed—over a period of four years. The \$104 million is the bottom line.

ACTING CHAIR—Does the deed agreement cover 100 per cent of the activities of the Centre of Excellence? For example, it would not be possible if you could have a situation where the deed of agreement would prohibit certain cloning in terms of Commonwealth moneys but other moneys from other independent sources could be directed within that Centre of Excellence to some of the activities that Senator Harradine was concerned about.

Ms Hartland—I understand the question, Senator. As we have not started negotiating the deed of agreement, I cannot give you a definitive answer on that, but that is something that will have to be looked at in terms of the monitoring process and the reporting process and how they are managed. But the overall point will remain that the centre has to comply with the laws and ethical guidelines et cetera, so that is not going to change the issue of cloning.

ACTING CHAIR—In the short term?

Ms Hartland—As long as that is what the law says, yes.

Senator HARRADINE—But the law will not be applicable, will it?

Ms Hartland—The law will be applicable, if the legislation goes through and there is umbrella legislation in all of the states.

Senator HARRADINE—Yes, exactly. You have the Victorian government promising millions of dollars to this outfit. You could have the chairman of the centre, Professor Trounson, saying, ‘Well, we really can’t operate under these circumstances. We need to have fresh embryos; we need to take stem cells from those fresh embryos on the fifth day of their life,’ and thus they would be killed. You have that situation—there is obviously a close link there between Professor Trounson and those who are donating money to him. Surely in the deed of agreement there must be a specific requirement, for example in regard to cloning, that none of the centres associated with the applicant or other centres be engaged in cloning.

Ms Hartland—It is envisaged in the deed of agreement that all of the work of the Centre of Excellence will have to abide by the ban on cloning with that being done through whatever mechanism applies. As you know, NHMRC is in charge of the legislation, but that would happen through whatever regulatory mechanism.

Senator HARRADINE—When you say ‘cloning’ what do you mean by ‘cloning’?

Ms Hartland—I mean all cloning. Do you mean am I including SCNT? I am including therapeutic cloning.

Senator HARRADINE—Could I indicate in regard to the question of so-called ‘therapeutic cloning’ that the use of that particular adjective has been rejected by the Australian Health Ethics Committee. Would you accept that the Australian Health Ethics Committee, being a statutory authority, would be authoritative in this area and guide your deliberations? Dr Morris from the NHMRC sent a letter to the state departments of health, and it included background information on the decision of health ministers. The background information included a report about the Australian Health Ethics Committee’s 1998 advice to the Minister for Health and Aged Care. Dr Morris’s report—that is, the National Health and Medical Research Council report—states that the Australian Health Ethics Committee identified a distinction between the cloning of whole human beings and therapeutic cloning. The Chair of the Australian Health Ethics Committee delivered a broadside in rejecting that statement, and he said in a letter dated 15 December 2000:

The NHMRC’s position on the use of cloning and stem cell technologies was inadvertently mis-stated in Appendix 1 ... That appendix incorrectly stated that, in its report entitled *Scientific, Ethical and Regulatory Considerations Relevant to Cloning of Human Beings* (1998) (Cloning Report), AHEC had identified a number of key issues which included the need to draw a basic distinction between the cloning of whole human beings and therapeutic cloning. In fact, in the Cloning Report AHEC specifically rejected the distinction between so-called ‘therapeutic’ and so-called ‘reproductive’ cloning.

Were you aware of that?

Mr Paterson—On both the last occasion that we were before the Senate for estimates and earlier today, a clear indication was given that this portfolio does not have responsibility for either the legislative, ethical or regulatory framework in this area. What we, the applicants and the panel were required to do was to work within the legislative, ethical or regulatory framework that is adopted by those who have responsibility. It is the intention—and it will be a commitment in the selecting panel and the applicant—that that will meet all of those regulatory, ethical and legislative requirements, and it is the intention that that be specified in the draft deed. The reason for saying to you that I would not want to draft a clause is that there are some issues here of definition, and we do not have responsibility for determining the regulatory framework. The commitment is that this application and the deed will ensure that—whatever the legislative, ethical or regulatory framework is—the applicant, the centre and the work undertaken by the centre will meet that framework.

Senator HARRADINE—I am raising these issues because Professor Trounson and his counterparts are constantly using the words ‘therapeutic cloning’ and constantly saying that they wish to engage in therapeutic cloning.

Mr Paterson—If there is a ban on cloning, be it therapeutic or otherwise, then this centre cannot undertake that work, nor can it have that work undertaken on its behalf.

Senator HARRADINE—Yes, it can, in the states.

Mr Paterson—Not in terms of the deed and the commitments that have been made to date. It cannot do the work itself or have the work undertaken on its behalf.

Senator HARRADINE—That will be in the deed, will it?

Mr Paterson—That will be in the deed.

Senator HARRADINE—Cloning for whatever purpose.

Mr Paterson—No, it does not say ‘cloning for whatever purpose’. The draft at the present time is that it must ensure that research undertaken by or on behalf of the centre on or involving humans or animals strictly complies with all relevant ethics codes and guidelines adopted by the NHMRC et cetera. There is an intended restriction and a COAG statement that there will be legislation introduced to ban cloning. We will operate within the framework that applies, and it is determined by other agencies and by government. It is not a matter for us to determine that regulatory framework.

Senator HARRADINE—If the parliament decides to ban cloning—

Mr Paterson—Then that would bind the centre. That would be a commitment.

Senator HARRADINE—With respect, how would that prevent the centre from engaging in that practice, since these matters are the province of the states? What if a state is influenced by that big campaign that has been launched by Professor Trounson? What if a state or territory does not follow the lead given by the federal parliament?

Ms Hartland—If the centre was in breach of Commonwealth legislation guidelines or ethical framework then the Commonwealth would have something in the deed of agreement where I assume that they would pull back the money, or there would be some sort of sanction to prevent that.

Senator HARRADINE—But you see what I am saying about the states. I mean, we have to tie the thing up. They could go ahead and do what they jolly well like. The question is:

what about the deed of agreement? We really need to put into the deed of agreement what Mr Paterson mentioned.

Mr Paterson—We are operating within a framework that has a Council of Australian Governments agreement that there will be a uniform ban in relation to cloning. We have proceeded with this application on this basis—and the drafting of the deed will proceed on this basis—that that is going to be given effect to, and that the applicant in this case has undertaken to operate within that framework. The deed will reflect that.

Senator HARRADINE—Going to other aspects of what might be included in the deed of agreement—and I am glad Senator Watson raised the question of the deed of agreement—there is a matter that has caused grave concern for a lot of people. A lot of people see the harvesting of stem cells from human embryos to their death as tinkering with the essence of human life and are very concerned about it. Is the deed of agreement going to recognise the importance of allowing persons to be engaged in adult stem cell research and to be trained in adult stem cell research because they have a conscientious objection to being involved in any way with research on human embryos or the extraction of stem cells from human embryos?

Ms Hartland—I think it is true to say that bringing together research on adult and embryonic stem cells—actually bringing researchers together that are involved in looking at both forms of potential treatment—is a world first. I assume that there will be crossover of knowledge. I do not know whether that answers your question, but—

Senator HARRADINE—No, in fact it worries me more. From your angle, wouldn't you see it is as important to ensure that those persons with an ethical objection to conducting research with stem cells derived from human embryos be given full opportunity to engage in stem cell research within what they consider ethical bounds?

Ms Hartland—We can certainly ask the question when having consultations with the operator. I do not know the specific answer, but I assume that researchers will be free to undertake the form of research that they want to undertake and that they will not be forced to do anything that they would have an objection to morally or ethically. We can specifically ask the question in the consultation process with the operator.

Senator HARRADINE—On the question of the use of embryonic stem cells in these centres, isn't it a fact that part of the use is the testing of drugs?

Ms Hartland—I have a full run-down of the range of research programs that are to be undertaken at the centre, which I can also table. It is quite detailed: there are 13 different areas of research involved and more than 30 principal researchers. I cannot answer the question specifically.

Senator HARRADINE—I have got that, and that is where I have taken it from. I am asking you to confirm that some of the work is to do with the testing of drugs.

Ms Hartland—I will take the question on notice and specifically get back to you. The application is quite involved, and I will find the answer for you.

Senator HARRADINE—Thank you. I notice that the document from your web site does include the testing of drugs.

Ms Hartland—If that is there in the precis, then that is accurate. That is straight from their application.

Senator HARRADINE—It deals with 'cell line for use in drug discovery and toxicology'.

Ms Hartland—That would be correct then.

Senator HARRADINE—There are a number of areas that I am interested in. On page 7, No. 15 says:

Integration of embryonic and adult stem cell sciences for treatment of genetic disease and regenerative medicine.

Is this the total number? There are no other research programs envisaged at all?

Ms Hartland—That is the total number of research programs that appeared in the application on which the application was judged, yes.

Senator HARRADINE—The question of links with overseas centres is on page 5 of your document 'Backing Australia's Ability'. It says:

There is the clear prospect of licensing of new intellectual property, enhanced cell lines and research reagents ...

The previous paragraph says:

Major partnerships are also involved in the field of genomics. International academic collaborations of the participants involve laboratories throughout the USA, Europe and Asia. Prominent overseas institutions with links to the Centre are the National University of Singapore; Hassadah University Hospital in Israel; and Princeton University, Scripps University—

I presume that is in the USA. Is human cloning being undertaken in any of these centres?

Ms Hartland—I would have to take that on notice.

Senator HARRADINE—It says, 'Major partnerships are also involved.' Have agreements been reached with those institutions? For example, Dr Trounson, being prohibited in Victoria, by Victorian law, from extracting stem cells from Victorian human embryos, obtained them from Singapore. Do we know whether the parents of those embryos in Singapore gave consent?

Ms Hartland—I do not know the answer to that question. My understanding is that they were not entering into agreements until they had actually found the result of the Biotechnology Centre of Excellence process. I imagine that is a process now that the centre will get involved in.

Senator HARRADINE—Going to the question of patenting, I quote Robert Klupacs the Managing Director of ES Cell International, which is part of this centre. He told the House of Representatives committee, I think it was last year:

... if we can own the intellectual property over the genes that can turn an embryonic stem cell, or even an adult stem cell, from that phenotype into something else, and I can licence that ... that is fantastic. Maybe I keep it for myself and then I have got a monopoly that I could say is worth X amount in value. That is the real driver for me.

So commercialism is the real driver; is it?

Ms Hartland—I think when Professor Trounson accepted the funding subject to the deed of agreement for the Centre of Excellence, he certainly acknowledged the public benefit aspects and gave some assurances at that time of the public benefit nature of what they were doing.

Senator HARRADINE—One of the people who is going to benefit from the money, says: But if you own the intellectual property at least you trade that and that will have a value.

So who is going to own the patents? Getting to the first issue, what was the panel's view on the question of patenting human life sequences and human genes?

Ms Hartland—I will answer that in a couple of ways. My colleague from IP Australia might be able to talk through the technical detail. The intention of the Centre of Excellence is to form a separate company to look after the commercialisation. Background IP is going to be worked out on a project by project basis. Obviously, they will be abiding by all the legislation in place. Certainly there is a long-term hope that through curing disease there will be less call on the health system et cetera so there will be a benefit there for all taxpayers. I know their intention is also that a number of spin out companies would be established through the centre. Obviously that would mean employment and dollars being spent in Australia. Some of this detail will be worked through on the deed of agreement.

Senator HARRADINE—On the issue of the patents, who will 'benefit' from that money? Is the intention of the centre to make applications for patents? I am talking about obtaining a monopoly on human genes and trading in that monopoly.

Ms Hartland—I certainly think that it is the intention of the centre to take out patents. As I said, the commercialisation company that they are seeking to establish would be 100 per cent owned by the operating company. It will be limited by shares and it will be taxpaying. Its intention is to invest its profits back into the centre's activities.

Senator HARRADINE—I cannot ask you a policy question as to what you think about it; I will let that remain for elsewhere. On the question of embryonic stem cells and the use of stem cells harvested from embryonic humans, did the committee have any evidence, based on articles in science journals which are peer reviewed, which indicates a beneficial use of human embryos for the repair of tissues?

Ms Hartland—I do not recall any specific questioning on that, but, as I said, they did go to specialist referees and experts in the field to ask some questions.

Senator HARRADINE—Have you got any peer reviewed articles in reputable science publications which indicate that stem cells obtained from human embryos would be beneficial in tissue repair?

Ms Hartland—I can relay a couple of recent experiences or recent breakthroughs that have been announced in the press, one from ES Cell—

Senator HARRADINE—No, I am specifically talking about peer reviewed journals. I have heard enough to be very suspicious of anything you read in the press on these matters.

Ms Hartland—The short answer is no, Senator. I do not have anything that is peer reviewed.

Senator HARRADINE—Do you have any articles or have you seen any peer reviewed articles in reputable science press journals which show a benefit of the use of adult stem cells derived from the patient which are useful and have been helpful in the cure of human diseases?

Ms Hartland—I do not have anything here, no.

Senator HARRADINE—But you are the department of industry. This is very important. The department has given taxpayers' money for R&D—for example, for stem cell research—but it has all been related to embryonic stem cell research, hasn't it?

Ms Hartland—In terms of this application?

Senator HARRADINE—Not just in terms of this application.

Ms Hartland—Biotechnology Australia has not been involved in providing money for either embryonic or adult stem cell work. I think the only funds, as you are aware, would be through R&D Start.

Senator HARRADINE—I am sorry, but I am looking at Mr Macfarlane's letter. He is saying that yes, you have made grants which involve ES cells or their descendants. Their injected-to-animal model transplanting experiments are being performed using cells defined by mouse ES cells. I make the point that, with your money—or ours—human ES derived cells have only been examined for the in vitro differentiation capabilities in our labs. So there have been experiments on human embryo stem cells.

Mr Paterson—I think the letter you have is the response to the issues that you raised earlier in relation to BresaGen and its individual application in relation to R&D Start.

Senator HARRADINE—No. I was raising the question as to whether you had had information, basic scientific information. Again I ask: in all of its areas, not only in the R&D program but in any other program, what moneys have you given to adult stem cell research?

Mr Paterson—I think Mr Clarke indicated to you earlier that the only application funded under those programs dealing with stem cell research was the BresaGen application. I think he indicated that that was the only one that had been funded.

Senator HARRADINE—So, in fact, there is none; no funds have been expended by your department for adult stem cell research?

Mr Paterson—Outside of the material that you have before you, I am not aware of any program that is supported by the department that deals with adult stem cells.

CHAIR—I understand that Senator Conroy wanted to ask some questions on behalf of the opposition and had asked to be telephoned when Senator Harradine was finished. We might just have a pause.

Senator HARRADINE—If I can find that document, I would be very happy to provide you with what was said, whilst we are having this pause for a minute or two.

Mr Paterson—Mr Chairman, whilst we are in a lull, there were some documents that we undertook to table.

CHAIR—If this is a convenient time, perhaps we can do that now.

Mr Paterson—The application for the center of stem cell and tissue repair, which is tabled and was referred to by Ms Hartland in her evidence, is commercial-in-confidence. We would seek to have it tabled to the committee on that basis.

CHAIR—Mr Paterson, I am advised by the secretary that that cannot be done. The procedure of this committee does not allow for the tabling of a document other than one that is automatically thereby made public. So, in those circumstances, perhaps I might suggest that you withdraw your tabling of the document and—if it is all right with Senator Harradine, in response to whose question I assume the offer was made—that that question be dealt with in a confidential way with Senator Harradine.

Mr Paterson—I am happy to do that, Chair.

CHAIR—Thank you. Are there any documents other than those which you would otherwise have sought protection?

Ms Hartland—No. The other documentation is available on the web site so it is not commercial-in-confidence.

CHAIR—Do you want to table that, or is that unnecessary?

Ms Hartland—It is up to Senator Harradine, I think.

Mr Paterson—Perhaps we can deal with those documents in the same way as you suggested with the earlier one and, if there is a necessity to bring either of the other documents back before the committee, we will undertake to do so.

CHAIR—Thank you, Mr Paterson.

Senator HARRADINE—I am sorry; what is on the web site?

Mr Paterson—Other documentation is on the web site.

CHAIR—Do you want those that are on the web site produced and specifically tabled for this committee, Senator Harradine?

Senator HARRADINE—I would like to see what is there. It might save my staff some—

CHAIR—If it is no trouble, Ms Hartland, perhaps the documents that are publicly available concerning the questions Senator Harradine has asked could be tabled. I understand that it is acceptable to Senator Harradine that the commercial-in-confidence document not be tabled but that perhaps an informal arrangement between the department and Senator Harradine could be arrived at.

Senator HARRADINE—In addition, I mentioned the expressed wish on a number of occasions by Professor Trounson for cloning to be permitted. I want to ask again a question about the chief executive of Stem Cell Sciences, which is part of this centre. That same article in the *Australian* of 1 April also states:

... Peter Mountford, chief executive of Stem Cell Sciences, had spoken out strongly in favour of therapeutic cloning.

About a month ago Dr Mountford announced he would take the cloning side of his business to Britain, where the law allows the procedure under strict conditions, if the Australian regulatory climate was not right.

Dr Mountford has never produced a human embryo, but holds a patent on technology he believes will achieve this result by the end of 2002. He plans to commercialise the process within two years by supplying disease-carrying embryonic stem cells to pharmaceutical companies for drug screening.

Was that drawn to the attention of the panel, and was that drawn to the attention of the ministerial council?

Ms Hartland—Stem Cell Sciences is not part of this application, as it currently stands.

Senator HARRADINE—ES Cell International?

Ms Hartland—I thought we were talking about Professor Mountford from Stem Cell Sciences?

Senator HARRADINE—Yes, Stem Cell Sciences.

Ms Hartland—They are not listed in this application.

Senator HARRADINE—This is a different company from ES Cell International. Could I have the details of the ownership of the group? How is it going to work?

Ms Hartland—That is part of the documentation that we will provide to you.

Senator HARRADINE—On the ownership and so on?

Ms Hartland—Yes.

Senator HARRADINE—That would be helpful. On the question of who should have made the decision, when did Minister Macfarlane and Minister Nelson receive the recommendation from the panel?

Ms Hartland—I think, as I said previously, it was about 28 April. I will double-check the date—I am sorry; 29 April.

Senator HARRADINE—But wasn't that document supposed to go to the ministerial council, which was then meant to make a recommendation?

Ms Hartland—The documentation then went to the ministerial council on 7 May.

Senator HARRADINE—On 7 May?

Ms Hartland—I am sorry; Ministers Macfarlane and Nelson received advice from the panel on 29 April. They brought that advice to the Biotechnology Ministerial Council, which met on 7 May.

Senator HARRADINE—The document—it is on your web site—says that the final decision will be made jointly by the ministers, 'with recommendations being made from the Commonwealth Biotechnology Ministerial Council on advice from the panel'.

Ms Hartland—That is correct. They took the advice from the panel to that ministerial council and sought the advice of that council before making a final decision. So the panel is an advisory panel. They were told the advice of the panel, took that to the ministerial council for the council to hear that advice, and then Ministers Macfarlane and Nelson made the final decision.

Senator HARRADINE—When did it go to cabinet?

Ms Hartland—It was not subject to a cabinet decision; it was a decision made by the ministers on advice from the expert panel.

Senator HARRADINE—But \$46 million.

Ms Hartland—The original funding was part of Backing Australia's Ability, as announced by the Prime Minister in January of 2001.

Senator Minchin—In other words, cabinet made the decision to have a program providing this amount of money for a centre of excellence, and it specifically delegated to those two ministers the authority to determine the successful applicant for the funding.

Senator HARRADINE—Are we going to have tabled summaries of the short-listed applicants?

Ms Hartland—That is all on the web site but, yes, I can draw it to your attention.

Senator HARRADINE—Thank you.

Senator CONROY—I have some questions for the Office of Small Business. When did you start, Mr Paterson?

Mr Paterson—I started on 18 January.

Senator CONROY—So it has been about six months.

Mr Paterson—Not quite.

Senator CONROY—It feels like longer?

Mr Paterson—It does on some days.

Senator CONROY—Already. Has the department had a chance to update its web site to include your details?

Mr Paterson—It is not something that I have searched.

Senator CONROY—You have not had a quick click on your own web site?

Mr Paterson—I have, but I certainly do not go and look for information on me. I am happy to take that on notice, and I am sure somebody else will check.

Senator CONROY—Is there anyone who might be able to check for us quickly—someone in the building who is computer literate? Has the new minister been updated on the web site? You would want to take Senator Minchin down, I assume, and put the new minister up?

Mr Paterson—I will make no response to the second part, but our current ministers are mentioned on the web site.

Senator CONROY—The Office of Small Business has been part of the department now for six-odd months. I was just noticing that the web site for the department still does not include them. It is hyperlinked back to your old department.

Ms Weston—We physically moved into the department in February-March. The two web sites are quite incompatible. It is an arduous process which I understand was finished on the weekend ready to go to the department's web publishing service, but it did require each page of some 260-odd pages to be personally moved across. Fairly lengthy processes have been undertaken.

Senator CONROY—Not as long as for Mr Paterson or the new minister. Will it be ready to go soon?

Ms Johnson—I believe that the content for the Office of Small Business is in the process of being migrated across to an updated Industry web site. The current status over the weekend I will have to confirm today.

Senator CONROY—Does that mean it is ready to go?

Ms Johnson—It not in production; it has not been posted to the new site yet or to the site links.

Senator CONROY—It has been produced by you guys but the web site publishers have not converted it to their own computer speak.

Ms Johnson—It is still in the process of being published to the new web site and it is not, as I believe, available today yet.

Senator CONROY—Hopefully it will be soon.

Ms Johnson—It will be in the near future—within the next week or two, I believe.

Ms Weston—We will need to update it of course, once that has migrated. We will do that as a matter of priority.

Senator CONROY—I was going to ask whether this was going to be a matter of priority so that small business can find you.

Ms Weston—Indeed.

Senator CONROY—That would be good. The government has allocated \$24 million over the next four years to enable the continuation of the small business assistance offices. Under the pilot program ending 30 June this year, there are 47 offices. How many offices will the additional \$24 million fund?

Ms Weston—We are currently, as you are probably aware, reviewing the pilot program. The minister has announced a six-month extension, so there is no gap in services. It really will depend on the outcome of the review as to how many offices will be funded. As you know, we have sought a number of submissions from relevant areas, and we are in the process of finalising that review.

Senator CONROY—What stage is the review at?

Ms Weston—We are at the stage where we have read all our submissions and we have done some consultation. We are just trying to put the paperwork together to take to the minister. He will obviously need to consult with a couple of people and then he will make his announcement. So it is not too far away.

Senator CONROY—Has there been a reasonably positive response so far?

Ms Weston—There was a variety of responses. It was quite interesting. It was not that anything necessarily clear came out of it. It was a fairly complex issue.

Senator CONROY—Can I clarify: there are 47 existing offices. Is the \$24 million for the extension of six months? If it was agreed that the program was a success and it wanted to keep going, would this be an expansion of the service—or is that taking it too far?

Ms Weston—The \$24 million is to cover four years worth of referral and advisory services, however the government decides. Some of that money will need to be used for the six-month extension.

Senator CONROY—Could you take on notice how many offices would be part of the additional \$24 million, if that is what the decision is?

Ms Weston—That will have to wait.

Senator CONROY—Not too far away from that.

Ms Weston—Yes, sure.

Senator CONROY—Where would those offices be located and are they located in metropolitan areas?

Ms Weston—It would be unlikely that they will be in metropolitan areas.

Senator CONROY—Yes, that is what I would have thought. Again, this is subject to the review so I am happy for you to take it on notice: has the function of the offices changed or is still just to facilitate small business access to Commonwealth government programs and assistance when they can find your web site?

Ms Weston—That is one of the interesting things coming out of the review, so you are on the point there. I will certainly take that on notice.

Senator CONROY—The offices currently play a role in promoting training provided by relevant business organisations such as the state chambers of commerce; is that right? You might be familiar with them from your past life, Mr Paterson.

Mr Paterson—I certainly should be.

Senator CONROY—Will the \$24 million be allocated in four blocks over the four years?

Ms Weston—Yes, it does appear that is the case when I have a look at the portfolio budget statement.

Senator CONROY—It is four times six; so it will be allocated—

Ms Weston—Yes, it is amalgamated under the Small Business Assistance programs, as I understand it.

Senator CONROY—Yes, I am trying to break the information out. Not that I am suggesting for a moment that the PBSs are not easy to read and follow; I have had a long chat with Finance about that. So at this stage is it too early for you to be able to say whether or not the \$24 million will fund any initiatives other than Small Business Assistance offices? I am happy for you to take that on notice if you would prefer.

Ms Weston—I will take that on notice, although that is something that has been looked at as part of the review.

Senator CONROY—Okay; and if I could possibly get a breakdown between what will be spent on extra offices and other initiatives, that would be great.

Ms Weston—Yes.

Senator CONROY—Will it be possible to get a copy of the assessment report?

Ms Weston—I think we are going to try and have a summary available to people because there are a lot of people interested in it and lots of stakeholders.

Senator CONROY—I am just interested in reading the views of, as you say, the stakeholders. What was the actual process? What sort of demographic did you write to?

Ms Weston—We wrote to all the Area Consultative Committees, which obviously host the current Small Business Assistance offices; business enterprise centres; state governments; and other stakeholders such as the Small Business Coalition, AusIndustry and a few other people who have interests in that area. I think we received some 68 submissions, we followed up on some who did not respond and we spoke to people in person. We went out and had a look at a couple of the Area Consultative Committees—or at least one that I know of—and had a look at some of the other programs being run elsewhere.

Senator CONROY—Moving on, according to the budget papers \$36 million over four years is being provided for the Small Business Incubator program and the Small Business Enterprise Culture Program. Could you give us a breakdown of how much is being given to each, or is that still up in the air?

Ms Weston—In the past, certainly the incubator program operated on a budget of \$5 million a year and the enterprise culture program on \$2.2 million. The enterprise culture program finished up at the end of this financial year. So it is an amalgamation of some of the money that used to run the incubator program and some new money. The actual break up of how that should be has not been decided and we will need to do that when we review those programs.

Senator CONROY—So one of them is terminated and is not coming back, or it may come back?

Ms Weston—One of them has been terminated as such and money came into the portfolio to cover that sort of activity continuing. The other money was basically, as I understand it, moved from where it had been funding incubators into our portfolio as well.

Senator CONROY—That was from other portfolios so it was a consolidation into yours?

Ms Weston—As I understand it, yes.

Senator CONROY—Which portfolios?

Ms Weston—Transport.

Senator CONROY—And it is the culture program that is terminated at this point?

Ms Weston—That was the three-year program that is finishing up, which will continue in its new form.

Senator CONROY—In whatever its new form is.

Ms Weston—Yes.

Senator CONROY—How will the money being given to the incubator program be allocated over the four years? I know you said that you did not have an exact break up.

Ms Weston—From the PBS, it looks like there is an equal amount coming over the years. In the first year there is a little bit of rephased money from something, but basically in the three out years they all seem to be the same amount.

Senator CONROY—Same lumps—okay. We do not quite know yet how the additional funds are going to be used, though. Is that the case?

Ms Weston—I think we do need to have a look at the operation of those things. It makes sense at the start of a four-year program to make sure that you are going the way that is appropriate.

Senator CONROY—But it is all essentially for that program. Even though you might reshape how the program is actually working, it is all roughly under that heading. So it is essentially more money for the same heading but, within the heading, you may decide to—

Ms Weston—Adjust things.

Senator CONROY—adjust and fiddle. I understand that the funding in relation to the Small Business Incubator program has previously largely been used to fund capital expenditures, including the purchase, renovation, construction or fit-out of business incubator facilities? Will that continue to be the case with the additional funds?

Ms Weston—That has been the case. It has been infrastructure or refurbishment funding. There are set rules in the guidelines about what it should not be spent on, and I should imagine that will remain roughly the same. Incubators tend to be a cocktail of a variety of sources of funding, and the Commonwealth's has tended to be for refurbishment whereas state governments or local governments might provide buildings and so on.

Senator CONROY—Do you think, by and large, it will be for the same sort of process and not for any new elements? I appreciate that you are not quite sure of how you are going to tweak the program. Do you think most it will stay in that way?

Ms Weston—That is my feeling at the moment, yes.

Senator CONROY—What criteria do you use for choosing to fund any particular incubator?

Ms Weston—There are criteria set out in the guidelines, and I am happy to provide you with a copy of those. There is an association with an area consultative committee and an independent assessor looks at the financial viability as well.

Senator CONROY—I understand that in 1999 PricewaterhouseCoopers undertook a national review of small business incubators. Their conclusion was that:

... small business incubators are a worthwhile concept. ... However, the return on the Commonwealth Government's investment is not being maximised and urgent changes do need to be made to both the administration and design of the program to improve its overall effectiveness.

I saw you nod. Are you familiar with that particular report?

Ms Weston—I know of that report, yes.

Senator CONROY—Have any changes been made to the program since that report was finalised and, if so, what were they? Did they take into account that report or were they part of this tweaking process you are looking at now?

Ms Weston—There were some, as I understand it, changes made directly. For instance, there were awards programs put in place and we did start collecting some more information with the new incubators. With the new programs, I certainly wish to work hard in making sure that appropriate measures are in place and that we ensure the recommendations of that PricewaterhouseCoopers review are looked at quite closely in this new arrangement.

Senator CONROY—I want to go through a couple of the specific issues that the report raised, and I would appreciate knowing precisely how some of these criticisms were addressed. The report says on page 8:

In a number of past instances, incubators have received funding approval despite readily identifiable concerns about the adequacy of facilities, tenant demand and prospective viability.

Consideration needs to be given to the development of mechanisms which will ensure more rigorous assessment of incubator viability and potential performance.

You mentioned independent evaluation. Was that a new thing or was that already ongoing, and how have you addressed that process to assess viability and performance?

Ms Weston—I cannot tell you straightaway whether it was in existence beforehand—I will have to take that on notice—but certainly an independent financial assessor is required to check the viability.

Senator CONROY—But you are not sure whether that was already the case previously?

Ms Weston—I am not sure about that. Part of the process that is required is a feasibility step and they look at a number of criteria; whether there are enough small businesses in that area likely to fill up the tenancies and so on. Those criteria are all looked at as part of a feasibility study, but I will certainly take that on notice.

Senator CONROY—The report also says on page 9:

DEWRSB's current standard contract agreements with incubator proponents provide a limited degree of risk protection for the Commonwealth in circumstances where a facility ceases to be used for the primary purposes of a business incubator within a period of ten years of the contract date. However, in reality, short of the complete closure of a facility the Commonwealth has little recourse to protect its investment in a given incubator project.

How have you responded to that conclusion? I seem to remember, even though this was not in my portfolio, that there was some suggestion one of the incubators had turned into an entertainment centre of sorts.

Ms Weston—I understand there was an issue with a tenant at one stage. It was not anything illegal in terms of the running of the program.

Senator CONROY—I know in some places this sort of entertainment is legal.

Ms Weston—It has been sorted out now. As I understand it, this change was as a result of that PricewaterhouseCoopers report, but I will check that for you again and take it on notice. The contract now says that where an incubator is terminated within 10 years any additional value in the property that is obtained after that has been sold—directly related to the refurbishment, for instance, of the Commonwealth—the Commonwealth gets some reimbursement of that. As I said, I will take that on notice. But I understand there was an amendment to reflect that.

Senator CONROY—So if it changes its primary focus you are able to close it down or get your money back somehow, or do they have to buy you out? How does it work now?

Ms Weston—As I understand it, if it has been sold, for instance, and there is additional value that has come as a result of the Commonwealth having invested X number of dollars, then some of that money comes back to the Commonwealth. I can provide you with details of that part of the clause in the contract.

Senator CONROY—That would be great, thanks. According to the 1999 review, there was almost no tracking of businesses that graduated from incubators to see if they survived. Does the Office of Small Business now monitor whether firms subsequently survive?

Ms Weston—Are you referring to graduation numbers?

Senator CONROY—Yes, those who have moved on to bigger and better things.

Ms Weston—We have been obtaining some information on that. Certainly, from February 2000 new incubators have been required to provide that information. We made some inquiries quite recently, in May 2002, and about 15,000 businesses have graduated since 1995. In this financial year 240 have graduated from existing incubators.

Senator CONROY—Excellent. In terms of percentages—and I appreciate that those are pretty large numbers—how many small businesses subsequently survive? That sounds like a lot, but was that 50 per cent, 20 per cent or 90 per cent? Is there a ballpark figure in percentage terms you are able to provide?

Ms Weston—That survived to graduate? That information is not available that I know of, but we are actually trying to obtain some more information from our incubators and we might see if we can compare that figure to the detailed total tenancies during that time.

Senator CONROY—Just in terms of benchmarking of the success of the program, do you think it would be worth while to be able to say, 'Look, only 20 per cent survive'? I think the most commonly touted figure is 70 per cent of small businesses collapse in the first 12 months. If you were getting a better outcome than that, it would be something to say, 'Look, we got 50 per cent that survived.' That may be a wrong figure I am quoting, but it would give you an indicator that you were making a difference against the common perception you hear about.

Ms Weston—That would be quite worth while, and one thing to consider as we are putting the procedures in place for the new arrangements. Certainly internationally there is very little data on survival rates from incubators. Part of that is because it is so hard. You cannot require small businesses to report on themselves, and as they are going down the tube they are not going to be putting up their hand; and they move, restructure and change their names. But, certainly, that is one of the things we could try to put in place with the new program; to at

least get some snapshots of groups that have left certain incubators to do some assessment on that.

Senator CONROY—Does that figure of 70 per cent going under in the first 12 months sound familiar to you? Mr Paterson, with your extensive experience as a former major representative in this area, does that sound right? It is just that I think I have seen that one on television on an advertising campaign which is why I think it sticks in my mind.

Mr Paterson—It always depends on the time of the economic cycle, so in more robust times—

Senator CONROY—I think this was an average figure across the cycle.

Mr Paterson—Certainly you will have seen that the numbers at different points in time vary from between 30 per cent to 70 per cent, but it does very much depend on the economic cycle.

Senator CONROY—Sure, I appreciate that.

Ms Weston—We have bankruptcy data for the March quarter this year that says that there were 874 new business related bankruptcies. That is down on the last quarter, which was 894. Relative to the number of businesses, that is not huge at the moment.

Senator CONROY—But it does not indicate whether they are in the first 12 months though, does it? So they could just be—

Ms Weston—They could be anything.

Senator CONROY—They could be 10 years old or they could just be the last of those collapsing because of the GST.

Ms Weston—Only 3.7 per cent said GST was the cause.

Senator CONROY—Well, you probably flushed most of them out of the system already. Finally, page 10 of the report says:

While recognising the importance of up-front capital or infrastructure related grants as a vehicle for reducing the immediate cost of incubator establishment, DEWRSB should, in future, have the flexibility to combine such grants with other forms of assistance linked to operating expenses, or on the basis of the number of firms assisted ...

Have you considered that recommendation and do you have any views on it? I think they are suggesting solely bringing in actual capital was not necessarily the best mix. Is that true in your new experience? Would any other officers like to respond?

Ms Weston—I would have to take that on notice whether that has been considered.

Senator CONROY—Sure. The government has stated that employment generation is a key reason for the government's support to small business incubators. Can you provide an estimate of the number of jobs that the small business incubators have generated and any assumptions that those estimates are based upon?

Ms Weston—In May this year there were some 3,000 people employed in 1,000 businesses in incubators. With the further 1,500 businesses that have graduated from incubators since 1995, and assuming graduate businesses employ, say, a couple of employees—probably not unrealistic—that would be another 3,000 to 4,000 people. There are also 200 to 300 direct employees employed in incubators. That would mean that there would be in the vicinity of 6,000 to 7,000 jobs created through that incubator program, but obviously there are fairly heavy assumptions there.

Senator CONROY—You mentioned that you were not quite sure whether the Small Business Enterprise Culture Program would go ahead or in the form that it would go ahead.

Ms Weston—The enterprise culture program?

Senator CONROY—Yes.

Ms Weston—My view is that it will continue to provide funding for that enterprise culture for business operators.

Senator CONROY—Right, but you are not sure how that is going to work just yet?

Ms Weston—The current arrangements are that it has a focus on the regions and women and providing mentor arrangements for business owners. Whether it continues that focus will be something that we will need to consider. That is yet to happen, obviously.

Senator CONROY—Could you take that on notice then, and I am happy for you to take this one on notice as well. Currently there are a number of training programs funded through the Small Business Enterprise Culture Program. How do small business operators learn of these training programs and how do you assess the organisation funded to provide training with advertising, the availability of that training or otherwise informing small business? If you want to have a crack at that now, go for it, or you can take it on notice.

Ms Weston—There were three elements to that. Could you just go through those again?

Senator CONROY—I have the flu, so if I am sounding a bit strange—more so the normal—apologies for that. How do small business operators learn of the training programs under the Small Business Enterprise Culture Program? How do you assist the organisation funded to provide training with advertising, the availability of that training or otherwise informing small business?

Ms Weston—I would like to take that on notice. When the person brings an application for the enterprise culture program they are to identify a gap in the market. There are lots of ways that they might communicate with a potential audience. For instance, they may have a specific focus or they may be an industry representative group that knows its members need help in a certain area, so there is a natural constituency for those people to offer the training to. I will take the rest of that on notice and provide you with a more complete answer.

Senator CONROY—I know my colleague Senator Lundy asked some questions similar to the couple I have next. So you may have gone over some of this fractionally. The budget also provides \$3.1 million next year to enhance the range of services offered to small businesses competing for major projects. Can you tell me how that money is spent?

Ms Weston—I will pass that on to my colleague Ms Georgopoulos.

Ms Georgopoulos—The \$3.1 million allocated this year will predominantly go to the Industrial Supplies Office Network and the Supplier Access to Major Projects Program. The budgeted amount for the next financial year will be subject to a business plan that that organisation is currently preparing.

Senator CONROY—Do you have any information on how many small businesses have been successful in getting, or getting involved in, major projects because of ISONET?

Ms Georgopoulos—We are currently pulling all of that information together. I have spoken to all the Industrial Supplies Offices around Australia and they are currently pulling all that information together for each of the projects that they have been involved in.

Senator CONROY—I met with the office and had a briefing, courtesy of the minister. Is ISONET now fully within your area? It is not linked to other departments?

Ms Georgopoulos—The Industrial Supplies Office Network has always been within this portfolio.

Senator CONROY—I wanted to double-check that. Do you have a success rate for the Supplier Access to Major Projects Program or is that the sort of information that you are collecting and pulling together at the moment?

Ms Georgopoulos—We are, but I can share that the \$2.4 million that has been allocated to date through the Supplier Access to Major Projects Program has secured contracts worth over \$700 million—that otherwise would have gone overseas—for Australian companies.

Senator CONROY—Sensational. I have some questions, which I am sure the minister will be interested in, about one of the government's promises: to consider small business in cabinet decisions. Has it been implemented, Mr Paterson, that when each cabinet decision affects a small business area it is given specific consideration? The government's promise was:

It is now a requirement that any proposals that have an impact on small business be looked at by the Office of Small Business.

Is that fully under way?

Mr Paterson—My understanding of the arrangements is that the office is consulted on all issues that are likely to have an impact on small business and is given an opportunity to provide comment on those issues.

Senator CONROY—Is that working with the cabinet secretariat?

Mr Paterson—Yes.

Senator CONROY—I think that the promise was that all departments prepare cabinet submissions that specifically indicate whether there would be implications for small business.

Ms Weston—We are working with the cabinet secretariat on some more refined guidelines as well.

Senator CONROY—I want to run through a few issues to see where we are. I want to clarify a couple of things we discussed at the last round of estimates. In relation to the tax legislation dealing with consolidations, do you believe that it is an issue of interest to, and affects, small business?

Ms Weston—The tax office tells us that about 40,000 to 50,000 small businesses are eligible to consolidate. There are some issues around the grouping rules. I note there has been an extension of a year before the grouping rules fall out. We have been working with the tax office. We had a look at a publication they have which has a pretty good question up front that will help small businesses either get out of there or want to have a look a bit further. So, yes, there is some impact. The numbers are not huge but it is important for those people on whom it has an impact to know what that impact is.

Senator CONROY—So you have been having input—

Ms Weston—Yes.

Senator CONROY—into the design and that sort of thing of the publication you mentioned, in particular. Did you contact the ATO or did they come to you?

Ms Weston—In relation to that publication they came to us. They have also been offering walk-throughs of the program and the consolidation legislation. One of our officers has been to a workshop as well.

Senator CONROY—So they are keeping you in the loop?

Ms Weston—They are.

Senator CONROY—Good. I am just trying to make sure you are keeping them honest—and it is hard with the tax office.

Ms Weston—The commissioner has got us on his Small Business Consultative Committee also.

Senator CONROY—He knows where to find you.

Ms Weston—He does.

Senator CONROY—Did you make an assessment of that particular legislation and provide comments to the ATO? How does it work? I know you are a fairly small group—and I do not mean that in a pejorative sense—of only 32. Or did we go up to 33 in the budget?

Ms Weston—We currently have about 33. We have some vacancies we are filling through various ways.

Senator CONROY—But they are not an expansion on the 33, they are within that?

Ms Weston—No, we probably do have some vacancies within that 33. We obviously have to deal with the new program as well.

Senator CONROY—So who draws the short straw? To give a small business perspective, who gets to read the tax consolidation act? Is that you?

Ms Weston—It interests me! We have a tax and finance area within the Office of Small Business that looks at tax and finance issues coming forward.

Senator CONROY—Did they prepare a brief?

Ms Weston—We brief the minister from time to time on a number of issues.

Senator CONROY—No, I am talking about briefing the ATO. When the tax legislation goes forward and the cabinet secretariat says, ‘Just a minute, tax office, have you talked to small business’? and they then send you the legislation, you get your little unit to have a look at it and then send some information back to the tax office. Is that what happened in this case?

Ms Weston—I will have to take that bit on notice. Certainly officers from the tax office came to the Small Business Consultative Committee, of which we are the secretariat, and we were able to talk them on that occasion. I was not in the department when that legislation came forward the first time and I will have to take that up with them.

Senator CONROY—Did you prepare an assessment of the legislation for the tax office, not for the minister, in terms of saying, ‘This is how we think the way you are doing it at the moment will impact on small business’?

Ms Weston—As part of the workshop we discuss the impact on small business with the tax office, at that time. I understand that it was also raised as part of the National Small Business Forum.

Senator CONROY—I understand the forum kicked it around. I am just trying to work out in my head how the consultation between you and, in this case, the tax office worked. So they

just came along and had a listen to the National Small Business Forum, or did your office prepare a written summary of the impact, the positives and the negatives? Is that how it works?

Ms Weston—There have been a number of mechanisms where we have consulted with the tax office on the consolidation program. I have had a conversation with Mark Jackson and the tax office has spoken with us as part of the consolidation forum, at the consolidation workshop for small business in particular. I talk with the tax office about any concerns I might have about small business being consulted in relation to consolidation.

Senator CONROY—So no-one really sits down and goes through the 2,000 pages of our simplified tax system in this area? Your role is more: ‘Look, you have this proposal, come and sit down in the small business forum.’ Is that the consultation mechanism, and do you then prepare a summary out of that discussion?

Ms Weston—Not necessarily through the forum. There are plenty of other mechanisms where we deal with the tax office directly. They come to us and of course we can go to them on any issue; they have come to us and we have talked to them about communication. We have talked to some of our other small business representatives who have alerted us to issues and we have also raised them with the tax office.

Senator CONROY—It is not so much the communication that I am trying to get to the bottom of, it is whether or not you actually prepare a response to the substance of the legislation rather than facilitating or giving advice about the best way to facilitate communication. I just want to get across how you deal with the substance.

Ms Weston—I am not sure about what we did with this particular case. But in the case of some tax legislation or regulation coming forward as part of, say, a cabinet submission, we would certainly make some comments on where we see there are regulatory impacts on small business and state our views as to whether we think they are significant. That would be a written response.

Senator CONROY—In terms of the process, would that be before the final submission went in from the tax office or does the tax office submission arrive at the cabinet secretary’s office and they fire off a note to you saying, ‘What do you think’? I am presuming the tax office come to you before they put in a final submission. Or is it that they put in their final submission and then you put in a submission about it as well. I am happy for someone else to come to the table if you would like.

Ms Weston—It is just that there are some new rules in relation to this.

Senator CONROY—I am happy to break at the earliest opportunity. I will go for a little bit longer.

CHAIR—Ms Weston, would it be convenient to you to answer that question now? It was a complicated question; do you want to think about it over the dinner adjournment and answer it later?

Ms Weston—I will respond when we get back.

Proceedings suspended from 6.36 p.m. to 8.02 p.m.

CHAIR—I call the committee to order. Senator Conroy has the call.

Senator CONROY—We were talking about tax consolidation and the input process.

Ms Weston—Yes, Senator. You were asking whether OSB was involved in the assessment process around government policy. The answer is yes. This is through a variety of mechanisms. The Office of Small Business is involved in a number of interdepartmental committees, or IDCs as they are known. For example, the private sector privacy laws department was involved in an interdepartmental committee. We also have informal contact. Departments and agencies, for example, talk with us about whether there will be a small business impact and whether they need to consider that. Formally, there is the cabinet process. Since September there has been quite a shift to policy proposals being put past the Office of Small Business and, as part of the regulatory impact statement process, to looking through to see whether a small business impact has been identified in a RIS, or regulatory impact statement, and to assessing the impact that has been identified.

Senator CONROY—You are saying that you have input before the draft goes to, in this case, the tax office?

Ms Weston—There are a variety of mechanisms—any one of those mechanisms—but yes, that is right.

Senator CONROY—And were the concerns or views of OSB contained in the legislation that went forward, in consolidations?

Ms Weston—That gets down to a view, I think, of whether we were involved in that process or not, and—

Senator CONROY—I am hoping you are going to say that, yes, you were successful in convincing them to the small business way.

Ms Weston—I would rather leave that as being something of a policy matter.

Senator CONROY—Turning to the proposals for an inspector-general of taxation, do you think that is an issue that affects or has an interest for small business?

Ms Weston—Certainly, in the material put out before the election, the government has flagged that as being a bonus for small business.

Senator CONROY—Were you consulted on the proposal for an inspector-general?

Ms Weston—The Office of Small Business is secretariat to the Small Business Consultative Committee, and the chair of that committee, Kurt Rendell, were actually involved in discussions with Senator Coonan.

Senator CONROY—What has he ended up on?

Ms Weston—The Trade Practices Act review.

Senator CONROY—That is the one. He would be well known to you, Mr Paterson.

Mr Paterson—Yes.

Senator CONROY—At the last round of estimates I asked, ‘Will the Office of Small Business have a role in determining the functions of the proposed inspector-general of taxation?’ Mr Mazitelli was in charge at that point. He was gladly saying that he would be moving on, and that he would not be looking after you anymore, from recollection. He replied, ‘That is clearly a matter that resides with areas outside the Office of Small Business; it is outside our determination. Are you are saying that is not the case?’

Ms Weston—The inspector-general is something that Senator Coonan in her role as Assistant Treasurer is looking after. From that point of view it is not something we have control over.

Senator CONROY—I was not suggesting that. He was suggesting that it was a matter that resides with areas outside the Office of Small Business. He said, 'It is outside our determination.' You would see that it is within your general area of interest, though?

Ms Weston—That is right. It is in our general area of interest.

Senator CONROY—Okay. The issue of the Trade Practices Act is certainly an issue for small business.

Ms Weston—That is right.

Senator CONROY—Were you consulted on the terms of reference for the review, notwithstanding that one of your committee members ended up on the review?

Ms Georgopoulos—The Treasurer's department, or the Treasurer, consulted our minister's office and, indeed, the small business minister.

Senator CONROY—Okay. So when he told the small business minister to go take a running jump into the lake if they were interested in an outcome here, were you consulted about that?

Ms Weston—I beg your pardon?

Ms Georgopoulos—Can you repeat the question, please?

Senator CONROY—When Mr Hockey appeared on television and said that small business could just get back in its box, were you consulted about his comments there?

Ms Weston—Whether we were or not is probably a policy matter.

Senator CONROY—So did you provide any input into the terms of reference and how the review should be conducted?

Ms Georgopoulos—That was an issue that was discussed between the offices.

Senator CONROY—Was your input reflected in the terms of reference for the review process?

Ms Georgopoulos—It is a policy advice issue, Senator.

Senator CONROY—Do you think that allowing just four weeks for submissions to be made to the review is sufficient?

Ms Georgopoulos—I understand that the Treasury on its web site has also suggested that more time can be made available if submissions so request. That is probably a question for the Treasury.

Senator CONROY—Do you think that allows small business interests, who traditionally are not as able to pull together submissions, enough time to get a submission in?

Ms Weston—In our discussions with them, small business representative groups have been quite well aware of the Trade Practices Act review.

Senator CONROY—I turn to the announcement in the budget of an extra \$415 million to the ATO. Part of this extra funding is being used to increase small business field services by the ATO. Do you think that policy decision will have an impact on small business?

Ms Weston—I have yet to see what the tax office is going to do with that money, more formally.

Senator CONROY—I think they have said it is for lots of field officers. But in terms of the actual policy position, do you think that impacts on small business to have a couple of hundred extra tax officers knocking on people's doors?

Senator Minchin—May I say, Senator Conroy, to assist the officer at the table, that I thought I saw the minister for small business, Mr Hockey, say that he had no qualms whatsoever because he was confident that in fact these officers would be assisting small business in ensuring that they met their burden and have no difficulty with GST administration et cetera. So the minister himself has no reservations—

Senator CONROY—Perhaps some of those ATO officers could help Treasury with administering the GST in some of the other government departments.

Senator Minchin—You can ask the tax office that tomorrow. At the revenue estimates hearings, you can ask the tax office themselves whether—

Senator CONROY—Would you like a tax officer to come and help you administer the GST in your area?

Ms Weston—In my area of the department?

Senator CONROY—The Auditor-General has just done an audit about government departments' compliance with the GST. The minister is kindly offering tax officers around, and so I was just wondering if you would like a tax officer to come and visit to help with yours.

Mr Paterson—To the best of my knowledge, that audit did not identify any particular issues in relation to this portfolio that would require any assistance.

Senator CONROY—Was your department one of those audited?

Mr Paterson—Not to the best of my knowledge.

Senator CONROY—Would you like a tax officer to come in and give you a hand just to make sure everything is under control? They are coming to assist, the minister said. No? Okay. Was the OSB consulted on the decision to increase funding to the ATO?

Ms Weston—That is a policy matter.

Senator CONROY—No. I asked whether you were consulted. I am not asking what your answer was.

Mr Paterson—You asked for an indication in relation to process, and the officers have given an indication in relation to process. There will be a variety of mechanisms by which we are consulted. We have said yes or no in relation to each of these. We are consulted on a variety of matters. The nature of the consultation and the nature of the advice clearly falls within the policy arena.

Senator CONROY—I accept that point entirely, Mr Paterson. I am not asking you to reveal the nature of, or the actual, policy advice. I am asking whether or not OSB was consulted on a matter to do with small business. It was the government's election commitment—and this was the cabinet submission—to increase the number of tax officers, and to require all departments to bring cabinet submissions which will indicate whether there will be implications for small business. I am just asking whether that happened in this case.

Mr Paterson—As I understand it, with respect to that specific question the answer is yes.

Senator CONROY—Thank you. Did you make any recommendations about the effect on small businesses of the increased number of audits by the ATO as a result of the extra funding?

Mr Paterson—Policy advice.

Senator CONROY—Okay. Why don't we talk about public liability? Certainly from my moving around the country I know it is the biggest issue affecting small business at the moment. They are particularly concerned about it. Would you say that is a fair comment, from your input?

Ms Weston—It is a very big issue for small business and tourism operators.

Senator CONROY—When I spoke with Mr Mazitelli he said that the OSB had sought examples of national insurance schemes from around the world so as to acquaint itself with what they might deliver. Were you then involved in the work that was supposedly being done at the Commonwealth level to fix the issue? Were you working on that?

Ms Weston—At the departmental level, Treasury hosted a number of meetings and we have been to all five of those, I understand, since January.

Senator CONROY—So you were involved. And have you been involved in preparation for the two summits that are taking place?

Ms Weston—Treasury have really organised those.

Senator CONROY—So you were not?

Ms Weston—When you say 'involved', we participated in interdepartmental arrangements to discuss the various options they were thinking of. In terms of organising the meetings—

Senator CONROY—I was not asking about the organisation, just about preparing the backgrounds—how it is impacting, what needs to be done and that sort of thing. Minister, do you agree with Minister Hockey's view that we should set up some state insurance offices?

Senator Minchin—I have not studied his comments in detail. I am not sure that I would leap to the conclusion that he is suggesting re-establishing state government insurance offices, per se. I find that surprising.

Senator CONROY—That is what he said. You find that surprising! I am sure you did. Maybe he just wants to set them up so that he can sell them off again.

Senator Minchin—As I say, I have not read his comments in detail and I would find it surprising if that is what he was proposing.

Senator CONROY—Did you see the minister's comments, Ms Weston? I presume they were drawn to your attention.

Ms Weston—I read some comments in the newspaper.

Senator CONROY—He gave an interview in which he advocated this. You would agree that that is what he advocated? I am just asking you to comment on a factual situation. I am not asking for your opinion. I will go back to the minister for an opinion.

CHAIR—I am not sure that is a proper question, Senator Conroy.

Senator CONROY—'Is it factual that the minister said this?'

CHAIR—It is not for the officers to verify whether or not the minister did or did not say something that they have already indicated they are not familiar with.

Senator CONROY—No. I think the minister said he was not familiar with it. Ms Weston said she had had this drawn to her attention. I am just asking Ms Weston to confirm that that seemed to be what the minister said.

Ms Weston—What is said in the newspaper is hard to—

CHAIR—Do you know, Ms Weston, what the minister said precisely?

Ms Weston—Not precisely. I only read the reports in the newspaper.

Senator CONROY—But the description I am giving of Mr Hockey's comments is consistent with what you saw in the newspapers?

Senator Minchin—Mr Chairman, I think this line of questioning is very unfair on the officer.

Senator CONROY—I am not asking her to give a personal view or even a departmental view. I am asking whether what I said—

CHAIR—Senator Conroy, I do not think you were in the room this morning when I read from principle 9 of the resolutions agreed to by the Senate on 25 February 1988. It states:

A chairman of a committee shall take care to ensure that all questions put to witnesses are relevant to the committee's inquiry and that the information sought by those questions is necessary for the purpose of that inquiry.

The purpose of this inquiry is to examine the budget estimates for this portfolio in the 2002-03 year, and I rule that that question, under resolution 9 of 25 February 1988, and any question to like effect, is out of order.

Senator CONROY—Okay. I will just seek some guidance from you, Chair. I was wondering which part of the small business minister's comments was not relevant to the portfolio issue of public liability. Are you saying his comments are irrelevant?

CHAIR—I have made a ruling.

Senator CONROY—I am sorry, but I move dissent to your ruling, then.

CHAIR—We have been through this before.

Senator CONROY—No. I am entitled to move dissent.

CHAIR—Senator Conroy, move to your next question, please.

Senator CONROY—Which part is irrelevant? The small business minister or his comments?

CHAIR—Senator Conroy, move to your next question to the witnesses, please.

Senator CONROY—Can I just clarify this, because you seem to be unaware that the Office of Small Business is in actual fact working on the public liability issue. Which part is not 'relevant' or 'necessary'? Which of the two tests that you are asked to make a judgment on—

CHAIR—I have ruled the question out of order. Move to your next question.

Senator CONROY—I was just wondering if you can clarify why you are making your ruling.

CHAIR—The chair is not to be interrogated. Move to your next question.

Senator CONROY—You are not to be asked a question to clarify your ruling?

CHAIR—The ruling is that the question you asked the witnesses was out of order. Move to your next question.

Senator CONROY—And on which ground? Can I just ask which ground?

CHAIR—Because it is in contravention of resolution 9.

Senator CONROY—And the two tests of that were ‘relevant’ and ‘necessary’. You do not think the minister for small business’s comments on public liability are relevant to a discussion with the Office of Small Business that is working on it?

CHAIR—Senator Conroy, move to your next question, please.

Senator CONROY—Not ‘necessary’, or not ‘relevant’? Do you think you can be imperious and not have to explain or clarify?

CHAIR—If you do not want the call any more, I will call Senator Watson, Senator Bartlett or Senator McLucas.

Senator CONROY—So the small business minister’s comments are irrelevant?

CHAIR—Can I invite you to move to your next question please, Senator Conroy.

Senator CONROY—If you are going to be partial in the chair, that is fine; but I would like to put on the record the ruling that the minister for small business’s own comments on an issue that affects his portfolio are irrelevant and unnecessary to a discussion with the Office of Small Business concerning their work on public liability. I would like to put that on the record. If you want to be embarrassed and make a fool of yourself like that, I will move to my next question.

CHAIR—No. Senator Conroy, move to your next question. The consideration of this portfolio finishes at 11 o’clock tonight. I understand that the opposition will be using up most of that time, so can I suggest that you proceed with your questions.

Senator CONROY—As I said, I have put it on the record and I will ask my next question. If you want to make a fool of yourself, that is fine, Senator Brandis. On what other areas of government policy and government programs have OSB been contacted?

Ms Weston—On what other areas have we been contacted?

Senator CONROY—Other than the ones I have asked you about.

Ms Weston—By whom?

Senator CONROY—Well, the election commitment of the government is that you will be consulted on all areas that are relevant to small business. So what other areas, other than the ones I have already asked you about, have you been contacted on?

Ms Weston—That is a policy issue, Senator.

Senator CONROY—I have just asked you about three policy areas. I am entitled to ask you about your work.

Mr Paterson—Can you be more specific, Senator?

Senator CONROY—I have been through public liability, review of the Trade Practices Act, ATO funding, the inspector-general and tax consolidation. I was just wondering if there were other areas you have been consulted on.

Mr Paterson—You also got an answer earlier to indicate that there are a variety of approaches adopted in relation to all manner of policy issues affecting small business. As I recall it, Senator, you asked whether that process of engaging with the office on policy issues had been given effect to—or a question similar to it.

Senator CONROY—I did, and you said yes. Now I am asking about the effect. I was asking whether that change had happened, and you said yes. Then I asked about a series of policy areas. Now I am asking whether there are any other general areas that you have been consulted on.

Ms Weston—There have been a number of other areas. I am not going to, for policy reasons, say exactly what we were consulted on.

CHAIR—Ms Weston, if it helps, the rule is this:

An officer of a department ... shall not be asked to give opinions on matters of policy, and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a Minister.

A question as to whether or not you or your department were asked a particular thing—in other words, whether a particular event occurred—so long as it is otherwise relevant, would seem to be allowable, to me. But what you cannot be asked is your opinion on a matter of policy.

Senator Minchin—Mr Chairman, I think the difficulty perhaps is that the answer probably relates to matters going before the cabinet, and obviously the officer cannot comment on that. It is a bit difficult to talk in such vague generalities and achieve nothing.

CHAIR—I am afraid, Minister, I cannot improve the precision of Senator Conroy's question-asking capacity. Ms Weston, do you have anything further to say in response to Senator Conroy's last question?

Ms Weston—We have looked at areas around skills and training in different portfolios, e-commerce issues and the like.

Senator CONROY—Thanks. I wanted to move on to one of those—the e-commerce business authentication framework. In MYEFO, \$4 million is committed as part of the small business assistance package to the development of an e-commerce business authentication framework. Can you explain that program to me briefly—just how the \$4 million is going to be spent?

Ms Johnson—The project is being managed in the Department of Employment and Workplace Relations. It was actually initiated before the election and the change of admin orders. It is an initiative that has been undertaken by DEWR and the ATO, with Business Entry Point officers participating in that. The National Office for the Information Economy is also involved. As I recall, the \$4 million is not in fact additional funding. It is in fact funding that is being provided from within DEWR and the ATO.

Senator CONROY—How is that being spent?

Ms Johnson—The project is at the point where there are a number of pilot projects to be commenced, one being in the Job Network. The Australian tax office has a number of pilot projects that will commence over the coming months and into early next year, which will be

utilising that authentication framework in a number of different areas. So what has been done so far is that a project has been initiated, there have been specifications for the actual construction of the technology, the technology has been tested and there are a series of pilot projects ready to roll, over these next few months.

Senator CONROY—I have probably got some other questions in this general area. I might put them on notice to speed our journey, so that Senator Brandis can finish his magazine. In relation to government procurement policy, I understand that the Commonwealth procurement guidelines now require that the Commonwealth have maximum payment terms not exceeding 30 days when dealing with a small business. Is the OSB monitoring compliance with that guideline?

Ms Weston—Each department is required to record their own meeting of that record, as per the revised Commonwealth procurement guidelines issued last October by the Department of Finance.

Senator CONROY—And do they supply that information to you so that you can keep a general overview on behalf of small business?

Ms Weston—It is something we are interested in. We may ask departments for that information at a later stage.

Senator CONROY—Minister, do you think it would be a good idea if it were coordinated? I am happy for Mr Paterson to comment.

Mr Paterson—Certainly the responses to the questions will be of interest to the office.

Senator CONROY—Do you think it is worth while asking the departments to supply the information regularly to the office?

Mr Paterson—Certainly it would be of interest to this portfolio to be aware of whether individual agencies were meeting that element of the government procurement guidelines. The approach to government procurement is an area in which this portfolio has a strong policy interest.

Senator CONROY—Is there any sanction that you are aware of if the Commonwealth is late in making a payment?

Ms Weston—I think there was an encouragement of departments to further expand this proposal by putting late payment interest in their contracts.

Senator CONROY—Is that policy compulsory or is that just an encouragement?

Ms Weston—My understanding is that it is not compulsory, but I would need to take that on notice.

Senator CONROY—If you are able—

Ms Weston—I am advised that it is just an encouragement.

Senator CONROY—Has the Commonwealth had any payment, as far as you are aware, under this encouragement policy to small business, if they are late? Has anyone actually paid any money out?

Ms Weston—Not that I am aware of.

Senator CONROY—Have there been any late payments?

Ms Weston—We do not have that information, Senator.

Senator CONROY—There is a general issue of late payment by big business to small businesses. They are very vocal. I am sure Mr Paterson is aware of it. Is the OSB looking at the question of big business paying their bills on time to small business?

Ms Weston—There are a number of specific areas that we are looking at. It interests us where big business is not paying small business.

Senator CONROY—Are you formulating anything? Are you working on any thoughts, or seeking views?

Ms Weston—We have been talking with other departments who have a related interest.

Senator CONROY—Probably Industry would be the main one. Which other departments other than your own are you talking with? You are within one, and so I presume you are having a chat with your own department. Which other departments do you think would have a—

Ms Weston—Some of these things relate to legislation in Treasury and tax office areas of interest.

Senator CONROY—If small businesses do not receive their payments immediately but still have to remit GST for goods and services supplied, it can have a pretty tough effect in terms of cash flow. Have you been in contact with the ATO about the impact of this on small businesses? Are you in discussions with the ATO?

Ms Weston—Small business of course can report their GST on a cash basis: when they get the money, they get to pay the GST and, similarly, when they pay the money, they get to claim the GST back.

Senator CONROY—I am aware they have that opportunity. Do you know what percentage do that?

Ms Weston—No. I do not know that percentage offhand.

Senator CONROY—So this one has not really passed over your radar screen at this stage? I am getting a lot of feedback from small business organisations about the issue of cash flow.

Ms Weston—Interestingly, the latest information on trade payments shows that the time taken for trade to be paid is the lowest in three years. I am trying to find a little more detail on that.

Senator CONROY—You can take that on notice, Ms Weston.

Ms Weston—I am sure I will find it before the end of the night.

Senator CONROY—Please take it on notice. I am being pressed by Senator Brandis: that magazine is running thin. Are you aware if the ACCC is looking at the issue of big business delaying payments to small businesses? Do you know if that constitutes unconscionable conduct under the Trade Practices Act? Have you looked at that at all?

Ms Weston—Not that we are aware of.

Senator CONROY—One way of small businesses coping with their cash flow difficulties caused by late payments is by factoring their receivables. This can, however, be very expensive. Have you examined the prevalence of small business factoring their receivables, and the cost to small businesses of doing that? Is that something that is—

Ms Weston—We are aware of the factoring that is going on. We have looked at some of the reports on that.

Senator CONROY—Are you preparing any thoughts on it as a problem for small business?

Ms Weston—We look at these things from time to time.

Senator CONROY—Are you doing any work currently on the issue of small business banking fees?

Ms Weston—Yes, we are.

Senator CONROY—Anything due out soon?

Ms Weston—We have certainly been meeting with some people who are providing us with some information. We had a chat with the people from Visa the other day. It is an area of interest for us.

CHAIR—Are there no other questions for the Office of Small Business?

Senator LUNDY—Chair, can I take this opportunity to put a question on notice. I asked questions earlier about the amount of venture capital money expended as a result of the first round of changes to the capital gains tax. In answers to questions on notice, it was said that there was some \$10.7 million spent on one investment. I put on notice that I would like to know the name of the company that made that investment and what the investment was.

CHAIR—I thank officers from the Office of Small Business.

[8.32 p.m.]

Geoscience Australia

CHAIR—There are questions from Senator Conroy, Senator Bartlett and Senator McLucas, which we will take in that sequence.

Senator McLUCAS—Chair, for the record, Senator Bartlett and I—

CHAIR—Why doesn't Senator Bartlett ask his questions and you can ask any additional questions that you feel the need to ask, having heard Senator Bartlett's questions.

Senator McLUCAS—We have agreed that, instead of going in order, we would work together.

CHAIR—I will give the call to Senator Bartlett and you can, with his cooperation, intervene as you see fit.

Senator McLUCAS—Thank you.

CHAIR—Senator Conroy?

Senator CONROY—What building does GSA occupy and where is it?

Dr Williams—The agency is currently located in two buildings. It is located in a big building on Hindmarsh Drive in Symonston, and the National Mapping Division part of the agency is located in offices at Fern Hill in Belconnen.

Senator CONROY—Which of them is in the building that was owned by the Commonwealth? That is Symonston?

Dr Williams—The Symonston building was owned by the Commonwealth.

Senator CONROY—That is the one I am after. But it was sold and then leased back by the agency; is that right?

Dr Williams—Yes.

Senator CONROY—When was the building sold?

Dr Williams—In April 2000.

Senator CONROY—When was the lease agreement finalised?

Mr Robinson—We signed an MOU with the department of finance prior to the sale and that was towards the end of 2000.

Senator CONROY—What terms were negotiated regarding how future rent increases will be determined?

Mr Robinson—The lease, which was attached to that MOU, specified an annual escalation of three per cent or CPI, whichever was the greater, and a five-yearly review to market.

Senator CONROY—The MOU; that means Finance oversaw this?

Mr Robinson—This is prior to it being sold. The arrangements were worked through between us and the department of finance so they had something to put on the table with the prospective purchasers.

Senator CONROY—Okay. I would like to ask you about the impact—and I had a discussion with Finance about some of these general issues last week—of the inflation spike resulting from the GST. What was your understanding about what had been agreed about the impact of GST spikes in inflation on the annual rent increase?

Mr Robinson—At the end of the last financial year, we had our negotiations with the new owner and they gave us their understanding that the full CPI, including the GST spike, should be applied. That was not our reading of it from what we had seen.

Senator CONROY—No. When I talked with Finance last week, Finance indicated that they believed that Alan Fels specifically had said that the GST spike should not be incorporated in rental agreements. Minister, does that sound familiar? It was your department's advice last week that the GST spike should not be factored into rental increases, rent being exempt from the GST?

Senator Minchin—I did not see that evidence.

Senator CONROY—I appreciate that you were away, so you would have missed that discussion. But in terms of the ACCC's position on GST spikes, does that ring a bell? It was government policy, I understand.

Senator Minchin—I would want to take some advice on that rather than comment here on that.

Senator CONROY—I think GSA just indicated that the GST spike seemed to have been incorporated in the rental increase. I do not think that I am being unfair to Mr Robinson. What was the actual annual rent increase after the GST was imposed?

Mr Robinson—The rent went from just over \$13 million to \$13.868 million for this current financial year.

Senator CONROY—What is that in percentage terms?

Mr Robinson—Just under six per cent.

Senator CONROY—So the terms of the agreement DOFA signed off on was three per cent or the CPI, whichever was greater, and the GST spike seems to have pumped up—the GST spike, inflation, was meant to be discounted, according to Alan Fels and the

government—and Mr Robinson is indicating that the actual rent increase was almost six per cent. Do you think that sounds right?

Senator Minchin—I am sorry, I am not sure if he said that that six per cent was premised or overtly said to be as a result of the GST, did he?

Senator CONROY—There was a GST spike in the CPI. That is what happened and the government modelled that into the ANTS package

Mr Robinson—That was the percentage that was put forward as the CPI figure that the owner of the building quoted. We, of course, went to the ACCC saying, ‘This doesn’t appear to be according to your guidelines.’

Senator CONROY—What did the landlord indicate when you raised this issue, as it seems, that the CPI seemed to be incorporated into the GST spike? Did they give you any indication?

Mr Robinson—No, there was very little comment.

Senator CONROY—And the ACCC? You said you approached the ACCC. What did the ACCC say to you?

Mr Robinson—They essentially said that they did not believe that it was a case of price exploitation.

Senator CONROY—But they did not deny that the GST spike—

Mr Robinson—No.

Senator CONROY—Did they agree that the GST spike seemed to be incorporated into the inflation figure?

Mr Robinson—I think that was pretty obvious, yes.

Senator CONROY—I will take it up with the ACCC, I promise you. Minister, does it seem fair that one of your agencies has been forced to pay the GST spike in their rental increase when it is specifically against government policy and ACCC policy?

Senator Minchin—I am not going to comment on the details of lease negotiations between an authority and a commercial provider of premises, particularly in the light of the evidence given in relation to the ACCC having been approached on the matter.

Senator CONROY—No, they dismissed it.

Senator Minchin—Then I would defer to the ACCC. The ACCC did a fantastic job during the introduction of the GST to ensure that there was no exploitation of the implementation of the GST. The proper process has been followed and I am happy if the ACCC has looked at the matter and concluded that it is a reasonable, non-exploitative rental arrangement.

Senator CONROY—The ACCC had many thousands of issues to look at as part of price exploitation. I think the ANTS package model with respect to the CPI increase with the GST spike—I think this is the government’s own modelling—indicated that inflation would be about six per cent and that was just the wash-through effects—

Senator Minchin—The one-off.

Senator CONROY—Yes, the one-off, wash-through effects. It is those one-off effects that I thought government policy and ACCC policy was should not be incorporated in rental increases.

Senator Minchin—I do not know the details of this case—

Senator CONROY—Can you take this on notice?

Senator Minchin—or what the basis for the rent increase was. I am not going to comment on the details of the arrangement.

Senator CONROY—Can you take it on notice and get back to us?

Senator Minchin—I am happy to have a look at it, if you like, sure.

Senator CONROY—And give us a response as to whether or not—

Senator Minchin—I will see if I can provide you with any further information that would be relevant to your inquiry.

Senator CONROY—I am really just wanting to know about the government's projection of the GST one-off spike, which meant that the GST was going to be six per cent more than the Reserve Bank target of three per cent, so it is a fairly substantial difference. Do you think it is fair that the company was able to sting one of your agencies, if this is the case?

Senator Minchin—That is rather colourful language. I said that I would see if I could find out any more about the matter, and make any comments on it.

Senator BARTLETT—Can I initially go to the numbers in the PBS so that you can clarify something for me. I refer to table 1.1 on page 76 and table 2.1 on page 82, regarding revenue from other sources. Both tables refer to non-appropriated departmental and administrative revenues detailed in appendix 1. Can you tell me where that detail is provided? Where is appendix 1 in the document?

Mr Robinson—Appendix 1 is the last page of our section. It is on page 94.

Senator BARTLETT—That is not terribly detailed. You have \$16.6 million in AUSLIG transfer. I presume that is just the merging component?

Mr Robinson—That is the net assets from the AUSLIG transfer.

Senator BARTLETT—You have got nearly \$10 million under section 31. Can that be expanded upon at all? What does section 31 mean? Can it be broken down?

Mr Robinson—I can be. I do not have the breakdown here. Section 31 is simply part of the Financial Management and Accountability Act that details revenue from other sources and how it is dealt with. Largely, this is a combination of revenue from sale of data, sale of goods and services generally, revenue from cooperative resource centres and several other minor items.

Senator BARTLETT—Is it external to government?

Mr Robinson—Yes, it is money other than directly from the federal budget.

Senator BARTLETT—Is a breakdown of that able to be provided?

Mr Robinson—Yes, of course. We could give that in the various categories I just mentioned to you. That is possible.

Senator BARTLETT—It would be good if you could do that. As I understand it, Geoscience Australia in the last year or so merged a couple of bodies together.

Dr Williams—That is correct.

Senator BARTLETT—AGSO and AUSLIG and, prior to that, part of the Bureau of Mineral Resources more broadly. In terms of the sort of work that you have been conducting over time, the overall budget for this year, I think, is about \$110 million in revenue and somewhere in the mid to high ninety millions over the course of the next few years. A reasonably large amount of money is allocated for the work that you do. You have been involved in conducting offshore studies of the north-east area of Australia for some time; that is correct, isn't it?

Dr Williams—We have. Our predecessor agencies, the Bureau of Mineral Resources and AGSO, the Australian Geological Survey Organisation, have conducted work in the past. There has not been a great deal of work done recently; there has been some.

Senator BARTLETT—We have got some other material—returns to order—through the Senate, which I am sure you would be aware of. I am just trying to flesh that out in a bit more detail. In terms of the boundaries of that study area, what areas were included in the study and the number of trips that were made to the study area, is that sort of detail able to be provided to us?

Dr Williams—Yes. I might call Dr Powell, who is the chief of our Petroleum and Marine Division, to help us answer those questions.

Dr Powell—What was the specific question you wanted answered, Senator?

Senator BARTLETT—It was in terms of the studies conducted off the north-east offshore area—the boundaries of that area, what areas are within it, such as the Townsville Trough and other components, when that study began, when it finished, how many trips were made and, particularly, what was the purpose of the study.

Dr Powell—Is there any particular timeframe that you wish me to address, because the organisation in its various forms has been carrying out work along the Australian margin and the north-east of Australia in particular since the sixties and seventies.

Senator BARTLETT—Are you still conducting that activity?

Dr Powell—Not at the present time.

Senator BARTLETT—When did it finish doing that?

Dr Powell—The Continental Margins Program, which was initiated during the 1980s, was a comprehensive program to explore the Australian continental margin, which at that time was very poorly known. It had several objectives: firstly, to understand what was there, because there was a very poor understanding of the geology of the area; secondly, to identify areas of petroleum potential; and, thirdly, to try and understand the history of the margin in terms of its geology and geological history and the long-term implications for that for many aspects of management.

Senator BARTLETT—Is that what you would say was—

Dr Powell—The studies in north-east Australia were carried out during the eighties and actually ended in about 1992. The last survey that was conducted in the region under that program was in 1991. There were some wrap-up desk studies based on that data in the following two years.

Senator BARTLETT—I appreciate this is going back some years, but some of this has only been able to come to light in recent times through FOIs with the Queensland government et cetera. A letter in relation to the Marion Plateau program to the Department of Mines in the

Queensland government talked about the activities of the *Rig Seismic* in the relatively uncharted waters of the Swain Reefs. It stated:

The principal objective of the project is medium to long term petroleum potential outside the Great Barrier Reef Marine Park.

Was that a significant component of the purposes of the study that you are talking about?

Dr Powell—In the late eighties a number of surveys were taken outside the Great Barrier Reef Marine Park for the purposes of understanding the geology that might lead to an assessment of petroleum potential; that is correct.

Senator BARTLETT—Is the data gathered as part of that study and the objective still something that your division is cognisant of in terms of what you use the data for?

Dr Powell—The data that was collected in the late eighties and early nineties, as I stated, was leading to the eventual release of a petroleum acreage registry in that area as laid out in the minister for resources' statement in 1990. The then minister for resources released a future petroleum acreage release strategy that actually identified areas such as the Townsville Trough, the Maryborough Basin and other areas of north-east Queensland as areas that would potentially be released for petroleum potential into the future. The work that we were doing in the lead-up to that was part of determining the geology for the purposes of that release.

Senator BARTLETT—What is the situation in relation to that at the moment? I presume the government policy has changed since then?

Dr Powell—In 1990 the then minister for the environment and the minister for resources had a discussion about the suitability of releasing these areas and the then Prime Minister made an announcement that the areas would only be released subject to the most rigorous environmental assessment. Within a year of that time, it became quite clear that in fact those areas were no longer going to be released and we wound back our work accordingly.

Senator BARTLETT—Has there been any change in terms of either the government's assessments or Geoscience Australia's assessments about what might be suitable for release in terms of the most rigorous environmental practices?

Dr Powell—At the present time, the issue is really the question of whether anybody wants to have any area out there released, and we are not taking any research into petroleum potential of that region until we get an indication that there may be a release area.

Senator BARTLETT—Sorry? You are not taking any—

Dr Powell—We are not doing any research into the petroleum potential of that area until we have an indication that there may be a release area.

Senator BARTLETT—One of the documents released through FOI and the return to order in the Senate not too long ago from 1994 had Mr Chris Pigram of AGSO writing to Dr Forman of the Petroleum Research Branch, referring to the nearly completed Townsville Trough study, which was in 1994. Is that part of the same activities that you were referring to before or is that something different?

Dr Powell—The survey that was being referred to was actually undertaken in 1989. We made a decision at that time to wrap up the geological studies but in fact not to take any assessment of petroleum potential within what was then the Australian Geological Survey Organisation. Dr Forman of the Bureau of Resource Sciences, which was then in a separate agency, approached us and asked for the information relating to that data for the purposes of

carrying out a petroleum resource assessment. The Bureau of Resource Sciences at that time routinely did petroleum resource assessments around the country to be able to be in a position to advise government at an appropriate time when questions were asked, but it was a desktop study. There was no fieldwork undertaken.

Senator BARTLETT—It says that it was nearly completed, but you did not do any further field work after that?

Dr Powell—We completed a geological study but we made no reference to petroleum potential in light of the fact there was no intention of releasing those areas.

Senator BARTLETT—Were any reports or recommendations produced as part of that overall study?

Dr Powell—The reports were produced. There was a record of the organisation and also there were some external published papers on the geology, but there was no discussion of petroleum potential.

Senator BARTLETT—It didn't include any assessment of petroleum prospectivity as part of that?

Dr Powell—No, because about a year and a half earlier it became quite clear that the government of the day had no intention of following through with the announcement that it had made in 1990.

Senator BARTLETT—Some of those studies were conducted by the *Rig Seismic*; is that right?

Dr Powell—Correct.

Senator BARTLETT—Can you outline for me how they interlinked with the previous organisation?

Dr Powell—The *Rig Seismic* was the research vessel of the Bureau of Mineral Resources at that time. What would happen is that a proposal to undertake a collection of new data would occur in a particular area and then the *Rig Seismic* would be deployed to take that data. The data that was collected, which is typically seismic data, would then have to be processed. Usually it would take two years after the collection of data to fully work up all the scientific results. That is the normal operating procedure. The studies would typically take two scientists 18 months to two years to wrap up their work. There was a delay between the collection of data in 1989 and the completion of the geological studies in 1994, I think it was, when they were finally published. Then no further work was undertaken.

Senator BARTLETT—All the geophysical and geological data you got through all that in the end was not used to assess the petroleum potential of the area?

Dr Powell—Only in Dr Forman's study of petroleum potential in the Bureau of Resource Sciences.

Senator BARTLETT—That was not provided to anybody else?

Dr Powell—It was published as part of the *Oil and gas resources of Australia* annual publication that they put out on reserves and resources around Australia in about 1995.

Senator BARTLETT—Was that simply published as a document? It was not sold to—

Dr Powell—No. *Oil and gas resources of Australia* is an annual compendium of oil exploration activities. It gives an analysis of the current state of Australia's reserves. From

time to time they publish undiscovered potential, and this was in the undiscovered potential section.

Senator BARTLETT—Does Geoscience Australia have data that enables you to estimate the petroleum reserves in that broader region?

Dr Powell—In the north-east Australia region?

Senator BARTLETT—And I guess within particular components as well—the Townsville Trough—

Dr Powell—There are a number of techniques that you can use to assess petroleum potential in unexplored basins, but I published a paper on this last year which suggested that these were not worth the paper they were written on, essentially, because of the high degree of uncertainty associated with what is really speculation about the unknown.

Senator BARTLETT—All of the work that had been done up to date was not of any value at all in terms of seriously estimating the amount of petroleum reserves in those areas?

Dr Powell—It depends on what you mean by the term ‘seriously’.

Senator BARTLETT—It is not worth the paper it is written on?

Dr Powell—The issue is that it is possible using analog techniques to assess the petroleum potential of areas. You have to use probability theory for the various factors that contribute to petroleum occurrence. At the end of the day, when you have an unknown area you always come up with a small chance of a large body of hydrocarbons being present. But at high levels of probability the chances of being able to predict a hydrocarbon occurrence are actually very small. In an area like the Townsville Trough you can come up with a figure, but another unexplored basin somewhere else would have a similar figure. Until some exploration takes place, you do not really know whether there is going to be any there at all.

Senator BARTLETT—There has been no exploration taking place in those areas since you finished that work back in the early nineties?

Dr Powell—I would not categorise the work that we did as exploration. For exploration you have to define a specific drilling target, you have to go through a process of estimating the potential size of resources that would be in that drilling target and then you have to drill it and find out whether there is anything there. Doing a general background geological study, although it would have relevance to consideration of petroleum potential down the track, is not exploration.

Senator BARTLETT—Again, in some of the documentation that has been released, as far back as 10 years ago the Bureau of Mineral Resources made technical presentations on the inferred petroleum potential of the Townsville Trough and Maryborough Basin regions. What does ‘inferred petroleum potential’ mean? A guess?

Dr Powell—If you were a petroleum geologist looking at Australia and you were trying to think of a place where you might find some petroleum just from the general geological circumstances, the Townsville Trough would look at first pass to be quite attractive. The reason is because of the geological history of that region. The sort of work that the BMR was doing at that time would have been drawing attention to the general geology of the region. People who were familiar with petroleum occurrence would be led to thinking that the Townsville Trough was worth looking at—if you were interested in petroleum occurrence.

Senator BARTLETT—What was the justification for that activity?

Dr Powell—There are several stages in the process whereby companies select land for exploration or apply for land to be released for exploration. Firstly, they look at the general geology and then they look at what available data is there. They want to get a first-order estimate of the sort of thickness of the sedimentary package that might be there and the sort of styles of structures that might contain hydrocarbons. Typically, that information is provided by government. But they will not go there blindly without having what we call precompetitive data.

Senator BARTLETT—Why is a government funded agency doing exploration of that area if it is not to do preliminary—

Dr Powell—At that time it was. At that time we were looking at the petroleum potential because the government of the day intended to lease that area, as indicated in the petroleum release strategy released by the minister. But in the event it did not occur and, as a result, we did no further work.

Senator BARTLETT—In 1992 there was a document—again through BMR—which said that the government of the day had no intention of releasing areas immediately adjacent to the marine park for exploration now or in the foreseeable future, unless environmental and technological studies showed that such activity could be undertaken with full satisfactory environmental protection. My understanding from statements of the government in recent times is that that is still the case. In terms of the technological developments in that 10-year period, is it the view of Geoscience Australia that extraction could be undertaken with satisfactory environmental protection?

Dr Powell—I think the question is not one of a technological nature. There are two things. First of all, there is the definition of the term ‘adjacent’. How close is adjacent? That is one question. The second question is: even if it is, it depends on the public acceptance and the government acceptance of the concept.

Senator BARTLETT—I appreciate that obviously the government always has to make decisions on a whole range of issues, and I am talking purely about the oil drilling technology, which I presume is something that also comes into your area of activity. I presume it has advanced in the last 10 years.

Dr Powell—That is correct.

Senator BARTLETT—Is that able to be undertaken without—

Dr Powell—There is always some risk when you get into ventures of that type. The risk of a problem has decreased significantly over the last 10 years, but there is always a residual risk. For example, in the Gulf of Mexico at the present time oil exploration and development is occurring in 10,000 feet of water, which would have been unheard of just a few years ago.

Senator BARTLETT—We have proposals for testing, as you would no doubt be aware, by TGS-NOPEC at the moment, which is outside the marine park boundary. As you say, it depends on what you call ‘adjacent’ in terms of the definition of it. In relation to that sort of activity, whether it is through companies like that or through organisations such as yours, I presume people only undertake that on the assumption that there is potential for the area to be released for exploitation down the track.

Dr Powell—Yes, one would assume so.

Senator BARTLETT—Has that organisation made any approaches to Geoscience Australia in terms of what the potential is for the release of those areas down the track?

Dr Powell—We do not determine the release of those areas. The areas are released by the minister after consultation with various stakeholders. At this stage I am not aware of any proposal to release areas in that region.

Senator BARTLETT—Has TGS-NOPEC had any discussions with GA?

Dr Powell—We meet up with them from time to time, but we have not had any specific discussions about the Townsville Trough per se.

Senator BARTLETT—When you link up, what does that involve?

Dr Powell—Essentially, we go to the same conferences. We have booths in the same room, typically in the technical program at APPEA. We do have a relationship with them in other areas of Australia, but we are not involved or have not discussed with them the Townsville Trough per se.

Senator BARTLETT—What about all those areas off the north-east? They are fairly big areas and much more than just the Townsville Trough.

Dr Powell—Yes. Unfortunately, the geology is such that any areas that one would be targeting for petroleum exploration, if one were to go into that region, would be probably the Queensland Trough, the Townsville Trough and the Maryborough Basin. Those are the geological situations which, if one were interested in petroleum in that area, one would be looking at.

Senator BARTLETT—And that is based on data that you and your predecessors have collected?

Dr Powell—Largely, yes, and the general geological setting.

Senator BARTLETT—Weren't you saying before that you do not really have enough data, that it is not worth the paper it is written on?

Dr Powell—No. It is preliminary reconnaissance data that gives an indication of the styles of sedimentary structures. When companies go into exploration, they like to have a portfolio of what they call frontier areas and areas where there is established petroleum occurrence. The reason for this is often the risk/reward equation. The potential reward if you are first into a new area is greater than if you are operating in an established area. So there are always companies who are interested in these more speculative areas.

Senator BARTLETT—Again, amongst some of the documents that have been released in recent times, there is one dated 1997 from the Queensland Department of Mines and Energy, which wrote to what was then the federal Department of Primary Industries and Energy suggesting that areas east of the GBR in the Queensland Plateau and the Townsville Trough would be legitimate exploration areas and wanting to see if BRS was interested in releasing areas around that region. When those sorts of requests are made, whether it is from the Queensland government or from companies of whatever sort, does that sort of thing flow over to your area? Do you get made aware of them, or are they purely minister to minister or department to department types of communications?

Dr Powell—We are involved in advising what is now the resources division in ITR on issues to do with that, but the letters in the first instance would be referred to them depending on the policy for those areas. Areas as they are released are negotiated between ITR, with advice from us, and the state designated authority on what the industry's interests are at the time.

Senator BARTLETT—So would you have been aware of that request? I know it is four or five years ago.

Dr Powell—Certainly the group that came from BRS to us a couple of years back would be aware of it, yes.

Senator BARTLETT—So do you provide a response to government or—

Dr Powell—Typically, we refer the matter to the relevant policy area in ITR. There would be some discussion with the minister's office about the appropriateness of the proposals prior to them being finalised.

Senator BARTLETT—Also amongst that material there was a ministerial brief from the Queensland government relevant area that indicated a number of large international oil and gas company representatives have shown interest in exploring for petroleum in waters offshore Queensland. Do those international oil representatives approach GA directly or, through the minister, do those sorts of indications of interest get passed on to you?

Dr Powell—I am not aware of any official letters to the minister. We have had informal discussions with representatives of companies from time to time about their interests up there. Basically our response has been that at the present time there have been no proposals to formally release those areas for obvious environmental reasons. They are very well aware of the sensitivity.

Senator BARTLETT—What are the 'obvious environmental reasons'?

Dr Powell—The concern of the perceived proximity to the Great Barrier Reef.

Senator BARTLETT—Concern of the perceived proximity? Is that an environmental reason or is it a political reason?

Dr Powell—The Townsville Trough is over 300 kilometres long and it is roughly east-west. So if you are in the middle or towards the eastern end, you are a long way away. If you are up at the western end, you are within 50 kilometres or right on the Great Barrier Reef Marine Park boundary. When you say the 'Townsville Trough' in these discussions, one has to be quite specific because it is a very large feature.

Senator BARTLETT—When you talk about informal communications, what form does that take?

Dr Powell—We meet regularly with the industry for them to review their exploration programs with us and for us to review geological issues with them. It is not uncommon for the ensuing question to be asked: has there been any change in policy relating to north-east Queensland?

Senator BARTLETT—When they say 'north-east Queensland', what does that mean?

Dr Powell—Areas such as the Townsville Trough and areas like that.

Senator BARTLETT—What about for other areas?

Dr Powell—The Townsville Trough is the one that comes up most frequently.

Senator BARTLETT—So there is communication, formal or otherwise, from companies or organisations wanting to just suss out whether or not this might be a change of government policy?

Dr Powell—That is basically it. They are asking us, 'Is there any suggestion of a change?' or, 'Is there any likelihood that this is likely to come up?'

Senator BARTLETT—And so your general response is more along the lines of, ‘Government policy has not changed,’ as far as you are aware?

Dr Powell—The sort of response I give is that the perceptions of exploration in that area are so publicly difficult that it is unlikely. It will need quite a significant change in government policy to change that situation.

Senator BARTLETT—So you are really giving an assessment of the political difficulties rather than environmental impacts or anything else like that?

Dr Powell—The two are inextricably linked.

Senator McLUCAS—How does your department know that? How do you receive information that they are indicating that areas may be released?

Dr Powell—I think maybe Mr Hartwell—

Mr Hartwell—Can you repeat that question, please?

Senator McLUCAS—How does Geoscience know or get an indication that areas may be released? Dr Powell has said that you do not do any research until you get an indication that areas are going to be released. I am just trying to work out where the cart is.

Mr Hartwell—In determining the release of areas right around Australia—and I will talk about the offshore area, because that is the Commonwealth’s responsibility—it is an interactive process between companies, as Dr Powell has indicated, in terms of areas that they might be interested in. As well, there is consultation with a wide range of agencies in relation to environmental considerations, fisheries considerations and defence considerations. Eventually a decision is made on what areas will be released, taking into account all of those factors.

Senator McLUCAS—I am trying to understand where that decision is made. I understand, ultimately, it obviously rests with the minister, but you are saying that there is a very iterative discussion between industry and a range of agencies. Who recommends to the minister that an area should be released?

Mr Hartwell—The recommendation is made by the department to the minister after those due processes or consultation has gone through.

Senator McLUCAS—Are those due processes published somewhere, Mr Hartwell?

Mr Hartwell—I do not think there is a published document in the sense that I think you are referring to. But is it public knowledge that there is that process that is gone through? Yes. We make it quite clear that if industry approaches us about the release of an area, we do indicate that we will then consult with all the relevant agencies to determine whether there are some difficulties in releasing that area.

Senator McLUCAS—So that is the usual process—an exploration company usually would come to the department and say, ‘We are interested in area X.’

Mr Hartwell—That may be the case, yes.

Senator McLUCAS—Are there other ways that an issue is raised, shall we say?

Mr Hartwell—No. Companies would approach us. We have a body of geoscientific work which might indicate that there are areas that may be of interest. It is a process which a whole range of, as I said, people and agencies have input into.

Senator McLUCAS—So an exploration company raises an area with the department and then you go through this due process that you are saying is well understood.

Mr Hartwell—Yes.

Senator McLUCAS—How would someone who is not involved in the petroleum industry have knowledge of that process?

Mr Hartwell—In a sense, they would be free to approach us. We are more than happy to be transparent about the process that is gone through. When we release the acreage at the annual conference of the Australian Petroleum Production and Exploration Association, we certainly do outline the processes that have taken place to release those particular areas for that year.

Senator McLUCAS—And that is a public document that is accessible?

Mr Hartwell—The document as such is just an outline of the method by which the acreage is released. In terms of all the internal consultations that are gone through, I cannot say that there is a compilation of all the communications that we might get from the appropriate agencies, and they include environmental agencies, such as fisheries management authorities; it may even be Defence or Transport, if they are areas that are impacted upon. There is certainly a whole range of letters and that that are received. They are on file but they are not necessarily publicly released in that sense, but in the sense that that process is gone through, that is well known, yes.

Senator McLUCAS—Have you had any approaches from any exploration companies, let us say, since 1994—since the Townsville Trough report has been released—about either the Townsville Trough, parts of it, the Marion Plateau, Cato Trough or, in fact, the Queensland Plateau?

Mr Hartwell—There has been one petroleum exploration proposal in the region since 1990, and that is the one that the senator referred to—that is, TGS-NOPEC—to conduct a seismic survey.

Senator McLUCAS—So they came to you and have expressed interest in opening up that acreage?

Mr Hartwell—That is correct.

Senator McLUCAS—And as part of that due process, I am now wanting you to explain to me where we are up to in that process.

Mr Hartwell—They have been told that there would be an environmental impact assessment process that would need to be gone through. They are still considering whether they are going to proceed with that proposal. They have been given no comfort that acreage might be eventually released in that area. As our 1999 offshore petroleum strategy indicates—which is the sorts of areas in an indicative sense that might be released up to the year 2005 and beyond—it does not include that particular area.

Senator McLUCAS—Is that because we are still going through due process?

Mr Hartwell—In a sense, yes, you might say that. TGS-NOPEC now, against that background, are considering whether they want to proceed with their seismic survey. The seismic survey by itself is fairly benign, but for them, I suppose, the issue is they have no comfort that acreage would ever be released in that area. So they need to consider whether they would really want to do that.

Senator McLUCAS—Earlier, Dr Powell, you talked about areas that are released by the minister after consultation with stakeholders. Can you tell me who those stakeholders are?

Dr Powell—Typically, the state designated authorities under the Petroleum (Submerged Lands) Act. The state mines departments have certain administrative responsibilities. So they are parties to it, and they are proposing areas to be released. Companies themselves—seismic contractors—propose areas that they think are worthy of exploration and, as a result of work conducted by us, we would suggest areas that might be suitable for petroleum exploration.

Senator McLUCAS—So it is petroleum exploration companies, not necessarily the petroleum industry? They are not considered to be stakeholders?

Dr Powell—The ‘petroleum industry’ is a very large term. You best think of the exploration end of the industry as distinct from the refining end.

Senator McLUCAS—Not necessarily, but I am thinking of those people who are the miners, for want of a better word.

Dr Powell—It includes exploration companies like Woodside and Santos and companies like that.

Senator McLUCAS—So they are included in that consultation?

Dr Powell—Yes.

Senator McLUCAS—You have talked to me about fisheries, environmental and defence considerations. What other sorts of considerations go into those discussions?

Dr Powell—The issue is to have a portfolio of acreage which meets the requirements of the companies in terms of prospectivity—it is no good releasing areas which are blatantly non-prospective—that often have a range from shallow to deep water, that would suit the budgets of a variety of sizes of companies, that offer the potential for large discoveries in frontier areas, compared with re-releasing areas in established petroleum provinces where small accumulations might occur that would be the target for smaller companies.

Senator McLUCAS—Would issues about successive previous released acreage be part of those discussions?

Dr Powell—Yes. We go through a process of thinking about what new information is available on the geology of these areas that might give companies fresh ideas about how to go about searching in a particular area. That is a major consideration. We are competing in an international market for this exploration capital. You do not want to be including areas that give a yawn, if you like, to—

Senator McLUCAS—We look at how we are sitting internationally—

Dr Powell—Yes.

Senator McLUCAS—in terms of our production or just our exploration?

Dr Powell—Our exploration attractiveness.

CHAIR—We will take a short break of not more than 10 minutes at half past just to give the officers at the table a rest. We will finish at 11 p.m.

Senator LUNDY—Are we going to be moving to the Tourist Commission after the break?

CHAIR—Senator Lundy, that is really a matter of negotiation between you and Senator O’Brien. I did indicate, at the request of opposition senators, at the beginning of the day that

at some time after 9.15 we would deal with the areas in the department's outcomes that were of interest to Senator O'Brien. I also indicated, in response to a request from you, Senator Lundy, that at some time after 8 p.m. we would deal with the Australian Tourist Commission. Time is not infinitely compressible, but when Senator Bartlett and Senator McLucas have finished with this agency perhaps you or Senator O'Brien might indicate to me how you wish to divide the remaining time among yourselves.

Senator BARTLETT—In 1994, in correspondence to Dr Forman from the Petroleum Research Branch, AGSO referred to the newly completed Townsville Trough study and their request for that study for their use in reassessing the undiscovered petroleum resources of the north-east Australian margin. You have been saying that no further studies were conducted for some time prior to 1994. How was that Townsville Trough study still only nearly completed towards the end of 1994, and how would it be used in terms of reassessing the undiscovered petroleum resources in that area?

Dr Powell—The original survey work was done in the late eighties. However, when it became evident that there was going to be some delay in the releasing of those areas, the staff were not assigned to that area for some time afterwards to do the wrap-up work. The wrap-up work was then done and was published in, I think, 1994.

As to the sorts of assessments that you go through, you consider the various elements that make what we call a petroleum system—that is, the sequence of events that lead to the generation, migration and accumulation of petroleum in a basin. In order to do that in a comprehensive fashion, you need certain fast knowledge of the geology. You can make assessments of all stages of that process, provided you put certain probability values on the certainty of the knowledge that you have in making that assessment. You formally assess the various elements of the petroleum system based on the knowledge that you have and, making certain assumptions about their probability of success given your lack of knowledge, you can come up with an estimate of the resource potential of that area. The geology that was elucidated by the staff at that time has been used to make that assessment. However, as I said earlier, without some definitive evidence that hydrocarbons actually exist in that area, it is a very speculative assessment.

Senator BARTLETT—There is documentation from the Ocean Drilling Program as well, which was talking about the BMR-instigated program off the Great Barrier Reef. In relation to leg 133, it stated:

The results have already been stunning ... has also spawned major international interest in the Northeast Australian margin, with five nations committing nearly half a million dollars for further field research ... and three nations proposing a further program in the Queensland Plateau aimed at further ODP drilling.

It also stated that leg 133 drilled deep holes in the Queensland and Townsville troughs, both of which are considered to be prospective for petroleum, and that the results will change industry perceptions. In relation to pathways for petroleum migration, it said that the results were highly significant for both AGSO and the petroleum exploration industry. In what way were those results from that particular leg significant for AGSO and for the petroleum industry?

Dr Powell—Firstly, the Ocean Drilling Program, ODP, is an international scientific program of ocean drilling. It has been going for 20 years. It is made up of a consortium of 27 countries, each contributing towards the cost of it. It has been the major scientific vehicle that has revealed plate tectonics, that has discovered the submarine vents under the ocean and so on. One of the things that has been a scientific aspect of the Ocean Drilling Program is

understanding the origins and distribution of carbonate sediments. North-east Australia is probably the world's largest area of contemporaneous carbonate sediment deposition as exemplified by the coral banks, the reef and so on. Many examples of these reef systems are found in the ancient geological record.

There has been a great deal of international interest, because this is such a world-class feature in understanding the history of the Great Barrier Reef. It has implications for all aspects of geology, including petroleum geology. For example, in western Canada there are very large reserves of oil occurring in 300 million-year-old reefs, of which the Barrier Reef is a modern analogue. Studying these modern analogues helps you understand how to interpret in three dimensions rock systems at considerable depth. I do not know the specific person who made that reference or the context of it, but certainly leg 133 had a huge impact on our understanding of the geological history of the Great Barrier Reef and associated carbonate systems. So it was of worldwide scientific significance.

Senator McLUCAS—In the final report of the steering committee into ship safety and pollution prevention measures on the GBR, which was published by the department of transport in 2001, the submission from the Department of Industry, Science and Resources is quoted in part as saying:

... banning of petroleum industry ships—

and they are talking about the movement of petroleum ships—

could affect exploration and development of resources outside the GBRMP and could negatively affect the economic viability of potential petroleum production in the Coral Sea.

That is a very recent submission that the department has made and it does seem to be in conflict with your earlier comment that there is no indication that any of these areas may be released or Mr Hartwell's comments that there has been no encouragement to TGS-NOPEC. We are making this sort of statement on the one hand but on the other hand we are saying that those areas are not going to be released. There is no indication from government that they are going to be released or that we have encouraged TGS-NOPEC in any way. I think those two statements are contradictory. Would you like to comment on that?

Dr Powell—On the surface they appear to be, but I do not know the submission.

Mr Hartwell—The Industry, Science and Resources, as it was at that time, submission was merely along the lines that the review should take into account that there were aspects of the transit through those areas for exploration vessels which were not working in the particular area to which you are referring but might be working in the Timor Sea or south-east Australia. As I understand it, that was the substance of the point that was made.

Senator McLUCAS—No, I do not think it was. They were actually saying that it 'could affect exploration and development of resources outside the Great Barrier Reef Marine Park and could negatively affect the economic viability of potential petroleum production in the Coral Sea'. They are clearly talking about the area between the eastern boundary of the marine park area and potentially the EEZ.

Mr Hartwell—I would have to go back and look at the precise words of that submission, but I think it may have been on the basis of if there were to be exploration in the Coral Sea, not that it is in as substantive a fashion as you are suggesting. The main point that was being made was really the exploration that might be taking place in either the Timor Sea or south-east Australia and the transit for the drilling rigs or whatever that might be involved in that.

Senator McLUCAS—I would appreciate it if you could take this on notice and have a look at that submission. Could I get a copy of your submission to the *Ship safety and pollution prevention measures on the GBR* report?

Mr Hartwell—Yes.

Senator McLUCAS—Thank you. That would be great. I will leave it at that.

Proceedings suspended from 9.35 p.m. to 9.47 p.m.

CHAIR—The committee will resume. I do not think Senator Minchin would mind if we called the committee to order. Senator Bartlett.

Senator BARTLETT—I will put some of these on notice as a truncated version.

CHAIR—Before you start, can I indicate just for the record that Senator McLucas has a number of questions for Geoscience Australia which she has put on notice and which will no doubt be conveyed to you in written form.

Senator BARTLETT—Has GA or any of your predecessors recently purchased satellite data or SAR data for the Townsville Trough and the Queensland Trough? If so, who was that bought from?

Dr Powell—We have recently purchased data for the Marion Plateau region, the Capricorn Basin and Cato Trough areas.

Senator BARTLETT—What is the purpose of purchasing that? What have you done with it since purchasing it?

Dr Powell—As a result of our work off Western Australia in the Timor Sea region in particular, it has become evident that many of the coral mounds and coral banks are actually located above seeps of hydrocarbons and ground water. What this means is that the ground water and the hydrocarbons coming to the surface provide the nutrients upon which many of the communities live. We have published on this and, in discussions with the Great Barrier Reef Marine Park Authority, they were interested in knowing whether we had any evidence for such off north-east Australia. We said no, but we decided to undertake a pilot study to determine whether there was any evidence in the Great Barrier Reef region for similar phenomena. In addition, the Great Barrier Reef Marine Park Authority were particularly interested in knowing whether there were any background levels of hydrocarbons that could be detected in the water column.

Senator BARTLETT—And why do you want to ascertain that?

Dr Powell—For baseline purposes, so that they know what the natural background of hydrocarbon distribution is, in the event of any anthropogenic impact later on.

Senator BARTLETT—Can you describe the purpose and the results of the 1999 *Franklin* cruise on the Marion Plateau?

Dr Powell—The 1999 *Franklin* cruise was not, I think, a Geoscience Australia survey.

Senator BARTLETT—I have detail here that it was an AGSO cruise on a CSIRO vessel as a site survey for the ocean drilling project.

Dr Powell—I am sorry. This would be the site survey for leg 194 of the—

Senator BARTLETT—Yes, of the Ocean Drilling Program.

Dr Powell—I beg your pardon. The purposes of that were to actually get the basic data to be able to locate the position of the holes for the second leg of the Ocean Drilling Program in that region.

Senator BARTLETT—So what were the results of that?

Dr Powell—Basically, the nature of the Ocean Drilling Program process is that proposals for drilling are put in an internationally competitive environment to test particular scientific ideas. They progress to the preliminary acceptance stage. Before the international community will commit the vessel, you have to take site surveys using seismic data, to collect the data in order to determine that the sites will actually satisfy the scientific objective that you have proposed and that there will be no safety issues associated with drilling those sites. The information from the site surveys is put before a safety panel to make sure that it is actually safe for the drilling vessel to operate there.

Senator BARTLETT—What is the scientific objective of that?

Dr Powell—The scientific objective of leg 194 was primarily to look at sea level change in the Miocene era—that is some millions of years ago. A thesis had been done on that area and suggested that it was an ideal laboratory to look at the amplitude and timing of past sea level change in carbonate platforms.

Senator BARTLETT—Just as a final question, in terms of this year's budget statements, you have an extra \$7 million—or \$8.5 million overall with \$1.5 million coming from existing resources for your pre-commercial oil exploration program. Where is that oil exploration being undertaken?

Dr Powell—The primary focus of our work will be in developing our understanding of the geology of the southern margin of Australia. That is in areas like the Otway Basin, offshore Victoria and South Australia, the Great Australian Bight and the Bass Basin. We will also be doing some formal resource assessment work off the north-west of Australia to determine remaining oil potential.

Senator BARTLETT—You have a review to be held over that time to determine the longer-term future of the program. In terms of the work of the program over the next year or the longer-term future of that program, does any of that involve exploration in the north-east area?

Dr Powell—We are doing a stocktake of our state of knowledge of the offshore marine jurisdiction at the moment, which will include compiling the information that we know about north-east Australia; but there is no new work in the north-east area.

Senator BARTLETT—No new work, as in no survey work and no future plans?

Dr Powell—We do not know what the future of the program is beyond the current financial year. There are no plans at the present time for work off north-east Australia related to petroleum. There is work related to the regional marine planning area that is proposed for Torres Strait, an adjacent area. We provide the geoscience input into that regional marine planning process.

Senator BARTLETT—I have a number of other questions which I shall cooperatively put on notice, and hand over to others.

CHAIR—Thank you, Senator Bartlett. That concludes the examination of Geoscience Australia. Can I indicate that other than officers of the Australian Tourist Commission and officers within the department from the Energy and Environment Division, the Petroleum and

Electricity Division and the Coal and Minerals Division, all other officers are excused. I now ask officers of the Australian Tourist Commission to come to the table. Senator Lundy has questions.

[9.55 p.m.]

Australian Tourist Commission

Senator LUNDY—Thank you, Chair. I am conscious of the time. Like most of my colleagues, I will truncate my questioning. In operational terms, why are the 2002-03 budget forward estimates for the ATC higher than they were in 2001-02? What brought about this increase in funding?

Mr Hopwood—Can you give the question again?

Senator LUNDY—Why are you getting more money this year than you got last year, in operational terms?

Mr Hopwood—I refer you to page 126. The forward estimate for 2002-03 is 89,617; for 2001-02 it was 97,906.

Senator LUNDY—So it is significantly less. What about this decrease in funding?

Mr Boundy—The fall off is mainly due to the termination of the additional funding for the Olympics, which would, over four years, be \$10 million per year.

Mr Hopwood—Could I just clarify that? The Olympic funding was \$3 million over a succession of four years, and that was per year. In addition to that we had that \$10 million supplementary funding position. We also received in 2001-02 an additional \$6 million post September.

Senator LUNDY—There is a reduction there of some \$8 million. So out of the end of your Olympics budget and the additional \$6 million—can you just go through that again?

Mr Hopwood—Certainly. In 2001-02 we have a base budget supplemented by \$10 million and a further \$3 million and a further \$6 million. In 2002-03 we have that base budget with the normal budgetary adjustments plus an additional \$6 million.

Senator LUNDY—But that still does not add up to being just \$8 million less.

Mr Hopwood—There are the normal budgetary adjustments we have with changes in capital user charge, inflation levels et cetera, that might equate to the slight variance you have.

Senator LUNDY—In real terms, how does the commission's budget today compare with its budget four years ago?

Mr Boundy—You are asking about in real terms. It is difficult to compare how accurate it is in real terms, because most of our money is spent offshore, as you know. So one has to take into account media inflation, which varies quite widely around the world, and also I guess the value of the currency. We have made some attempts to do that, and certainly Mr Hopwood will elaborate.

Mr Hopwood—As a base for appropriation levels, back in 1998-99 we had \$88.7 million in appropriation, while you are seeing for 2002-03 \$89.6 million. So it is a slight improvement. In terms of impact of foreign currency and, say, media inflation, that improvement would be deteriorated by the effect of the various weights and the various markets.

Senator LUNDY—Deteriorated by how much?

Mr Hopwood—It depends on the size of the media inflation that we record; so it could be in multiples of millions of dollars. However, the commission, in recognising this each year, changes the way it undertakes its marketing to become more effective. If there is a media inflation impact, those marketing funds move—say, for instance, to a higher level of public relations activities through various representative offices we have around the world. So, whilst we recognise that there is an inflation factor impacting on our effective spend, there is also a change in our operations to counteract that.

Senator LUNDY—Have you done any investigation as to how your budget compares with previously in those real terms? Do you have any information prepared on this?

Mr Hopwood—Yes. I have done an initial investigation, but I am not very comfortable with the marketing inflation figures, which were hearsay about two or three years ago. I have initiated a forward tracking of these media inflation figures so that we can get a good handle on these in the subsequent years. So the sort of issues that we deal with are that marketing can take many forms. For instance, it can take Internet, press, radio or television, and it could vary between countries. It is a moving feast, and it is a source which is not readily available to the commission. So we are looking at sourcing it through advertising agencies in a global sense in the future.

Senator LUNDY—I am still interested in how you compare today with how you compared four years ago. What was the nature of the research that you undertook?

Mr Hopwood—It had two major components. One was the effect of foreign currency on our spend, where we took the spend of several years ago in various currencies and applied the current exchange rates to those currencies. That is a position which is valid as at the day you do the research. As you know, foreign currencies can change over time. That showed us that there was approximately just in excess of a 10 per cent decline in our purchasing power due to the foreign currency. In the media inflation, at the time we did the research—but again, based on those very vague figures—the impact was slightly more than that. It is in excess of 20 per cent.

Senator LUNDY—In excess of 20 per cent?

Mr Hopwood—Yes. But as I said, I was not too comfortable with those media inflation figures. That is why I have started a new tracking on those.

Senator LUNDY—So who did the research that you have just had done?

Mr Hopwood—I put the figures together. The initial media inflation figures were sourced from some advertising agencies about three to four years ago. I believe they could be more accurate now.

Senator LUNDY—Do you think that figure will go up or down in percentage terms?

Mr Hopwood—In talking to representatives of our various offices overseas, I believe it will go down.

Senator LUNDY—I come back to my other question. In real terms, given you have had a 10 per cent decline because of foreign currency fluctuations and a 20 per cent increase in the costs of media advertising, can you still say that in real terms your budgets actually compare if you add in those factors?

Mr Hopwood—If we were to assume that we were doing exactly the same activities between those four years, we would say that it would be difficult to maintain those activities

because of those percentage declines we just talked about. But of course, activities change. There is a greater emphasis—

Senator LUNDY—I know they change. I am just trying to keep the comparison as close to apples and apples as I can. I know there has been change to the program. Have you engaged any consultancy to have a look at the ATC's budget and trends over time?

Mr Hopwood—No.

Senator LUNDY—I am thinking particularly that you might have engaged Access Economics to have a look at it. Have you got Access Economics to prepare a report on these matters?

Mr Boundy—That was a different study. It was on the economic impact of tourism.

Senator LUNDY—What did that study involve?

Mr Boundy—It looked at various models of funding. It looked at the concept of market failure. It looked at the multiplier effect that would come from government spending in this area.

Senator LUNDY—Did it look at the issue of, in real terms, how the ATC's budget has changed over the last few years?

Mr Boundy—No. All of that was source material, but that was not directly the focus of the study.

Senator LUNDY—Did the study draw on that material?

Mr Boundy—The study drew on historical spends and activities and economic benefit.

Senator LUNDY—Can I ask you this again: in real terms, given the foreign currency impact and the advertising inflation impact, how does the ATC's budget today compare with its budget four years ago as far as purchasing power goes?

Mr Boundy—In pursuit of Mr Hopwood's response, because of the complexities of that we cannot give you that today. We will take that on notice.

Senator LUNDY—Thank you. Can you describe what effects the continual cuts and unexpected increases to the ATC's budget since 1996 have had on the Tourist Commission's operations?

Mr Boundy—If you look at the appropriations as outlined in the papers, we have actually had record levels of funding in absolute terms. We are a well funded national tourism organisation. But the world is getting more and more competitive and we have to be much smarter in our marketing. We are all the time looking at ways of integrating online marketing with traditional marketing and putting our house in order as well so that we can save money to put into marketing. In absolute terms, in the current financial year, we have never had more funds.

Senator LUNDY—What have the ATC staffing levels been since 1995-96? Can you provide a breakdown between the staffing in the Australian and overseas offices over that period? I will get you to take that on notice.

Mr Hopwood—Yes, thank you.

Senator LUNDY—And could you provide explanations for any fluctuations that have occurred from that period just so that you can make it clear what is happening?

Mr Hopwood—Yes, certainly.

Senator LUNDY—I would now just like to ask a few questions about your overseas operations. Is it by accident or design that the ATC has overseas offices in the markets which already provide the bulk of Australia's inbound tourists? I guess the next question is going to be one about criteria.

Mr Boundy—It is by design. The biggest source markets are also the most competitive. Whilst there is strong awareness about Australia as a destination in those major markets, it is a constant challenge to get that awareness into conversion. We actually do more and more tactical work in those big markets, but it would be a mistake to ignore those and go to emerging markets. We do some work in emerging markets, but we have to have the focus on the major source markets.

Senator LUNDY—Just on those emerging markets, what criteria are required for you to have an office in an emerging market? How emerging does it have to be?

Mr Boundy—The decision is not always about having an office, because in some of the areas of the world we use representatives, but there is a threshold level at which you can have meaningful activity, and that tends to be about half a million dollars. We would love to do a lot more work around the world, but we have to set the priorities and markets that are strong growing markets, that have got a good mixture of volume and yield. We have actually taken a clean-sheet approach to assessing our priorities this year and we have made some quite significant changes in our resource allocation. Emerging markets—for example, like China, Korea, India—are getting a lot of attention.

Senator LUNDY—Are those the ones that you would nominate as deserving of a new and stronger focus?

Mr Boundy—Certainly, they are. We have got a new strategic intent, which categorises markets around the world into those that we need to have better understanding and insights about, those where we need to focus and have better segmentation, and those where we need to be working with other players, particularly from industry and government. China is a good example of that. So there has been a lot more sophistication into the priority setting and the analysis in the current corporate plan.

Senator LUNDY—Are you planning to open new offices anywhere in the foreseeable future?

Mr Boundy—No. In fact, I think there is a trend the other way towards being able to work through what we would call sometimes Aussie specialists and run these from some of the existing centres. There are 70 offices around the world that are under the responsibility of the ATC and the state tourism organisations. We currently are in dialogue with the states to see how we can rationalise some of that. So it is not necessarily about more offices.

Senator LUNDY—But then I ask the other question: which ones are you planning to shut down?

Mr Boundy—No, this process of dialogue with the states is work in progress.

Senator LUNDY—Is that a euphemism for working out which ones you shut down? Will you leave ATC officers in those establishments where that presence might be maintained by the states? What do you mean by 'rationalising'?

Mr Boundy—We have no plans to make any changes to the major offices. There are some at the margins where, through good understanding with the states, we will be able to be more

effective, either through sharing or rationalisation, but we do not have those specific plans. There is a project under way in Europe at the moment that is looking at that.

Senator LUNDY—Was the head of the ATC's Frankfurt office sacked recently?

Mr Boundy—She was made redundant after some structural changes. We are making a much greater commitment to continental Europe, because we believe those markets are high yield and have got great growth opportunity and we are not getting our fair share from markets like Germany, Italy and France. So we have upgraded that position and the incumbent was considered to be not appropriate for the new position.

Senator LUNDY—What plans do you have for the Frankfurt office?

Mr Boundy—We will actually increase the resources there. We are currently recruiting for the leader of that office, but we will also be running markets like Italy and France from Frankfurt. So there will be a greater focus on running things in that part of the world from Frankfurt.

Senator LUNDY—Thanks.

CHAIR—Are there any questions that you wish to put on notice?

Senator LUNDY—I will make sure they are to the committee before the committee shuts down on Thursday.

CHAIR—May we excuse these officers now? Thank you, gentlemen.

[10.12 p.m.]

Department of Industry, Tourism and Resources

CHAIR—I call to the table officers from the department within the energy and environment, petroleum and electricity, and coal and minerals divisions.

Senator O'BRIEN—I have got a couple of hundred questions, so what we deal with tonight will come off that list and the rest will go on notice. Can you tell me what input this division has had into the CSIRO review project and what you are looking to get out of that process? It has been completed, as I understand it.

Mr Ryan—In terms of the review process, the head of the Energy and Environment Division spent a fair bit of time with the review panel discussing the activities which were of interest to the portfolio. I was not aware that the review had finished actually.

Senator O'BRIEN—I understand that there was a draft report from the project that has been circulated. Has no-one from the department seen a copy of the draft?

Mr Ryan—No.

Senator O'BRIEN—Can I ask you to ascertain where that draft is? I think I have seen something that looks very remarkably like a draft of that report. So it must be out there somewhere.

Senator Minchin—Are you talking about the external earnings review?

Senator O'BRIEN—The energy review project.

Senator Minchin—The energy review?

Senator O'BRIEN—Yes. Did I not make that clear?

Senator Minchin—You said the CSIRO.

Senator O'BRIEN—Yes, the CSIRO energy review project.

Mr Ryan—I think we might be talking about two different reviews. My understanding was that there is a review being undertaken of the CSIRO in terms of its setting its new priorities and its BHAGs, as they refer to it. My understanding was that that is what our office was involved in. I would just have to take it on notice, because we are not aware of this particular review that you are talking about.

Senator O'BRIEN—I will put the questions I have in relation to that review on notice to perhaps satisfy yourself as to what is floating around out there and get some meaningful answers to those questions. At the COAG towards a national energy policy process at its meeting in June last year, COAG considered the strategic issues affecting Australia's future energy requirements and the need to respond to likely future challenges and international developments. It agreed to an independent review of energy market directions so that further Australian energy market development will focus more fully on areas likely to generate the most significant benefits. The review was to issue a report within 12 months of its commencement, that is, by June 2002, but that was deferred in December to the end of this year. First, can you give me some background in terms of the rationale behind launching the energy market review? What is happening with the process?

Mr Ryan—The decision was taken in June of last year. Due to both the federal election and elections in the state jurisdiction, there was a delay in getting the panel agreed between all of the jurisdictions. The panel was agreed in February of this year, and the first meeting was held and the appointment took place in the first stage of March. The panel has issued an issues paper against the terms of reference. It has taken something in the order of about 133 submissions. By 7 June it will have completed consultations in all capital cities. It is expected to have a draft report ready at the end of November, and its final report will be ready by February 2003.

Senator O'BRIEN—It was going to report back to the ministerial council meeting that was scheduled for March. Did that happen?

Mr Ryan—Yes.

Senator O'BRIEN—How will this review process of COAG fit together?

Mr Ryan—The independent review will produce its report for the Ministerial Council on Energy, which is a Commonwealth-state ministerial meeting. But there are a number of other mechanisms that are also reporting to that Ministerial Council on Energy. It will be through that process that the panel's recommendations will be picked up.

Senator O'BRIEN—Thank you for that. I want to go to some recent comments made on *Radio National* on 6 April by the head of BP in Australasia, Greg Bourne. Mr Bourne accused the government of living in a policy vacuum that makes Australia vulnerable to a predicted carbon shock. He also said that he does not have much faith in the government's energy reform program that is currently under way. The energy review committee will have received a number of submissions from industry groups and environmental organisations. Can you outline some of the common themes that have been raised by these groups in their submissions?

Mr Ryan—As I said, 133 submissions have been received. The themes have picked up a wide range of issues. Most of the issues that are picked up tend to take a strategic look, so they are not trying to pick up day-to-day issues. One of the themes that is common amongst a lot of submissions is the level of the regulatory burden within the energy markets. It differs

between a number of the other submissions, but it deals with issues of government ownership of the assets within energy market supply, issues such as network pricing within jurisdictions and issues such as interconnection between the various states.

Senator O'BRIEN—There have been criticisms in terms of feeding into some of the electricity energy networks as well. Are they the subject of a substantial number of the submissions?

Mr Ryan—It depends on the issue that is picked up. If you take an issue like network pricing—where the issue is that you would pay the same price between point A and point B, whether that be a large distance or not—and the issue that is being picked up by some of the other suppliers of electricity, namely, that they cannot compete in that market if the true price at point B was the cost of production or cost of generation plus the cost of transmission, you may be able to put alternative competitive units into that area. Those sorts of crowd-out issues come up in areas like network pricing.

Senator O'BRIEN—If you have got wind power and you can supply it locally you have got the advantage if you have to pay the cost of gas or other thermal generation from 500 kilometres?

Mr Ryan—That is the fundamental point. If you have got base load power which might be coal but if you are charging the same price for coal at location A and location B, you might actually crowd out whatever the alternatives might be.

Senator O'BRIEN—In the context of another energy source, particularly the domestic gas industry, you simply touched on the availability of supply in south-eastern Australia. I am not clear what the medium-term supply options are for the Sydney basin, where that gas is likely to be sourced from. Are there any difficulties in that regard? I am hearing different stories. Perhaps the department can assist with its view on that.

Mr Ryan—I am just trying to understand the question correctly. Are we trying to say that we want more gas piped into the Sydney region?

Senator O'BRIEN—Is there a medium-term problem with the supply of gas into the Sydney basin from the current sourcing arrangements?

Mr Hartwell—In a sense, if your question is predicated by the fact that there were declining reserves in Central Australia—and that has been the main supplier of gas into the Sydney domestic market—of course, that has now been complemented by the eastern gas pipeline, which delivers gas from Bass Strait into the Sydney market. So there now are two potential sources of supply. In that sense I would suspect that the problem of supplying the gas market in Sydney is not as acute as might have been the case if you still had the one source of supply.

Senator O'BRIEN—We talked about south-eastern Australia at the February estimates. Given that the major market for gas usage is south-eastern Australia and there is a finite nature of supply in South Australia, how long will the reserves in south-eastern Australia supply that region? Are we going to have to look at the reticulation of natural gas from PNG or the North West Shelf in the foreseeable future? How far off is that?

Mr Hartwell—The demonstrated gas reserves in the Bass Strait in, say, the Otway basin are quite substantial. Admittedly, there is a declining reserve base in Central Australia, which are the main suppliers into the south-east market. There is an active exploration program in Bass Strait to try to prove up the gas reserves. There is an active exploration program in the

Otway basin. As well, there is further exploration in Central Australia. Basically, the success of those programs, if they come to be, would seem to suggest that there would be certainly further gas supplies available to service that market, but that does not rule out the potential of other supplies coming in as well.

Senator O'BRIEN—What about the known reserves? Proving up what might be is different from what you know or what is said to be there in the known operational fields.

Mr Hartwell—Yes. It is a movable feast, and there is a large amount of identified gas reserves in Australia spread around the country—around 115 trillion cubic feet. That is probably a fair summation of the amount of gas available at the moment. Both in a domestic and in an international sense we are using only about 1.1 trillion cubic feet a year. On that basis there is 115 years of supply. There is an issue in the sense that some of those gas reserves are a long way from the main domestic markets. There is a whole range of issues in terms of providing infrastructure to get to that.

Senator O'BRIEN—That is the nub of my question. In relation to the main markets up the eastern seaboard, if they are drawing from the south-eastern gas fields in Central Australia, when is it projected that we will need to draw on those other fields if substantial new fields are not found in south-east and Central Australia?

Mr Hartwell—That depends on the extent to which there is penetration of gas into the primary energy market. Again, one would suggest that at least for the foreseeable future there are sufficient gas reserves for that south-east market. But the longer you look into the future—and depending on what penetration gas has in the domestic energy scene—there may be potential for further supplies to come in from those outer areas, as you have described them, whether it be from—

Senator O'BRIEN—I always have a giggle about the foreseeable future. We always say we could never predict the future. I am essentially asking whether there are projections—perhaps you can take this on notice—on known reserves. I am interested in Sydney usage and where it is drawing its gas from, but obviously Sydney, Melbourne, the ACT and Adelaide are all drawing from those fields.

Mr Hartwell—In a sense there are projections around. A number of people have entered into this area. Not all of them have reached the same conclusion. There is certainly some scope for debate in that area. It is an ongoing issue.

Senator O'BRIEN—If you could see whether you have got that figure somewhere, I would appreciate it.

Mr Hartwell—If you would like us to provide you with some projections in that area, we will do our best to do so.

Senator O'BRIEN—Thank you very much. I am sure you can do that. On the mandatory renewable energy targets which commenced on 1 April last year following the passage of the Renewable Energy (Electricity) Act 2000, this legislation requires the generation of 9,500 gigawatt hours of extra renewable electricity by the year 2010. The Office of the Renewable Energy Regulator has been established to oversee the implementation of the measure. As I understand it, there are now laws in place that force energy companies to buy certain amounts of renewable power from individual producers and eco-generation companies. But the *7.30 Report* story screened on 21 May this year detailed the difficulty producers of renewable energy face in trying to sell renewable energy products they produce back into the grid. I touched on this with the earlier question. Is the complexity of the grid a problem for small

renewable energy producers, and if so, what does the government plan to do to deal with the issue?

Mr Ryan—Let me just point out a few of the issues that are involved with connecting into the grid. For connecting into the grid you have to come in with a degree of reliability and quality in the flow of the power that you are putting into the grid, which I think is one of the issues that the renewables face in terms of maintaining that flow. Certainly the supply industry is very conscious of achieving the renewables target. They have put to us what the projections are in terms of what they see in the new investment coming forward, which will make sure that they meet that two per cent target by 2010.

Senator O'BRIEN—Am I correct in saying that wind power is the government's preferred form of renewable energy generation under the mandatory renewable energy target legislation?

Mr Ryan—Is wind power our preferred—

Senator O'BRIEN—Yes.

Mr Ryan—We do not have a preferred source.

Senator O'BRIEN—That is one of the problems, I guess. It depends on how reliable your wind source is as to how constant your supply is from a wind farm. It depends on how reliable your water supply is as to how constant your mini hydrogeneration is. Those fairly fundamental problems seem to be potentially the sorts of problems which make these renewable energy projects—unacceptable is not the right term—not a workable solution for the distributors.

Mr Ryan—Certainly they are trying a number of different options, using solar, wind, water or biomass. We are not trying to be prescriptive in how the target is reached, because each of those sources is in a sense competing against each other as well.

Senator O'BRIEN—I am told that internationally the wind power industry is growing at a rate of 35 per cent per annum. There are not many manufacturing industries that achieve that rate of growth. In Australia we are way behind, with only 15 installations and 74 megawatts of capacity, whereas for example Germany has 8,000. How much extra renewable energy is being generated, particularly since the passage of this legislation?

Mr Ryan—My understanding is that the information you are seeking is with Environment Australia. It is not with this portfolio.

Senator O'BRIEN—Is that Environment Australia legislation?

Mr Ryan—They have got responsibility for the project.

Senator O'BRIEN—What is the relationship with renewable energy in this division's responsibility? Is there any at all?

Mr Ryan—There was a renewable and environmental industries group of activities which was in a group of what we called our emerging industries part of the portfolio. We were looking at it from an industry development point of view. Those activities have recently been moved into the energy division. Some of the cornerstones of that activity are the action agendas associated with our renewable energies.

Senator O'BRIEN—Let me get this straight: the renewable energy generation is the responsibility of Environment Australia?

Mr Ryan—No. That legislation you were talking about, which was a mandatory target, concerns Environment Australia. Our role is in trying to develop renewable energy industries in Australia. The target would only be one element in that.

Senator O'BRIEN—Do you oversee renewable energy's access to the grid?

Mr Ryan—We certainly would be aware of that as an issue. In terms of linkages to the national grid, issues there rest with the NEMMCO, the National Energy Market Management Company, and NECA, the authority which has responsibility over the operation of the international energy market. So the issues in terms of linking into the grid rest with NEMCO. In terms of encouragement to renewable energies, that is one of the issues that is going to be picked up by the COAG energy markets review panel.

Senator O'BRIEN—So whose child is NEMMCO?

Mr Ryan—NEMMCO is really a product that has come out of the COAG activity towards developing a national energy market.

Senator O'BRIEN—So it is a national project.

Mr Ryan—The states have the on-the-ground responsibility for delivery generation and delivery of electricity. The Commonwealth cannot impose its position over the states.

Senator O'BRIEN—So has the Commonwealth put this issue of renewable energy access to the grid on the COAG agenda?

Mr Ryan—The renewables issue comes up in a number of fora. It has been put on the agenda through the energy markets review, which we have talked about earlier, which will report—

Senator O'BRIEN—In a very general sense. I am asking you if it is a specific subject that has been placed on the agenda, given that there are obvious deficiencies in any activity.

Mr Ryan—Yes. The other area where it comes into consideration is the national energy markets ministers forum, which is the ministerial advisory group over the operations of the national energy market.

Senator O'BRIEN—Which Commonwealth minister attends that forum?

Mr Ryan—Minister Macfarlane can attend.

Senator O'BRIEN—So that issue as such has been placed on the agenda of that forum, has it?

Mr Ryan—It has certainly been discussed at that forum.

Senator O'BRIEN—It may have been, but is it placed on the agenda as an issue at that forum? Lots of things can be discussed that are not on the agenda.

Mr O'Brien—The issue you are referring to has a generic title called 'distributed generation'. It includes renewable generation. It covers all those elements of generation that are located within the network system. Under the national electricity market, generators larger than 30 megawatts in size must bid to be part of the national market. If you are smaller than that size, you can be automatically dispatched, as it is called. If you are producing, your energy goes into that marketplace and you get what is called the spot price for your electricity in that market. In terms of whether this issue has been considered by ministers, the issue of distributed generation was an issue that the national electricity market ministers forum has

been monitoring. It was put there at the request of state governments. It is an issue that state ministers do monitor.

Senator O'BRIEN—So this is not an issue that the Commonwealth has prioritised on the agenda? Is that what you effectively just told me?

Mr O'Brien—In this forum, because it is primarily a state forum, it is state ministers who are monitoring that. As one of our responses to an earlier question, it is part of the canvass that the Parer review is monitoring because the Commonwealth is very aware of the concerns by cogenerators, distributed generators and renewable generators that they have access to the national electricity market. So, yes, we are aware of that. We are seeking to address, in consultation with the states, the issue of access to the national market for renewable and other distributed generation.

Senator O'BRIEN—So distributed generation covers all elements?

Mr O'Brien—It is a generic term referring to all generators less than 30 megawatts, and for the technologies you are referring to that is a collective term. There are some renewable generators larger than that amount that are competing with all other generators for dispatch in the national electricity market.

Senator O'BRIEN—Sorry, but explain 'dispatch'.

Mr O'Brien—Dispatch means that you bid along with every other generator larger than 30 megawatts to be dispatched by the National Electricity Market Management Company, NEMMCO, to supply electricity in the grid. You bid on a real-time five-minute basis. It is your bid price that determines what is called the merit order of dispatch. If you bid too high a price you may not be dispatched because there are other generators willing to supply electricity for a cheaper price.

Senator O'BRIEN—There are probably a few other questions I could ask, but in the interests of time I will place them on notice. I simply say that there was a substantial area of concern expressed on the *7.30 Report* on the 21st of this month. You are probably aware of that.

Mr O'Brien—Yes, Senator.

Senator O'BRIEN—I ask you to touch on that on notice. I want to talk about the Energy Efficiency Best Practice Program, which is designed to work in partnership with industry to help organisations redefine best practice in energy management by building their capacity to identify and implement continuous incremental improvements as well as big step advances. What benchmark does the department use in order to determine what is best practice in energy management?

Ms Vickery—That is a good question. In terms of benchmarking, when the program first started it was very much about benchmarking. We did a number of sector studies which essentially looked at both the performance and practices of companies in a number of sectors. We also looked at international practices and performance. That was done in the aluminium sector, the bread sector and the fleet sector to begin with. That was the sort of nature of the sector studies that were done. That was how it was done—that is, through surveying companies.

Senator O'BRIEN—The Ministerial Council on Energy provides annual funding of \$1.24 million towards the program. That is my understanding. Is that still correct?

Ms Vickery—That has been the funding to the program up to this point, yes.

Senator O'BRIEN—What is the funding for the coming financial year? Is there any change?

Ms Vickery—Yes. It is \$1.5 million.

Senator O'BRIEN—Why the additional funding? Is there some recognition of an inadequacy?

Ms Vickery—I do not think so.

Senator O'BRIEN—Just big inflation in your departmental area? What is the basis of the extra \$0.26 million?

Ms Vickery—It is less.

Senator O'BRIEN—Sorry? Did you say \$1.5 million?

Ms Vickery—It is \$1.5 million next year.

Senator O'BRIEN—I thought it was \$1.24 million before.

Ms Vickery—It was \$2.3 million. It is now \$1.5 million.

Senator O'BRIEN—So why the reduction then? That is just a decision of the ministerial council, is it?

Mr Ryan—It is the last year of the program, so it sees its time out.

Senator O'BRIEN—Given it is the last year of the program, what outcomes has this program achieved?

Ms Vickery—We are just about to move into a full-term review of the program, which will be occurring in July and August. Essentially, from what we know at the moment, we are involved in about eight sectors across the Australian economy, from beverage to baking to resource processing to aluminium. We are working in the wine sector and fleet management sector, also on electric motors and energy performance contracting. And we are just moving into the supermarkets and pulp and paper sector.

So we are getting a good coverage of sectors. We are also getting some positive results in the beverage sector, which has been one of the main areas of our work in terms of linking companies into an innovative approach to energy efficiency. We are getting results of \$900,000 being saved by a malting company across its six sites, a brewing company is now saving \$500,000 per annum on its energy efficiency, and Coca-Cola is saving about \$120,000. That is an example of some of the work that we are doing in the beverage area. In baking, we are working with Bakers Delight. We are just about to launch a best practice Bakers Delight, which will hopefully roll out to their 300 bakeries, and we are aiming for a 40 per cent saving on energy there.

So I think that we are getting some good, positive results. We have also got some information programs, like our electric motors web site, that is getting out to some pretty big energy users in the motor area. Sydney Water, who attended one of our workshops, is expecting to get, within three or four years, some savings entering into the millions of dollars. So we are expecting a good result from the full-term review.

Senator O'BRIEN—Presumably, you will be looking at the consumer outcomes from the savings that you have achieved for these companies?

Ms Vickery—Consumer outcomes as in lower prices?

Senator O'BRIEN—You have saved a lot of money for the brewers.

Ms Vickery—Yes.

Senator O'BRIEN—Will there be an outcome for consumers leveraged on Commonwealth expenditure—and state expenditure, for that matter?

Ms Vickery—I guess that will be up to consumers. I know one of the—

Senator O'BRIEN—I have not noticed it myself.

Mr Ryan—The objective of the program is to be more efficient in the use of energy. The program will be assessed against how well it has gone against that objective. Where the gains from the efficiency are spread, they could go in any number of directions, including to consumers.

Senator O'BRIEN—Yes, they could. With the Renewable Remote Power Generation Program, am I correct in saying that, all up, \$264 million will be available over the life of the program extending from 2000-01 through to 2003-04?

Mr Ryan—This program is run by the Australian Greenhouse Office.

Senator O'BRIEN—Okay. I will need to put that on notice to them, I suspect. What about the Alternative Fuels Conversion Program?

Mr Ryan—The same again, I think.

Senator O'BRIEN—I will put those questions on notice to you. Just in case, I will also put them on notice to them. If you are right, you will tell me that I have done the right thing by asking them; and if you are not, you will answer my question. In relation to the coal and minerals division, the portfolio budget statements for the coming financial year on page 81 state that Geoscience Australia will receive \$8.5 million from the next financial year, of which \$1.5 million will be taken from existing resources. What programs specifically will the \$1.5 million be taken from?

Mr Ryan—That was a question for Geoscience Australia.

Senator O'BRIEN—Will the \$1.5 million come from programs outside their responsibility?

Mr Ryan—No, it will come from these.

Senator O'BRIEN—Is the Regional Minerals Program yours?

Mr Ryan—Yes, that is ours.

Senator O'BRIEN—Okay. It has recently released a new set of operating guidelines within its regional mineral exploration program. As I recall from February, expressions of interest were called and were due on 8 March. How many expressions of interest were received by the due date?

Mr Hartwell—From memory, I think there were about eight applications under the program.

Senator O'BRIEN—Can you tell us where they were from?

Mr Hartwell—Just bear with me. I will find that. I do not have the full list of applicants, but since the revised guidelines that you referred to, there have been two projects approved for funding.

Senator O'BRIEN—Okay. And what are they?

Mr Hartwell—Basically, Geoscience Australia will receive \$50,000 to develop an interactive online atlas of the mineral resources mines and processing centres. This is one that was supported by the Minerals Council of Australia and they will also be committing finance to that particular project. The other one is a study focusing on the infrastructure requirements to develop the Surat and southern Bowen basin coal regions. In that we are focused on rail infrastructure requirements in conjunction with industry.

Senator O'BRIEN—How much would you allocate to that project?

Mr Hartwell—\$75,000.

Senator O'BRIEN—So that is half of this year's or next year's funding?

Mr Hartwell—That is approximately half. It is \$250,000.

Senator O'BRIEN—Which year's funding does that cover, next year's or this year's?

Mr Hartwell—Out of this year's funding.

Senator O'BRIEN—2001-02 or 2002-03? I meant this year, 2001-02.

Mr Hartwell—Yes, 2001-02.

Senator O'BRIEN—Does that mean that \$125,000 will remain unspent out of this year's allocation?

Mr Hartwell—There is that prospect. But we are looking at a possible further project, which is under consideration at this point in time.

Senator O'BRIEN—Will that take up the \$125,000?

Mr Hartwell—It will take up close to that amount, yes.

Senator O'BRIEN—Which project is it?

Mr Hartwell—It is a project related to land access and the cost of land access. We are looking at a possibility of the Australian Bureau of Statistics doing a survey along those lines. But this is still under some consideration.

Senator O'BRIEN—So that money will go back to ABS.

Mr Hartwell—That is right.

Senator O'BRIEN—And where will the \$75,000 for the coal infrastructure project go? Who will be doing that?

Mr Hartwell—It will be provided initially to the Queensland government to enable them to do that study.

Senator O'BRIEN—Prior to the last budget, this program had only two years to run, as I understand it—2002-03, 2003-04. Is that still the case? Prior to the last budget, it was going to end in the next financial year. What is the budget year in the out years extended to?

Mr Hartwell—Basically, my understanding is that the program was extended in July 2000 for four years, with a funding of \$250,000 per annum. So it has got two more years to run; that is right.

Senator O'BRIEN—I thought that there was a limit of \$100,000 on projects. Is that going to be exceeded with this ABS project?

Mr Hartwell—There is a limit, but in the interests of this particular project we are looking at whether in this case we might be able to exceed that limit.

Senator O'BRIEN—How many times has that been exceeded up until now?

Mr Hartwell—In my recollection, not at all.

Senator O'BRIEN—Is it difficult to get applications that are worth funding? You got eight applications and you are struggling to spend the money this year?

Mr Hartwell—I think it is fair comment to say that, of the applications we received this year, we did not find many of substance.

Senator O'BRIEN—Can you tell me anything about the Murray basin mineral sands infrastructure planning study, which was released in 2000 and jointly funded by the federal government along with Victoria, South Australia and New South Wales?

Mr Hartwell—As you rightly point out, that particular study under the Regional Minerals Program has been completed and it has led to an outcome where the Victorian government has made a commitment to upgrade the rail line between Mildura and Portland. The first shipments of mineral sands from the basin have taken place, as I understand it.

Senator O'BRIEN—I take it that was one of the recommendations of the study?

Mr Hartwell—Indeed.

Senator O'BRIEN—The central west New South Wales study was completed in 1998 and focused on water management as a key issue for both industry and government in relation to planning expansions to existing projects and new mine development. Have that study's recommendations been acted upon?

Mr Hartwell—I think it is fair comment to say that the impact of the water reform process is now better understood by the mining industry and factored into the cost for new or expanding projects. In the central west region of New South Wales there have been a number of new projects commenced or under consideration.

Senator O'BRIEN—Two other regional studies—the central region of the Northern Territory and the east Kimberley, and the west Tanami region of Western Australia—are due out shortly, according to the department's web site. When will they be completed and available?

Mr Hartwell—I cannot say precisely, but you are correct; they have been under way for some time. We will take that one on notice and contact the people doing those studies to see whether they can give you a more concise completion date.

CHAIR—I notice the time is now 11 o'clock. Could I ask you to place the balance of your questions on notice?

Senator O'BRIEN—I will reconstruct them and submit them to the secretariat in the course of the next day or so.

CHAIR—Thank you, Senator O'Brien. That brings to a conclusion the examination of the budget estimates of the Department of Industry, Tourism and Resources and of agencies within the department. I thank the minister, the secretary of the department and officers of the department and of agencies for their attendance. The committee will resume tomorrow to commence examination of the estimates of the Treasury, and we will commence at 9 a.m. with the Australian Taxation Office.

Committee adjourned at 11.01 p.m.