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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO COST RECOVERY

**MRS H.J. OWENS, Presiding Commissioner
DR R. STEWARDSON, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON WEDNESDAY, 6 DECEMBER 2000, AT 9.39 AM

Continued from 5/12/00

MRS OWENS: Welcome to the resumption of the public hearings for the Productivity Commission's inquiry into cost recovery by Commonwealth regulatory, administrative and information agencies. I'm Helen Owens, the presiding commissioner. With me today is my fellow associate commissioner, Robin Stewardson, and the other commissioner on this inquiry, Judith Sloan, is not here today and apologises but will be back here tomorrow.

Public hearings have been held already in Melbourne, Sydney and last week in Canberra, and we resumed this week in Canberra yesterday, and by video in Adelaide and Perth. The scope of the inquiry is specified in the terms of reference. Copies of this and other inquiry documents are available on the table outside in the bar area. The commission has three main tasks in this inquiry: to review existing cost recovery arrangements by regulatory, administrative and information agencies; to develop guidelines for the future application of cost recovery by the Commonwealth; and to review cost recovery arrangements under the Trade Practices Act 1974 as part of the legislative review required by competition principles agreement between the Commonwealth and states and territories.

Public submissions are vital to the commission if the commission is to be successful in these tasks. The public hearings provide the opportunity for participants to make oral presentation and discuss their submissions with the commissioners. This is an important part of the public inquiry process and the commission is also able to seek clarification and pursue particular issues in greater depth. While we try to keep these hearings informal, we do take a transcript for the public record. Transcripts are normally available on the commission's Web site within a couple of days of the hearing and we send each participant a transcript of their session's proceedings.

At the end of the scheduled hearings for today I shall invite any persons present to make oral presentations, should they wish to do so. I now turn to our first participant, which is the Australian Seafood Industry Council. Welcome, and could you each please give your name and your position with the council for the transcript.

MR SCULLION: Thank you. My name is Nigel Scullion and I'm the chairman of the Australian Seafood Industry Council.

MR NEAL: Good morning. Russ Neal, chief executive officer of the Australian Seafood Industry Council.

MRS OWENS: Thank you and thanks very much for the submission. We have both read it and we look forward to some discussion but I understand you want to make a few opening comments before we ask you some questions.

MR SCULLION: That's right and I think it's probably appropriate. First of all, thank you very much for this opportunity to give evidence. I think it's a very important process and I think the best way to proceed is to ask my executive officer, Russ Neal, just to read a short opening statement.

MR NEAL: Commissioners, thank you for the opportunity. Is it appropriate that I speak for perhaps three or four minutes? If it's too long you might guide me accordingly, please.

MRS OWENS: No, that's fine.

MR NEAL: Thank you. The Australian Seafood Industry Council commends to you the need to maintain existing frameworks and arrangements for cost recovery by the Australian Fisheries Management Authority. That is our principal point of interest for your inquiry. We believe the cost recovery process is transparent to the point where industry feels it is fully involved in that transparency, and in fact cost recovery is laid out in AFMA documents, including the annual report; for example, the current report just released at page 160 onwards.

Under the broad framework AFMA's costs are defined as either attributable or non-attributable, and then within that those costs that are attributable are determined as either recoverable or non-recoverable. Levy collections are reviewed at the end of each financial year and any over-collection of levy is then returned to the specific fishery subjected to that levy, or in fact if there was for any reason a shortfall, the shortfall is made up in the next financial year. We believe that further enhances the transparency.

In addition, fishery-specific management advisory committees, which include a range of stakeholders and include industry, oversee each annual budget. Enforcement remains a government or public responsibility. A full review of cost recovery by AFMA was conducted not long after the authority was set up in 1991. There were two, or really three, acts of parliament. The legislation established AFMA as a statutory authority, an Industry Commission reference was in turn taken up by a task force of government bodies looking at cost recovery specifically by AFMA, so we believe there was a specialist look at this in relatively recent times.

That task force included the departments of Finance, Primary Industries and Energy - as it was then and now AFFA - ABARE and AFMA on this task force. It produced a government policy in 1994 which continues to be endorsed by industry. Present costs are reported by AFMA as basically split 40 per cent industry, 60 per cent government across its entire budget. In fact that figure, we believe, is closer to fifty-fifty, given that AFMA is the body which oversees southern surveillance on behalf of the government as a whole.

In terms of our submission to you, you will see a particular emphasis on our point about "additional government resources as may be required". May I simply instance two or three recent experiences. The federal government prior to the 1998 federal election committed to a national oceans policy. This pursues a range of environmental initiatives, including the establishment of marine reserves. A budget of \$50 million over three years was set by the government for this important oceans policy but, to the best of our understanding, not one cracker has reached AFMA. We put this forward as an example of a responsibility which in part comes across to

AFMA, as well as numerous other agencies, but does not have any revenue that we're aware of to assist AFMA in undertaking its additional responsibilities; whether it be environmental management, whether it be assisting in the process of defining proposed marine parks, or whatever. So that has to be found out of existing resources.

The so-called "government-on-line" initiative, which is a matter that this industry has discussed at some length with AFMA, is due to be implemented by not later than 1 January 2001, under which, in my lay understanding, any document that is available in hard copy must be also transmissible electronically, and of course there's a large range of documentation coming in and out of AFMA - no additional resources, as we understand it. So we are very keen to ensure that there is an adequate resourcing base for the public good or the broader community component of AFMA's responsibilities.

We also note your terms of reference, for example part 6, where you refer to oversighting factors such as environmental goals of the government as a whole, economic and regional development goals, and we would simply table the point that we believe we are contributing either in kind or directly financially to a number of these broader goals, as in industry, which does not appear in any form of cost recovery mechanism under AFMA.

So in summary, commissioners, there are a number of agencies which draw direct revenue from the Australian seafood industry, of which AFMA is one that's a major authority. We believe we're contributing, pulling a great deal of weight there. We believe we're contributing either direct resources or in kind to some of the government's broader goals and we support the existing framework.

MRS OWENS: Good, thank you. Can I just ask you a very basic question. The council represents all the industry or a part of the industry?

MR SCULLION: Yes, pretty much. We represent the industry from hook to cook, so the industry is not only represented - well, we not only represent the fishers, we also represent people in post-harvest, in aquaculture and in a whole range of other aspects of our industry.

MRS OWENS: Are you involved in these management advisory committees?

MR SCULLION: That's right.

MRS OWENS: And you have reasonable representation on those committees?

MR SCULLION: Very much, yes.

MRS OWENS: And have had, you believe, an input into the actual cost recovery policy?

MR SCULLION: Yes, it's been a process - obviously, you know, the fishermen - it's very important that we have a great deal of ownership in ensuring that the money is spent wisely. We see it as our money and that's a principal focus of a lot of the discussions in industry, to continue to say, "Well, is the money being spent right?" As part of that process we keep a very close look at the budget. Each management advisory committee is responsible. For example, East Coast Tuna MAC have actually a budget and it's their responsibility to oversight the management of those funds themselves because it's being spent on their fishery and it's being taken from them. So it's a very close cycle.

DR STEWARDSON: You've both used the word "oversight". A number of other similar industry bodies in other areas where there is an advisory committee have felt that the regulatory authority either doesn't give them decent information or else it ignores any comments they have. You, and indeed AFMA in its submission, both seem to be suggesting that in your case it works pretty well. Do you get appropriate cost information from AFMA to have a real say in their budget? Do they take notice of you if you've got a comment?

MR SCULLION: Yes, I think that there was a real watershed in the way we go about managing our fisheries and the relationship between the managers and the fishers. In the days of the Australian Fishery Service we had all those complaints: "I don't think we're being listened to." There was a whole range of challenges in those days. When AFMA was formed in 91 it was an opportunity to genuinely embrace the opportunities that the co-management fisheries model gave, and as part of the responsibility obviously industry had to principally pay for the management of their own fisheries. But at the same time, in exchange, we had a very transparent process, not only in terms of the funding arrangements but also in terms of having a direct input about how we went about managing the fishery; whether it was an allocation issue or any of the normal issues.

We have found that the AFMA co-management model is in fact a model that people now internationally look towards, saying "This is really the way you should go about it," and at the moment I'm happy to say that it's still cruising along very smoothly, very transparently.

DR STEWARDSON: Is that written down somewhere?

MR SCULLION: I have absolutely no idea.

MRS OWENS: I guess it's now written down on the transcript. I think it's actually quite a refreshing change because, as Robin has said, we tend to hear stories and complaints about lack of transparency and lack of influence over the regulator, and that's been the general theme, and so I think in this case - I think I got that sense from your submission, that generally you were reasonably happy with the cost recovery arrangements but there's a little bit of a worry about future funding from government. I think that came through but that's not a concern with the authority, but more which direction the government is going.

MR SCULLION: Yes, I think our concerns really reflect a changing environment of our fisheries management. In the past we have managed a fish, and it's been the giraffe fish - or whatever it is. We focused very much on managing that fish to make sure that there's enough there for the future in that particular animal, and that was world's best management at that time. We've recognised that unless we manage the entire environment on which those fish are dependent, the whole ecological system, if we don't have a handle on managing that then we've really lost the plot a bit about the giraffe fish. So it's now incumbent on the managers to have relationships with other departments, like Environment Australia, and to start developing new suites of skills to be able to manage that whole environment.

With that comes incumbent costs. For example, we're just going down the ESD process to ensure that all our fisheries are environmentally sustainable outside of our targeted species, and that is just an absolutely huge task, and I guess some of our concerns stem from not really being sure where those funds to cover that are going to come from. Industry is pretty stretched at the moment and that would underpin one of our concerns.

The other principal concern is deliberations in native title. I had some experience myself; I'm actually the principal respondent to the native title case on Croker Island and, irrespective of the outcome, the mediation process and that ongoing negotiation process with indigenous people is going to need a far greater input from AFMA at a Commonwealth level. I'm involved on a state level principally because the area in which I live is where these issues are unfolding at a faster pace than perhaps other places in Australia. But I can flag that AFMA's involvement in these issues has to be stronger and they have to have a bigger input into this, and that's going to be unfolding very swiftly.

MRS OWENS: That's going to be very costly, I presume.

MR SCULLION: There will be an increase in costs but I don't want to flag what I consider the outcome. It's still before the High Court at the moment. It's going to be an issue that's going to challenge the existing resource base of AFMA. There's no question about that.

DR STEWARDSON: It's a native title issue for fishing rights in offshore waters, is it?

MR SCULLION: It's for fishing rights and the issue with AFMA is that there's a whole range of Commonwealth entitlements, so it's the impact of native title on those Commonwealth entitlements in those areas under which they may - for example, they have interests outside of the direct area of Commonwealth waters in the northern prawn fishery, for example, because directly adjacent to those waters which they fish are nursery areas that they wish they would have a direct interest in, although they wouldn't have control over the waters, so there's a whole suite of issues involving native title and the Commonwealth fishers.

MRS OWENS: It raises a more basic principle. You mentioned that you determine which costs are going to be attributable and which costs are going to be non-attributable. I think there's always a challenge in determining where that line lies between what the industry is responsible for and what is seen as being a public good or in the interests of the public or the community more generally. Has that been a point of tension within AFMA or is it something you manage to resolve reasonably easily?

MR SCULLION: I think we have an agreement. There is some tension but I don't think it's between industry and AFMA. It's between industry and AFMA and the sectors who I don't think pay at all.

MRS OWENS: Which are?

MR SCULLION: Well, I think that the recreational fishers have a far greater impact than would be generally caught under the net of public good, and that impact is increasing rapidly. Effectively industry pays in a number of ways, not only for the direct management cost directly of the fisheries that we're involved in but we also pay for all the research, for example, through fishing research and development corporations fully funded by industry.

I guess that some of the emerging issues are going to be how do stakeholders - whilst they're part of the wider community they are a stakeholder that has a substantive impact, and are the sequesters of principal benefits from the activities of AFMA. That's part of our ongoing deliberations. I'm not sure how we'll resolve it, but that's the only tension in terms of who pays for what.

MRS OWENS: In terms of the recreational fishers, they could be potentially free riding on the research that your industry is paying for.

MR SCULLION: They clearly are, but whether or not it's appropriate - I'm saying that our deliberations about who mightn't be paying sufficiently or what the breakdown is, is principally about those stakeholders who fall outside of our direct arrangements.

MRS OWENS: Another issue is this issue of surveillance and who pays for surveillance and who pays for the actual enforcement. Enforcement is actually an issue that we are looking at in a whole wide range of areas and I think the general consensus has been that governments should take responsibility for the enforcement function and that industry should perhaps take more responsibility for surveillance. I think that's been the direction it's gone with fisheries as well. Is that correct?

MR SCULLION: Yes, that's correct. We have two principal areas. It's interesting - the surveillance and enforcement are not necessarily associated. Industry actually do pay for some of the surveillance costs in some of our fisheries. The enforcement - clearly AFMA is also responsible, not only for the enforcement of the requirements

within our own fisheries, but they're also responsible for our far-flung sovereign resources in places like Antarctica and off the shores of Darwin. When I left there the other day I think there were 14 captured Indonesian boats floating in Darwin harbour and some 60-odd folk living aboard them. So it's an ongoing issue and it is clearly not appropriate that those costs come anywhere near our industry. They are issues that I think are the emerging increasing costs for AFMA. But the agreement in terms of those costs is 100 per cent attributable to non-industry costs, and that's appropriate.

DR STEWARDSON: I thought somewhere either in your paper or in AFMA's paper, there was a statement that in principle industry should pay for surveillance and government for enforcement, as you said, but in practice compliance - and I'm not quite sure what "compliance" means in respect of surveillance and enforcement - activities were funded on a fifty-fifty split.

MR SCULLION: Yes, in the southern fisheries.

DR STEWARDSON: Is that right?

MR SCULLION: The nature of surveillance has changed somewhat and AFMA, for example, pretty much leads the field in electronic surveillance. We have a vessel monitoring system, a VMS system, where at any stage AFMA can know exactly where that vessel is at any time. It's a very efficient way of monitoring a vessel's position and it aids with a whole range of management issues as well as providing a very efficient surveillance process. As you say, that costs, because it's not only about enforcement, it is about a whole range of management things as well - the industry in some of those situations pay for 50 per cent of that - that's correct.

DR STEWARDSON: What are AFMA actually trying to surveil and enforce? Is it where the boat goes? Is it how many fish it catches?

MR SCULLION: Through the VMS system it will tell you the position of the ships and how long they spent in each position, so it gives you an idea about how much time each boat spends in an area which is often a function of the catch. They also rely on another system, on daily catch returns - extremely comprehensive catch returns, which are electronically sent to AFMA, which allows us to manage our fishery, which is a whole range of issues about the spatial distribution of the catch, the actual weight of the catch, targeted species, and often including some other scientific measurements and notations to assist them in their management. But on the surveillance side of it, as I said, there are some benefits to just purely management within that, and there are clear benefits for enforcement. If somebody knows where you are all the time then compliance is a given.

DR STEWARDSON: So when you talk about compliance, that's including surveillance and enforcement, is it? Is that correct?

MR SCULLION: I'm not absolutely sure on that.

MR NEAL: Yes, AFMA may be better, commissioner, to answer that according to how they distribute costs in their books. I would be guessing.

MRS OWENS: We will ask them this afternoon. There are a number of these issues that we can cover again, not that we're going to be seeing whether there is a consistency. Yes, I just couldn't quite understand the relationship between enforcement, surveillance and compliance. I think I understand what the enforcement is. I was wondering, in the context of what you're saying about what is happening in Darwin, whether compliance, if it's just a fifty-fifty split, could cause problems, or is compliance not an issue.

MR SCULLION: I don't think I'd be clear on that, commissioner, to give a clear answer. I think you'd have to seek a response from AFMA just on the actual clarity of that detail.

MR NEAL: Could I simply add, commissioner, one sentence from AFMA's annual report, which says, "Recoverable management costs include the running costs of management advisory committees" - the MACs we referred to earlier - "licensing, AFMA's day-to-day fisheries management activities, the cost of developing and maintaining management plans, and log books and surveillance, but not enforcement."

MRS OWENS: Yes.

DR STEWARDSON: Can you just give us an example or two of what is attributable and what is not attributable and then, within the attributable, what is recoverable and what's not recoverable?

MR NEAL: Again, AFMA will be perhaps a little more precise than I will be, but attributable versus non-attributable refers to broadly activities of AFMA which might be either for the specific good of a fishery or the general good of the community. There would be, for example, some environmental objectives with which AFMA is directly involved and which impose a cost upon AFMA, whether they be wages and salaries or whatever, but would be broad environmental goals and not something that a fishery specifically would need.

DR STEWARDSON: So they're non-attributable.

MR NEAL: That would be non-attributable.

MRS OWENS: Could there be some environmental goals which would be non-attributable? If the fisheries industry has some negative impact on the environment do you see that there could be some environmental goals that the industry should pay for?

MR NEAL: Perhaps the closest example to that would predate AFMA's establishment, and that would be the difficulties experienced with orange ruff stocks in the 1980s, where the fishery was essentially depleted to a point of near exhaustion.

Those stocks were rebuilt through a management scheme. The question that arises is: is the benefit of that something which is attributable directly to the fishers or is it for the broader community?

MRS OWENS: It's probably a bit of both really, because probably the fisheries themselves contributed to the depletion of those stocks.

MR NEAL: It may be that their predecessors did, to some degree. It may also be a question of a lack of surveillance and enforcement. There are still issues currently running in international fora where Australia's concerned about depletion of stocks - which we suspect may be in part inside the exclusive economic zone. So within that there is argy-bargy as to whether or not cause and effect even can be attributed directly to Australian fishers.

DR STEWARDSON: What about recoverable and non-recoverable within the attributable?

MR NEAL: Again, may I defer to AFMA for a formal definition, but recoverable may be some activities relating to perhaps the vessel monitoring which can be attributed to individual vessels, as distinct from some of the broader costs of perhaps day-to-day management back in the officer here, that might not be attributable to either individual commercial fishers, or even individual fisheries. I'm very general in my comments there. AFMA perhaps can be more precise as to how they determine recoverable versus non-recoverable. However, my understanding is that this was dealt with in some detail when the policy formulation task was under way in 1992 to 94, so the Industry Commission and then the government task force spent a couple of years on that issue.

DR STEWARDSON: Basically each shipowner pays a fee. It's not a levy on the industry that then is, in some way, divvied up between the industry. It's a specific levy on each ship, is it?

MR SCULLION: That's right.

MR NEAL: In addition to that, commissioner, specific amounts are then required from each fishery and page 161 of the annual report sets out, for example, the specific remuneration to the last dollar, the amount of money recovered from fisheries such as Northern Prawn, South-East Non-Trawl and so on.

DR STEWARDSON: Basically on how much each catch is?

MR NEAL: My understanding is that it would be calculated on a range of factors, not just the actual quota allocation. That is then put through the management advisory committees individually by fishery, so the answer would be specific fishery by fishery as to how those costs are attributed, recovered and determined.

MRS OWENS: I think the most significant issue that you've raised in my mind is

this issue of these additional responsibilities being placed on AFMA in terms of the - you've mentioned environmental and we've talked about the Environmental Protection and Biodiversity Conservation Act, the national oceans policy and you mentioned in your submission the international negotiations - all of which have what I see as a very strong public good element in them, but there is no additional government resources coming AFMA's way to actually do the work. Has that concern that you've expressed in this submission gone elsewhere? Is somebody going to government and saying, "These are additional requirements that need - these are additional responsibilities for AFMA. This is going to squeeze AFMA. It may actually mean that AFMA can't do some of its other responsibilities as well as it was in the past." Is this something that you have been raising elsewhere?

MR SCULLION: Certainly our federal minister has been made aware of our concerns. These concerns are actually about to emerge and the Native Title issue has been - there has been a date set when the last appeals will be heard, and after that we know that there is going to be an emerging need for more resources. We've just had the Environmental Protection and Biodiversity Conservation Act become a reality and that, as I said, just in the very recent past - is creating a need for further resources to be allocated to that area. The responsibilities under that act are not only to look at - the costs involved are often examining, through a separate requirement or process, our own processes. So it will go about saying, "Well, what do you know about the fishery?" "What do you know about its impact on other fish stocks?" and all these sorts of things. So whilst they're not a specific requirement in terms of managing our fishery at all, they're now a requirement because it's an activity that may have another impact. That would obviously be a non-attributable cost. But these are emerging issues that are raising at a geometric rate. Our concerns certainly have been passed on to government and as the pressure increases our pressure will as well.

MRS OWENS: I think it may have put pressure back on to the industry itself. I think we probably have gone a little over time, but thank you very much and we'll raise some of these issues again this afternoon with AFMA. But thank you very much for coming. We'll now break for a minute and call our next participant.

MR SCULLION: Thank you, commissioners.

MRS OWENS: We will now resume. The next participant this morning is the Department of Agriculture, Fisheries and Forestry Australia. Could you please give your name and your positions, both with the department and with AQIS, for the transcript.

MR PEARSON: Andrew Pearson. I'm the acting general manager, science and operating environment, with the Department of Agriculture, Fisheries and Forestry Australia.

MR O'BRIEN: Peter O'Brien, executive director of Bureau of Rural Sciences in AFFA.

MR CARLTON: Tim Carlton, general manager, business strategy, with the Australian Quarantine and Inspection Service.

MR MACDONALD: Brian Macdonald, executive manager, meat inspection and food services group, AQIS.

MRS OWENS: Thank you very much and thanks for coming. We got the submission and we have read it. I understand that - is it Andrew, going to make some opening comments?

MR PEARSON: Yes.

MRS OWENS: Good. Thank you very much.

MR PEARSON: Just in introduction, the Department of Agriculture, Fisheries and Forestry Australia, AFFA, currently implements a range of cost recovery mechanisms which have been developed at different times and for different purposes. Arrangements have been introduced, reviewed, revised, and these have been done generally in consultation with clients to ensure that the mechanisms in place recover the level of costs that are intended to be in the most effective, transparent and efficient manner possible.

The focus of most of AFFA's cost recovery is on fee for service, with prices set to cover the costs of providing those services. AFFA notes that, while a consistent approach to cost recovery is desirable, there are wide disparities between both agencies and within portfolios in the nature of government services and hence the scope for and the nature of cost recovery efforts. The development of guidelines that are broad in scope and with a degree of flexibility is therefore desirable.

From our experience, AFFA would suggest a number of principles for cost recovery arrangements. These would include, firstly, that the fee structures should reflect the actual costs of providing services within user groups; secondly, that the frequency and level of variation to fees and charges, once set, should be kept to a minimum and preferable at regular intervals, following consultation with clients; thirdly, the development of mechanisms to ensure clear consultation with relevant

stakeholders and transparency should be key considerations in the establishment of cost recovery arrangements; fourthly, cost recovery arrangements should be suitable to the type of service provided; fifthly, generally we would suggest cross-subsidisation between user groups should be avoided. We would also suggest that if small businesses are to be subsidised, the funds should come from separate government funds available only to small business and not as a result of any cross-subsidisation. Finally, we would suggest that it is important to maintain the independence and the integrity of the cost recovery agency in the eyes of consumers and industry. Thank you.

MRS OWENS: Thank you. I think I can speak for my colleague here and say that I think that it's very hard to take exception with any of those principles that you have set out for us. You may find that when you come to read our draft report, some of those may find their way in, or perhaps just about all of those will find their way in, in some form or another. There is, however, possibly a slight difference of view relating to the first one. We were speaking yesterday to the Department of Finance and Administration about fee structures. You say that they should reflect actual costs of providing services within user groups. They put a submission to us that said they thought that the fees should somehow reflect market prices out there in the market.

We did have a discussion about this and the possible difficulties if there is no market price, particularly if you're talking about an area where there's no contestability or you're talking about a regulator which happens to be a monopoly. I'm just flagging that there may be some differences of opinion out there as to whether that is the appropriate way to go. We have to think through these issues, and it is not simple. I don't know if you wanted to say anything about those principles, Robin, but I think I could have gone through and ticked most of them.

DR STEWARDSON: Yes, I think most of them were pretty good. One in particular that I'd like to ask you about at some stage, but you may want to do other things first, is what you recommend for mechanisms to ensure clear consultation with the stakeholders.

MRS OWENS: I think we might come back to that and talk about some of the - - -

DR STEWARDSON: I think some of the other more general things - - -

MRS OWENS: There's a more general set of issues, and I think one of the things that you said, Andrew, in your opening comments was that consistency of arrangements is desirable, but I think probably in this portfolio and in the department, as well as in many others, we're finding there's quite a lot of inconsistency - possibly reflecting the fact that there haven't been guidelines in the past, possibly reflecting just history. Has there been any attempt within your department to look at the whole range of cost recovery arrangements within the portfolio and to try and bring greater consistency to bear, or is this not an objective that is an achievable one?

MR PEARSON: I'm not aware that there has been a portfolio-wide effort. I think

the approach is that there is a consistent approach to cost recovery, so the principles for us are the important elements - perhaps not that one model would fit all situations. I think particularly represented here today with AQIS and BRS, we do have perhaps two rather different ends of the spectrum of cost recovery. I would not suggest that the portfolio would attempt to make both of them conform to exactly the same sorts of operations but, in terms of things like the transparency and the avoidance of cross-subsidisation, these sorts of things would be very much a portfolio-wide objective. So I think it's perhaps that approach which will continue to operate, because the portfolio is aware of the differences and is also intent upon ensuring that in the management of the primary industries sector and the agrifood industries we encourage competitiveness and don't introduce any unnecessary burdens. So I think that's the sort of approach we would have from the portfolio, if that clarifies a little.

DR STEWARDSON: Those two organisations that you mentioned do perhaps highlight the difference between possibly public goods and private goods, which was the issue that your initial principles didn't refer to you. You were basically assuming that if costs are to be recovered then they should be done in certain ways with certain principles, but the initial question for us, of course, is whether they're to be recovered or not.

While there is a difference of opinion that's been expressed to us about who benefits from AQIS's services, there is at least one fairly clear view that the person whose products are being inspected and cleared or whatever is benefiting, whereas BRS, while it does have some fee for service I understand, would appear to be more engaged in more general public good type research. I wonder if between you you'd like to comment on this division, as to what should and shouldn't be charged for, what sorts of principles AFFA sees as being appropriate to what should or should not be cost recovered and, indeed, whether you have any policy to sort of structure your organisations so that, for simplicity, some do things that should be charged for and some do things that shouldn't. For example, I think it's true, isn't it, that Biosecurity Australia is government funded whereas AQIS is basically industry funded, and presumably the two could be done together or separated out? I wondered whether it's a deliberate policy to try and simplify the charging.

MR MACDONALD: I can respond on behalf of AQIS, and I would include Biosecurity Australia in my comments because, while part of the AFFA portfolio and outside AQIS now, they did reside inside AQIS up until recently and are relevant to the principles you're enunciating. We recover our costs by government policy, so the question of whether we should or shouldn't is not up for us to decide in this context, but we do have principles for administering that government policy which do recognise public and private goods. It is promulgated in a charging policy document that we've recently agreed in our business and finance committee, which is the managing committee for AQIS, and by and large we charge fees for service where there's direct service delivery to a - where there's a private benefit; for example, a meat inspection, a dairy inspection.

Inside that, though, there are some common goods and public goods -

for example, the maintenance of our international standing in terms of AQIS's position, the general market access matters that we work on, where there's no particular beneficiary but the Australian community at large benefits from getting access for its industry. We charge even for some of that work. We use registration fees on the industry generally to finance that or we do, in fact, use some government funding made available to us through community service obligation funding.

The primary examples in AQIS were the old Biosecurity Australia, which was market access, quarantine policy and the conduct of import risk analysis. There was no specific private benefit there, they were community goods, and the community at large was advantaged by that work. That was all funded by CSO money.

Inside AQIS there is a branch called the food policy branch. It is funded entirely from appropriations. It conducts work on international standard setting - technical standard setting for a variety of food products, like meat, fish, dairy products. It does work in the area of technical market access, where there is no private beneficiary. There is a general benefit to the community and to the industry at large but no specific beneficiary. We have a Northern Australia Quarantine Strategy, which is the surveillance activity up in the north of Australia, general surveillance for the incursion of pests and diseases. Again there is general community benefit there and that is funded by the CSOs.

The third element is for those people working in our costs recovered mechanisms. We also work inside the government, of course, and there are business of government obligations on us, working to the minister of the crown. An estimate has been made of the level of that activity and that is also funded, not by fees and charges but - and within our charging system the general principles, as I said, are fee for service for direct services; the maintenance of the inspection or the quarantine area framework is generally managed by registration charges or volume charges, not fee for service. That's the general principle and that's embodied in a policy document that we've recently endorsed and will be promulgated soon. Even though the document has only been recently codified or produced, those principles have been in place for some time.

DR STEWARDSON: You mentioned, I think with meat inspection, that you were regarding that as a private good.

MR MACDONALD: Yes.

DR STEWARDSON: Would you agree that there is room for debate, even there, as to whether that's a private good or a public good or a good to the consumer? In a sense the person who is allowed to sell his product is clearly getting a private good and that's obviously what you're referring to. On the other hand, the consumer - this pretty wide-ranging group - also benefits from having a safe and appropriately dealt with meat.

MR MACDONALD: In a sense there is, but AQIS derives its power from the

Export Control Act. We exist for the purposes of exports. In the meat program, if you take that as an example, there are probably about 85 registered slaughterhouses in Australia. They do produce for the domestic market and about 40 per cent of their production goes onto the domestic market and the other 60 per cent is exported. But AQIS's purpose in there is to provide them with access to export markets, not domestic consumption. It just so happens that the states accept AQIS. Rather than impose a second set of controls on export-registered establishments, the states accept AQIS's inspection regime as equivalent to their own domestic arrangements, and therefore allow product - so there's a domestic food safety issue in that context but it's entirely subsidiary to the main purpose for AQIS's presence there, which is to provide access to international markets.

Establishments in dairy, fish, meat simply cannot export without an AQIS certification on the basis of the status of the - if it's a food product it's health status, or if it's in the case of grains or horticultural products, it's disease and pest status, not human health with the different sort of certification. That's on the export side. Then on the quarantine side, which is incoming, there is a general public benefit in that the quarantine function exists to stop the introduction of pests and diseases into Australia. There is a wider community benefit there but again the participants there are importers who, by taking Australian quarantine services, are allowed to get their product into Australia. So then for the importers there's also a benefit but there's a public benefit in the broader sense.

MRS OWENS: Do you recognise any of that public benefit or is it full cost recovery?

MR MACDONALD: It's all cost recovery, except in the case of the Northern Australian Quarantine Strategy, and that one branch has those three functions I outlined: Northern Australian Quarantine Strategy, the food policy branch and the business of government activity.

MRS OWENS: Why don't you recognise some of those other broader public benefits?

MR MACDONALD: In our pricing structure?

MRS OWENS: Yes.

MR MACDONALD: It's government policy that AQIS should recover its full costs. That's government policy.

MRS OWENS: Yes, but we're now sort of rethinking that government policy.

MR MACDONALD: Well, there is an issue there.

MRS OWENS: Is there an issue there?

MR MACDONALD: In the sense that the broader public benefits from Australia's quarantine activities, there's a public good.

MRS OWENS: I'd like to hear about the BRS too from Peter, but before we get on to that, there is a statement in the submission relating to the Australian National Audit Office report. It says that:

AFFA wishes to point out that it does not believe that many of the inferences and conclusions reached by the ANAO accurately reflect the actual operation of AQIS's cost recovery arrangements.

I'm just curious to know what your major concerns are with that report.

MR MACDONALD: It was a difference of view over how we should attribute our costs so that in costing our various programs they accurately represented our costs and therefore fed into accurate fees and charges. The fundamental difference between us was that the Audit Office believed we should have activity based costing, so every six minutes inspectors should ring up which program they're working on at that particular time and accumulate a cost for the service. Our view is that we've developed a different system. It's mature, it's acceptable to industry, we have extensive consultations with industry, and that is based on us making judgments about the time that individuals work on the various programs, and then attributing their costs. We think that would get us the same outcome and would be more cost-effective.

MR CARLTON: I might just add a couple of things. I think the AQIS charging since we went onto full cost recovery in 93-94, or when we went onto the trust account and full accrual accounting - we had legal opinion then on to what level we needed to go to work out individual costs for services, and I think that legal opinion has been endorsed by a recent High Court decision on Canadian Airlines v Airservices Australia, where they said it is quite legitimate for fee-for-service recoveries to be covered within user groups rather than a particular user of the service. I think one of the issues in particular that we had is that ANAO are of the view that we should be charging different rates in different locations where we do have a policy that we have generic charges right throughout Australia, which we think is consistent with other government bodies and is consistent with agencies such as Telstra and Australia Post.

We think it would be very expensive for us to implement any sort of system which would allow us to identify the actual costs of particular service rather than a range of services.

MRS OWENS: We have a principle, as we've talked about before in the submission, that says that each fee should reflect actual costs within user groups. I think what's important in that sentence is "within user groups", not necessarily individual users.

MR CARLTON: That's right.

MRS OWENS: It's really doing it as best you can and not necessarily going overboard so that you're defining every cost down to the last dollar. It's taking a sensible approach.

MR CARLTON: That's right, and certainly our charges within user groups, as accurately as we can, do reflect the cost of providing those services. It's not as if we take a user group and then make charges out of the thin air. They are based on historical data and information. ANAO are well prepared that we should have more accurate time-recording systems and introduce a range of, I suppose, charges that would reflect the actual cost of providing a particular service, rather than a range of services.

DR STEWARDSON: Can I just be clear what you do. When you say "user group" is that, for example, say all the 40 or whatever it was slaughterhouses throughout Australia? Is that a user group? And what do you do? Do you work out how much time and money AQIS spends on inspections with them and then take that global amount and allocate between the 40?

MR CARLTON: Yes.

DR STEWARDSON: Is that roughly and on what basis - - -

MR CARLTON: In general our user groups would represent our program structure, so that our dairy program and our fish programs would be user groups. The meat program is a user group but we do break the costs down in the meat program into three sub-user groups, which would reflect the different effort going into actual inspection across those slaughterhouses; the effort that goes into, say, registration, and there's another.

MR MACDONALD: And an auditing function, so we've got about five cost centres. We have a different charging regime for general audit, for direct service delivery. We have the provision of meat inspectors and on-plant veterinarians - there's another one - and we have a documentation fee for provision of the documents, the health certificates which allow exports to be undertaken, and we have a registration charge which covers the cost of maintaining the technical framework. It's a technically based and scientifically based program.

DR STEWARDSON: How do you allocate those various global amounts between the 40 members of the group? Is it on the basis of their turnover?

MR MACDONALD: We've got 13 programs and each program has a - there's an organisational which identifies offices to those programs, those user groups; a human resource management system then takes the salary, plus all the accruals that apply and the on-costs, and assigns that to the various user group cost centres. Where offices are shared, and a significant number of the offices are shared between programs, our human resource management system is coded so that 30 per cent goes to that

program, 20 per cent to that and 50 to that one - whatever the mix happens to be. So the human resource costs are attributed in that fashion.

Then the other direct costs, like administrative charges, are allocated as they are used - directly - and we have a variety of algorithms for allocating on-cost type structures; Tim's business strategy group, for example. That is allocated across programs according to an algorithm that we've agreed, which has a base in reality in terms of use. Our overheads in terms of finance and human resource management are allocated again according to another set of distributive algorithms which are based on use patterns, and our corporate overhead, the support we get from the AFFA-wide portfolio, is also attributed again according to a distributive algorithm that is use based.

DR STEWARDSON: So having got that amount for the total cost of the program, how do you allocate that to the people who are going to pay.

MR MACDONALD: Various programs do it in a consistent way, not always the same, because the programs are quite differently structured. The meat program, for example, has a very extensive direct service delivery component. It's the largest program and it costs about \$50 million to operate - a bit over \$50 million to operate - and it's in the business of providing direct service delivery. And the quarantine programs are very much like that too. They're providing a lot of inspection, direct effort.

The other end of the spectrum would be the dairy program where AQIS is just relying on state government activity through the state dairy authorities to control safe production of the milk and the auditing and the management of the safe production of milk products in processing establishments. We register them but our activity is right at the top end. We audit the state milk authorities and their activities and certify off that. That program only costs a little bit over \$1 million to run.

So they've got different structures but within the programs, again off our costs data, we work out what the various components cost us, like our auditing function. We've identified the 20 people who are involved in that. They're all attributed to that function, and their costs, and there's a set of codes. The inspectors are all attributed directly to the direct inspection function and we have a subset of our allocative mechanisms and we then charge accordingly.

DR STEWARDSON: But having got those amounts for the program - I'm still not clear - how do you decide what charge is going to be to company A and what to company B?

MR MACDONALD: In consultation with industry.

DR STEWARDSON: Is it on the size of their turnover or the amount of time you've spent with them, or what?

MR CARLTON: The process that Brian is talking about gives us a per-inspector cost and the allocation of cost to the companies using the services depends on their use of our inspectors. If they have 13 inspectors on their plant, we charge them for the 13 inspectors. If they are a Coles store or something like that which only needs periodic inspection, we have an hourly rate and it will depend on how long someone is there, so it's basically based on usage.

DR STEWARDSON: If you've got those sorts of figures, what's the Audit Office complaining about? As I understood what you said before, it was the absence of that sort of information that they were complaining about.

MRS OWENS: No, they're concerned that there's a higher level modelling approach going on, rather than doing a specific cost per inspection.

MR MACDONALD: They want us to do activity. They were suggesting that we should implement some sort of activity based costing system that would directly measure where people were working at any one point in time and use that data - - -

MRS OWENS: For your monitoring.

MR MACDONALD: - - - to set prices and charges. We've taken a more aggregated level and we believe that's sufficient for the purpose, so we're differing on that point fundamentally.

MRS OWENS: Just before we get off what costs you're allocating, just to complete the picture in my head, do you allocate any capital costs?

MR MACDONALD: What do you mean, cost of capital?

MRS OWENS: I don't know whether you've got any costs of capital relating to inspections but is there - you know, do you depreciate any capital?

MR CARLTON: We don't have a return on capital charge and we don't pay a return on capital, so therefore we don't charge our clients on that. Yes, we do have depreciation on any assets that we buy and any internally developed software which we capitalise and charge out on depreciation.

MRS OWENS: The Audit Office has got no problems with the mechanisms you're using there.

MR CARLTON: No.

MR MACDONALD: We operate on full accrual accounting where the only exception would be, as Tim said, the payment of a charge on capital consumed. We don't pay the government any capital charge.

MRS OWENS: That's something. Can I just come back to the principles that are in the submission. In terms of your cost recovery arrangements, we've talked about the first one, the fee structures reflecting actual costs within user groups, and we've talked about how you're allocating your costs. The next principle - I'm just really curious to see whether you actually apply the principles within the portfolio. The next principle is price stability of fee structures, and "The frequency and level of variation to fees and charges once set should be kept to a minimum". Does that apply for AQIS?

MR MACDONALD: Yes. It varies from program to program. We adjust our fees and it varies according to the nature of the program. When a program changes its structure - and we've had a number of programs that have evolved into a different form of export certification or a different form of quarantine monitoring - that engenders structural change in the program. It might be, for example, the introduction of third party arrangements, where a third party provides inspection, or a third party provides a quarantine activity. We don't charge the recipient directly in those circumstances - if there is some third party provider. Those arrangements change the fee structure. They require changes in the fee structure because the fundamental structure of the program changes. That happens from time to time.

Some programs are quite volatile in their demand and we've had to change our fee structure because of that from time to time. For example, the Asian meltdown dramatically affected our horticultural exports program and required some change in the fee structure. Our live animal exports program started introducing third party arrangements and quality assurance arrangements, and that required changes to the fee structure as well. Those events occurred, but primarily we try to keep our fee structures as low as possible and consistent. Obviously we have price movements that we have to deal with as well, from time to time.

MR CARLTON: I think this is an area that AQIS has improved a lot over recent years. If you go back into the early days of our full cost recovery it wouldn't have been uncommon for us to vary fees twice a year with a lot of our programs, because of the some of the volatility that Brian was talking about. In recent years, in conjunction with our industry consultative committees, of which we have one for each of our cost recovered programs, we've introduced arrangements to even out those changes, I suppose.

The most important initiative that was undertaken was to establish income equalisation reserves where we establish a reserve of up to 10 per cent of a program's total cost for a year into a liability account out of over-recovered funds. If we over-recover in one year we will keep up to 10 per cent of those funds in an income equalisation reserve with the agreement of industry that is used to offset deficits in future years. We're trying to take an approach where we look at a three-year cycle in our cost structures now rather than a one year. That's worked quite well. I think it would be very, very unusual for us to vary fees more than once a year now, and in a number of our programs they haven't varied for a number of years.

MRS OWENS: Did the Audit Office take exception to that approach?

MR CARLTON: No.

MRS OWENS: So they're happy to see you averaging over time, but they're not so happy to see you averaging over individual inspections. I think there's a slight inconsistency in their approach. I probably shouldn't be saying that.

MR CARLTON: Yes. No, they did. Under a very strict interpretation of fee for service you can't recover fees in one year that have been - or can't recover costs in one year that have been incurred in another. I might add, though, that the income equalisation reserves have the full support of industry and have agreement from the industry consultative committees, so we don't expect to have any problems with that sort of more strict interpretation of what a fee for service might allow us to do.

MRS OWENS: There are other agencies that also average over more than one year.

MR CARLTON: Yes.

MRS OWENS: The next question - well, you've just said you've had some support for industry, but the next principle is "The development of mechanisms to ensure clear consultation with relevant stakeholders and transparency should be key considerations" - so there is a formal consultation mechanism.

MR MACDONALD: For every program.

MRS OWENS: For every program you have what, a committee?

MR CARLTON: A committee, yes. We have an industry consultative committee many of which have charging or finance subcommittees and they monitor all budget preparation for the programs and, in consultation with AQIS, those committees come up with the charging options and the rates that are applied.

MR MACDONALD: We quite often start from the principles that we've set down for our program, that industry prefers the purity of the principles to be adjusted slightly. For example, we introduced a significant change to the fee structure in the meat inspection program about three years ago and it was put to industry - it was a structure where direct fee for service was covered by a fee that covered variable costs and there was a fixed cost structure which was covered through our registration charges. But industry felt the registration charges were too high and they wanted there to be some cross-subsidisation from the fee-for-service arrangement into the non-variable cost structure. That was agreed with industry. It adulterated the purity of our model but it was what industry preferred, and they agreed, and we agreed with them and it has been a very useful mechanism for ensuring that we have agreement with industry.

MRS OWENS: Just to clarify, that reduced the degree of cross-subsidisation.

MR MACDONALD: It introduced an element of cross-subsidisation.

MRS OWENS: It introduced it?

MR MACDONALD: Within the program, not between programs - but within the program, because the model that we had developed was the purest model, but industry felt that the registration charges that it produced were too high.

MRS OWENS: I think there was somewhere else in your submission - I don't know where it is - there is some concern you expressed about registration fees actually possibly causing some distortions as fees.

MR PEARSON: That was in relation to the Plant Breeders Rights Office. The observation was made that some people could see that as a distortion. One of the arguments that we felt, which still justifies use of these registration fees in relation to - particularly in that example of the Plant Breeders Rights Office - was that this was an annual registration fee and it encouraged the companies in fact to make commercial decisions about introduction of a particular plant variety right, that in fact rather than being an impediment there was in fact an impetus to a more effective allocation of the resources, both in terms of the plant breeders rights for putting their resources into various plant rights which were going to be brought on to the market and also in terms of encouraging companies to ensure that their choice of plant variety rights reflected market demand. So that we were just highlighting there that there was a possibility, and we were aware of that, but we felt in fact that the registration fees which were imposed in that particular example were appropriate and were not in fact distortionary.

MRS OWENS: I'd like to just come back to this issue of consultation, because I know Rob and you wanted to get to this point, and this might be a good point to talk about your issues.

DR STEWARDSON: On page 10 of your submission you talk about AQIS's consultation with industry and say that it's working in a very highly effective and good manner. I got very enthusiastic about that and my question was, and still is: tell us about it. My enthusiasm was somewhat dampened two pages later when you said that over 50 per cent of companies surveyed for a study about exporting indicated that mandatory Commonwealth government charges inhibited exports and most of these firms are SMEs and the most frequently mentioned charges were Austrade and AQIS charges, which slightly dampened the impression of harmony two pages earlier. Can you comment on that, and in particular can you tell us how your consultative committees work and what sort of information they have and what sort of effective input they have? We have a number of people telling us about regulatory authorities in general - not specifically AQIS - that the regulatory authority won't tell them anything useful and it ignores anything that they try to say. If yours is working better, we'd like to hear how you achieve it.

MR MACDONALD: It would be a fair thing to say that none of our industry groups like paying the fee. They don't like the government policy that fees should be charged. They say that openly to government, but they generally would say that if we've got to have a fee structure the fee structure that we do have is equitable. So they'll have a political difficulty with the government over its policy, and we always advise them to take that up with the government, not with the regulator - that's our formal position. But they will frequently say that if we're going to have fees, then the fee structure is okay and is acceptable, and it's equitable because they do have an active say in how the fee structure is put together.

The various consultative committees differ in the way they work but there is one for every industry. Sometimes they're chaired by an AQIS officer, but if that's not the industry's preference then they're chaired by industry personnel. They are financed differently across the programs - again, according to an arrangement that might be agreed with industry

If you take the meat program, everyone just participates in that. I chair that consultative meeting. There's a wide range of industry representatives, from game meat establishments, through to red meat establishments, through to cold store operators - everyone in the production chain. They all have that sort of cross-representation. Participation in that is financed by the individual group, whoever they happen to be representing, and the secretariat services are provided by AQIS. We finance that. Well, indirectly industry finances it because it's cost recovered.

The horticulture program has an arrangement whereby the funds are set aside and people are paid their airfares to come in. People set aside by the department, by AQIS, out of the moneys recovered from industry, to finance the participation of industry in that consultative committee. I was going to say, the chairperson of that committee is an industry-appointed representative. They vary, but that's the sort of general mix of form and arrangement that's in place.

DR STEWARDSON: So they look at the fees, the nature you've already said, and implied the structure of fees.

MR MACDONALD: Yes.

DR STEWARDSON: What about your cost basis - - -

MR MACDONALD: All of that.

DR STEWARDSON: - - - and whether you're being efficient and that sort of thing?

MR MACDONALD: Yes. The general modus operandi is to provide them with all of our cost data on a regular basis, to demonstrate to them what the program is costing - the actual cost of the program. It varies in the amount of detail that industries want, but generally they want as much information as we are able to

provide them. We provide them with levels of human resource, numbers of staff we have, the wage structures. We discuss our certified agreement discussions and negotiations with them. We tell them that we will have to pay, say, a 3 per cent or a 4 per cent pay increase. That's inevitable. "We're trying to get productivity offsets. They're of this kind." So those sort of discussions go on all the time. And they're apprised of our management strategies to deal with our cost structures.

They're not party to taking those decisions. We take the decision ourselves, but they're apprised of what's going on, so they're fully informed of our cost structures and the price-setting mechanisms that evolve from those cost structures. They're a party to agreeing to them. They actually agree to them. If they don't agree, we obviously have to set them, but I don't know of any instances where we haven't reached agreement ultimately.

MR CARLTON: There's probably another element, too. Apart from the actual cost budgets that are discussed with the committees and the actual method of charging, there's also information on performance indicators - effectiveness, efficiency type performance indicators - that each of the programs have that also get fed through to the consultative committees. Those committees generally meet four times a year, at least four times a year, but they're also provided, at the end of every month, with our financial reports so that the members monitor our expenditure against budgets and our performance on the cost recovery targets on a monthly basis, and meet every three months to discuss that.

MR MACDONALD: We also discuss all the technical underpinnings of the program that produce the cost structures. For example, in the meat program there may be a requirement for temperature maintenance of product, and we're about to change it - say, we want to decrease it for scientific reasons - that will have a cost implication for industry. So we would discuss that in that consultative committee. It would possibly affect the price structure of our fees as well.

In the dairy program, we've recently been reviewed by the European Union who will want our certification system to be changed probably. They think that the existing system doesn't meet their requirements. That's what I'm expecting to come out of it. If that happens, we'll go into a round of consultations inside the dairy consultative mechanism, and we will tell them basically what the Europeans require and how we intend to manage that and what impact that will have on the fee structure; and not so much on the fee structure, but on the volume of use by industry of our service which will lead into the payment. It mightn't affect the fee structure, but the volume of fees paid might vary. All of the programs go through that exercise as well - program structures and what it means for fees and what it means for the cost of industry.

DR STEWARDSON: It's very interesting, because your system seems to be working well, from what you're saying. There are other industries where we're hearing a lot of evidence that the consultative process is not working at all well, and the issue seems to be how to give the industry an effective input without having them

control the regulator, which clearly they can't do. One idea that was floating around was to set up something maybe that might be called an efficiency audit committee. It would be like an audit committee of a board, but whereas an audit committee looks at finances of the organisation, this would look at the efficiency of the organisation as well, very much what I think it sounds like your committees are doing.

They may be made up of half of industry and maybe some ultimate consumers and some of the regulators, and it could have a right to get certain information if it wasn't about costs and so on, and it would report to whoever controlled the organisation ultimately - the minister perhaps - so that the minister would be in a position to insist on a change if he felt it was justified but, equally, he could reject the report. So you wouldn't be having this efficiency audit committee controlling the regulator.

That was one suggestion for how you'd get around this business of having an effective input and yet not having the regulated person controlling the regulator. It sounds as though your system is working well as it is. Would that sort of system I've just been describing, which is basically not very different from what you're doing, cause any disruption to your existing practices?

MR MACDONALD: I don't think, because of where we stand, that would cause any problems because we're already effectively doing that. But on the general subject, I think a fair bit of caution is required because you did talk about the regulator being captured by this process. The regulator could be caught in a very difficult situation, with being required to recover their costs by government policy, but with a vehicle being established where political games could be played. I think you would need to think carefully about establishing some sort of formal process, whereby the regulated - and we're just talking about regulation here - had some mechanism or vehicle for having another party make judgments about how the regulator was running its business.

If you take AQIS as an example, as I said earlier on, none of the regulated like paying fees; they think it's an on-cost, it's an impost on exports; they regard some of the things that we do as being a community good and therefore they shouldn't as individuals have to pay specific charges. I think in that context it would be very easy for such a mechanism to become quite a difficult thing to manage with all the politics that would come into play. I think the best solution would be to require regulators to have meaningful consultations with their client groups, but never relinquishing the responsibility as a regulator.

In the final analysis with our systems, AQIS always bears responsibility, the final management decision, and the discussions on fees and charges always conclude in that way. They go to the minister because the minister or the Executive Council has to sign our fees into law, so there's that protection, and that would be across the board, I think, generally speaking - that it would all be some sort of specific primary legislation or subordinate legislation that would have to be enacted to change the fee structure. So the minister is already engaged in that process and, when he makes his decision

about passing a new law to modify fees, he can take the advice of industry as passed through this consultative mechanism. That would be my judgment on the matter. Have you got any comments, Tim or Peter, on that?

MR CARLTON: If you're referring to the AQIS model, I guess it's interesting to note that the independent review that we had of our consulting mechanisms, SMS Consulting concluded that the model would be a model for other government bodies to follow. So that's an interesting point for this hearing.

MRS OWENS: It would be useful maybe to come back to you. We'll look at the transcript and the description of your model, and we could maybe ask you for more information.

MR MACDONALD: It could easily devalue. Setting up a secondary vehicle could easily devalue the work that would go on in the consultative committee because the participants might decide, "Well, why would I go through that process? I've got this other avenue. I'll just chase our interests down that avenue. I'll go direct to the minister."

MRS OWENS: You've made a good point - that there are other agencies where they don't have that legislative review mechanism - if the fees aren't set through legislation, either they're set in-house or through regulation. But there may be other processes that they can go through instead. Do you do regulatory impact statements?

MR MACDONALD: Yes.

MRS OWENS: On your fees?

MR MACDONALD: Yes.

MRS OWENS: You see, again, I don't think there are many other examples where agencies go through a RIS process with fee changes. There are some examples, but not many.

MR MACDONALD: I thought it was compulsory. We go through an RIS on any regulatory change that we put in place; not just on the fees but in terms of, say, the export meat orders or the processed food orders. If we change those, we always do an RIS.

MRS OWENS: Coming back to the principles, you say that:

Cost recovery arrangements should be suitable to the type of service provided.

I think you've already given examples that that is the case in AQIS's situation:

Generally cross-subsidisation between user groups should be avoided -

and the example you gave before of some small amount of cross-subsidisation was within a program, but you don't have any cross-subsidisation across user groups?

MR MACDONALD: No.

MRS OWENS:

If small businesses are to be subsidised, the funds should come from separate government funds, not as a result of cross-subsidisation.

So there would be, in your case, no examples of cross-subsidisation.

MR CARLTON: No longer. Earlier in the introduction of 100 per cent cost recovery, there was some assistance provided to small exporters, and that did come from separate government funds. But that was as an implementation strategy to ease, I suppose, the initial burden of 100 per cent cost recovery, and that's now been phased out.

MRS OWENS: But if that was a separate government fund - - -

MR CARLTON: It was, yes.

MRS OWENS: - - - that's really like the government providing a CSO - - -

MR CARLTON: Yes, that's right.

MRS OWENS: - - - rather than a cross-subsidisation from other businesses.

MR CARLTON: There was no cross-subsidisation. That's right.

DR STEWARDSON: There are such funds existing, are there, floating around?

MR CARLTON: Not for AQIS at the moment; I don't know whether the rest of ACIAR, but AQIS does not have access to those funds any more.

DR STEWARDSON: But they exist?

MR CARLTON: I don't know whether they exist or not. I mean, I presume Austrade and agencies such as that might have those sort of funds, but AQIS doesn't have those funds.

MRS OWENS: The last principle was:

It is important to maintain the independence and the integrity of the cost recovery agency.

I think the points you made about the proposal that Robin put to you actually is

a reflection that you think that there are ways of doing that, and you must ensure that your current independence would not be jeopardised by some other consultation structure.

MR MACDONALD: Yes. When you have a formal regulatory role to perform - and in AQIS's case, of course, it underpins roughly about \$15 billion worth of exports, so we can't afford to have our integrity challenged by some other processes, but it's vital in the interests of Australia.

MRS OWENS: We haven't got onto the Bureau of Rural Sciences yet, but we now have an opportunity, Peter, to maybe run through some issues in relation to your bureau. We quickly touched on it a bit earlier, but I'm also interested in the application of those principles in your case - whether we could just run through some of those.

MR O'BRIEN: Sure.

MRS OWENS: We talked about the public/private issue before, and I think Robin did make a point that you do have fee for service, but do you have fee for service across the board or is it just for particular activities?

MR O'BRIEN: BRS's revenue comes from direct appropriation and from special appropriation and from cost recovered services, primarily delivered to rural R and D corps, and their funding is industry production levy matched by government funds. So it's primarily when we are bidding for work for the rural R and D corps that we're in a fee-for-service mode.

MRS OWENS: That money comes through the industry levies that are collected, doesn't it?

MR O'BRIEN: Yes, matched by a government contribution usually up to half a per cent of GDP.

MRS OWENS: So in terms of your fee structures, your fee structures reflect your actual costs of doing that work.

MR O'BRIEN: They do with the constraint, and the constraint is that the corporations are often not in the business of paying full costs of research. They'll have guidelines that limit, for example, their contribution to overheads or to infrastructure.

MRS OWENS: They've got their guidelines and so they're constrained in how they can pay for your services.

MR O'BRIEN: And providers therefore have to meet those guidelines.

MRS OWENS: Yes, so you basically wear that cost.

MR O'BRIEN: That's right, yes.

MRS OWENS: So again that principle really depends - there's a bit of a qualification on that principle; it's going to depend on the user of the service's ability to actually comply if there's some constraint. But I think the R and D corporations might be a very sort of special case.

MR PEARSON: I think we recognise in terms of the fee structure "should" - it's not a "must" - reflect, and there are going to be various pressures, but as a principle and an approach, that is the approach that is being followed.

MR O'BRIEN: Just to elaborate on that a bit, there are other providers of research funds that have their own but different guidelines - for example ACIAR has particular guidelines in terms of what it's prepared to pay for.

MRS OWENS: What was the acronym?

MR O'BRIEN: ACIAR, Australian Centre for International Agricultural Research.

MRS OWENS: Thank you. I have so many acronyms I have to try and get across that every time I get a new one I just say, "What is that?" and it's good for the transcript too. I usually have a list of them in front of me, but I don't have it today. So price stability of the fee structures, do you keep your fees reasonably stable?

MR O'BRIEN: We annually review our costing model, so, yes, for a full year, and longer where we're engaging in longer-term contracts - say three-year projects for a corporation.

MRS OWENS: Do you have to actually compete for some of the work that you get from the R and D corporations?

MR O'BRIEN: There are other providers - CSIRO, state agencies, universities, consultants.

MRS OWENS: So in some instances, just coming back to the first principle, your fee structures might actually reflect whatever - you know, may just have to set a market price anyway, depending on who else is out there if you're competing.

MR O'BRIEN: That's right.

MRS OWENS: "Clear consultation with relevant stakeholders", I suppose in your case if you're out there trying to get the jobs you're consulting because you're trying to get the work.

MR O'BRIEN: Yes, I think the customers are making their own judgments based

on the bid.

MRS OWENS: You are different. I mean, this is a totally different sort of situation. "Cost recovery should be suitable for the type of service provider," I suppose by inference you're providing policy-relevant research and the cost recovery arrangements are going to be dependent on the fact that you're doing a lot of work for the R and D corps.

MR O'BRIEN: Indeed, yes.

MRS OWENS: Cross-subsidisation.

MR O'BRIEN: Well, that's an issue I guess where you have a provider, a funding provider, that has guidelines that prevent it from paying the full cost of research. Our strategy there is to look for very high levels of alignment between the objectives of AFFA that are suppliers of appropriation funding and the objectives of the work that we're competing to provide.

DR STEWARDSON: Roughly what proportion of your costs do you cost recover?

MR O'BRIEN: If you include special appropriation, such as the work we do for government for regional forest assessments or the work that we're about to do in terms of salinity mapping underpinning the salinity and water quality action plan, then it's about half.

DR STEWARDSON: So very similar to ABARE.

MR O'BRIEN: To ABARE, yes.

MRS OWENS: Yes, there are some similarities, aren't there?

MR O'BRIEN: Very similar in the way we're operating.

MRS OWENS: We talked to ABARE the other day. So there's no cross-subsidisation to - well, there is in terms of the fact that you can't get the full costs back, but you don't have special deals for one R and D corp versus another one?

MR O'BRIEN: No.

MRS OWENS: You don't play favourites.

MR O'BRIEN: No.

MRS OWENS: And you are fairly independent, I presume.

MR O'BRIEN: Yes, described as a professionally independent agency within

AFFA.

MRS OWENS: This is an issue that we raised with ABARE the other day, the question about whether the work that you do funded by appropriation is actually influenced by the work you're doing out there for the R and D corporations, whether those corporations are actually driving all your activities - you know, public good activities, including the salinity work you said you'd be doing and so on - or whether you do have these stand-alone activities where you make your decisions, or somebody makes the decisions, and says, "This is important public good research and that needs to be done."

MR O'BRIEN: It's very much the second way you've characterised it. All of BRS's work is on a project basis and those projects are agreed within the department, okay, so the non-appropriation sources of funding say for an R and D corporation contract is stand-alone and doesn't exert influence on appropriation-funded projects. The impact that the arrangement does have is that the organisation maintains a capacity that it wouldn't be able to maintain on appropriation funding alone, so we probably run probably twice the staffing that we'd be able to achieve simply on appropriation funding.

MRS OWENS: Are those staff quarantined - I shouldn't probably use the word "quarantine" given we've got AQIS here - do they do a bit of both? Do they work on the - - -

MR O'BRIEN: They do. They work on projects in both areas; most staff are working on more than one project. BRS unusually runs about 35 to 40 per cent of its staff as non-ongoing staff - because it's a small agency and trying to cover a range of disciplines, moving staff in and out according to demand in the department and from other providers.

MRS OWENS: So it gives you flexibility but probably a degree of uncertainty with the staff.

MR O'BRIEN: Absolutely, both.

DR STEWARDSON: Is your history in terms of cost recovery similar to ABARE's, that you found the appropriations were being significantly reduced and, quite apart from instructions, you had to go and get outside money in order to continue your operation, or have you always had roughly the same amount of appropriation and wanted to expand?

MR O'BRIEN: It's the same situation as ABARE's. There were cuts to appropriation in 1993 and the opportunity to generate external earnings to supplement the shortfall in appropriation, and that's the strategy we've pursued, just as ABARE has. There's a general picture of flat or declining running costs within the department too, which means that maintaining capacity requires other sources of revenue.

DR STEWARDSON: Can I ask you, Andrew, in connection with both BRS and ABARE, from the point of view of the department do you see them as being atypical of agencies, because it seems to me that they are much more in contestable markets than most government information agencies even, and certainly than most regulatory agencies and that they're relatively unique, not because of the proportion of cost recovery but because of the contestable market that they operate in.

MR O'BRIEN: Can I make a comment while you're gathering your thoughts? My comment would be as science providers we're not unusual; CSIRO, state agencies, are operating quite similar arrangements.

MR PEARSON: I think I'd also note that in terms of general government policy principles the expectation of market contestability is coming in even to many other areas in our portfolio and other portfolios in terms of human resource management, the costs of providing policy advice; all of these things are now far more under scrutiny so that I wouldn't have said that there was necessarily a unique, atypical character to BRS and ABARE. I think we're all reflecting on whether we are providing services, and the costs that we are charging for those services are becoming more in comparison with others who are providing similar services.

DR STEWARDSON: But are you referring to outsourcing specific service things for the department like the HR operations of the department? Is that what you're referring to there?

MR PEARSON: The HR operations are largely outsourced now; BWC has taken over that. But, no, I'm talking about benchmarking exercises that are going on in terms of the price of policy advice for example that we're working on as well, so that there is I think in terms of - you know, you asked about the atypical nature - - -

DR STEWARDSON: Yes.

MR PEARSON: Contestability I don't think is necessarily seen as atypical in the portfolio.

DR STEWARDSON: When you say "benchmarking" policy advice that you're benchmarking yourselves with comparable departments overseas. Is that what you mean?

MR PEARSON: No, we're looking - at least in terms of we are providing advice and our friends in DOFA for example are comparing - you know, I understand that other portfolios are similarly being asked to try and work out the costs of their various projects, and that is not just restricted to projects of a science nature. These are projects in terms of providing policy advice as well, so that there are exercises going on to try and get some idea of what the costs for policy advice are in this portfolio, and I'm aware that they're going on in other portfolios at Commonwealth level as well.

MRS OWENS: These are the DOFA pricing reviews you're referring to?

MR PEARSON: These sorts of things. So that is contestability.

MRS OWENS: What I haven't been able to work out in my mind is the implications of output pricing and pricing for service delivery, if there's a link; I haven't quite resolved this in my own mind, this move to output based budgeting and output pricing, which is being pushed along through DOFA, and setting prices based on the costs of service delivery, your first principle. There may be, I don't know, some tension there. I don't know whether that's something that you've been thinking about.

MR PEARSON: I don't think I'd be able to advance an answer on that. It's still early days and we're wrestling with it. I don't think we've come to necessarily a definitive position.

MRS OWENS: I think it's a complex question.

DR STEWARDSON: The only thing I had was that in my copy at least of your submission attachment A isn't present and it sounded quite useful. It's levy guidelines. Is that something that we - - -

MR: It just needs some additional attachments. We didn't get them electronically, that's all.

MRS OWENS: They will be coming then.

DR STEWARDSON: So we've got it, good. I was going to ask you for it if we hadn't, but it seems we've got it, good.

MRS OWENS: They were coming electronically. There's a whole lot of attachments which we haven't got here. So you're very fortunate, because we probably could have gone and asked a lot more questions about what's in the attachments, but there seems to be about 20 of them I think, maybe a bit less. But our staff are very grateful for all the other information that you've provided and I think you've filled in our questionnaires, so thank you very much for that too and thank you for appearing today. Is there anything else you wanted to raise with us? Okay, well, thank you. We'll break for morning tea and we will resume at 20 to 12.

MRS OWENS: The next participant today is Ansett-Air New Zealand. I'd like you each to give your name and your position with the company for the transcript.

MR VOSS: Brad Voss, government and international specialist.

MS EDMAN: Donna Edman, manager, federal government relations.

MS FRANKLIN: Helen Franklin, manager, group aeronautical charges.

MRS OWENS: Thank you very much, and thank you for coming. Thank you for the submission, which we both enjoyed reading. It was a very good and clear submission and I was very pleased to have a submission that outlined so clearly all the different charges that you are currently facing, so thank you for that. I understand later you want to make some confidential comments to us, so we might do that at the end.

MS FRANKLIN: That would be great. We did put some parts of our submission as commercial-in-confidence and we would like to discuss those perhaps off the transcript.

MRS OWENS: That's fine. What we'll do is go through the formal part, this part of the proceedings, and then we'll go on to the confidential bit later. Have you got any opening comments that you'd like to make before we ask you some questions?

MS FRANKLIN: Yes. In preparing our submission, what we tried to do was adopt a more principles based approach, using examples of the sort of cost recovery that we are subject to, to illustrate our concerns about those principles that we were trying to raise. We sought to outline our expectations in areas of government cost recovery and also the magnitude of that expense for the Ansett group, which is some \$233 million per annum.

I had the opportunity last night to read a number of the submissions in the plane on the way over here. In particular, I noticed the submission by the Department of Transport and Regional Services, which I found very interesting. I noticed the cost recovery principles that the Department of Transport had outlined in their submission and it seemed to me that they weren't radically different to those sorts of principles that we are talking about in our submission. Although we might have used some different language, the principles in essence appear to me to be very similar.

I also read the submissions of the Department of Finance, Bureau of Met, and Australian Customs Service, and I have to say the information in the Bureau of Met and Customs Service submissions was the best level of information I have seen from those organisations since I've been in this role. So from my perspective, quite apart from what I'm sure will be incredibly useful output from this inquiry, just reading the submissions that have been put to the inquiry has been incredibly constructive and thought-provoking for me, seeing the different perspectives outlined with such clarity. I'll certainly be taking the opportunity to try and keep that constructive nature of

dialogue going with those organisations because it was incredibly interesting to see that outline.

I'd also like to note in opening that what Ansett is seeking in government cost recovery is transparency, a reasonable level of predictability in budgeting for our business, and equity in the way cost recovery mechanisms are constructed for government service providers, the majority of which we have no alternative but to use in our business. That's really, in opening, all I'd like to say.

MRS OWENS: Thank you very much. I thought your opening comments relating to those submissions were well taken, because I know somewhere in your submission here you do talk, for example, about the Bureau of Meteorology and not being clear about their charges, and I thought to myself, "Well, I'm reasonably clear about how it works now," but I think that was a function of the fact that we did have a very useful meeting with them and we also received the submission and we've had hearings, and I think there was in their submission a particularly useful diagram which showed how their charging arrangements worked for the core services for aviation and defence and then other mixed public-private goods, services, and then their private commercial arm, and to me it all made quite a lot of sense. That was one of the things I was going to ask you: how you didn't have this information.

MS FRANKLIN: We have never seen that level of information before and it was just incredibly constructive. It really is thought-provoking to see that level of openness. I intend to approach the Bureau of Met and try and keep the discussion going from there, with a better understanding of where they're coming from now.

MRS OWENS: We'll come back to their actual charges a bit later, but they do actually have a reasonably well-thought-out pricing policy which they have been working on for a number of years. John Zillman, who runs the bureau, has, jointly with Prof John Freebairn from Melbourne University, co-authored quite a number of articles about pricing meteorological services, which are really very interesting articles and are in the public domain.

MS FRANKLIN: I didn't get to the annexures last night, I'm afraid.

MRS OWENS: I don't know if you're an economist, but it gets to be quite a challenge reading them, but if you can work your way through them, they do give you a fairly good underlying knowledge of what the thought processes were in the development of those policies.

Can I just go to table 1, because you've set out how much you spend, which you say, for the financial year to 30 June 2000, adds to 233 million. What I wanted to do just before we started talking about all these different charges was just to clarify something. You have a group spend and you've incorporated the passenger movement charge as a group spend, but in fact you're really just acting as a postbox, aren't you, on that?

MS FRANKLIN: Yes. You are quite right, it's not part of our group spend, although we do incur costs, and we haven't quantified the extent to which we don't cost recover. There's a lot of leakage from the collection of these ticket tax type charges, where international agents and people selling your tickets don't necessarily always collect the charge. There's under-recovery, if you like, by the airline and we haven't yet been able to quantify what the extent of that over-recovery might be for our group. But you're absolutely right. It's a ticket tax that goes on for the passenger as opposed to us. We view it as a cost of travel and a cost to our customers using our services and have included it on that basis for the purposes of this inquiry. You could say the same thing, I must add, about the aircraft noise levy. Again, we have an amount on the ticket for passengers originating and destinating at Sydney Airport.

MRS OWENS: So that's the \$10 million there?

MS FRANKLIN: Yes, although that one is in fact collected from us but by Airservices Australia, but we do put that on the ticket.

MRS OWENS: But that ultimately is paid by the passengers. But there would be some element of the \$10 million there and there would be some element of the \$6 million for passenger movement charges, which are actually costs to Ansett.

MS FRANKLIN: Correct.

MRS OWENS: But it's an unknown amount.

MS FRANKLIN: Correct.

MRS OWENS: So basically the group spend is all the other things added up, plus a proportion of those two.

MS FRANKLIN: Exactly.

MRS OWENS: So it's hard to get an exact amount.

MS FRANKLIN: Yes, that's fair.

MRS OWENS: That clarifies that. I suppose, regardless of whether you've got those in or out, it's still a very large sum of money that we are talking about.

MS FRANKLIN: Yes, and also this doesn't include the recently privatised airports.

MRS OWENS: Yes. I think you've talked about the ACCC fuel levy as well, which was imposed from - - -

MS FRANKLIN: Last budget, yes.

MRS OWENS: For 2001. So it doesn't include that, as well.

MS FRANKLIN: No, it doesn't.

MRS OWENS: So in fact there are probably things that could be added onto that.

MS FRANKLIN: Yes.

MRS OWENS: And there are things that could be subtracted.

MS FRANKLIN: Yes.

MRS OWENS: It would be interesting to be able to do that exercise for the next financial year. Do you have any forward estimates?

MS FRANKLIN: Yes, we can certainly get something along those lines to you.

MRS OWENS: We are talking a very significant amount of money and I think it's important to get as close as possible to pinning that amount down. It raises an issue about - at least for the international operations of Ansett and Air New Zealand - the issue of competitiveness in international markets and the extent to which the airline faces similar charges or charges of an equivalent amount or more in other markets, and whether this is seen as undermining the competitiveness of the airline. Would you care to comment?

MS FRANKLIN: I can comment on some areas. Certainly Airservices Australia has - and perhaps the area that is of most impact for international carriers of air services in their en route charge. Their en route charge is significantly higher and, although I haven't done the numbers from yesterday's press release, I believe it would still be significantly higher than the similar en route charge charged by Airways Corporation in New Zealand. There are different cost recovery mechanisms in New Zealand that are applicable for Australian Customs Service and their equivalent of CASA, which is a CAA body, which is done via a passenger head tax which goes onto the ticket. I can't comment on quantification. I am happy to try and get some additional information to you on that, though.

DR STEWARDSON: Would you expect New Zealand's charge to be comparable with Australia's, though? To an outsider who knows nothing much about the industry, I would have thought that, apart from a few mountains to pop over, it's just a hop, step and a jump compared with between ports or compared with Australia's rather large spaces.

MS FRANKLIN: We're not talking necessarily the magnitude of the charge but the unit rate there, talking the unit rate that they charge for an aircraft, which is generally based on weight and is based on the same recovery mechanism, if you like, in New Zealand and Australia. The charge per tonne for the en route charge is less in New Zealand than it is in Australia. If you're talking total absolute numbers, I agree with

you; I think that's right. If you're talking the unit charge, that's where the difference is perhaps not comparable.

DR STEWARDSON: Okay, and maybe if you had anything on Canada or something.

MS FRANKLIN: Yes. NavCanada is a useful benchmark because they are quite similar to Australia.

MRS OWENS: That would be, I think, very useful. Maybe Airservices Australia would say that they're charging for a different range of services, that they're doing something different.

MS FRANKLIN: No, I wouldn't think so. The services are in essence the same and they're pretty uniform services in terms of you provide a tower or you provide an en route service. The perhaps primary difference in Airservices is that they provide rescue and firefighting services in Australia, whereas in most countries rescue and firefighting services are provided by the airport operators. So, again, I think it makes talking in absolute numbers relevant. Absolute numbers is perhaps not comparable but, in talking unit prices, you can compare.

MRS OWENS: Although if you're providing firefighting services here and not somewhere else, even the unit price - - -

MS FRANKLIN: Your absolute numbers will go up.

MRS OWENS: - - - you'd need to probably adjust that as well.

MS FRANKLIN: Yes.

MRS OWENS: I think any information you could supply would be very useful for us, because we need to actually get to the point where we can understand the impact that some of these charges are having to the users of services.

MS FRANKLIN: Sure.

MRS OWENS: If there are charges which are significantly higher in Australia than would be incurred in other markets. That could have an impact on competitiveness. They may not be significant enough to do so, but we're talking the absolute dollars and if we've got the unit charges as well, it could be a potential problem for you.

MS FRANKLIN: There was an interesting discussion, just moving to another area, in the Bureau of Met submission on the different approaches, for example, of New Zealand Met and the US Met and Australian Met. I have to say it's not a debate I've been close to, but I think it's one that's due to hot up here fairly soon, with CASA writing some potential changes allowing contestability for Met services that I understand is on the horizon, and so that will be a debate we'll need to get close to.

MRS OWENS: We could talk about the Bureau of Meteorology. Do you want to talk about that, Robin? I mean, would you like to see more contestability in the provision of services to you. At the moment, as I understand it, the Bureau of Meteorology is charging you really an incremental cost based on access.

MS FRANKLIN: I guess from our point of view it's more a matter of we don't understand the charge that the Bureau of Met puts on us. We don't understand that it's an incremental cost. Certainly in the consultation meeting that we had this year we raised a lot of concerns about the move from cost accounting to accrual accounting and the difficulties in double dipping that appeared to be creeping in there. We don't have any sense - and that's where I say that the Bureau of Met's submission will be incredibly helpful for a dialogue with Met, to say to them, "Now we understand how you approach this. Can you help us with this piece as well?"

I guess with the Bureau of Met what we're perhaps more concerned about is, well, aviation appears to pay as a quirk of history; other industries such as, for example, maritime, who need similar specialist levels of meteorological data, don't contribute to Bureau of Met. Why is that, from an equity perspective? Is it appropriate that a historical accident almost, where aviation was wanting more data from Met and an agreement was entered into for a charging arrangement, is perpetuated? Is it appropriate? And I guess it's the fundamental question that we see as the issue here.

DR STEWARDSON: I thought that was an interesting point you raised about the comparison with maritime services. Again, as somebody who doesn't know anything about the detailed technical matters, is it correct to say that they need just the same amount of meteorological detail as you do? Or is theirs a more crude measure than you require?

MS FRANKLIN: I can't answer that with any certainty myself. I guess what I'd say is that just from a thinking about it perspective, the cruise liners and the transport shipping companies and whatnot else must require the same level of information in terms of weather patterns at sea, weather patterns and storm arrangements and the like that we require in the air. Just as a logic test for me, it seems unusual that we pay and maritime don't. I don't want to get in trouble with the maritime people by saying "You guys should pay"; it's more a fundamental question.

DR STEWARDSON: That's the logic of it.

MS FRANKLIN: Yes, it's more a fundamental question, and that's just an example; I'm sure there are other industries out there. It's more do we have effective principles establishing the cost recovery for Met services.

DR STEWARDSON: I thought it was an interesting point.

MRS OWENS: I think we'll have to ask them about that. We might get back to

them and just see, but you did actually say in your submission that you thought there was a formula based on aircraft weight and distance travelled, which I thought seemed really strange, and it doesn't sort of quite fit with my understanding about using incremental costs, but that was your understanding of how they were charging.

MS FRANKLIN: That's the way we pay for Met. We're billed for meteorological charges by Airservices, who have an arrangement with the Bureau of Met, and the cost recovery is estimated at the start of each year, based on aircraft activity and flying, and it uses the same formula as the en route charge that Airservices use, so in essence it's an increment to the en route charge that we pay to Airservices, that Airservices collects and remits to the Bureau of Met.

DR STEWARDSON: You seem to be unhappy about that formula because you raise it under meteorology.

MS FRANKLIN: Under Met and Airservices.

DR STEWARDSON: Also under the airport securities charges on page 7.

MS FRANKLIN: Yes.

DR STEWARDSON: I wonder if you could explain precisely why because you seem to be saying that the formula is based on aircraft weight and then you say:

This is based on the fallacious assumption that if you operate a larger aircraft you're more of a terrorist threat -

in that particular bit. Isn't it just sort of a proxy for the number of passengers that you're carrying, and not so much the weight of the aircraft, the fact that a bigger aircraft is going to have more people? Isn't it trying to allocate things in that way and isn't that reasonable?

MS FRANKLIN: I guess, going back to first principles, the weight based charge in essence is a capacity to pay-type charge. If you look at aircraft weights and passenger capacities, there are a lot of different ratios, and depending on the type of aircraft you fly it can have different impacts. The passenger to weight ratio is quite an important difference there. Now, what our position is is that for, say, a general landing charge at an airport where you land an aircraft on a runway - and that is definitely the cost driver. The size of the aircraft dictates the length of the runway, the hardness of the runway surface and those sorts of things - entirely appropriate for an MTOW based charge to be used there. Where, for example, you have a terminal building and you're looking at imposing a charge for the terminal building - and perhaps the discussions in the Adelaide MUIT, the multi-user international terminal being developed at Adelaide where we're looking at - I tried to include a table of acronyms. I haven't got them all, I'm afraid.

DR STEWARDSON: I don't think you've got that one.

MS FRANKLIN: Where you're looking at a terminal building being built, an MTOW charge, which is a maximum take-off weight charge.

DR STEWARDSON: What is that word?

MS FRANKLIN: MTOW, maximum take-off weight, which is the weight based formula that's used. An MTOW charge doesn't perhaps give you the best cost driver of dimensioning your terminal. The number of passengers that you're processing through that terminal is what's important, and so there a passenger based charge might be more appropriate. I query whether or not - and I think we raised this in the submission in a number of places - just because you're flying a larger aircraft means you need different or better or more sophisticated or whatever data. It doesn't. Everyone uses the same data from the Bureau of Met; likewise, with the CTFR charge, which is the counter-terrorism charge that you refer to, whether the maximum take-off weight is indeed the best proxy for charging purposes for the APS charge.

MRS OWENS: What would be the best way of charging for that?

MS FRANKLIN: To the extent that counter-terrorism first response is provided - well, we say that the airline industry should not be paying for the entire charge in any event, and so I would suggest that it's probably some sort of pay for use type of service where you have an APS presence at international terminals and domestic terminals, and that presence should be allocated amongst the users. That might be done by some sort of a passenger basis. It might be done on some sort of an equitable basis. I don't know what the answer is. I think that's a discussion that needs to happen, rather than providing an instant answer for it.

DR STEWARDSON: Two questions: (1) is there something that could make a significant difference to your costs if some little things were charged on the basis of an MTOW and some were on the basis of, say, passengers carried; and (2) have you made these points to Airservices, for example, and what sort of response did you get?

MS FRANKLIN: Certainly we've queried with the Bureau of Met the efficiency of a weight based charge and for the Bureau of Met, for example, I'd suggest that it's probably not a weight based charge that's necessary but perhaps more a service based charge: you pay for what you use, rather than by weight. Now, that means all users would be paying and that's perhaps where the difficulty comes in, because in essence at the moment, with the larger aircraft being the proxy for which their charges are recovered, obviously the larger domestic and international carriers who pay that charge contribute a disproportionate amount for the same level of services as is given to the smaller carriers. So, depending on any revised cost allocation - and I'm not saying passengers is the right one in every circumstance either - it could have significant difference.

DR STEWARDSON: What sort of response - I mean, have you raised this with Airservices?

MS FRANKLIN: With Airservices I don't know that we've raised the issue to the same extent because MTOW is the way the en route formula works. We certainly say that it's not necessarily appropriate because it's again saying a larger aircraft is worth more in terms of in the air in Airservices' time than a small aircraft, which is not true. The same level of time and tracking goes to following anyone who incurs that charge.

DR STEWARDSON: We're all equal in the sight of God.

MRS OWENS: The same dot.

MS FRANKLIN: Yes, it's the same blip on a screen.

MR VOSS: In some respects modern aircraft, larger aircraft like the sort that we have, do have on-board systems which assist with radar looking for poor weather, which smaller aircraft don't have. So in many respects our need for in-flight weather may be less than other smaller operators.

MRS OWENS: Coming back to the security issue, I think you've made a valid point that the security measures at airports also benefit the private owners, or the owner of Sydney Airport, because they've got concession holders and they've got people using those airports - not necessarily passengers but people coming and going, seeing passengers off and so on.

MS FRANKLIN: Yes.

MRS OWENS: In some way, to me it makes sense to actually divide it up between the airports and then the airlines, and then there's the question of once you've made the decision of how much - you know, what the proportion there is. Then it's a matter of how you allocate, on what basis you allocate to airlines. I think Robin is right; to the extent that it's actually there to protect passengers, maybe the numbers of passengers is one way. But to the extent it might also be protecting the goods that are being carried and the freight carried on those aircraft - I mean, if somebody comes and blows up an aircraft there are people that lose - apart from the passengers who may be injured or killed, you've got the owners of the freight that's actually being carried. It is, I think a complicated - - -

MS FRANKLIN: There's a multitude of impacts. Look, I think that the other thing that we say is, quite frankly, the CTRF charge - terrorism is in general directed at nations, not individuals or not an aircraft per se. It's a national thing and that whole element needs to come into the play as well.

DR STEWARDSON: That perhaps brings us on to one of the key things that pervades your whole statement; that is basically the issue of cross-subsidisation and basically what you're saying is that there are a whole lot of costs of operating towers at smaller airports that you don't land in, and that there are a whole lot of - I don't know quite how to describe them, but more detailed navigational bits and pieces along

the route that are useful for general aviation but aren't relevant for you, and that the cost of these things to an extent is under a community service obligation at the moment, as I understand it. You may be wanting to correct me but it's coming up for review and these costs, if they're to remain - if the physical things are to remain and the costs are to remain - are beyond the financial power of general aviation and possibly the regional airlines - I'm a bit unclear about that - to pay for and therefore if they're to remain, who is there but the big domestic carriers?

We had this rather interesting - by pure chance we had consecutively yesterday someone who was talking about that issue and the Department of Immigration talking about a totally different issue, but it was about teaching English to new migrants who were coming in under a family reunion basis and couldn't pay the cost of the English, but it was regarded as something that was very important, from the point of view of assimilation into the community. In that particular case the department had no hesitation whatsoever in saying that the community should pay.

They're very different examples but we do come across this situation of where you have the facility that somebody needs, but it's beyond their resources to pay for, who should pay for it altogether? What is your solution? You don't like the current solution, so what is your solution?

MS FRANKLIN: Going back to some of your earlier comments, the community service obligation piece is one that frustrates me enormously because the government is not picking up a community service obligation in relation to those towers. The domestic and - - -

DR STEWARDSON: Sorry, can you elaborate on that?

MS FRANKLIN: The domestic and regional airlines had a fuel levy imposed on them to provide the subsidy to Airservices for those towers and in not this budget but the previous budget a fuel levy was imposed on us - an avter levy which only domestic and regional airlines pay - to provide an \$18 million subsidy to Airservices for those towers. We have enormous concerns about that and I'd like to talk about the context of fuel levies generally, but perhaps we can have that after I've tried to address your question.

There is currently no - to the best of my knowledge, and that's in the absence of all the information, the airlines pay for that subsidy. It's not being met as a community service obligation, and it's a source of enormous frustration to me generally that Airservices and the department appear to talk about it as a community service obligation being met by the government when we are in fact funding it. In terms of - - -

MRS OWENS: Sorry, in what way? Do they publicly refer to it as a community service obligation?

MS FRANKLIN: Certainly Airservices do, and I believe that in the department's

submission, or in your discussion with Peter that it was again referred to as a community service obligation there.

DR STEWARDSON: I certainly got that impression from somewhere.

MS FRANKLIN: But we fund that through an avter levy which is a levy on fuel excise that domestic and regional aircraft pay. International operators don't pay it, nor do GA operators who operate with avgas rather than the avter - different aircraft, different fuel. So that's the first point I'd say - we are actually paying for that, not the government.

MRS OWENS: I think when we talked to the Department of Transport - I'm just trying to remember the conversation about this - but I think that they did say that they saw the regional towers as being part of a network to the extent that you're not necessarily subsidising what would otherwise be uneconomic towers in particular areas, but what you've got is a subsidised network of towers. Maybe that network feeds into your other domestic operations. Maybe it's a sort of feeding effect where you do benefit from having the rest of the network operating efficiently. Is that a possibility?

MS FRANKLIN: I guess from our perspective, what we would say is that at the moment, out of 26 towers that Airservices have, we are paying a fuel levy to subsidise 15 of those towers. Some of those 15 towers, Ansett and its subsidiaries use those airports. For example, we have aircraft that fly into, say, Coffs Harbour or Wagga; we don't have aircraft flying into Tamworth; we don't have aircraft flying into Essendon or Bankstown - some of those other airport towers that we are being asked to cross-subsidise. So in terms of the network, that's valid in some respects, but not necessarily in all.

From our perspective what we would like to see is - we need to have a discussion about the need for towers at some of these places. The government and local communities have social and equity reasons why they think a tower is important. I think what we need to move towards is having some rational establishment and disestablishment criteria for a tower. So when is a tower needed and when is a tower an optional extra, if you like? Once those criteria have been put in place - and they're objective criteria - then you can move to the next question which is: if we want this as an optional extra, who should pay for it and how is that funding best arranged?

If the government considers that having a training school at Tamworth is something that is of enormous community interest and they want that tower to continue because the training school would close down, then there should be a government contribution in recognition of that social equity issue they are trying to address. It shouldn't necessarily, in the next budget, come out of the blue and hit the domestic airlines as a fuel levy.

DR STEWARDSON: Wasn't there a review of the necessity of towers and some of the air navigation aids begun, but aborted?

MS FRANKLIN: Yes. I guess separating the two, the towers, I think is an enormous issue for the government as well as for Airservices and Airservices customers. The tower reviews that Airservices did start to undertake, were undertaken in the absence of any really objective "This is when you need a tower, this is when you don't need a tower." Certainly CASA have written standards and they're still progressing through the process for establishment and disestablishment of rescue and firefighting services. I don't believe the same has been done for towers at this stage. It will be a more complex exercise and the RFFS one has been incredibly complicated, but just because it's hard doesn't mean it can't or shouldn't be done.

Once you've got some objective criteria and standards there, that's when you can really start moving forward. I think Airservices were starting from behind the eight ball in that there wasn't objective criteria and they were using a safety case that they developed and seeking people's input into that. I think there are also some failures in how consultation happens and just understanding the government's interests and the local community's interests in how solutions are worked through, as well.

DR STEWARDSON: I asked you a question with rather a number of bits to it. One of them, I think, has dropped through. Even assuming that as a result of the sort of review, with the sort of criteria that you've discussed - assuming that that led to the closure of some towers, I take it from the tenor of your comment, though not specifically what you've said, that there would still be some towers remaining and perhaps some navigational aids remaining that would be too expensive for the general aviation industry to pay for, and so the question is: who should pay for them?

MS FRANKLIN: And how. Yes, that question would still remain. Some of those issues - a dialogue would at least highlight where they exist. Where equity reasons mean that a part of the industry, which has been cross-subsidised by the larger carriers for a long period of time, can't afford the services but those services are considered to be critical and that part of the industry's survival is considered to be critical as an equity issue by the government, then they should be funded through a community service obligation, not via industry cross-subsidies.

DR STEWARDSON: It's an interesting case, I think, because in a way if - I take it we're talking about charter aircraft and people who own their own aircraft and they don't perhaps stand out as an enormously deserving group for community subsidisation from the tax revenue.

MS FRANKLIN: To be fair, you're also talking about the rural operators and the crop sprayers and the people like that, and there is a fine balance for the government there. But I'm not sure that it's one we should buy into, or have a right to buy into, except that I don't think it's fair for us to be asked to cross-subsidise those activities from our own commercial businesses.

MRS OWENS: Can I just clarify something for the transcript. A few minutes ago, Helen, you mentioned the fuel levy in relation to this particular issue as being

18 million. I think that's the fuel levy in relation to CASA, and this is 4 million.

MS FRANKLIN: No. Airservices are - - -

MRS OWENS: I'm just looking at your table 1 again.

MS FRANKLIN: The budget documents talked about a recovery for Airservices for a subsidy to be provided to Airservices and set a fuel levy on the domestic and regional airlines. Ansett's contribution to that fuel levy is \$4 million. Qantas would also have a contribution, I imagine, slightly higher than ours. That is this year.

MRS OWENS: So the 18 million you referred to earlier, what was that?

MS FRANKLIN: That's the total amount of recovery for the Airservices subsidy for regional towers.

MRS OWENS: Including Qantas and - - -

MS FRANKLIN: Yes, 11 million in year 1, and 7 million in year 2. The next budget, we're awaiting to see whether or not yet another fuel subsidy is put in.

MRS OWENS: That includes the contribution mainly from Qantas, I presume - would be the other main - like the 11 million - - -

MS FRANKLIN: I imagine they would be the other - - -

MRS OWENS: You'd be putting in 4 million.

MS FRANKLIN: Yes.

MRS OWENS: And Qantas would be putting in some amount as well.

MS FRANKLIN: They'd probably be putting in 5 or 6 I imagine, just on a size basis. Then there would be other regional carriers that would pay that also.

MRS OWENS: Thanks, that just clarifies that. Because there was the other 18 million I just didn't want anybody to be confused about them.

DR STEWARDSON: Do you want to say something about the avter - - -

MS FRANKLIN: The fuel levies generally. We pay for CASA costs via a fuel levy. In the 1998-99 budget the subsidy for the Airservices towers was the \$18 million that I was referring to, recovered via a fuel levy. That was to run for a period of two years and in last year's budget a further fuel levy was put on the airlines, again domestic and regional only, to fund the activities of the ACCC as regulator of the privatised airports. We have enormous concerns about the use of fuel levies as an

appropriate cost recovery mechanism. Certainly I don't believe that they're efficient. They're certainly administratively easy. They're not transparent. We're not consulted on the level of activity that is used in determining and setting the level of the fuel levy. We have no reconciliation at the end of the year as to the amount paid and the amount collected in the fuel levy.

There is no direct hypothecation of the fuel levy across to the provider that it's intended to fund, so we know we pay \$4 million, Qantas pays some amount, others pay other amounts, and we've got no sense of whether or not there is a significant over-recovery of these fuel levies going into consolidated revenue or not. But apart from anything else, we have no consultation about these levies. They're announced on budget night and take effect from midnight on budget night. They impact on our business planning. They have an immediate detrimental impact on our business and it's something that's of enormous concern to us, that they appear to be a mechanism that we're seeing more and more.

DR STEWARDSON: You've got a number of problems. There's the lack of consultation, there's the nasty unexpected surprise in the budget. If you took those things aside, which could be resolved if one wanted to - and also you mentioned the lack of verification that the money was being used for what it was supposed to be used for and, again, that could be solved if the government wished to. If you put those problems aside, is it a bad mechanism for raising funds from the industry - assuming that the purpose is desirable from the industry point of view, is it not a bit equivalent to the diesel tax for trucks for road use?

MS FRANKLIN: I don't think so, certainly not for the recovery purposes that it's being levied and also I'd argue, just in terms of equity, it's incredibly difficult to see - using the ACCC as an example, where the ACCC are a regulator, aviation has now been one of the only industries asked to pay for the regulator. The regulation of airports is in fact what the ACCC are regulating, not the airlines. Why should the airlines be the ones who pay for that? It has no impact on the behaviour of the people that the ACCC was asked to regulate, so for example the use of the ACCC is driven by whether or not there's sensible dialogue going largely beforehand between the airport and the airline operators on issues. It doesn't drive any more conciliatory behaviour from the airports when the airlines are the ones paying for the ACCC.

International operators don't pay the fuel levy, but benefit disproportionately from the ACCC's decisions in the airports area, primarily because of the long-term domestic leases that Ansett and Qantas hold. The ACCC aren't deciding on issues surrounding domestic landing charges to the same extent as international landing charges. There are a whole raft of inequities and subsidies and inefficiencies introduced as soon as what is an easy administrative mechanism is used to plug a gap, I guess is the way we perceive it.

MRS OWENS: Can I just clarify what ACCC is monitoring. You say in here "the prices of aeronautical services", so that's landing charges?

MS FRANKLIN: Yes, there is a price cap on landing charges at privatised airports, if you like. The ACCC monitor that price cap under the Prices Surveillance Act. They also monitor aeronautically related charges, such as road access and the like to the airports and it is the airports' charges that are regulated.

MRS OWENS: But to the extent that they're regulated, the landing charges do have a pretty direct impact on the airlines.

MS FRANKLIN: Yes, we pay those, too.

MRS OWENS: You pay those, and so you benefit from any decisions that the ACCC made on those charges that went your way - I'm just thinking this through aloud - and the access charges to the airport, again, you want to have passengers who are going to - - -

MS FRANKLIN: There aren't access charges. They're an area where the ACCC monitors behaviours. The ACCC, in essence, is monitoring and regulating airports' behaviour in the manner in which they comply with the price cap and they do regulatory reporting and the like and they decide on airports' necessary new investment proposals - has in essence been the area, so you're quite right, we do get a benefit to the extent that the ACCC says, "No, you're asking for an inappropriate rate of return there," or whatever it might be. That's true, but one has to say that in the nature of regulating monopoly providers, that's not a benefit that's unreasonably expected when you're dealing with a monopoly supplier.

MRS OWENS: We're actually doing an inquiry into the PSA as well, as you know.

MS FRANKLIN: Yes, we've put in a detailed submission to that inquiry.

MRS OWENS: We'll probably look at it in that context.

DR STEWARDSON: Why is the avter levy only raised on domestic and regional, why not international airlines getting avter in Australia?

MS FRANKLIN: International airlines don't pay Australian fuel excise taxes.

DR STEWARDSON: Is there a legal reason for that.

MS FRANKLIN: I believe so, yes. And general aviation and operators of smaller aircraft use a different type of fuel. Propeller-driven aircraft use a different type of fuel to the avter on which the excise is levied.

DR STEWARDSON: Perhaps someone later on can explain to me why the internationals don't - - -

MRS OWENS: We heard that last week, too.

DR STEWARDSON: I don't quite see the logic of it.

MRS OWENS: I think it's a constitutional issue. We probably should discuss this out of session. Are there any other issues we want to raise at this stage or do we close for lunch. Yes, you wanted to make some in-camera comments. We're now going to move on to an in-camera discussion.

Continued in Transcript-in-Confidence

Continued from Transcript-in-Confidence

MRS OWENS: The next participant this afternoon is the Australian Fisheries Management Authority. Could you each please give your name and your position with the authority for the transcript.

MR MEERE: My name is Frank McFarlane Meere. I am the managing director of the Australian Fisheries Management Authority.

MR MARSHALL: My name is Philip Henderson Marshall and I am the general manager of strategy and planning with the Australian Fisheries Management Authority.

MRS OWENS: Thank you very much and thank you for your submission. I had actually read an earlier version and then last night I read the other version, but they are quite consistent, which I was quite pleased about, but if I do refer to the earlier one occasionally you'll understand because that's the one I annotated. I understand you do want to provide a brief opening statement.

MR MEERE: Just very briefly. The first thing I wanted to say was, my apologies for the delay in getting the submission to you. I realise it's not a lengthy submission but due to a range of other pressures unfortunately it wasn't completed in the time line we had hoped. My apologies for that.

MRS OWENS: You are not the only one.

MR MEERE: I suspect not. What I did want to say though, just very briefly, is that since AFMA's establishment in 1992 we have been working under quite a well-focused cost recovery policy. As you would be aware from our evidence and from others' evidence, as part of the move to establish the authority the Industry Commission was asked to report on cost recovery arrangements for Commonwealth Fisheries and then subsequent to that a government task force, in which we were involved but which also included officers of the Department of Finance and Administration and the Department of Primary Industries and Energy and ABARE, looked at refining that and providing some flesh in terms of government policy and, from 1994, when that was accepted as government policy, we have worked under those cost recovery arrangements.

I think they are fairly well defined, although while we were waiting to talk to you this afternoon, we did talk about the fact that possibly the paper could be a little clearer in the way it goes about explaining the principles behind it, but in terms of the application we have found that the application, particularly with our key stakeholders - the commercial fishing industry - has been well accepted and the principles are now well understood within commercial industry and its representative bodies. If you would like, we can elaborate more on how we go about engaging them in the process

of actually recovering costs. That's all I wanted to say as an opening comment and I am happy to answer your questions now.

MRS OWENS: Perhaps that might be a good place to start. As you know, this morning we spoke to the Australian Seafood Industry Council and I think the general impression we got from the council was that basically they're very happy with the way things are going with the authority, and I think we're particularly pleased about the consultation processes and the interaction between themselves and the authority. I think that was the general impression we were left with, but that there were some concerns about what potentially may be seen as public good activities of government providing potentially a degree of financial strain on the authority, if there is not increased appropriation funding coming your way.

MR MEERE: Yes.

MRS OWENS: So I think what we would like to do is discuss those issues, but maybe if you could start by just talking about your relationship with the industry.

MR MEERE: Yes. We go through an annual cycle and the cycle starts about now with us formulating draft budgets which go to my board in February. Once they are approved by the board they go out to our management advisory committees. These are statutory bodies which include industry and other stakeholders on them and they are given six to eight weeks to review the budgets. The management area that's responsible for those budgets is available to be questioned on the composition of the budgets - what does this involve, how many staff, what other activities you're going to undertake, etcetera - and the management advisory committees then provide back to the board comments on the budgets. They might range from "Yes, this all looks fine. Go ahead" to "We think you've got too much in one area or another" to "We would like to increase spending in certain areas."

The board then waits till the federal government has handed down its budget in May - because we are not assured of our appropriation until that time in terms of government funding - and once that happens we then ratify the authority's budget and provide that back to stakeholders as the budget for the coming financial year. As part of that process, when we get to the end of the financial year we look at what we budgeted. We then, obviously, set the levy and the levies are implemented, and recover the amount of money we've set down in the budget. At the end of the year we then look at what we've spent vis-a-vis the budget and, depending on whether there is a credit or a debit in the account - in inverted commas - we then either take money off the following year's budget or add it on, depending on the shortfall or surplus.

DR STEWARDSON: Can I ask you a couple of questions about that, please. You say that your budget goes to your board and then to the advisory committees. Is what your board approves a draft budget or a budget?

MR MEERE: No. It's a draft budget.

DR STEWARDSON: Then you said that after you have had the feedback you wait until the federal budget comes down with its appropriation. Doesn't your appropriation in the federal budget include the quantum that you're going to cost recover, as well?

MR MEERE: It does.

DR STEWARDSON: So once it has come down then, while you may be able to juggle the allocation, there is no longer any scope for you to vary the total quantum of that, is there?

MR MEERE: There are two elements. On the industry cost-recovered side, which in the jargon is called "special appropriation" - that's money we raise by levy - it strictly goes into the consolidated revenue fund and then comes back out to us. That's fixed in terms of the figures we provide in that process of forward estimates and so on. The other side, of course, is the annual government funding for us for annual appropriations, which has to do with community service obligations, public good nature, and also, where the policy provides for a sharing of costs, then that's required also, so yes, there is limited scope once that has all been put in place for us to vary that.

DR STEWARDSON: So really all that industry can effectively do is to ask you to vary the allocation of that total quantum. If they were to say, "Look, we think this is far too much you're asking us to pay in total," it's too late.

MR MEERE: No, it's not too late. We can vary that before the final budget is struck.

DR STEWARDSON: Before the federal budget?

MR MEERE: If, for example, we have a total industry contribution of 8 or 9 million dollars in the budget and the industry comes along and says, "No, we don't think" - and the board agrees with that, the fact that we recover less is not going to affect the budget. It's not a problem in that regard.

DR STEWARDSON: It would affect your total budget - - -

MR MEERE: We will have provided an estimate to government, saying, "We expect to collect from industry X," and we have actually collected X minus some.

MRS OWENS: Can the government come back and put pressure on you and say, "Well, you only want to collect this much from industry but, really, we're not going to give you the appropriation to make up any shortfall, so maybe you had better think about trying to get a bit more out of industry"?

MR MEERE: That hasn't happened.

MRS OWENS: That hasn't happened?

MR MEERE: No. In some respects the industry side of the equation is relatively easy. We work out the costs. We go through a process of discussing with industry the costs. We get those ratified and we levy industry. There is no problem with a growth component there or a shrinkage component. We can deal with that. It's on the government's side it is more difficult to deal with that, particularly when you're locked in in some cases, as we are, with a policy that says if industry says, "We'd like to contribute more to compliance," then we have to find a matching government contribution to go with that because the policy provides that that cost is shared fifty-fifty. That's where the problem arises.

MRS OWENS: Could I just clarify the board structure? What sort of representation do you have on your board?

MR MEERE: It's an expertise based board and it comprises expertise from the industry, up to two members only - natural resource management, biological sciences, environmental sciences, business management, economics and so on. What have I left out? I think that broadly covers it.

MRS OWENS: How many have you got?

MR MEERE: Eight in total. That's a chairperson, managing director, government director and five appointed directors with those areas of expertise.

DR STEWARDSON: Do you think that works well? One of the issues we have to deal with is how the industry that is being regulated - and I am not just talking about the fisheries industry, I'm talking about the - - -

MR MEERE: More generally.

DR STEWARDSON: More generally - how it gets an effective input into the regulator's decisions without at the same time controlling the regulator. Your model is a bit different from some in that you have got the industry people on the board up to two. Does that work well?

MR MEERE: I think it works very well, but you can't just view it as just the number of the board. There's a selection process which involves industry and government nominees in the selection process, so again it's not captured by industry in that sense but it provides input by industry into the process, and there's a series of accountability mechanisms in terms of the way we operate, including, as I think would have been explained this morning, that we report annually to the Australian Seafood Industry Council as the peak industry body we have to report to in that regard. So the model has a series of checks and balances which I think, while it was developed for other purposes, has been translated into a regulatory framework very successfully.

DR STEWARDSON: Do the individuals themselves find it satisfactory? Because, of course, once they become directors of your corporation they're not there as lobbyists for the industry. They have a fiduciary duty to the organisation.

MR MEERE: To the board, yes. That's an interesting issue because it's also a problem with our management advisory committees. The management advisory committees are really mini-boards, if I can describe them as that, for each of the fisheries. They are expertise based and the idea is that you get the stakeholders around the table to provide you with input to the best possible management arrangements for the fishery; not what might favour them personally or whatever. In terms of the board I think the answer is yes, it has worked successfully.

There are from time to time difficulties, obviously, but we have well-developed conflict-of-interest arrangements, both in terms of legislative and in practice how that works, and I think, as somebody who has been involved from day one with AFMA, the benefits gained from having the expertise of, for example, a commercial fisher at the table, being able to tell you what is good and bad with what you are suggesting or looking at, is enormous, including down to examples of where we have looked at compliance arrangements and been told, "Well, that won't work because of X, Y and Z," and obviously we have then been able to modify them to make sure we have got them. The short answer is yes, I think it's highly successful.

MRS OWENS: And these management advisory committees or - - -

MR MEERE: Committees.

MRS OWENS: They are purely people from industry?

MR MEERE: No. We have a range of expertise. Environmental expertise. Depending on the fishery we might have some recreational involvement. We have states involved and so on, so it's a range of stakeholders who have an interest in the fishery.

MRS OWENS: And you wouldn't say that any one of those groups, those stakeholder groups, has an undue influence over what you do?

MR MEERE: Again the importance is in the term "management advisory committees". They are not decision-making bodies. They are statutory in nature, they are formally appointed, but they advise the board and the board can choose to accept or reject the advice.

MRS OWENS: And the industry representation on the board doesn't have an undue influence either?

MR MEERE: No. In my opinion it is vital to get the balance in terms of the expertise and experience of those people who have knowledge of what goes on.

MRS OWENS: Yes.

DR STEWARDSON: Do those committees actually give a report direct to the board - - -

MR MEERE: They do.

DR STEWARDSON: - - - rather than - - -

MR MEERE: To management.

DR STEWARDSON: - - - a CEO?

MR MEERE: No, it's a report from the chairperson of the management advisory committee to the chairperson of the board.

MRS OWENS: Another issue that we discussed this morning was this issue of attribution and how you determine, in relation to AFMA's cost, what's attributable and what's non-attributable to industry. I think it's a difficult question because a degree of subjectivity enters into it, and I think you mentioned with compliance that you have this fifty-fifty split - - -

MR MEERE: Yes.

MRS OWENS: - - - presumably because of the difficulty of deciding what is surveillance and what is not.

MR MEERE: It's certainly not based on science, the fifty-fifty. It's a pragmatic agreed position which came out of the 94 review. There are areas that are much clearer than others in terms of how you attribute; and the ones that cause us the greatest grief I suppose are the ones where there is this blending to some extent of public and private good in terms of what - research is a very good example. There's an element of both in research, but how do you decide what that is? Now, we've taken a fairly pragmatic approach there.

Compliance, as I say, is fifty-fifty, but many of the day-to-day costs - for example, the costs of running a management advisory committee - clearly where we're talking about the main costs of that, that's attributable to industry. We've made a decision that based on the fact that government policy said, "Well, we want you to have environmental members on those committees as well," we've attributed that cost to government. So depending on the clear direction that elements of policy have been provided through, we can make decisions on that.

MRS OWENS: Sorry, just to let me clarify - the management advisory committees, are they funded by industry?

MR MEERE: Yes.

MRS OWENS: They are. You said that they can be environmental representation.

MR MEERE: What we've done is we've put an environmental member on each of them and we decided that given that that was a government requirement because of increasing community expectations in relation to environmental matters, that we would make that attributable to government, not to industry.

MRS OWENS: So say we've got a management advisory committee for one particular area, there would be a proportion which would be government funded and a proportion - - -

MR MEERE: That's right.

MRS OWENS: So it's not one way or the other.

MR MEERE: No. However, if my recollection is correct, before we had environment conservation members on the MACs, it was fully industry funded I think, yes, so it was all one way there. Likewise for example we have provided some flexibility where clearly there's not a key stakeholder group - recreational fishing is a good example - where there are a lot of people who partake in recreational fishing but not a clearly identified group, and so in some fisheries we have recreational members, and in the past the costs have been split to enable those people to participate also.

MRS OWENS: So the government would really basically cover - - -

MR MEERE: They'd pay some of those costs in relation to the one MAC that I can remember, the southern blue fin tuna fish, I think had split fifty-fifty, is it?

DR STEWARDSON: So attributable costs, which I guess you're saying are related to private good, in that either an individual firm or the industry as a whole is benefiting, the actual regulation whereby you work out the extent of the catch that's permissible for regeneration, that's part of the attributable thing, is it?

MR MEERE: It is, yes.

DR STEWARDSON: So you're making a fairly clear decision that that's a benefit to the current fishers rather than to the future and the community at large?

MR MEERE: Yes, we are, but the important thing there is that because of the nature of the rights that are established under our legislation, which are very secure ongoing access rights to a fishery, at the moment if a management plan is implemented the rights are ongoing - they're called "statutory fishing rights", which is a form of property - - -

DR STEWARDSON: For the current fishermen?

MR MEERE: That's right. The fact is that they will be the beneficiaries of good management and of the costs associated with that good management, and while the community will get a spin-off benefit of knowing that the resource is being well looked after and husbanded, the fact is that the fishers will be the primary benefits - from the knowledge that there is an ongoing stream of resource that can be harvested there.

MRS OWENS: So in that case you basically attribute it to the industry.

MR MEERE: That's right.

MRS OWENS: Even though there may be some ongoing community benefit, you'd just say, "On balance it should go the industry way."

MR MEERE: That's right, and I think the important thing is that in terms of implementing the policy we've had to be a bit pragmatic. The more you dissect and split these things up, the more complex the administrative burden that you're putting on the organisation, and for the size of the organisation, the size of our budget, I think we already have a very complex arrangement in terms of identifying and charging these costs. In some cases the splits can be, you know, five or more different ways in terms of the issues and the fishery and everything else - some are even worse than that. You have to weigh up the administrative complexity and the costs involved in that - vis-a-vis the benefit that you might get from identifying a proportion to another group.

DR STEWARDSON: I think one of the things the industry was concerned with was that there were some things that were being added to your task - one related to environmental matters and another was an international agreement to do with the oceans - that they certainly felt, I think, were public goods but that your appropriations weren't being increased by government to deal with this. Is this a problem that you see, that whereas you might ideally want to allocate something to the non - what's the word?

MR MEERE: Non attributable.

DR STEWARDSON: Non attributable - it might in fact end up in the attributable simply because you can't get the money out of the government?

MR MEERE: The practicalities are difficult. We're working on a base-level funding that was decided in 1992 when AFMA was established and we were split from the Department of Primary Industries and Energy. There hasn't been a fundamental reappraisal of the services that we provide to government in the nature of these private and public goods. The issue though is interesting, because we are - and you'll be aware of many of them - increasingly being asked, by the nature of government activities, to perform additional tasks, and in a cost-recovered environment that does pose problems, there's no doubt about that.

There's two elements I guess I'd highlight: firstly, the element is that we're a statutory body and as such a halfway house between being a government department and being a commercial entity, and there are requirements imposed on us by the very nature of being a statutory authority. Then there are more general requirements, which are things like the government's policy in relation to online activities, "government online" as it's known. There's a whole-of-government approach which has said, "You shall do, X, Y and Z."

Now, if we were just a commercial organisation the answer might be that we might do two-thirds of that and that might be enough for our needs or we might do more than that, but at the end of the day these things are dictated, even to the extent where last year with the Y2K situation we had a very high hurdle that the government had imposed on us. Now, that's not saying we didn't need to do it. That's just saying that that was externally stipulated and required of us. Likewise the development of a national oceans policy which occurred in 1998 and 99 has brought a whole range of new issues and tasks that we'll be required to perform and interactions that we will be required to have with the National Oceans Office, and there is no recognition of that in terms of the funding that's provided. There's no mechanism to be able to go back to government and say, "Well, hang on, there's some issues here that we think, you know, need to be properly addressed in that regard."

So I guess what it means is that we just change the priorities; that we use the current funding that government gives us in terms of community service obligations and public good areas to bring them to the highest priority in terms of what we have to do here and now.

MRS OWENS: Is that at the expense of some of the things you might be doing for the industry?

MR MEERE: No, I mean, we're not cost shifting in that way, but what it does is it means that we might perform them at a lower level.

MRS OWENS: Lower level for the industry?

MR MEERE: Or that we might just not do some other government - we'll perform the other government tasks that we're required at a lower level. I mean, we can only cut our cloth with what we've got, and that's what we have to do.

DR STEWARDSON: You can presumably make a submission to DOFA who's representing the government.

MR MEERE: You can.

DR STEWARDSON: They may or may not hear you kindly.

MR MEERE: In fact, we did last year and we were unsuccessful and we're again doing the same this year.

DR STEWARDSON: Within the attributable things, what's recoverable and what's not? Can you give us an example of - - -

MR MEERE: I don't know whether you've got this page out of the policy. There are some examples.

DR STEWARDSON: Thank you. No, I don't seem to have that.

MR MEERE: That's out of this document, which is the 1994 policy that I referred to which we have provided to your staff previously. This is the document we actually work from in terms of implementing the policy and I'm happy to leave a copy of that if you'd like a copy.

MRS OWENS: If we've got a copy - - -

DR STEWARDSON: Perhaps we could ask the staff whether we've already got one.

MR MEERE: We did provide a copy.

DR STEWARDSON: Thank you.

MRS OWENS: We could always take another copy if it's a spare.

MR MEERE: If you'd like to, I'm quite happy to hand that up.

DR STEWARDSON: Thank you very much.

MRS OWENS: Thank you.

MR MEERE: The table there I think is quite useful in terms of showing what is and isn't attributable and recoverable.

MR MARSHALL: And also the user groups too.

MR MEERE: I'll let Mr Marshall just take you through that.

MRS OWENS: Okay.

MR MARSHALL: Firstly, in an overall sense the management of commercial fishing is considered to be attributable to user group 1, which is the commercial fishers. That's the first row in the table. General fisheries management activities, which is what Frank has already spoken about, are considered to be recoverable costs. There are a number of other issues or components, activities, that are related to fisheries management, some of which don't occur all that often; collapsed fisheries is

one such one.

MRS OWENS: What does "collapsed fisheries" mean?

MR MARSHALL: That's a very good question.

MR MEERE: We were having this discussion the other day actually. I can give you a clear example. We have a species off the New South Wales coast which is called the Eastern Gem Fish. It's a fishery that was fished very heavily in the 80s and we've had to stop fishermen from fishing that stock because the stock declined so dramatically that it's now not sustainable at those levels. So we have a zero total allowable catch for that species and fishermen are not allowed to take that stock now; we call that a collapsed fishery.

MRS OWENS: It's a lovely term.

MR MEERE: We're rebuilding it, so there's an expectation that as the stock recovers we will open that and it will become essentially the same as every other fishery.

MRS OWENS: So that's part recoverable from - - -

MR MEERE: That's right.

MR MARSHALL: From the industry.

MRS OWENS: - - - from the industry more generally.

MR MARSHALL: Yes.

MR MEERE: Because again, coming back to the rights that I was talking about, people are holding rights to be able to take Eastern gem fish. They can't take them at the moment, but at some stage in the future they will be able to take them. and that will be an asset and hence they have a legitimate reason to contribute to the cost of the management at the time.

MR MARSHALL: It's only partly recoverable from the specific fishermen who have rights for that particular species though. It's not partly recoverable from all industry, just from those people with specific rights. Exploratory development fisheries management is an interesting one because essentially there's limited government funding for exploration and as a policy we have therefore essentially said, "Well, if fisheries are to be explored then that would be at the cost of the industry," and I guess in recognition of that we provide an incentive of again some sort of guarantee of ongoing rights should a fisher eventuate from that exploration.

The next two items, the development and maintenance of management plans, are activities which are fairly high-level activities within the organisation at the

moment. We have four management plans in place for various fisheries and we have at least another four in the pipeline at the moment. But essentially the development of a management plan is the development of the rules which will govern that fishery for the ongoing period.

MRS OWENS: And that's not recoverable?

MR MEERE: Actually in the detail of the policy there are two areas there. For areas where there already was a plan, that's not recoverable, and the logic for that is that the plan was in place and had we not changed the act, etcetera, the industry wouldn't have to go through the development of a new plan. For a fishery where there was no plan, it's a legitimate cost of managing the fishery and so we do charge that.

MR MARSHALL: The compliancy area is another one which Frank has already mentioned which is partly recoverable, and again that was a pragmatic decision based on the fact that traditionally enforcement activities are non-attributable. That's a government issue, but surveillance and monitoring, which would be associated with the fishery, was, and the problem is in determining where does one of those activities end and where does the other start, so again that's a pragmatic approach that's been decided fifty-fifty between government and industry.

DR STEWARDSON: Surveillance is, what, monitoring how much, what size catch fishermen take? Is that what - - -

MR MEERE: Yes, it might be. It might be also in the case of where we're not managing by the amount of catch but by the number of vessels or where they can fish, might be monitoring where they are fishing. So if we've got a closed area, we're making sure they're not inside the closed area; if we've got a certain number of vessels allowed to fish, making sure that somebody hasn't snuck in with an extra vessel, that sort of thing.

DR STEWARDSON: Then enforcement is if somebody is doing the wrong thing you impose a fine or take them to court, or whatever you usually do.

MR MARSHALL: You take them to court, take legal action.

MR MEERE: You have actually got to apprehend them and then deal with them, yes.

MRS OWENS: I think across the board there has been - just about every agency that we've talked to that has had an enforcement role - there tends to be a view that that should not be charged for.

DR STEWARDSON: Surveillance is a little bit more tricky though, isn't it? Surveillance is like people having inspectors going around checking up that the restaurant is conducting itself in a clean and healthy way, and I think that that's not

charged for.

MRS OWENS: That's not so clear-cut.

DR STEWARDSON: So that's an interesting one.

MR MEERE: Yes, I don't know all the details but clearly some areas would be charged for in that regard. If you had a licensing fee to run a restaurant then there would be a component of that surveillance activity included in that.

MR MARSHALL: But you are right, surveillance could be an ongoing general activity or it could be associated with the investigation of a particular suspected offence, for example, and it's unclear where it ceases to be one and becomes the other.

MRS OWENS: That's why I think maybe a pragmatic approach is probably a reasonable approach.

MR MEERE: I guess there are two comments I would make to that. Firstly, yes, I think it is, based on the fact there's no clear-cut line where you move from that to enforcement, but the second thing is I think the acceptance by industry that they have a role in this too, in relation to their ongoing rights and the nature of the access they're provided to it - the community owners or something - is important, and that is now well accepted within the fishing industry, that the model that we have in place - and in fact the model has now been used by some of the states in the same way. So I think there are those two elements. There's the general government community expectations and then there's the acceptance within the sector.

DR STEWARDSON: I have a feeling that I read somewhere - I can't remember whether it was your submission or not - that somebody made a claim that in your particular regulatory area and industry there was a greater than usual intertwining of surveillance and enforcement and a greater difficulty of separating the two out. Was I hallucinating because I was reading too late at night or is that - - -

MR MARSHALL: I don't know that we made that statement but it may well be actually true, that there are a number of areas where we do have quite a deal of fairly aggressive surveillance, I suppose. We have, for example, monitoring of vessels via a satellite based monitoring system, and that's happening constantly, but that has been well-accepted by industry because of the arrangement we have in place, including the fifty-fifty split, but also because it's a very strong preventative measure. It prevents people from transgressing, and so it imposes a level playing field which everyone is quite happy to live with.

MRS OWENS: That would also ensure that others from outside Australian waters would not be transgressing as well, presumably.

MR MEERE: That's a bit more complex because we don't know when they jump across the border and so we work very closely with Coast Watch and with the

Australian Defence Forces to deal with that. We don't have any vessel monitoring systems to help us in that regard. We have to rely on the general surveillance arrangements which the government uses more broadly for customs, for illegal immigration and so on.

MRS OWENS: So going back to this page, we got through the compliance, and then we've got management of non-commercial fisheries.

MR MARSHALL: That would largely be recreational fisheries which we have limited involvement in, although there is obviously some interaction between what we do with commercial fishing and the impact it has on recreational fishing.

MRS OWENS: It's not recoverable because it's difficult to recover?

MR MEERE: That's right. Again, I often tell the story, in the IC report in 1992 there was a recommendation that said, "Licence every recreational fisher," and within 24 hours of that coming out I understand the PM had issued an edict that that wasn't going to occur. I think that had something to do with politics rather than - - -

MRS OWENS: I think it might have. It was a little bit before I started at the old Industry Commission but I do recollect that there was a bit of turmoil.

MR MEERE: Yes, that's actually changing a little bit because now two states have, in relation to state-managed fisheries, actually put in marine licences, Victoria and now New South Wales, and they are charging recreational fishers to use those facilities and they are putting that money straight back into both management arrangements and also taking out commercial effort and providing greater attractiveness, if you like, for recreational fishers in bays and estuaries.

DR STEWARDSON: How do they levy that?

MR MEERE: The point of sale outlets and so on.

DR STEWARDSON: What, of a fishing rod?

MR MEERE: No, of an actual licence. You've got to go and get a licence.

DR STEWARDSON: Yes, but you've got to go and get the licence and - - -

MR MEERE: That's right. So if you don't have a licence and a fisheries officer comes up to you and says, "Where's your licence?" I imagine there's some penalties that you might be required to pay. I don't know the details of it all that closely.

MRS OWENS: I haven't got a licence. Now, that has been an issue that has been addressed in two states, is there any reason why you shouldn't revisit that one?

MR MEERE: I think that would have to be done as part of a broader government review of cost recovery. There are probably some other areas - - -

MRS OWENS: We are having one at the moment.

MR MEERE: I wasn't aware you were actually going to get down to reviewing in minute detail fisheries cost recovery, but if you want to make a recommendation on that I have no objection.

MRS OWENS: No, we're more interested in the principles but we are going to be using case study material from different areas, where we may be passing comment, and we're also evaluating the current arrangements. We are required to look at current cost recovery arrangements and we will pass comments on them, so to that extent - - -

MR MEERE: As a point of principle I agree entirely that all users, whether they're recreational or commercial, should be levied for access and management to a community-owned resource, yes.

MRS OWENS: Thank you. I think that's good on the transcript. "Management input" - this is the third one down - "into fisheries under joint jurisdiction."

MR MARSHALL: The related activity there is offshore constitutional settlements and that's an issue because there is this problem between where state waters and state responsibilities end and Commonwealth begin, and we have to negotiate government to government the agreements there, and in some cases we cede responsibility out to the 200-nautical mile limit and they cede us responsibility into the baseline or to the shoreline, for particular species.

MR MEERE: But in relation to this specific item, this is where we have a joint authority where the state actually manages it but we're required as part of our membership of that joint authority to provide input, and it has been deemed that that's a non-recoverable item.

MRS OWENS: "Management input."

MR MARSHALL: Into bilateral fisheries, that is related to where we had arrangements with - most recently - Japan in terms of access to the zone. We have no bilateral arrangements at this point in time, so it ceases to be an issue, but it was fully recoverable from the Japanese when they were accessing the zone.

MRS OWENS: So that was recoverable from the Japanese?

MR MARSHALL: Yes.

MR MEERE: So in fact in the last year there was something of the order of two and a half million dollars was made available to AFMA from that recovery from the

Japanese for management of the fleet when they were in our zone.

MRS OWENS: That makes sense. "Surveillance and enforcement of illegal foreign fishing inside Australian fishing zone."

MR MEERE: That's illegal foreign fishers. That's not recoverable.

MRS OWENS: That's not recoverable.

MR MEERE: They don't tend to bring their chequebooks with them.

MR MARSHALL: It's just a net drain on the community, unfortunately.

MR MEERE: It's a sort of sovereignty issue, yes.

MRS OWENS: I like that, they don't bring their chequebooks with them. What about the credit cards?

MR MEERE: They haven't got any of those either.

MRS OWENS: "Development and research priorities." I think that goes without saying.

MR MEERE: Yes, there's a series of beneficiaries. We input to both Commonwealth activities and to more broader Commonwealth activities, the FRDC, the Fisheries Research and Development Corporation, plus our own requirements.

MRS OWENS: What I'm more interested in is number G, "Preparation of legislation and litigation-related activities." Why would that be partly recoverable?

MR MEERE: I think the judgment was made again because of the nature of the environment we're working in, that there probably was a greater onus on the government to provide funding for that rather than industry.

MRS OWENS: I would say there would be total onus on government rather than industry in that case.

MR MEERE: In some cases though where we are litigating people or where we are defending litigation, there is probably an argument saying that industry should contribute to that, particularly if it's frivolous, as it can be in some cases.

MRS OWENS: Although you've got the same issue as really the issue that you were facing with enforcement, where you've said that you wouldn't find that a recoverable - well, that was in the context of attribution, but isn't there a similar set of issues with litigation as well? So you litigate and you charge somebody to litigate.

MR MEERE: That's why I think it's part recovered rather than - - -

MRS OWENS: I sort of wonder about that one.

MR MARSHALL: It is in fact in the majority recovered from governments. The majority were government funded, rather, yes - two-thirds.

MR MEERE: Two-thirds, one-third, yes, but the policy that I've handed up gives you details of the logic behind that sequence.

MRS OWENS: We will have a look at that. We might come back to you if we have a query.

MR MEERE: Sure.

MRS OWENS: "International for participation."

MR MARSHALL: It's a general community issue and not recoverable.

MRS OWENS: Yes.

MR MARSHALL: And the publication and circulation of the Australian Fisheries Magazine, which we no longer publish - - -

MRS OWENS: That's no longer an issue.

MR MEERE: Was non-recoverable so we didn't publish it any more.

MRS OWENS: You could have put it out into newsagents and set a price on it and sold it.

MR MEERE: We did look at that but we did also say that wasn't our core business, publishing magazines, so we got out of it.

MRS OWENS: I probably would agree with you there. You don't see yourself as an information agency as well.

MR MEERE: All other things being equal, we would like to be able to be saying we're providing large quantities of information but given the limited resources we have, no. We are limited in what we can do.

MR MARSHALL: We still do provide information to stakeholders as part of our management function.

MRS OWENS: Have you got other issues? I think we've covered the issues that we wanted to and I'm just trying to think whether there was any outstanding issues

from this morning, but I think we were mainly interested in this issue of attribution and these new pressures that are being brought to bear and I don't know that there's an easy answer to those, apart from - - -

MR MEERE: No, you're right, and we're exploring - - -

MRS OWENS: - - - maintaining pressure on - - -

MR MEERE: - - - the avenues there, but I think in terms of, I guess, the issue that I would put before the commission would be to say in implementing any cost recovery regime government has to be aware and be prepared to commit to its side of the equation and not just say, "Well, we've put this in place and it's all over to industry." Particularly in the role that we play I think there is very much a joint responsibility and it's not just good enough to say, "Well, she'll be right," sort of thing, and as a small agency we're struggling with that. The only other comment I would like to make is what to some extent we touched on earlier on, and that's this question of how far down do you actually sort of split the cake up to identify these costs and then attribute them and then recover them. One of the things we've found as a small agency is it has reduced our flexibility. If you have allocated certain staff to certain fisheries it becomes more difficult then to start shuffling the deckchairs when you've got new priorities or outcomes that you're trying to pursue.

DR STEWARDSON: Is that a physical thing?

MR MEERE: Partly physical, partly because then industry says, "Oh, hang on. You've got him attributed to my fishery and you've taken him off my fishery and put him somewhere else." So it's a twin thing, if you like, there. There's some practical side to it but there's also a perception side, "Oh, he's supposed to be working for us and you've put him working for somebody else."

DR STEWARDSON: Do you have any feeling for the percentage of your cost that you actually spend on your accounting contributions?

MR MEERE: No, no idea. What we have tried to do - and it did cause some concern initially with industry - we've tried to be quite pragmatic about that also, and so we tend to have, as an organisation, probably a higher level than might be expected of overhead attribution. Industry, some years ago, decided that that was worrying them and they actually had a little task force come in and go through the whole process, and to their satisfaction - they were quite happy with the way we were handling it. So, for example, we don't have codes on photocopiers to identify how many pages have been photocopied by officials, and so that's the use of a photocopier as an overhead cost and we'll build it in that way. That's what we've done with a number of costs, but it does mean that when somebody looks at it they say, "Oh, the overheads are high," but it's because of the way we've done it.

MRS OWENS: But on the whole - I think I remember seeing in your submission somewhere that although you get down to that level of detail you feel that the benefits

outweigh the costs of the increased administrative effort.

MR MEERE: We think we've struck the balance about right at the moment, yes.

MR MARSHALL: There certainly are benefits. I think certainly the benefits do flow from the involvement which we discussed earlier - the involvement of the industry in focusing on the actual costs. There have been a number of instances when we've identified savings through that scrutiny, so it has helped in bringing a more commercial focus to what we do.

MRS OWENS: So it really is a transparency. It improves your transparency and improves your commercial focus.

MR MEERE: And that keeps us on our toes, but it also enables others to bring in ideas that we mightn't have thought of, and that's a good thing.

MRS OWENS: Yes. Maybe that's a good place to finish. Thank you both very much for attending. We'll now break for a minute.

MRS OWENS: The next participant this afternoon is the Red Meat Advisory Council. Welcome to the hearings. Would you please each give your name and your position with the council for the transcript.

MR COOMBS: My name is Bob Coombs. I'm the secretary of the Red Meat Advisory Council.

MR KLEIN: I'm Peter Klein. I'm the executive director of the Sheep Meat Council and also representing the members of the Red Meat Advisory Council.

MS WELSMAN: Sandra Welsman. I'm a consultant to the Red Meat Advisory Council.

MRS OWENS: Good, thank you very much. As I said before we resumed, I'd like to thank you very much for the very detailed submission. I think it will be enormously helpful for us because of the degree of detail that you went to in preparing that submission. We're always very grateful when we get those sorts of submissions where people have actually taken the effort to try and think and get below just what their own organisation is doing and think about the principles that we should be thinking about. It gives us very, very useful guidance and I found it particularly helpful when I was reading it at the weekend, so thank you very much for that.

I understand Bob is going to make a few opening remarks, and I think each of you is going to have something to say. Thanks, Bob.

MR COOMBS: I'll keep my remarks very short. The Red Meat Advisory Council is a forum that was established in 1998 and represents all sectors of the red meat industry - that is, beef, live animal trade, sheep meat - it doesn't represent pork and chicken meat. Its role is to provide cross-sector policy positions on key issues affecting the industry. It's in that capacity we put this submission together. The submission is addressing an important inquiry from our point of view because the red meat industry pays substantial amounts of money through cost-recovered charges for services provided by government agencies.

The submission drew in large part upon work done by Sandra Welsman, who is a consultant to the Red Meat Advisory Council. She spent a long time studying regulatory reform and the principles underlying regulation. It is our pleasure to be here today.

MRS OWENS: Thank you.

MR KLEIN: I'll also be brief and broad. I'm pleased to hear that you thought the submission we made was useful. I think it highlights the importance of the whole impact of the government's cost recovery policy on our industry, because it does affect the industry. It cuts - to varying degrees - quite deeply, both in terms of our competitiveness on the local market, but also on the export market - particularly on the export market, I guess, because we're competing in those markets typically with

competitors operating offshore who are generally not being required to pick up the full cost of equivalent services to the industry.

Because of those effects this whole area of government cost recovery policy is a central issue for our industry. We've seen over the last few years, I guess, the redefinition of government services to industry. We now refer to them as industry services and they're funded by the industry. Our industry, my colleagues and myself are dealing with effectively four organisations or agencies which are providing services on a cost recoverable basis: obviously AQIS with their meat inspection charges, the quota management unit, managing quota for the European market and for the US market, the National Residue Survey, which is providing a service of residue testing and sample collection, and the Levies and Revenue Service who are collecting levies on behalf of the industry.

We've been dealing with those organisations over quite a period of time now, particularly looking at their structure and efficiency. We've been doing so I think with varying degrees of success, and we'd like to see, certainly in terms of the cost impact of these services on industry, some changes. We see this inquiry as being very important to achieving some of those changes and to establishing some principles which are fairer, more equitable, more transparent in terms of the government's cost recovery policies. We think that in general terms this policy needs to probably take greater account of the beneficiaries of the services that are being provided and also some of the efficiency issues in relation to the monopoly provision of those services. They are my very general comments as a way of introduction. Sandra, I think, has got some more detail.

MRS OWENS: Thank you. We can come back to some of those points you raised in a minute. Thank you, Sandra.

MS WELSMAN: I really wanted to outline the reason why we took perhaps the approach that we did in the analysis in the submission. Basically, as has been stated, the Red Meat Council is dealing with four different agencies of different types and providing a different range of roles from enforcement and regulatory to service roles. The inquiry opened up the opportunity for the Red Meat Advisory Council, and those people in the red meat industry, to bring forward the sort of issues that have been of concern for some time.

We are hoping that it would take a fresh look. Most of the cases with those agencies already involve full cost recovery or close to full cost recovery, so it was necessary for us to go behind the current status quo and look at the underlying principles and suggest to the commission that that is the imperative - to get the principles sorted out and then go on and look at the agencies involved and the guidelines would come out of both those processes. Basically that's what we've done in the submission; endeavoured to derive a set of principles and then look at the four agencies in relation to those principles.

On page 28 there is a diagram in which I've separated out the types of agencies

or categories of government activity and cost recovery and the inquiry itself already separated out the government business enterprises that are under competitive - as I read from the working paper, the issues paper - the primary reason for that was because they were already operating in a competitive environment and therefore the competitive environment itself would be seen as a moderator of what was reasonable for cost recovery, so that the cost recovery systems of those organisations would be moderated by competition.

That, of course, is one of the themes in our paper; that not only have you got the issue of private and public benefit, but you've also got, in the main, government organisations without this moderating pressure of competition which would, in normal circumstances, affect their efficiencies. So part of the argument is that those organisations become a much more complex area to examine for cost recovery - as you have no doubt already identified. I noticed from the transcript it's quite clearly identified.

The second more simple category is the one in the middle of the diagram where service activity is requested by an industry. To most extents the two smaller agencies that RMAC deals with, or the red meat industry deals with, come mostly within that grouping, so we haven't spent a lot of time on them. But there are elements of transparency and also getting involved in their cost structures and how efficient they are, but also some elements of information they have collected being used for a wider public use. There are cost recovery issues with those agencies but we feel that the principles we've developed enable those to be addressed very readily.

Then there is the group on the side here, the large, complex, regulatory, administrative service activities mixtures. For those we developed - on page 29 and summarised up the front - the set of principles there that we felt, and have argued through the paper, could be used to start sorting out the public-private benefit issues, the effects of the fact that there is a monopoly arrangement or a government body carrying out the function, the question of whether it's mandatory or not, the questions of wider government policy being a guide to what is public benefit, regional issues, innovation, exports, competitiveness - all being part of government policy, as are, for example, environmental issues and so on.

I thought maybe at this stage you might want to explore some of those points with us, from your readings, rather than repeating on to the transcript all that's already written down.

MRS OWENS: We will. I'd like to come back to those principles in a minute and discuss them with you. We've also received lists of principles from others, some of which are consistent with yours and some aren't.

MS WELSMAN: We'd be as interested as you.

MRS OWENS: We'll have to go away and work out our own set of principles, but I think we'll be drawing on all these suggestions we're getting from different bodies.

Can I ask a really fundamental question: have you got any idea what proportion of the red meat industry's overall costs are attributable to cost recovery arrangements?

MR COOMBS: There have been some studies done, and in fact in 1998 Sandra was involved through our predecessor organisation, the Meat Industry Council, looking at regulatory impacts on reprocessing establishments. We can provide you with that information. It varies a great deal throughout the industry, depending upon the type of enterprise. It's probably fair to say that most impacts would be most directly in terms of direct impacts at the processing establishment level where there is the interface with AQIS, with other agencies such as state regulatory agencies and the more intensive industries such as feedlot. But we can provide that information to you, if you wish. It's quite detailed. My recollection was that some of the processing establishments that would certainly be - maybe of the order of magnitude of - correct me if I'm wrong, Sandra - about 5 per cent at least - at least 5 per cent of operating costs would be caught up in regulatory compliance. I should add that this inquiry is about Commonwealth agencies; quite a lot of compliance costs are also attributable to state interventions.

MRS OWENS: So some of that 5 per cent can be state as well.

MR COOMBS: Such as mandatory compliance with workers compensation, etcetera. You might be interested; we are deeply involved at the moment in a related study which is looking at those cost impacts on Australian industry benchmarked against our key international competitors.

MRS OWENS: Yes, I was going to ask you about that study and when that's going to be finished.

MR COOMBS: It should be available within two or three weeks.

MRS OWENS: That would be also something we'd be really interested in. I think Peter said in his opening comments that there is this concern about the impact of these charges, these imposts, on industry in terms of getting out there and competing internationally, particularly. I think any evidence we can get about that will be useful to us. That's why I was asking you this question, trying to get an order of magnitude of what sort of percentage we're talking about. It would be even more useful to be able to extract the state charges and payroll taxes and workers compensation levies and so on, just to get a bit of an idea of what the Commonwealth impost is, because that's what we're interested in in this inquiry.

MS WELSMAN: I think there's another dimension to it. The red meat industry, in fact all of the agricultural production industries, have worked in a concentrated way over say the last decades to try and reduce their costs as competition has increased on the world markets and also, in the case of the red meat industry, competition from other products in the domestic market. So this is one of the cost areas of many that they're looking at addressing, and any additional cost reduces competitiveness, given that it's a highly competitive industry, both within Australia among processors and

producers but also in the global market context. In the case of the 55 million for AQIS costs, that taken off the industry is a reduction of competitiveness in any market that they're trying to deal into, compared to say the US, where those inspection costs are covered by the government.

It is hard to specify it down to individual areas but it is a cost that either could be seen as coming out of the pockets of the chain or the profits of various organisations along the chain, so therefore reducing their viability as well.

MR COOMBS: This international cost study, we'll give you that report when it's available. We've had people who have been carrying out on-the-ground studies in the United States, Europe, New Zealand and Australia, comparing like with like, so we're quite confident we'll have some pretty robust and up-to-date data in that area.

MRS OWENS: You've commissioned this study presumably to feed this into political processes, or what are you doing it for? It will be useful for us if we can get a copy but it probably has wider implications.

MR COOMBS: It cross-references with and builds on this study, which is at more the abstract level. Secondly, we are very concerned to document the extent to which unnecessary government interventions may be handicapping our international competitiveness. There's been a lot of anecdotal information and various comments but we're really anxious to get some hard facts and that's what we've almost got.

MRS OWENS: We're obviously also really interested in getting some hard facts as well, because I think it justifies any changes that may be required. But an important part of our inquiry is to actually evaluate the current charging arrangements, looking at the impact. We've been asked to look at the impact on industry and stakeholders more generally of these charges. Any evidence we can get that gives us figures and spells out the implications, and anything that we can get that shows what's happening overseas that's not happening here, or vice versa, all adds to the picture.

MR COOMBS: This study was investigated and is being managed by Meat Livestock Australia. It's being carried out by Dr Selwyn Holder and Terry Larkin, who have done a lot of work in international benchmarking, so I anticipate that at the latest we'd be able to give it to you sometime in January, but it's approaching completion now.

MRS OWENS: Good, thank you.

DR STEWARDSON: You suggest a number of times in your submission that people should look at who benefits from regulation. Is it the public? Is it the consumer? Is it the industry? What's your view about who benefits from the various regulations you've been talking about?

MS WELSMAN: I worked through one example with the AQIS agency on page 34. I thought there were a number of questions relating to who benefits there. I

found it interesting, in doing the research for this, the number of statements that come out from government departments and ministers and so on that explain the wider benefit of various activities - sell the wider benefit of various activities - and I've quoted them there so you can have some hard evidence. But when it comes down to the cost recovery, it's all said to be of direct benefit and sole benefit to the commercial entities involved. That intrigued me, so I thought it deserved a record in the submission.

I thought with the AQIS, for example, a number of those points 1 to 7 on page 34 illustrate the split of benefits. Firstly, you've got the issue that it's a general principle now: where there's regulation operating, given the range of national competition policy reviews and so on, there should in fact be identifiable public benefits to sustain a regulatory environment. So most of these regulatory areas that you'll be considering have been through a national competition policy review in the last five years and the general argument behind that is that regulations are retained where public benefit is shown to be higher than the cost.

MRS OWENS: Otherwise you don't need a regulation.

MS WELSMAN: That's right, so for a starting point there should be public benefit there, and it's not necessarily directed entirely to the commercial entities involved. The second point refers to a number of public statements made by DPI, AFFA and AQIS, referring to their own activities, where they've explained the public benefit of their activities to the wider community, to all consumers, to producing communities, to international stakeholders and so on. I've also, in reading a number of these statements - you can see that there's in fact a governmental benefit in many of the regulatory activities. That can be demonstrated by, for example, the development of the safe food operations all around the country in recent years. There's a proportion of that benefit flowing to the government to be seen to be active and responsive in those areas that may or may not be directly related to the consumers or in fact to any of the businesses involved. That can be seen on the international plane as well; that an up-front government activity and a powerful regulatory organisation isn't only benefiting the commercial entities involved or regulated by that organisation.

The third point is perhaps less related to benefit but relates more to the cost structures of the public sector culture that comes with government activity running the regulation or the service, and I feel that needs to be taken into account as to why that's done and whether there are benefits to a wider group than the businesses. For example, a number of the processing operations in the meat industry have developed their own quality control systems and have themselves registered under the ISO 9002 process and are audited by private sector auditors but they still have government regulatory agencies auditing them as well. So there's a question there as to whether or not that additional value added by the government audit and inspection controls comes back only to those processing organisations that are paying the fees or to wider parties. We couldn't do it all in this submission but they're all the sort of leads that need to be followed when the principles are set down to actually sorting out where the benefit lies.

MRS OWENS: Just with that, with the government audits as well, once they've got their own systems in place I guess those government audits are there to provide some sort of comfort to the community.

MS WELSMAN: Yes, or other groups.

MRS OWENS: Or to other groups, so that means that there is some degree of community benefit, knowing that there is this other auditing process.

MS WELSMAN: There could be some establishments - and I'm not necessarily talking about just meat processing; it could be any sort of food processing or chemical establishment where they haven't moved ahead and put in more advanced systems and need a high-scale government audit. But others where they have innovated and taken the initiative to put in systems, then you'd have to argue that the government audit isn't entirely for their benefit but could be for consistency on the international plane, for example, relating to our activities in the World Trade Organisation. There are many different dimensions to having a regulatory structure in place.

Then there's the further set of different dimensions to having that run by a monopoly government organisation, so all the costs relating to those various dimensions with effort - I'm not saying easily - could be separated out into a more clinical apportioning of private and public benefit.

MRS OWENS: Just before we got off the audit, I think there is also an industry benefit, though, from those government audits to the extent that industry may be exporting and is able then, in export markets, to say it has gone through this process which may be recognised as a reasonable process in overseas markets. It may actually potentially boost their export activity.

MS WELSMAN: I think you're right. There's definitely some benefit. As I say in point 7, if some markets were not accessible because, say, AQIS did not provide the service, a way of checking that would be to look at the ramifications. Do they rest only on the business that can't get into that market because they don't have the inspection or do the ramifications flow through to the entire production chain, or do they flow through in fact to the Australian economy as a whole and all the service industries that are affected by not being able to, say, access the Japanese market because we don't have the high level of comprehensive government auditing that the Japanese say they want.

It's a question of whether the costs should be borne directly by the organisations in the industry - well, it's the same question that has come up all through your inquiries.

DR STEWARDSON: What I was really wondering about, though, is what view the organisations around the table have to this. Do you feel that it's basically benefiting the consumers, be they domestic or overseas, or the industry to some extent?

MR COOMBS: I might make a comment. The submission says that there is a substantial public benefit from AQIS activities. Now, we were careful not to put a number on that because we're not in a position to do so yet at this stage, what we're saying, because we have 100 per cent cost recovery at the moment - and as far as I'm aware, the only public funding of AQIS is for issues such as policy advice to the minister as distinct from these deliveries of services - we believe that there would be a significant public sector benefit. In a supplementary submission, or perhaps further down the track when we have further information from this international study, we may be in a position to give you a number.

There are a couple of other supplementary comments. On page 19 we make a comment that in terms of consistency of cost recovery organisations such as Austrade, which I would say overtly are intended to provide export development services to industry, in fact are only 10 per cent cost recovered. We regard AQIS very much as an agency which has as a major core function - enabling industry to access export markets, but it is 100 per cent cost recovered, yet AQIS also has a snipping of public sector public benefit. So Austrade is 10 per cent cost recovered - we made a comment here, Foreign Affairs and Trade 9 per cent; AQIS 100 per cent. I think if you look at the history of which these cost recovery arrangements in our area came into play, as far as I'm aware they were not the result of a deeply-researched study of the extent to which there was a public or a private benefit. They were budget decisions taken on budget night, and I remember that quite well where the AQIS cost recovery was introduced in one step, 50, and then I recall with a hundred per cent.

So I think putting aside the issue of what percentage exactly is public benefit, there certainly appears to be prima facie some different approaches across agencies as to what is a reasonable level of cost recovery. The other comment I would make is that RMAC has been involved over the last 12 months in drawing up a process of trying to simplify and make less costly the process by which meat establishments, including product, are certified. We could perhaps provide further information if you wish, given the fact that you made a comment that one of your charters is to look at how these arrangements work.

At the moment in the meat industry there's a rather complex interaction between state agencies, Commonwealth agencies, and in one or two cases industry agencies. There are different levels of licensing, and in fact in at least one state different charges imposed by different agencies on the same establishment. So one of our goals in the next months is to try and bring about some simplification of this entire process.

DR STEWARDSON: I think while we might sympathise with that, any comment about the overlap between Commonwealth and state would tend to be obiter dicta in terms of our terms of reference.

MR COOMBS: I understand, yes.

DR STEWARDSON: But taking up what you've said, if we could just assume for a

minute that perhaps the Australian consumer benefits from the inspections of the slaughterhouses that's done, substantially for export but also for Australian consumers - if we could assume that the consumer is a significant beneficiary and that perhaps therefore the consumers should pay for this service, is it a reasonable approach to say, "Okay, it's messy to charge the consumer direct. How do you do it?" and that one should charge the producer on the assumption that that charge will ultimately be passed on in the price that the consumer pays?

MS WELSMAN: I think if it was carefully calculated out, it could be a workable approach, but the current arrangements, as Bob says, I don't really calculate cost recovery out that way, and I think it would need to be compared very much with what is happening in competitive industries, both domestically and where imports operate. For example, red meat competes in the domestic market - we're talking Australian consumers - against chicken, seafood, pork, imported pork. So just on our own marketplace with our own consumers those sort of things would have to be taken into account. Even in applying a regulatory system and trying to recover the costs through the companies and therefore the consumers, the impacts of those arrangements would have to be taken into account. But again, as you say, I think there are arguments.

We have said here there are substantial arguments for moving from 100 per cent cost recovery of the firms involved to apportioning a substantial amount of cost recovery out to other parties. The mechanisms for doing that - I think even the industry would understand if it was worked out in a mathematical way how that was being done.

DR STEWARDSON: Is there a similar surveillance mechanism for pork, chicken and so on?

MS WELSMAN: The pork industry operates under basically a similar system in Australia. Imported pork brings with it its own inspection systems in its own countries, but also all the tariff arrangements, the dumping questions, the subsidy questions and so on that come in with the pork - poultry has - - -

MRS OWENS: We did an inquiry into that a couple of years ago.

MS WELSMAN: Yes, I know. I read it in detail. The poultry industry has a much less costly inspection system. I put some of the comparative figures in there. The dairying industry, which also could also be considered as a competitive protein source has a much less costly system.

DR STEWARDSON: Yes, you did have some figures, and I wanted to ask you about that. Your figure was at 1.5 per cent of something or other whereas the others were all nought point something.

MS WELSMAN: Yes, that's right.

DR STEWARDSON: What page was that on? Can you refer us quickly to that?

MRS OWENS: We did actually speak to the department this morning and AQIS representatives were there - this is AFMA.

MR COOMBS: It's page 32.

MRS OWENS: You might be interested, just while we're looking at these pages, later to actually get hold of the transcript and look at the discussion we had with them.

MS WELSMAN: I carefully took this from an AQIS paper.

MRS OWENS: Sorry, which page are we on?

DR STEWARDSON: Page 32, at the table - where as a percent of exports trade the AQIS charge for meat exports is 1.6 and for all the other animal products exported the next highest one is 0.4. Is there a good practical reason to do with the industry why that's a such a big difference?

MS WELSMAN: Yes, there's a lot of technical explanations for it. They have quite a different inspection arrangement for, say, dairy to meet. AQIS would argue that they're trying to over a long period of time to head towards the dairy model where the companies themselves take most of the responsibility for the quality control and inspection, and AQIS has an overview, as distinct from the red meat model where they tend to have inspectors on the actual slaughterhouse lines in all the export plants, so there's a much higher staff component in there and that's the basic explanation for the big cost difference.

DR STEWARDSON: That's the explanation for it. Is it an appropriate justification for it? Is it just that that's the way it happens to be and they haven't got around to changing it or is there a good reason for it being like that?

MS WELSMAN: There are some good reasons.

MR COOMBS: I think the reason is that to a large extent it's driven to date by customer requirements overseas where the meat industry has had to comply with very detailed inspection requirements. Usually the United States is the pacesetter, and to date it has been based on a model where inspectors are on the plant. There is a visual, physical inspection - it's what AQIS call "touch, see, smell" type inspection. The industry is trying to move - and AQIS is trying to move away from that to more systems monitoring and management which does offer the prospect of reducing AQIS costs although to some extent it will transfer those costs to management.

Just to refer back to your comment about if there's a benefit to the consumer perhaps it should be recovered through industry loading costs onto the consumer, in a normal relationship between a business and a customer, a business will make a business evaluation as to what is required to retain a customer's loyalty. In this case

that discretion is not left to a business, it's mandated - in part mandated by these international requirements. So management have costs which are set outside its control. Some of those costs, we argue, are due to the fact that the Commonwealth government and, in some cases, state governments are looking at the benefit to the Australian community, the health status of the Australian community, etcetera.

So I would say in a normal business relationship, sure a business will charge what they believe their customers will bear and what is appropriate to the circumstances of their business. But the issue of defining what the consumers want is in fact regulated. So it tends to change the whole relationship between a business and its customer.

DR STEWARDSON: To go back to the overseas requirement for red meat to have been inspected by a regulator's inspectors rather than in-house, is that a legitimate sort of requirement or is that a de facto form of protection overseas which the red meat industry bears and other industries don't?

MR COOMBS: Perhaps you might comment on that, Peter.

MR KLEIN: It's a difficult one to comment on, it's obviously politically driven in some cases and the countries that are requiring the most stringent inspection standards also tend to have the most active consumer groups. So it's a balance between pressure applied to those countries by their consumers and perhaps some pressure internally to put some barriers in place. But there are some interesting statistics around relating to just precisely where - if AQIS inspections is partly about product integrity - the causes of pathogens, etcetera, occur. It is said that 3 per cent occurs potentially in the plant and 97 per cent occurs in the kitchen. I think, as Bob has alluded to, there are some real questions being asked within our industry now just in terms of what level of inspection is an appropriate level of inspection, and perhaps we are closer to the high side than the low side, both domestically and internationally. But I think it's a complex issue and there are a few things involved.

MRS OWENS: Can I just raise a topical issue, and this relates to inspection of beef - whether there is any indication whether there will be increased pressure to do even more here and in any other overseas market as a result of the BSE issue.

MR KLEIN: I don't see any direct movement on inspection because of that. What I see are some moves in terms of our industry's efforts to show the world that we're free of BSE, and so there are certainly costs that we are planning to incur to achieve that.

MRS OWENS: That's an industry benefit, isn't it?

MR KLEIN: This is an industry initiative, I guess, but we've got the highest level of assurance on BSE freedom now, but we're moving to put that beyond any doubt in anyone's mind through a program that we've got planned currently.

MRS OWENS: It raises, I think, a very interesting prospect for the future export of beef product from Australia, doesn't it, if we can continue to show that we are free of this problem. I mean, the export market could be considerable.

MR KLEIN: It could be but the impact of this is having a huge impact on consumer confidence in the product overseas, and I think we've seen in France recently, consumption declined by 50 per cent. We're certainly not looking for a windfall gain as a result. If anything it's likely to cause marketing grief rather than marketing advantage.

MRS OWENS: It depends whether in those markets they look for substitutes, in terms of other products, lamb, chicken, pork, whatever, or whether they say, "Well, we'll get the product from another country." But a mechanism was tried in Europe before there was a recognition of the problems that had extended into France and some of the other countries.

MR COOMBS: Our ability to capture the benefit is affected because there are strict quotas, 7000 tonnes of quality beef into Europe each year, the quotas on sheep meat, etcetera. So there's more downside than upside. The downside would be that there's a reduced consumption in Europe and a growth in the European beef stockpile. The upside might be that there are reduced supplies in Europe but that doesn't necessarily mean they'll relinquish on quota.

MR KLEIN: Can I just make a brief comment, coming back to the earlier question - and I think we've all had a go at it - about passing the cost back to local consumers. From a practical point of view I'm not sure how effective that approach would be. It's something that we've talked about and considered as a part of the submission today, but the reality is that while we've got quite varying degrees of inspection requirements on different industries - for example, as Sandra indicated, we have a different inspection regime to the pork industry, the vegetable industry and to the pasta industry - that by passing the costs back to consumers it puts our products at a competitive disadvantage, and we don't believe that is a practical solution for recovering those costs.

DR STEWARDSON: But isn't it one that is inevitably going to happen, in that your industry is a competitive industry with a large number of producers, and your members presumably aren't making what we economists call abnormal profits and if their costs go up or are a certain amount, they either inevitably have to include it in the market price or they eventually go out of business? Isn't it an almost necessary thing to be passed on as a cost?

MR COOMBS: It's necessary - I mean as I was commenting before, if it was a normal customer in a business relationship, those judgments would be made by individual enterprises as to what their customers would accept and what the relationships would be between price increases and demand impacts through elasticities, etcetera. What we're talking about here is statutory charges imposed across the board and, therefore, that normal relationship between the customer and

the supplier is actually interfered with.

The industry, generally speaking, is a price-taker. On the domestic market, it increasingly competes not only with other meats but other protein alternatives and on the export market it competes with other industries, many of whom have government support, so the capacity to simply across the board pass this on is very limited. Typically what tends to happen is it has to be absorbed within the cost structure of the operator and, normally in the industry, a lot of those costs are in turn passed back to the producer, to the extent that the ebb and flow of the market allows that to take place.

DR STEWARDSON: Are you happy with the consultative mechanisms that exist for your industry to discuss with AQIS and the various other regulatory bodies that are of concern to you - to discuss your concerns, discuss the setting of the fee level, and that sort of thing?

MR KLEIN: There are certainly structures involved to look at the AQIS interface with the industry. I'm not involved with that group, so I'm not able to say how satisfied in particular the processing sector is in regard to that. But certainly the structure is in place to deal with AQIS. How successful that is, I can't comment on that.

MR COOMBS: The Red Meat Advisory Council, in collaboration with AFFA, in the last 12 months did a detailed cost analysis of the operations of the quota administration unit, which is one of those organisations referred to here, and we did that so that we could get a clear cost baseline on which cost recovery could be instigated. The quota administration unit is now moving to a cost recovery basis from its users - that is, quota holders. That process, I think, has led to the conclusion that perhaps, at least in that area, a better window into the cost setting is needed.

Back in 1997-96, the predecessor to the Red Meat Industry Council commissioned a related study looking at the cost structure of AQIS and it got some of those costs on the table for the first time. I think one of the most critical issues in all this is for industry to have a really strong factual window into how costs are being set. As we said in the submission, in the absence of the disciplines of a marketplace, the only real alternative is the disciplines of transparency and awareness, and that cuts both ways. The agency knows that industry is keeping a watch on it and, secondly, the industry itself has an understanding of how those costs are being incurred. There's always further room for improvement in that area.

MRS OWENS: When we spoke to AQIS this morning, they really seemed to think that their consultation processes were going very well. That was the general impression that they had and that was the impression they left us with. Again, it may be worth looking at the transcript and seeing whether you agree with that.

MR COOMBS: If we have any additional comments, we'll let you know.

MRS OWENS: That would be useful.

DR STEWARDSON: We would be quite interested in that, if you do, because they did, as Commissioner Owens has said, leave us with the impression that their model of consulting was working well, and we do have to come up with recommendations for ensuring that the regulator is doing things efficiently and well and the consultation committees are one of the ways of doing that. So if you don't think that they're doing a good job, let us know.

MRS OWENS: You've specified consultation and accountability as being an important principle, on page 29, and say that you think that should reflect a degree of public benefit attributed to the activity. I suppose that also means that the reverse side of that is saying you feel that should reflect the degree of industry benefit as well.

MS WELSMAN: And structure your consultative group to reflect the beneficiaries of the activity. At the moment I think that's the AQIS consultative group, so industry AQIS, whereas if, as we're arguing here, there's a fair proportion of public benefit in your activities, then you'd probably have some recognition of the public or the consumers in those consultative groups. You'd still have the same critical process, the same amount of debate on cost structures and priorities and so on, but with a different consultative group. I think we're recognising that, with the shift towards more public benefit in the equation, you'd have more people involved, more interests involved.

MRS OWENS: At the moment you don't have that many consumers involved in these consultation mechanisms?

MR COOMBS: To the best of my recollection - and we need to confirm this with you - the consultative process is very much between the stakeholders, which are the industry payers, and AQIS. But that is appropriate to current circumstances, where people around the table are in fact the ones who are paying the bills - under current policy, yes.

MS WELSMAN: I just thought I'd mention there's a report that you may already have, the competition policy review of the Export Control Act, and that covers a number of those questions you raised about the international requirements on various commodity production systems and where AQIS fits in and whether or not they respond entirely to international requirements, to Australian requirements, to their own views on what needs to be done. That might provide some reference points for you.

DR STEWARDSON: Thank you. I don't know whether we do have that. I'm not aware of it. Perhaps you might be kind enough to mention it to a member of the team when we finish the discussion.

MS WELSMAN: It's fairly recent, and it's quite a comprehensive look at the dairy system, the red meat system, and so on.

MRS OWENS: I think with the principles we've probably covered quite a few of them as we've been - we've talked around a lot of these principles, and another one you have put here is, "Full cost identification is essential," even if you're not paying for it, because you need to know what the degree of subsidy is.

MS WELSMAN: That's right.

MRS OWENS: I think that is an important one, which has been incorporated in other guidelines. There are cost recovery guidelines, for example, in New Zealand and some of these - - -

MS WELSMAN: You asked a question in the issues paper about the industry's - well, submissions, opinion, on what should go in, and what we've said here is basically what you would cost in in a commercial operation. That is pretty well everything, I think, except for perhaps political advice, but you'd certainly cost in in insurance and you'd cost in all of those sort of elements.

MRS OWENS: You might cost them in, but then you may not necessarily pay all of those costs.

MS WELSMAN: Then you can go into the process of attributing them to certain reasons for being there. That relates to this issue of having, say, a monopoly government agency doing the regulatory service function rather than, say, other groups. So you might have a higher cost structure relating to public sector employment and that mightn't necessarily be costed in directly to the users. That might be considered a public benefit element. But we saw that you couldn't really apportion those out until you had identified all the different costs and the reasons for them being there. For example, there are inspection groups operating who are private sector groups in Australia, providing services to some of the state authorities. It would be interesting to compare the different cost structures of the two sorts of organisations to do the same function.

MRS OWENS: So what you're really saying is, you would like to see - if you are as an industry paying some of these costs, you want them to be efficient costs, rather than paying excessive costs associated with either inefficiency or any cost-padding that's going on.

MS WELSMAN: For the same argument that you've used to separate out government business enterprises, such as Telstra, from the inquiry, because they come under competitive pressures and that affects their costings, the same sort of look needs to be given to monopoly agencies. We're not just talking about the ones we're referring to, but generally. One other of the policy issues there - and it was raised briefly - is the question of market failure, which often comes up as an argument for regulation and needing to identify where that market failure exists along the pathway. I think it's the third dot point under number 7. If the regulations are there to address market failure, is there market failure by the regulated businesses only, or are we regulating in fact to address marketplace failure that's operating in the retail level or

into other parts of the chain, even up to the consumers' kitchen because they don't understand the basics of keeping their food safe at home.

So you've got one set of organisations paying for an inspection and regulation control set up that's maybe put in there to make food safer along the whole chain, trying to correct the deficiencies in the school tuck shop back at the processing plant, so I think those things need to be examined as well. We really only got to the stage of putting them down as principles.

MRS OWENS: Some of these principles are actually broader principles about the regulations or the regulatory framework - - -

MS WELSMAN: They nudge into it, yes.

MRS OWENS: - - - rather than principles relating to cost recovery and the issues that we're concerned about. We have said to others that have come and spoken to us, it's actually quite difficult dividing off the cost recovery arrangements from the underlying regulatory arrangements. That is difficult and you actually can't do it. We need to understand the underpinnings of the regulations before we can make judgments about the cost recovery. But some of these principles probably are principles that are applied - when our Office of Regulation Review, which is associated with the Productivity Commission, does its reviews it has its set of principles, which I think are very sensible principles, that would be looking at all these sorts of issues when they are, for example, examining a regulatory impact statement. I think some of these questions would be brought to bear in that context.

MS WELSMAN: Yes, I fully agree. But I felt they also could come up in considering the cost recovery apportionment. The same sort of policy questions would come up in trying to determine public and private benefit, in trying to determine whether or not running a regulatory or even a service activity as a government entity adds costs, and so on. The same sort of questions would come up in doing a regulatory impact statement or in making these sort of decisions as well.

MR COOMBS: It bears on the earlier discussion we had about how consumers are best protected. All the scientific evidence we've suggested, as was referred to earlier - in fact, on the Australian market - most of the health risk probably is incurred post-abattoir, at places like takeaway food establishments, handling, storage, transport, in the house, etcetera. Now, if the issue is consumer protection, then logic would suggest if most of the risk is post-abattoir, that's where you recover most of your costs. But you get the practical situation where the only catchment able to do that is what you call the taxation system, where consumer protection is often best captured by taxes on all households. So it's a complex issue, trying to match, as you say, a cost recovery situation to where the risk really occurs, and at this stage the processing sector is complying with rules which are set largely in response, I would suggest, to international precedent and cost study.

MRS OWENS: Thank you very much. Is there anything else you'd like to say

before we break? I think that was a very useful discussion, and we will take on board these principles that we have before us and, again, I'll just refer you back to our discussion we had this morning with AQIS, because the AFFA submission set out a set of principles and we ran through their principles with AQIS to see the extent to which they were complying with the department's view of what the cost recovery principles should look like. You might find that an interesting exercise.

MS WELSMAN: I'll have a look tonight on the Web site.

MRS OWENS: Okay. Thank you very much. We will now break. We were to have another participant at this stage, the Department of Communication, Information Technology and the Arts. They will not be appearing. We unfortunately didn't receive a submission, and we will be talking to them at a later stage. We will resume at 4 o'clock.

MRS OWENS: We may now resume. The next participant this afternoon is the Australian Trade Commission, Austrade. Welcome to the inquiry and thank you for the submission, and thank you for so many turning up this afternoon. What I'd like you to do is, each of you give your name and your position with Austrade for the transcript. We might from the left to right and just do it in order.

MR PLUMMER: Michael Plummer, manager, government and policy.

MR JOFFE: Greg Joffe, corporate adviser, strategic development.

MR LANGHORNE: Peter Langhorne, deputy managing director.

MR HARCOURT: Tim Harcourt, chief economist.

MR CHESTERFIELD: Ian Chesterfield, general manager, finance and assets.

MRS OWENS: Thanks very much. As I said before we started, it will be easier for the transcript if each talks separately rather than over each other, because otherwise it gets a bit confused when there are so many. As I said, thank you also for the submission. I understand that Peter Langhorne would like to make a few opening remarks.

MR LANGHORNE: Thank you, commissioner. We'll make it fairly brief. I'd like to thank you for the opportunity for us today to attend and discuss a number of issues on pricing with you. All our corporate strategies are aimed at meeting the government's expectations that we assist Australia's small to medium enterprises into the global markets and that we help to generate the benefits for the Australian community at large. While we are involved in inward investment as well, there are no fees charged for that particular activity and therefore we haven't covered it in our submission.

Cost recovery and revenue generation for the Australian Trade Commission is, therefore, an important mechanism to help us achieve our goals rather than an end in itself. Last year - that's in 1999-2000 - we recovered about \$28 million in total from our clients and from other organisations, while we received an appropriation of \$151 million from the Commonwealth government for our operational expenses. We received an additional \$150 million from the government for export market development grants but they, again, incur no fees to the private sector or others.

The \$28 million was made up of 8.496 million for client service policy fees, 4.466 million for trade promotion activities and 15.788 million for programs funded by external organisations. Those external organisations involve mainly second party appropriation. In other words, it is money appropriated to other federal government agencies and then paid to Austrade for services delivered, such as the investment programs and so on.

As set out in the submission, our cost recovery policies aim to balance the

competing objectives of maximising access to Austrade services, providing for efficient resource allocation and seeking an appropriate client contribution to the cost of service provision. We therefore use a sliding scale of fees to recover a proportion of our costs from our clients. That sliding scale is represented on page 3 of our submission and it means that we charge no or very low fees to firms that are just starting out in export or that are only looking for readily available information, while moving towards full cost recovery for highly tailored services to established exporters.

We have implemented the sliding scale concept as a straightforward three-tier model so that our clients can understand it and our staff apply it confidently in practice. Part of our logic here is also to enable our staff to listen to client needs, then develop and offer to clients an appropriate package of services tailored to their needs rather than just offering a standard list of one-size-fits-all type services.

Overall, the commission feels that the recovery approach meets our needs fairly well. It allows us to focus on helping Australian small to medium enterprises, deal with market failures and obstacles to international success, while providing for an appropriate level of client contribution. We do keep our approach under review, however, and of course welcome the chance to discuss it with you here. Thank you, commissioner. That concludes our opening statement.

MRS OWENS: Does anybody else want to make any comments? No? I think that was very clear and I think the three-step stage service fees are very simple. I think one of the issues that we need to address is the issue of setting principles where simplicity is a criterion but, at the same time, the charges reflect in some way the cost of the activities. That may or may not be appropriate in the case of Austrade, but my recollection is that when we spoke to you during visits, there were going to be some guidelines developed for cost recovery within your organisation. Does that ring a bell?

MR LANGHORNE: No.

MR JOFFE: We certainly have, internally, client service policy guidelines already developed and in place for about four years, structured around that three-level model. Originally it was a booklet and now it's actually online. It says, "For each of these groups, these are the types of services. This is how to approach making sure we understand the clients' needs. This is how to put a proposal together to tell the clients what we can do for them," and then it sets out the pricing, which is pretty simple anyway, as you've noticed.

MRS OWENS: It is a simple approach. We had a discussion earlier with another participant, where they were suggesting that your cost recovery was a relatively small proportion of your costs, whereas in other areas where the objective is also to promote export the cost recovery is significantly higher - they were talking about AQIS - and wanting to know why this inconsistent approach between activities of different government agencies. I don't know whether you care to comment. I don't know what the history was in terms of Austrade's particular level of cost recovery, the

underlying rationale for that cost recovery, which is I think, compared with some other agencies, quite modest.

MR LANGHORNE: I'll perhaps also ask Greg Joffe to make a comment too. I think it really comes back to the intent of the trade promotion and investment promotion programs. If one looks at the government policy in this regard, and the objectives set out in the legislation, basically what Austrade is about is getting small to medium exporters into the international marketplace and getting them to a sustainable level of exports as quickly as possible. It recognises market failure not only in terms of gaps in the market that may occur, for example, through the lack of private sector providers but also market failure in terms of, for example, price in the marketplace. So there are many small to medium exporters, particularly when they start off in exports, that have difficulty actually meeting the cost of, say, a major consultancy company in a market, whereas a large company can accommodate that cost within its overall pricing structure. So price is also seen as an area of market failure in the case of Austrade.

With that in mind, what the government is endeavouring to do in the context of providing a fee-for-service structure is not to provide any disincentives to get companies into the marketplace whilst setting a reasonable fee structure as companies actually progress through the stages of getting into export - a reasonable fee structure that recognises a level of contribution from them. That's why we actually start with no fees at all and then go through a subsidised fee process, which is the \$100, through to the full cost recovery, which is the \$150 an hour.

The other point I would make, commissioner, is that an important part of Austrade's role is in the area of export culture. In other words, it is assisting to develop an export culture in Australia. If you look at the fact that at the present time only about 4 per cent of Australian businesses export, there's quite a challenge there to increase that level, and obviously what we don't want to do is provide disincentives in that area.

MRS OWENS: In terms of market failure, the market failure really is the lack of information or the lack of access to appropriate information about overseas markets.

MR LANGHORNE: It primarily is that, but it is also in some markets, obviously, a lack of service providers generally. In other words, in some of the more difficult markets, there just isn't anyone else but the government that can provide the networks necessary. Secondly, and perhaps not so much in the area of market failure, but there is often the issue of the need to have - it's called, I guess, government clout - in other words, to be able to get access and influence decisions through diplomatic processes that are not available to the private sector as well. Perhaps I could just ask Tim Harcourt to say a few words on that as well.

MR HARCOURT: Commissioner, you might have noticed in the submission - - -

MRS OWENS: Call me Helen.

MR HARCOURT: Helen. I thought I was in the Industrial Relations Commission.

MRS OWENS: No. We don't get paid as much!

MR HARCOURT: No comparative wage justice any more, commissioner, I'm afraid. You might have noticed in the submission there was some comment about various market failures that exist with regard to information and knowledge spillovers and so on. In some ways, as you would be aware, the reasons for Australia's export culture being held back, say 10 years ago, might have been to do with high-rate costs of protection and certain parts of the tax system. I think, partly due to the work of the Productivity Commission, a lot of those reasons are less important now than they were say 10 years ago, but a lot of the reasons become more important now, as Mr Langhorne mentioned, about information and networks. That's starting to come through the literature more and more. In fact, I must admit I've been greatly assisted by Lynne Williams and Ralph Lattimore on some of this literature in doing the submission.

MRS OWENS: That's good. Thank you for that. Maybe we should consult our own colleagues.

MR HARCOURT: Yes. I certainly do.

DR STEWARDSON: On this matter of your charge, you do say that your pricing policy - at the top of page 4 - was implemented to do various things to encourage more Australian companies into export and so on, and then there's your fourth dot point, "while providing for an appropriate level of cost recovery". The word "appropriate" is a nice catch-all and I was looking through again to see whether you actually justify the policy. I take it that really what you're doing with your three-step approach is focusing your available resources where you believe them to be most needed and rationing the demand for your services so that people who are well able to do things for themselves don't come and just sort of free-ride on your expertise. Is that a fair summary of what you're trying to do?

MR JOFFE: Yes, Dr Stewardson, that would be a good summary of Austrade's approach to both the allocation of our own resources and also the issue of rationing. You're making sure that the people who need it most are getting services for free that they need, but once they are up that curve they are only getting the services at a cost recovery level. The third is also an internal driver, which is that we have found that making our people charge for their services has put a greater impetus to make sure they deliver quality services, so I would add that third one to your two points.

DR STEWARDSON: So improved efficiency?

MR JOFFE: Perhaps not in the economic sense of the word "efficiency". I would just say that straight charging for services increases the quality expected on both ends of the transaction. I don't know if I'd define that as efficiency. But certainly, as a

service delivery agency, our view is that if we charge, then Australian businesses expect better service and we also find that the Austraders understand that they have to deliver better quality.

If I can give you an anecdote, one of the other trade agencies came to visit me about a year ago and they wanted to understand our charging policy. We spent about an hour going through the tiers and what sorts of services we delivered and how we structured it, and I got almost to the end of the meeting and he - I think he was the consul-general for this country - sort of looked at me and said, "But if you charge, don't people expect you to do a much better job?" and I think that does summarise the whole issue. For us, we found that the charging has actually put a greater onus on Austraders to ensure they are delivering good quality as a third benefit in addition to the two - - -

DR STEWARDSON: And what you're charging I take it is your direct labour costs and on-costs but not your organisational overheads, or not a proportion of your organisational overheads. Is that correct? That seems to be what you're saying in various ways.

MR JOFFE: No. The formula is very simple. It was our total costs divided by our available front-line hours, so it includes both direct costs and organisational overheads.

DR STEWARDSON: I see.

MRS OWENS: So how do you decide what you're going to charge for and what you're going to fund through appropriation? What's the rationale for deciding that some client services get charged for, some other activities don't?

MR LANGHORNE: There's some flexibility here, and again I'll ask Greg to maybe give some more detail, but if you looked at the structure of Austrade's outcomes and outputs as required by government and the way that our budget is allocated to those, basically you've got one area which is really raising awareness and it's a cultural-type activity which is nearly fully appropriation funded. There would be very little income from the private sector there, maybe some funds from attendance at seminars and so on, but not a huge amount.

The second component of our work is mainly about trade and investment promotion, and that's a second outcome that we have as an organisation. Within that outcome there is an output that relates to the provision of ministerial services, again which is fully funded by appropriation. Then there are consular services and immigration services in the context of another outcome, which we again are funded for, either through our direct appropriation or through the Department of Immigration or the Department of Foreign Affairs and Trade. Investment promotion is fully funded by appropriation, either again from the Department of Industry, Science and Resources or through direct appropriation to Austrade, so that's the way basically the budget is split.

Now, in terms of going back to that area where - let's just call it for simplicity the provision of volume market services and services to Australian business - in that area there, as Greg Joffe said, there is a clear set of activities of Austrade services that attract a fee or don't attract a fee, and basically they're to do with the requirements of business at a particular point in time and in a particular market, and let me give you an example. If we were working with a larger company who required in a particular market or for a particular market services that related to the process of thinking about or preparing to get into the market, those services would still be provided free. So the pricing policy doesn't really relate to the size of the company directly.

Now, it so happens, because we have a policy requirement put on us by government, and the way that our operations are structured, that the majority of our services are provided to small and medium exporters and therefore a lot of those services are provided in the preparation stage, if you like, getting ready for export and so on, but as those companies go through that three-tier approach, when they're ready to export, when they require marketing services and so on, then they start to attract fees. We're quite happy to leave this I think fairly succinct document that sets out how that structure is worked through.

MRS OWENS: Thank you.

MR LANGHORNE: That isn't a structure that has been agreed with government - I mean not in any formal cabinet sense - but it's agreed by government and again it relates to the process of making sure that we charge sensibly, I guess, in terms of ensuring that we don't put up unnecessary barriers to companies wanting to get into the market, and from our point of view, too, of course, our mandate is to make sure they get into the market in a sustainable way; they don't what we'd call spot-sell or go into the market and only last there a year and then go out again. We try and get them into the marketplace so they actually stay there.

DR STEWARDSON: You were going to add something?

MR JOFFE: I think it might be worth doing visually what Peter has just done verbally. In a sense it's almost like a tree, starting with our outcomes and then our outputs, and the three non-trade and investment outcomes, as Peter said, are all appropriation funded. The remaining one is trade and investment. Within that there's an output around government advice which is again appropriation funded. There's the investment one which is funded through ISR or directly, and you're left with sort of the trade facilitation, and that's when the three tiers kicks in. And literally within that, going to the document Peter had, there is a set of things we can do, and if an Austrader is working with a client, they're basically offering some combination of these and charging based on where it is in that three-tier level.

DR STEWARDSON: One of the things we have to do is to come up with some guidelines which presumably have to be fairly much generic for a whole range of organisations, and trying to compare what you are doing and how you're doing it with some other organisations is behind my next couple of questions. It seems to me that

in a way you are perhaps fortunate that your organisation isn't given a specific cost recovery target.

There are some organisations - the particular one I have in mind is AGSO, the geological survey organisation, which has as one of its functions to disseminate geological information, to encourage exploration and development within Australia, but because it is under a percentage cost recovery - I think it's 30 per cent, but whatever - it has to charge more fees, higher fees, for its services than I think left to its own devices it would feel was appropriate for its charter, and you appear to be not under that sort of constraint, that you can give your services without charge in the category 1 and with only partial charge in the category 2 that you have for encouraging exports.

So I guess from your point of view, if one takes the analogy of AGSO, it would be desirable not to have a percentage recovery target. I'm perhaps rather putting the words into your mouth and I shouldn't be doing that. I'm not really wanting to. The question really is, is my analysis correct? How would a percentage recovery target affect your operations?

MR LANGHORNE: I think the issue there would be that the internal effect would almost certainly be that people would target companies that would provide a return on investment in terms of fees, so in other words if you put a percentage on, then what would happen is that internally naturally people would look and say, "Well, I've got to achieve 10 per cent, 20 per cent of my budget, and therefore I am naturally going to focus my efforts on companies and services, companies that can afford to pay and are willing to pay directly, and services that attract a fee." So what we would see would be almost certainly a distortion in the delivery of services that we offer.

So what I'm saying is that whereas the government is saying to us, "You get out there and service small to medium exporters that are not able in their own right to get into markets and get up that learning curve quickly," there would have to be some change to that policy which says, "Yes, do that with some of your money, but at the same time we're telling you you have to go out and earn a certain percentage of revenue."

I think that would distort the overall services that we provide, particularly as, as we know, if you really analyse it and take it down to the wire, from the information we've given you, you can see that really the client service paying component of what we do amounts to really only something like \$12 million out of our budget, because you've got trade displays or trade promotion and you've got those client service type fees, so it is a small proportion of the budget overall.

But that is, I can say, a deliberate policy and it's a policy to ensure, as I said, that we don't get people in the network having to chase dollars, and if you start chasing dollars then, as I said, what you'll do is chase the services that, number 1, provide those dollars where you've got no choice, but, secondly, you chase the larger end of the market.

The other point I'd make is that a number of the services that are set out in the free or subsidised areas, particularly the free areas, you could not charge for, because they are dissemination of information to Australian business. Perhaps Tim Harcourt could go into this a little bit more, but one of the areas where there is this market failure in information is that there is no profit in providing that information to small to medium companies, so there's no way that Austrade can directly and easily charge for that type of activity, and yet it forms a fairly large part of our work.

The other thing to bear in mind is that a lot of our work is done not only with Australian businesses but with companies or governments overseas, and naturally you can't charge a customer, if you like, someone who you're trying to sell Australian product to, through a company to do that. It would be like charging people an entry fee into David Jones. You can't do that directly because those people are obviously the buyers of Australian product, and a lot of the work goes into actually developing opportunities through those activities as well. So the scope for actually charging perhaps isn't as wide as one would imagine if you stay within the government policy range.

But to answer your question directly, yes, our view would be that the charging structures, the pricing structures that are in place are specifically directed towards not distorting the client base that Austrade deals with and not setting up say a high-powered consulting firm that would go out and charge fees to the larger end of the market.

MRS OWENS: I think that's a reasonable answer to that question actually. This is changing the subject. I don't know whether you had a further question you wanted to follow with that. We had a submission and attendance at the hearings of a group called English Australia, and English Australia I think had approached Austrade in terms of entering into the purchase of a provider agreement to undertake a European road show. You say in your submission that for that sort of activity you would charge full cost recovery, direct costs and overheads.

They said to us that they felt that the price was too high and they then decided not to proceed with that particular project. In that case this is an organisation which you could argue is actually doing good works, if you like. I just wondered, in terms of one of your objectives, which is the accessibility objective, how that fits. Do you actually look at the nature of the client that comes through the door and try and price accordingly? Is there any price discrimination or do you have pretty well set fees for those provider arrangements?

MR LANGHORNE: Certainly English Australia approached Austrade and in their own right they saw real potential in the markets that they were looking at. Just to look at that specific case, because I think it's a good illustration of what can happen in this pricing arrangement, basically they asked for fairly extensive services. We're aware that they saw it mainly as setting up some trade fairs but basically, if you analyse what English Australia approached Austrade and asked the organisation to do

for them, it was more than that. In fact, it would involve four phases in most of the countries.

They looked at three areas: France, Italy and Spain. In the case of France there was 118 hours of work, in the case of Italy 186 hours of work, in the case of Spain somewhere between 25 and 30 hours of work. The reason that the hours and the consequent prices, which I won't go into at this point in time, varied so much was that what was asked for was a number of seminars, trade fairs. In the case of the French proposal the intention was to target three to four major cities, whereas the Italian proposal was looking at three, preferring to focus on trade fairs rather than follow-up activities and seminars, and Spain only two.

The services were mainly bracketed into our tier 2 and tier 3 categories, so they did attract either the full \$150 an hour or the \$100 an hour subsidised services. They included things like identifying agents, research of venues, organisation of meetings, seminars and trade fairs, management and coordination and logistics, translation services and follow-up of all agencies who participated in the seminars. This is a major activity that came across as, "Well, we simply asked them to arrange a few trade fairs." In fact, they didn't ask us to do that at all. The specification was fairly extensive. We quoted on that specification and at that point in time I think, though, declined to proceed. The issue for us again was if they had asked more directly, then we may have been able to say to them, "Look, a less intensive program and more targeted, and looking at perhaps one or two countries" - because they picked the most expensive countries, or some of the most expensive countries, in the world as well - "may have in fact got you a similar return." But we didn't get that response or return from them.

MRS OWENS: They didn't come back to you on those suggestions - or you didn't get the opportunity to make those suggestions?

MR LANGHORNE: No. Our view would be that for what they asked for, and the specifications that were provided by the post in the countries - and, as you could see, it was a fairly intensive range of activities across quite a few countries - for what they asked for, the fees were more than reasonable - more than reasonable. Certainly, from the point of view - if there had been private sector providers out there that could have done a similar job, they would have found that the fees being offered - and I'm not too sure that in fact, because of the nature of this, there would have been private sector providers out there. But if there were, then for that sort of job they would have attracted certainly a higher rate.

MR JOFFE: You also asked about the issue of do we sort of waive the rules for bodies we look positively upon? The answer is we try very hard not to. Being a government body, we try very hard to have consistent simple pricing, because as soon as you start having exceptions there's a line of people complaining to various government bodies and the minister about why somebody else got an exception and they didn't. We deal with state governments and provide services to state governments, we provide services to industry associations, we provide services to

other sort of allies and we also provide services directly to Australian exporters and potential exporters. As soon as we start cutting different deals for different people it gets very messy, with people saying, "How come they get a deal and I didn't?" So we've actually tried to keep it as simple and as consistent as possible.

MRS OWENS: Across those different groups, if you were doing a deal with a state government it would be pretty much what you had been doing, in terms of price, as you would with a particular individual exporter or whatever.

MR JOFFE: Yes, and obviously the exception is that when the minister decides that we should do something, then we'd probably do it. Like, if there's a minister's mission we don't generally charge for that.

MRS OWENS: That would be an interesting exercise, to try to.

MR JOFFE: We figure we've got that in the appropriation already.

MR LANGHORNE: As Greg Joffe said, we try to stay with the fee structure as much as we possibly can. There may be some cases where we might give an exception. The other area where we do have latitude, if circumstances provide - that latitude is provided in the Prime Minister's "going for growth" statement on trade fairs if there is, under what's called a National Trade Fair Strategy, a situation where Australia is trying to break into a particular market. Let me give you an example of that. That would be, say, six or seven years ago when we were very active in establishing our credentials as an information communications/telecommunications type of industry growth in Australia. We actually provided a fair amount of subsidy to the CBIT trade fair. As that trade fair grew and companies participated in that market, they began to pay full costs again.

So under that policy we do have, if you like, the right to use appropriation for funding trade fairs but it's only done on an exception basis. It's only done where we're actually trying to establish our credentials as a country in a particular market.

DR STEWARDSON: Do you have many cases where, as sounds as though happened in the English language case, they didn't really know how they should specify their request in a reasonable way in relation to the likely budget? Is it part of your job to say, "Look, what you're asking for is going to be very expensive. Why don't you tailor it down a bit"?

MR JOFFE: A significant part of our service focus over the last five years has been to move Austraders from thinking about selling product to really setting down with the client, understanding the client's needs, not only capturing what the client says they need but also from experience saying, "You may also need to think about these other issues," then putting that proposal together. I would say certainly we should be consistently also saying, "This is our recommendation on what you do. This is what we would do and therefore this would be the cost." In delivering that to the client, if the client is not happy, then say, "We can work with you to scope something different

that might suit you better." Directionally that's a big push that we've had over the last few years. I'm not familiar with this particular case, so I'm not sure if anybody - - -

MR LANGHORNE: I think in this particular case what's happened is that they have made a decision, when they got the quote, not to proceed and not to have any further communication with Austrade. If they had done so, then certainly we would have indicated to them the markets that we suggested they target; if they weren't willing to spend that sort of money on such an intensive program, then perhaps the sort of program that might fit their budget. Having looked at that particular case, our view is basically there's a combination of three things, I guess. Without wanting to put words into their mouth, the way we would read it is that the first thing is they're saying really that they shouldn't be charged as they are an industry body, and thus working for the good of the community.

The second point would be that Austrade shouldn't charge, and we hear this occasionally, because we're a Commonwealth agency and we're funded with taxpayers' money and therefore the taxpayers should pay. We hear that fairly regularly. The other thing, I guess, is that the proposed project could have brought greater economic rewards than the cost to the government in providing the services; in other words, that they were looking at economic returns as well. So we think there were probably three factors involved here. I think the answer to your question is that we are willing, and in fact wanting, to negotiate with various organisations and Australian businesses - their needs and what they can afford and what they can't afford.

There are often ways of actually giving them what they want at less cost, and sometimes that can mean - and not just sometimes, in many cases that means Austrade saying to a particular business or organisation, "We suggest you go and seek this service from someone else" - be it a state government, be it another federal agency or be it a private sector provider.

DR STEWARDSON: Looking at a different matter, how do you assure yourselves that you're being efficient? You made some reference to sophisticated techniques that you use to measure your performance. You do, I think, have some private sector competitors but you're perhaps in a different part of the market to them, so the market test may not be a terribly appropriate one. Again, with our guidelines, we have to try and suggest guidelines that will help to ensure that the organisations concerned are being efficient, so I guess that's what I have in mind when I'm asking the question.

MR JOFFE: It's an issue we grapple with consistently. We've tried very hard over about the last 10 years to really make sure we're very clear on our objectives and then find the most appropriate results measures, rather than activity measures, to tell if we're achieving those results. We've set a number of key KPIs, particularly within the trade and investment part of our deliverables, which include dollars of export impact we were involved in, number of export impact transactions we were involved in, number of companies assisted to try and export who had never exported before, number of companies assisted in a new market where they have never exported

before, client satisfaction - because all the others don't count for much if your clients are dissatisfied - and then some inward investment measures as well. That's within the trade and investment output.

I guess our core way of looking at our efficiency is how we're doing on those results for the money we have, and we continue to try and refine that because, like most government organisations, it's never as easy as discounted cash flow. Are we making a profit? We're always trying to get an approximate mix of measures that approximately tell us if we're achieving our objectives.

DR STEWARDSON: Are there equivalent organisations to you overseas that you can benchmark yourself with?

MR LANGHORNE: Yes, there are quite a few. In fact I would say most countries have a trade promotion/investment promotion organisation of some sort. In some cases they're split, but certainly the majority of countries would have a trade promotion activity overseas. We obviously look at those and recently undertook a study, through the APEC group, of other trade promotion organisations. We have also done some characteristic studies of trade promotion agencies outside the APEC area as well. So there's that system. We can look at what they're doing and we can obviously look and say, "How much is this costing them and how much is it costing us?" But in some cases those benchmarks are - a little difficult to get apples and apples together.

The other way, by the way, of efficiency measurement and effectiveness, of course, is that we are subject to the Australian National Audit Office's ongoing performance audit program and, on average, have at least one of those audits a year into our client services or the way our overseas posts operate, or whatever, and of course we're involved in the interagency audits that the Australian National Audit Office conducts as well. I guess the big test we're coming up to in 2001-2002 is that we'll be subject to a pricing review by the Department of Finance and Administration, and obviously we'll be looking with interest at how that comes out as well.

DR STEWARDSON: It must be very difficult to set your KPIs. How many new exports is it reasonable to aim for?

MR LANGHORNE: The KPIs are quite extensive and it's difficult from the point of view that any one outcome or output doesn't have a simple key performance indicator attached to it. For example, if you're looking at measuring your success against contribution to Australia's trade effort or economic benefit, then you have to look at a number of factors. It's not just how many companies you might help to actually get exports, it's how many companies you assist to get into the market in their own right, how many companies you assist to diversify into other markets, what your outward investment attraction results are, what your inward investment attraction results are as well. So there's a combination of things. There's no one thing about which you can easily say, "Let's take the price of delivering that service and divide it by that particular indicator and that tells you what the outcome is." It doesn't work

that way, and if you look at our annual report and our operational plans, you'll see that the indicators are quite extensive in that regard.

DR STEWARDSON: In terms of liaison with industry, which is again something we have to look at, you have a moving population of clients, I take it, so you don't have a permanent group with which you might have a consultative committee to discuss matters of mutual interest. You said you have questionnaire feedback from your customers, who say whether they're happy or unhappy with what you've done for them. Is that the main consultation you have?

MR JOFFE: That would be one of, but only one of. Probably the main areas of feedback we get are, firstly, the actual direct dealings with the clients, so in a sense the major feed of understanding what clients need and whether we're delivering it is the person on the ground in Osaka dealing with the exporter and (a) making sure they understand the exporter's needs; and (b) following up to make sure that the exporter is happy with what was delivered and the outcome. We also then have a formal client satisfaction feedback process, where we survey approximately 2000 clients every year, and that's sent out through an independent agency - Newspoll last year - so that gives us quite a detailed feed on what clients are getting from us and whether they're happy and where the areas for improvement are.

We also have industry panels, so on our major industries - agribusiness, infrastructure, those types of industries - we have a panel of leading companies that meets with us twice a year, where we talk to them about what we're seeing happening worldwide and therefore what Austrade proposes to do and they then actually tell us whether they agree or whether they think we've entirely missed a whole area that we need to be focusing on. We also have less formal feedback channels, ranging from complaints or compliments that go to the minister, through to board members, through to the MD, through to direct to any Austrader. I think those are probably the major areas by which we get feedback on how our services are going, but I actually have the head of client service in the room, so I can check if I've missed anything.

We also conduct specific market research around particular issues, so for instance, we're doing a lot of work at the moment on our information-age strategy. We've done focus groups with exporters and potential exporters on what they would expect on the Austrade Web site, what would be useful, what wouldn't be useful, but that's around a particular issue we're addressing at the moment.

MRS OWENS: Can I ask then if you've got all those consultation mechanisms, do you actually consult on your fees and the charging policy? I noted in your submission that you are currently reviewing your fee structure. Would there be a consultation mechanism in place when you're undertaking that review? I presume that's a review of the structure rather than the level of fees, but whenever you change fees - and I don't know how often that occurs, you might be able to tell me - do you consult with your client group for industry more generally about fee levels?

MR JOFFE: The last major change to fee levels was in about 1998, where I drove a

change. We used to have a package and we were getting feedback from clients that rather than listening to the client and their needs, Austraders were selling the package because it's always easier to sell a package, so one of the first and least popular things I did internally was I came in and got rid of the package and replaced it with the first 10 hours at a post for \$100 and then 150. Now everybody says, "Oh yes, that was a great decision." At the time, they weren't so sure. So yes, certainly the last major change, we got client input on that and also Austrader input. We do have another review of the charging levels and charging structure and we will definitely consult with clients as part of that.

MRS OWENS: The charging structure in this review of charging structure, could that change this three-tier approach potentially? Are you looking at something that's going to be more complex or something even simpler?

MR JOFFE: I would want to look at a number of options. One would be even simpler, looking at merging tier 2 and tier 3. We have previously looked at whether we charge different rates for different levels of Austrader and we get a pretty consistent answer of "no" because, particularly in foreign markets, some people really value the Australian senior trade commissioner, but other exporters really value the local person who has been in the market 15 years, so when you actually ask them as a group who is more valuable, you get an average answer that says they're the same. There is an issue about whether we should charge consistent fees in India versus Japan and that's obviously traded off against the simplicity and clarity, but I'd again want to look at those types of issues as we look at this, plus whether the 150 is still the appropriate measure or whether it should be 500.

MRS OWENS: Where did the 150 come from, for example?

MR JOFFE: The 150 was arrived at by taking our total costs, divided by the number of hours available to front-line staff. I can tell you the actual numbers comprising it at the time.

MRS OWENS: But a fairly simple approach.

MR JOFFE: Yes. If we took our total hours and we were able to charge out all of our front-line hours, how much would it be, and it works out about \$150 an hour. Obviously, then you're never charging out all your hours, you're only charging out the tier 3 and a subsidised rate on the tier 2.

MRS OWENS: Has the Audit Office actually looked at those charges at any stage or this approach as part of a review?

MR LANGHORNE: No.

MR JOFFE: Not that we're aware of, but that would probably be the only thing they haven't looked at in the last few years.

DR STEWARDSON: I was intrigued by your suggestion you might merge 2 and 3. Looking at your three categories, I would have assumed that category 1 was not a terribly common request or that, if it did crop up, it could be dealt with pretty easily and that 2 was your help to people really getting into it effectively and 3 was the one where they're already there and don't need so much help.

MR JOFFE: There's a yes and a no answer to that. In terms of tier 1, if you actually look at the number of Australian businesses we deal with, that's by far the majority of the work we do. There's an enormous number of businesses who contact us for bits of information as simple as, "I'm going to Istanbul, what's the weather like?" We're trying to move all that to the Web site, for obvious reasons, but we actually do an enormous amount of tier 1, particularly in Australia. Once you get to the overseas posts, it's much more tier 2 and tier 3 and the distinction you make is why the original tiers were put in place and my hypothesis is that we would keep the three tiers, but it's a hypothesis I wanted to test.

MR LANGHORNE: There are differing views in different agencies. Some agencies, for example overseas, would extend the free services area, and so are free and generous, and then really charge at the top end, so they'd load a lot of their costs.

MRS OWENS: So they have a big step.

MR LANGHORNE: Yes, a huge cost increase at that point in time. Again, that's something we're looking at to see whether or not that's a viable proposition.

MRS OWENS: It might actually happen by default if more and more of the information goes on the Web, because you will by default increase that free tier 1 because people will be able to get access to information.

MR LANGHORNE: Yes. I mean, the sort of services - we won't go through them all, but as Mr Joffe said, there is an assessment process, assessing readiness to export, which is more or less a counselling meeting type service. There are events that we put on in Australia - some events we put on free of charge, some we charge for, depending on the nature of those events - providing information on where else to go for help, all those sorts of things. A number of them do lend themselves readily to the Web and the use of Internet services and one of the things we're doing at the moment, of course, is running an extensive number of seminars on behalf of the government around Australia on e-commerce and the use of e-commerce and so on. I think there will be some change over time in those general activities, but I come back to the key point.

The issue from a policy point of view, if you were looking at changing the fee structure, is how would you do it without changing the culture of the organisation to really target people who could pay, rather than those people who need the services? Clearly, the mandate we have from government, the policy line from government, is "You will service small to medium exporters or enterprises." They've redirected the organisation over the last four years clearly in that direction, even through the grants

and loans programs as well.

MRS OWENS: I think that makes sense, because those that can afford to pay can afford to go elsewhere to get information as well, so the market failure is really at that smaller end of town, not the big end of town.

MR LANGHORNE: That's right. There are obviously markets where we assist BHP, Telstra and other areas, South America, Vietnam, parts of North Asia and so on, where there just isn't another supplier available, and we charge or, depending on the service they're looking for, set the fee structure accordingly, so there's a variety of situations, if you like, across the world that we're dealing with at any one time and that's why it's very important to us that we maintain, as Greg Joffe said, a consistent policy and don't look to exceptions unless it's absolutely necessary.

MRS OWENS: If there's a really big exception, that really comes in under your appropriation. As you said before, if the government thinks something is important, it probably should come out of the rest of your budget.

MR LANGHORNE: Yes.

MRS OWENS: I think we've just about exhausted ourselves, and you, and I'd like to thank you very much, and if you can table that, that would be very useful.

MR LANGHORNE: Thank you.

MRS OWENS: Thank you for coming. We will just have a short break and call the next participant.

MRS OWENS: We will now resume. The last participant for today is the Department of Industry Science and Resources. Welcome. What I would like you to do is each give your name and your position with DISR for the transcript.

MR BOURKE: My name is Rodney Bourke. I'm the manager of the business, finance and regulation section in the industry policy division.

MR LOWNDES: Terry Lowndes, head of industry policy division.

MR MORRIS: Peter Morris, general manager of service industry's coordination branch.

DR HART: Dr Sandra Hart, general manager of the Australian Government Analytical Laboratories, which is part of the analytical and mapping division in ISR.

MRS OWENS: Thank you. I think we would both like to thank you for the submission. You've actually done some of our work for us, I note. You have had a very good stab at developing some cost recovery principles for us in your submission and we're very grateful for that. I hope there's not copyright on it and that we can actually use this. We presume anything that comes to us is something in the public domain, but we thought it was actually a very well set out and argued set of principles that you have brought together. We have had a number of other submissions that have developed some principles, as well, and fortunately there is a degree of consistency between them, not totally. I think I can talk for my colleague, Robin, here, and say we thought they were excellent.

DR STEWARDSON: That's exactly the word.

MRS OWENS: Terry, I think you were going to make a few opening comments.

MR LOWNDES: Yes, just very briefly. As you can see from our submission - and also some of the other agencies in the portfolio who have made separate submissions - that cost recovery is quite an issue for Industry Science and Resources and we have quite a large number of instances where it applies and in quite a range of different circumstances from sort of fee for service to regulatory and provision of information right across the whole gamut.

We have also got some cases where we're constrained by government directives and some cases where it's up to the department's discretion, so there's quite a wide range of different situations where the department deals with this issue and I guess that is partly reflected in some of the issues in our submission where we have been sort of grappling with the idea of a consistent framework. It is an issue the department faces in that we can't really have one method for this range of different situations but, on the other hand, it is difficult to have a consistent methodology, so I guess one sort of dimension to this inquiry that we are certainly interested in is building on, if you like, this list of things for people who have to implement cost recovery - that they should think about, and factors to consider in making the best

choices they can in the different circumstances where cost recovery applies. I think that is really what our interest is in terms of that part of the portfolio which is actually delivering services to which cost recovery applies.

We also, I guess, have an industry policy dimension to all this and that's more, I suppose, focused on the issue of questions asked about whether the service that's being cost-recovered is being provided efficiently, and that's a slightly separate issue but, nonetheless, I think it's a fairly relevant one in the case of cost recovery in situations where there's no sort of market competition or market pressures. There is that issue of, okay, there's a methodology for recovering the cost but there's also the issue of whether the cost is at the right level to start with and I guess from the policy side that's an aspect of the inquiry that interests us.

MRS OWENS: In terms of efficiency I think the other thing we're interested in is not just the underlying cost before you start, but the ongoing incentives of the cost recovery arrangement back on the agency as well as the user of the services, so there is another efficiency dimension there, as well. I think the obvious question to ask is, returning to these principles you have developed - and you have given us in your attachment 2, a check list on charging - whether those principles in that particular check list would have been applied when your department was setting its own cost recovery arrangements for each of these individual organisations within the department or within the portfolio.

MR LOWNDES: I think the short answer to that is, probably not. It's sort of an issue that we've been sort of working on but at the moment it's not as though it is sort of a check list within the department. Certainly some of the things on that list have been applied in particular cases but I don't think we could claim that it is all done in a methodical fashion.

MRS OWENS: So this is something for the future rather than the past?

MR LOWNDES: Absolutely, yes.

MR BOURKE: Some areas of the department have asked for this check list when they are beginning their thinking of these things and that have worked through the check list to help them flesh out all of their thinking in developing their ideas on regulation and charging.

DR STEWARDSON: One of your statements in your principles is that there should be strict guidelines for determining public and private benefits. Based on your experience with the agencies and organisations within your area what specifically would you say should be the way one assesses public and private benefits?

MR LOWNDES: Again it is one of those issues, like many, where the general principle is one thing and applying it in practice is quite another, but I guess the standard thing you are looking at is this concept of externalities in terms of where you may have a particular user of information or a service that can be identified, but

whether there are any particular sort of benefits - public benefits - beyond a particular user that can be identified in trying to work out whether there is a public benefit and that is certainly one dimension to it.

You also, I suppose, get the more general public benefit where it is simply the view of government or the agency that it's desirable that information be in the public fora, and this is sort of a principle, I guess, which is relevant to the business information system, where even though we're providing information on what services and so forth - the government assistance programs and so forth - are available, clearly being made aware of that is beneficial to particular people, but I think the view is it is part and parcel of government providing those assistance measures that information on their availability be disseminated quite widely. Hence, in general terms, we don't have cost recovery on the business information system. Then there are other instances, I guess, within the department where we are providing a fee for service - a very specific service to a very particular industry - and in general in those situations it's difficult to really identify public benefits.

DR STEWARDSON: Can we take AGAL, since we have the head of AGAL here. Am I reading correctly that you get 65 per cent of your revenue from cost recovery and 35 per cent from taxation.

DR HART: That's correct.

DR STEWARDSON: What is the rationale for that particular split?

DR HART: The rationale is partly historical. AGAL is a business operation within the department. It has around about 300 people and, for the last five to 10 years it has been operating at a size of around about \$30 million. AGAL has got quite a long history. It goes back to before the turn of the century with the Customs Laboratories. It has been through a number of evolutions. Up to the mid-80s it was the Commonwealth government's primary provider of analytical laboratory services for a range of Commonwealth agencies - Federal Police, the food agency, sport, etcetera - and we provided those services free of charge. In other words, they were paid for by the Commonwealth.

There were decisions made following the Ross report, a review of Commonwealth Laboratories in the early 80s, that indicated the laboratory should go to a cost recovery fee-for-service mode and that was gradually implemented fully by about 1990. There is a reality in running laboratories that there is a certain amount of infrastructure that is there as the overall investment. One of the realities that happened is that when agencies moved to a user-pays situation and for various other reasons in terms of market provision the amount of work they required from AGAL reduced, but it was still necessary to maintain the cost of the infrastructure otherwise we wouldn't have been able to provide that basic service provision.

Accordingly that excess capacity that goes with the capability was provided to a range of other clients, so we then moved to a range of private sector clients providing

services as and when needed, depending on circumstances, and they will vary from time to time, so we have a fluctuating client basis, if you like, but within that fee-for-service category of 65 per cent a number of those will be Commonwealth clients - Commonwealth agencies - who in turn are budget-funded, but those moneys come to us through that process.

DR STEWARDSON: So is all your actual activity cost-recovered?

DR HART: It's an interesting question. I think no, in the sense that one-third - if I understand the question correctly - of our activity is paid for through the budget appropriation, and that is for what we would call general infrastructure provision. I mean, there's basic maintenance of laboratory buildings, intellectual capital, and the equipment that's used to deliver these things, and it's maintained primarily to provide the country with a crisis response capability, should an emergency require chemical testing.

DR STEWARDSON: Am I understanding you correctly that your labour costs and, perhaps your management costs, are 100 per cent cost-recovered from your customers, who may be private or may be business, but you don't have any charge for your capital costs for depreciation of your laboratories and so on, and that is what's paid for by the government. No?

DR HART: I understand what the question is. You will be aware from the document that we are undertaking a review at the moment, strategic review, of AGAL, and it is in part to address that very question you raise. That we have quite a complex operating model and, regrettably, it's not as simple as what you describe. I guess it would be fair to say that we could split up the costs of managing the operation in a number of areas. There would be the basic infrastructure cost of a group of scientists with the appropriate intellectual capital, the buildings and the base level equipment. Then in turn there is the variable cost of providing services. That clearly is cost-recovered but with some other margins that go to contribute to the maintenance of the infrastructure and then of course there is the other corporate area of cost of sales, etcetera, and that is directly attributed to each of our particular clients in those areas.

DR STEWARDSON: Why aren't you - either aren't you able or don't you fully cost recover - I mean, I take it you are in a contestable market - that there are private firms competing with you and they presumably have to cover the cost of their laboratories and so on. Do you have a particularly heavy cost in that respect?

DR HART: I guess this is one of the things that we're tackling at the moment. We would recover, by the pricing mechanisms that we use, all of the work we do for our private sector clients and for our Commonwealth clients. In fact there is a view, but it's not completely analysed at the moment. In fact some of that pricing may actually go to subsidise some of the public good work, although that's not clear. There are ways of supporting each activity. In other words, if the two activities were split up, the total cost would be greater.

DR STEWARDSON: What is the public good activity?

DR HART: We provide, according to the portfolio budget statement last year, three outputs under our output 2.4 for the department. We are an integral part of the department. Those last year were maintenance of a crisis response capability as I referred to before. The second thing was research and development to deliver the drug testing program for the Sydney Olympic Games, part of which was publicly funded; then a very large component which is called - in this component - National and International Studies in Chemical Measurement. In other words, standards setting in the area of chemical measurement, which is a new field internationally. That is paid for fully by the budget appropriation. Those three areas have been collapsed into one activity this year in the portfolio budget statement called Analytical Laboratory Services, but they maintain those three specific categories and they are publicly funded.

DR STEWARDSON: So they are very roughly 35 per cent?

DR HART: That's correct, yes.

MRS OWENS: I thought that was very useful. What is interesting is that you have this set of core activities the government expects you to undertake, like the Olympic drug testing.

DR HART: Yes.

MRS OWENS: There was another one you mentioned in here; the Tough On Drugs strategy.

DR HART: Yes, that's right.

MRS OWENS: Then you have a very large proportion of your budget and it is funded from these other activities where you are providing services to other departments and outside to the private sector.

DR HART: Yes.

MRS OWENS: Is there any danger that that external work you do could tend to crowd out the work you are meant to be doing; the core activities?

DR HART: That also is an interesting question and I have addressed that in the context of the Mercer review. It is a question that has come to us for the last 10 years I would say and I have been in the organisation for just over three years. My answer to that question is it does have the potential to do that, but if we look at it from the other way and if we were to do a proper activity based costing exercise on the whole of the organisation, which we are finally embarking on having attempted that on a few occasions, what we get with the budget appropriation pays for a certain amount of

work.

Now, in past years we delivered excess services for that amount of money and it manifests itself in AGAL making continuous losses. Over the last two or three years, bringing in best practice management, as I saw it, we have examined those deliverables and outputs and re-prioritised the program in order that we could absorb this major program which was last year's output, 2.4.3, which is the International Chemical Measurements Standards. It totally absorbed that \$4 million program, while at the same time shaving off those other things that would be good to do and probably ought to be done but weren't being funded either by profits generated from our external clients, which you could argue would be inappropriate, or from straight funding.

However, what has happened there is that we have some stakeholders and clients who have perhaps been in receipt of those benefits before who are not perhaps happy with that situation and suggesting that perhaps they are getting less or that the priorities are not right. Now, those particular questions are being addressed at the moment in the context of the Mercer review, so a fairly robust discussion is going on about those issues.

MRS OWENS: Those clients that are feeling a bit unhappy, were they previously clients that you were charging and - - -

DR HART: I think it's a diffuse thing within the chemical industry. AGAL has been asked to do a lot of things for people over a period of time and in times where we weren't looking at the efficiency of delivering those services or the true costs behind those, it was perhaps distorting what we were doing. Now we're taking a more businesslike approach to it, I guess, in terms of saying, "Yes, we can do this," but in reality it costs this much and there's this much that's in the pie; we have to make choices about what can be done.

DR STEWARDSON: Are the government departments who are your customers obliged to come to you or do you have to compete for their business?

DR HART: We compete for their business. Well, with the Department of Agriculture, Fisheries and Forestries, one particular agency has a competitive tendering process and we win about 50 per cent of their work. The other 50 per cent goes to private industry. However, they require us to be their laboratory of last resort when and as they need us.

DR STEWARDSON: That's nice for you, isn't it?

DR HART: It's an interesting situation. The Federal Police, we have a service level agreement with them and while that's not formally tied there are reasons for that partnership arrangement, in that in the Tough On Drugs In Sports strategy, we are providing strategic and tactical information through our chemical testing for the National Heroin Signature Program and the elicit drugs strategy. So to actually

fragment that would be counterproductive and that's one of the reasons for that relationship. The other relationship that may be viewed as a monopolistic relationship is with ASDA, Australian Sports Drug Agency, where we are the only IOC accredited laboratory in the country. As a consequence of that we are the required provider of drug testing services to ASDA and to any of the other sporting federations in the country and thus to SOCOG during the games.

DR STEWARDSON: It sounds as though you are sort of largely commercially operating, but with some residues of not, and the case of the department wanting you to be the laboratory of last resort, are they putting that as part of the contract? You know, they will give you X amount of work if you will also undertake to be that? I mean, that presumably has a value to them.

DR HART: Indeed. I think while they have been over the last, I guess, five or six years - maybe a little bit longer - very rigorous and operating with best practice with their contract management arrangements on specific contracts for testing in this competitive tendering program, for these other residual activities we do not have a memorandum of understanding; it's just an understanding through custom and practice which we are gradually taking to an MOU and hopefully an MOA and we're in the process of negotiation, but as soon as we start talking about dollars then things slow up a little bit. In principle it's something that I wish to pursue and it's a difficult area. It will be confronted this Friday at a workshop in particular.

DR STEWARDSON: Because the other question we are asking a lot of agencies is how do you know you are being efficient? You presumably would know it because you are competing in the marketplace.

DR HART: I think that's probably our best guide to prices. I mean, on the one hand we are constrained by the market and the analytical laboratory industry is not an industry that generates huge profits. It's not an easy industry to work in. There is a lot of cost-cutting and market share acquisition that drives prices down. On the other hand through our arrangements with the Department of Finance from - I think it was 1997 through before we moved to the accrual accounting system, we had a memorandum of understanding; we were obliged to maintain competitive neutrality arrangements, so we had things coming from each end in terms of establishing our prices.

MRS OWENS: I was going to ask you about that. If you are facing competitive neutrality requirements and you have got different sorts of clients out there, whether there was any sort of price discrimination going on between your private sector clients and your government clients. But if you are facing competitive neutrality, it's going to be - well, it's not impossible, you could undercut other laboratories I suppose in doing work in either field, but you would get picked up by the competitive neutrality requirements there.

DR HART: That's right. There has really been a constant battle and a constant tension. We put a fair bit of effort into making pricing decisions and we have done

quite a lot of work on activity based costing or costing of particular products and services, but that has rather been in isolation rather than across the whole of the organisation. In certain circumstances we may take a very low margin on certain products and services, having charged a market price, that a private sector provider would have been able to make more margin on because they wouldn't have had the other costs of doing business from within government, for example. On the other hand, we have paid all the - I can't think of the term - tax equivalent regime. We have been absolutely scrupulous in terms of making those payments.

MRS OWENS: So you are saying your costs are going to be higher - - -

DR HART: Yes.

MRS OWENS: - - - than a private sector laboratory out there, because you have got other activities, which seems to me to indicate that your appropriation is not sufficient and that - - -

DR HART: I am glad you've reached that conclusion. I'm sorry, I shouldn't have said that.

MRS OWENS: That's all right. No, but you said last year you were making a loss on some activities.

DR HART: Well, we, three or four years ago recorded a loss of \$5 million, the next year it was \$2 million, the next year we made an operating profit of \$1 million, but that was through a very hard and very difficult look at the costs of our business. It involved a redundancy program, it involved major review of the way we did things and about the variable cost of consumables and other inputs to our business. It also involved some very hard pricing decisions where we looked at prices and we actually lost certain contracts on the basis of putting up prices where other people came in, but we were able to win other contracts and we were able to differentiate ourselves on the basis of being a government laboratory in the one instance for exporters, but also on quality and reliability of the measurements and the advice that we provided.

MRS OWENS: So the buyer is not just paying a price; they're concerned about getting a good service as well.

DR HART: Yes, that's right.

MRS OWENS: You're competing on a whole range of variables.

DR HART: That's right.

DR STEWARDSON: Really, as far as cost recovery, now that we understand your set-up better, you're almost a business entitlement. You may not be called that but that's in effect, isn't it, what you are?

DR HART: That's exactly correct. When we were in the Department of Administrative Services, and we were there for 10 years, that was the rationale behind the commercialisation process. There was an intention I think in the early 90s that AGAL may have been privatised by the like of Dasfleet, DAS Interiors, all the rest of it. In the 1996 budget decision the thinking at that stage realised that there were these public good activities that couldn't be removed from government and in fact - - -

DR STEWARDSON: Yes, I should have said you're a business enterprise but with a public good requirement.

DR HART: That's right.

DR STEWARDSON: Your problems seem to be to isolate a proper accounting for your public good bit from your business operations bit, presumably, unless it's going to help you.

DR HART: That's exactly right. At the moment we're called a business operation within the Department of State, which is why we have separate accounts in the department's annual report. Really one of the fundamental questions that the Mercer Review is confronting is: is this the appropriate business model? What are the appropriate institutional arrangements for such an organisation as ourselves that delivers public good work and delivers other services?

MRS OWENS: I think we might move on to some of the other areas within the department.

DR STEWARDSON: Can we just ask if they'll give us a copy of the Mercer report when it's out and available.

MR LOWNDES: When and if; we're not sure yet whether it will be a public document.

DR STEWARDSON: It would be useful.

MRS OWENS: Time is marching on and I'm intrigued about some of the other areas of activity and, in particular, the Space Licensing and Safety Office. I didn't actually know we had a Space Licensing and Safety Office. From reading your submission, it sounds like you'll be moving into a full cost recovery mode with that particular office. There are other activities. We've been looking at the Office of the Gene Technology Regulator and other areas where, in that case, they're looking at introducing 100 per cent cost recovery for what is a fairly new activity.

I suppose the question is whether there should be a principle in place which says that when you're actually introducing something that's new or where you're still in the early stage of development, whether it's in an innovation process or it's just something that is getting established - whether there should be a break before charges are imposed. You say that there aren't any at the moment because the regulations are

pending, but I'm wondering whether we should be charging at all for a while; whether you could see it as actually - especially this part that it's required under the act to implement certain of Australia's obligations under the UN space treaty; whether that should be deemed to be a public good and not charged for at all.

MR MORRIS: It is certainly true that OGTR and the Space Licensing and Safety Office are establishing full cost recovery programs in tandem. Both are dealing with new industries. I think the implications of cost recovery are possibly a little different for the two industries. In the case of the space regime the licensing is in respect of operations which in one case involve capital expenditure of around \$A2 billion, in another case half a billion Australian dollars, so we're here talking about major commercial investments which will introduce an activity that in turn introduces some measure of risk to the Australian community and which, under international law, the Commonwealth is liable for.

They are also activities that have other dimensions of risk for the Commonwealth, including risks associated with national security, international obligations, responsible environmental management, etcetera. It is in fact a government decision that costs be fully recovered once the licensing system for space has been established, so the rule-making and the recruitment process is being borne exclusively by the Commonwealth. Once the rules are finalised - and that process is very close to finalisation - and the professional regulatory staff have been recruited, it is government policy that costs then be fully recovered.

MRS OWENS: Was there any justification for that government decision, that you're aware of?

MR MORRIS: I wasn't involved in the area at the time of the decision. My understanding is that the space launch industry, as you're probably aware, is a fairly speculative one. It's one that has a long history of abortive starts in this country and I believe the government's view was that the investors would bear the full risk of introducing the industry into the country, including the costs of regulation.

It is certainly true that Australia stands out globally as the only country which has introduced a policy of full cost recovery in the regulation of space activities, but that probably warrants some comment. The American situation is one of transition as they move from a history of military ranges at Vandenberg and Cape Canaveral to one of civil ranges which are now opening up. The whole structure of FAA administration is having to adjust to that and it would not surprise me if we see a cost recovery principle find its way into the FAA administration over time.

Another example: the most successful commercial space port currently operating in the world is the Guyana space station in French Guyana.

DR STEWARDSON: Where?

MR MORRIS: The Guyana space station in French Guyana. It's the north-east tip

of South America. That is an operation that is underwritten by the EU and, in particular, the French government in manifold ways, and licensing is not charged at that station. I should mention we haven't encountered criticism from the commercial launch proponents on our proposed fee structure.

MRS OWENS: You haven't?

MR MORRIS: We haven't. We have encountered very strong criticism from the Australian scientific and research community and educational community, who have said - and I think convincingly so - that they simply can't meet any cost recovery regime in space licensing because anything above about \$1000 per launch permit is beyond their means. Even for a scientific launch, the process of assessing that launch for public safety and security aspects, etcetera, is going to be well and truly above that. So we will be returning to ministers, seeking their agreement to a concessional fee structure underwritten by the public purse, rather than cost recovery to deal with scientific and educational launches, on the grounds that we are here dealing with a public good, not a private good.

MRS OWENS: Those two potential applicants for licences in 2000 and 2001 would both be from the actual industry itself.

MR MORRIS: That's correct.

MRS OWENS: You've got some idea that there would just be the two, so the fees that you've set out are based on that assumption. What happens if there are three or four? Does that mean they all get a discount or do the first two actually bear the up-front costs?

MR MORRIS: I can promise you there is absolutely no risk of there being three or four. The risk is rather in the other direction, that we could be facing one licensee in the current financial year. Our problem has been that, while establishing the industry, estimating the call upon the regulatory regime is frankly quite a parlous exercise. There are currently five proponents for spaceports in Australia, each of those underpinned by certain promising prospects, and each facing a particular line of challenges and difficulties in pulling together the mix of financial and regulatory approvals they need to proceed to construction. That in turn is caught up with our own process of finalising the regulatory regime.

We are hoping to have the major quantum of regulations tabled in the parliament early next year but this is a public process of setting in place the regulatory structure of a new industry not well understood, challenged by certain quarters in the Australian community, so it's very difficult for us to predict the actual sequence of applications. For that reason we took legal advice on whether we would be deemed to be imposing a tax should we overcharge against anticipated costs, and would we be obliged to refund in those circumstances. The answer was that so long as we make the best estimates we can on the information available when we formulate the fee structure, that we will not be deemed to be taxing and we will not be required to

refund.

MRS OWENS: If there is indeed only one applicant next year for a licence, those suggested fees are not going to double because there's only one? Otherwise you've got this problem of a first-mover disadvantage.

MR MORRIS: Exactly, and we are concerned to avoid that.

MRS OWENS: I think in terms of your principles that you establish for cost recovery, what you don't want to do is establish principles that are going to act as a deterrent to future investment or innovation or whatever. So somehow that needs to be taken into account, which makes it quite difficult if you are trying to aim for full cost recovery when you're working in a situation of great uncertainty.

MR MORRIS: The reality is we won't achieve full cost recovery, certainly in the first year of operation. I'm in a situation of having to return to my minister on these very issues to seek authority to proceed with a structure that won't deliver full cost recovery. We have wrestled with this issue of whether the first applicant should bear the entire cost because, if you take a literal reading of the government's decision, that's what it implies and we are concerned to avoid that if at all possible.

DR STEWARDSON: In this sort of area, even leaving aside the scientific and educational groups that you've talked about, would one not assume that there was - well, there are clearly private benefits to commercial firms; at least one presumes there would be - that there would also be fairly heavy externalities, positive externalities of knowledge and experience to Australian space industry in its infancy?

MR MORRIS: Externalities from the establishment of spaceports or externalities from the licensing process?

DR STEWARDSON: From the experience of Australian firms shooting their things up into the sky.

MRS OWENS: When you think about what happened in America with the establishment of the space industry there, and the enormous impact it had across a whole range of other industries, for example - - -

MR MORRIS: I would wholeheartedly support that view. I would expect very significant multipliers to attach to investment in the space launch industry. It is, I think, a given that it is the only likely locomotive for a resuscitation in the broad panoply of space-related industries in this country. We already see, with the proposals now on the board, very productive synergies emerging between companies that, for example, have traditionally operated in the defence sector and the computing software systems avionics sectors, and the launch proponents. So, yes, I see very strong potential externalities from the presence of the industry.

MRS OWENS: When you go back to your minister you can explain that we

thought that there may be, but there may also be, I think, benefits for university researchers or maybe even useful synergies with the CSIRO; maybe even with a laboratory.

MR MORRIS: I'm being coy only because I have no doubt these arguments have been had within government at the time that the decision was taken.

MRS OWENS: Yes, but was there maybe a thought process that went the other way and said that this industry could actually cause some negative externality; that there may be some down sides of having this industry here? Environmental costs or - - -

MR MORRIS: Yes, I think the dangers are not so much environmental. It is in the nature of the space launch industry that it imposes a risk to those who underlie a flight path. If you can think of the corridor defined by the potential debris footprint of a failed rocket, there are particular risks associated with drop zones where expendable rockets drop their spent rocket stages. The industry is in many respects directly analogous to the civil aviation industry and our regulatory regime embraces, if you like, the three separate certification processes - one for a facility or an airport, one for a launch vehicle or a jumbo jet and the third is for the choice of flight paths or traffic routes - so it's a very complex licensing process.

DR STEWARDSON: And you've got one for return, which sounds reassuring.

MR MORRIS: That's correct. I'll come to that. The process is intrinsically complex and directly analogous to civil aviation, except in one respect. Expendable launch vehicles - and all current launch vehicles, except the space shuttle, are expendable - have an intrinsically higher rate of failure than do passenger-carrying aircraft and, for that reason, the management of space launches has to assure the public and competing industries of protection against jeopardy posed by a significantly higher expected rate of failure and jeopardy posed by drop zones. We are here dealing with a regulatory regime which is all about managing the introduction of risk into everyday Australian social and economic life.

DR STEWARDSON: How are you actually dealing with that? Are you making them take a path where, if the thing falls down when it's not meant to, it's not going to hit anybody?

MR MORRIS: Yes. Well, sorry, against - - -

DR STEWARDSON: That's the way you're solving the risk?

MR MORRIS: Within benchmarks of probability.

DR STEWARDSON: Because I'm not terribly reassured that otherwise - - -

MR MORRIS: If I may answer the question this way. The science of safe space

launch is built on the science of probability, and the probabilistic assessments that we are adopting are modelled on the US assessment procedure, and in 43 years of space flight in the US there has not been one public death or injury. This goes to the matter of the sophisticated calculus that is applied to identifying probabilities of failure mode at any point in the flight path, identifying the manner in which a rocket may break up, and identifying the area in which impact may occur on the surface of the earth or the ocean and then identifying the people and the assets that underlie that flight path and establishing risk benchmarks which are, in the American case, in our case, I think in the order of 10 times higher than those associated with the civil aviation industry. If you can satisfy that calculus and those benchmarks, we let you fly. That's how the result is achieved.

MRS OWENS: You were going to return to the return permit authorisation fee.

MR MORRIS: Of our five current proposals, one is the Kistler proposal for Woomera, which would use a reusable launch vehicle. The Kistler K1 rocket would be a two-stage rocket, both stages of which would, upon entering orbit, do a full circle of the earth's circumference until they are positioned again above base at Woomera, where their software will take account of meteorological conditions and, at a safe time, the vehicles, the two stages will re-enter using parachutes and air bags to a safe landing at base, I think within radius of a couple of kilometres of the launch pad.

In that case, the authority to return is an intrinsic part of the authority to launch. What we have provided for in the act is a broader scope of events that could include, for example, the return of the Mir space station, the return of the International space station, the return of other space items. Where hitherto I think space agencies of other countries have aimed for the Indian Ocean or the Pacific Ocean and hoped like hell it hits there, if they choose to aim for anything within Australian jurisdiction they will require a permit in order to do that so that we can apply the same safety assessments as we do for launches.

MRS OWENS: You've actually listed here the purpose of these fees and included in the purposes is "providing ministerial advice, support for ministerial accountability, providing information to the public, providing administrative support, and maintaining a register of space objects". I really do wonder whether we should be charging for those sorts of activities.

MR MORRIS: The issue you're raising, I'm assuming, is are we dealing here with public good or private good.

MRS OWENS: Yes. I would assume that a lot of those things are public goods that would need to take place, and whether you should be asking the future industry to be supporting policy advice to ministers and so on, I think, is questionable.

MR MORRIS: That does not include - does the form of words say "policy advice"?

MRS OWENS: No, ministerial advice. But what other advice do ministers get?

MR MORRIS: I can speak here from personal experience in the process of trying to establish this regime. There is acute public interest in matters of transparency, validation, integrity, the processes we employ, as Dr Stewardson has allude to, to assure you that rockets won't land in your living room. The ability to give public account to the processes employed to validate the safety case put by the applicants seems to us to be an intrinsic part of the licensing activity. There is a whole separate activity associated with policy advice to the minister on the space industry, on space prospects, on investment promotion for the industry, on international agreements which are a very heavy part of our workload - so on and so forth.

But if you quarantine the activities associated with licensing to the assessment of a licence application, the registering of that, the auditing of it, the conduct of range safety operations, we will need to maintain professional launch safety officers at space ports to oversight the safety operations, then that is a position specifically provided for in the act. And the giving of account of all that through public processes of accountability, that is what we are constituting there as the identifiable quantum of activity.

DR STEWARDSON: Why are you registering Australian nationals outside of Australia with space licences?

MR MORRIS: We are party to a UN convention that requires that when a space object is launched into space, it is registered. It's actually a very very low cost. We looked at separately costing that function and it was so minimal that we decided it would be cost inefficient to actually cost for it.

MRS OWENS: I was just asking, again, a question about legal advice. You mention legal advice relating to the fees and whether that legal advice is in the public domain, whether it's possible to get a copy of that sort of information.

MR MORRIS: I'd need to take that on notice, if I may.

MRS OWENS: If you would, that would be good.

DR STEWARDSON: A number of your other agencies - two or three of them - you say things like, "There's no legislative basis for current cost policies," and you go on to say further that:

Accordingly, there's no legislative constraints to the levy of cost recovery charges.

Can you explain how you're doing it, if there's no legislative authority.

MR LOWNDES: I'm not quite sure what you mean.

DR STEWARDSON: I thought one had to have proper authorities for agencies to levy charges and, if I understand this sentence correctly, you appear to be saying that you don't have any authority to do it. Do you want me to quote the spots? Page 21 is one, with the diving people. You gave us two submissions. This is the first one.
Basis for cost recovery:

There is no legislative basis for the current cost recovery policies with respect to the ADAS and, accordingly, there are not legislative constraints to the level of cost recovery charges.

The same sentence crops up in about another two of your organisations.

MRS OWENS: I presume they're sort of administrative arrangements or that you've got maybe a regulatory underpinning. Is that correct?

MR LOWNDES: Yes. There's a sort of a mix of different types of arrangements among these other issues; there's a sort of mishmash in some ways of different things. I would say that the diving thing has just added an administrative understanding almost amongst the parties concerned - that there would be some charge. Some of the other arrangements are more in the nature of fee for service or, alternatively, just an administrative charge for applications and so forth, as distinct from a more formal cost recovery regime. I think, again, in some cases there with the NBIS, I think there's a judgment there that there's a particular aspect of that service where we're putting a little bit more into providing a high-value product, and the decision has been made to recover the costs of doing that, whereas the more general, the more readily available service is provided free.

I think there's a mix of judgments as to what charges, if any, would be made on people. In terms of what you call formal cost recovery, the point you make on this diving certification is the more formal cost recovery arrangement, although as we say there doesn't seem to be any legislation. But it appears to be something that's evolved between the Commonwealth and the states - that there is a requirement to have these training certifications. It's the cost recovery that is perhaps just done by way of understanding.

DR STEWARDSON: Can any Commonwealth government agency or department decide it would like to levy a fee for some particular activity with no legislative authority?

MR BOURKE: There are instances where, for example, in some instances a charge is placed on a good or a service for reasons of inappropriate use of that. So if someone produces a CD with some information on it on a one-off basis, that could be sold for a nominal fee to prohibit inappropriate demand for that good. As far as I know there's no impediment, or there's no statement that all government goods and services need to be free unless otherwise stated.

DR STEWARDSON: We've had a lot of talk and information about constitutional

matters and whether a thing is a fee for service and a tax, and if you charge a bit more than the cost of it it's a tax and that's terrible, unless it's in a bit of tax legislation, and other organisations who have said, "We're authorised to charge our fees under the such-and-such an act," and people seem to have rather gone out of their way to tell us the authority under which they act, so your comment seems a bit of a surprise to me as a non-expert in Commonwealth civil service matters to find this situation.

MR LOWNDES: I think we do have the Financial Management Act or the Finance Act - just a general provision of some sort.

MR BRENNAN: The issue here may have just been that other people have interpreted - if you look in the questionnaires which we provided to you, which accompany the input on our section 2 - - -

MRS OWENS: We haven't got those in front of us.

MR BRENNAN: They do answer those questions with regard to what the legal authority is. In those instances where they don't have a particular legislation for themselves to undertake that cost recovery, they do it through the Financial Management and Services Act, which requires them to undertake, or gives them the ability to undertake cost recovery. So I think in all of those instances you mentioned, where they have mentioned that they don't have a legislative ability, that's because they're interpreting that to mean their own act which gives them a right to do that, in which case they undertake that through the Financial Management and Services Act and, in particular, section 31 of that act.

MRS OWENS: We'll check up on that later. But thank you for that. That was very useful.

DR STEWARDSON: Maybe you could perhaps, for a poor non-civil servant, give us a little written explanation.

MRS OWENS: Perhaps we'd better have a look at the questionnaire first and then get back to you, if we need to. I don't want to hold you up much longer, because it is after 6 o'clock, but I'd like to return to those principles, rather than going through more of the individual activities. As I said earlier, I think they are very useful principles. You say that full costs should be determined regardless of the intention, and I think that that is appropriate:

Pricing should be based on competitive market prices where possible -

and then you say:

In other cases, based on the principles of full cost recovery for each activity.

I presume those other cases would be when there isn't a market price, when there's a monopoly provider, service provider, or a monopoly regulatory agency.

MR LOWNDES: That's probably where there is no market price.

MRS OWENS: Then you've got some exceptions, "When there's an excessive burden on the individual user," which I guess raises the question of how flexible these cost recovery arrangements should be. We talked about the potential in the space area, if there are researchers there that want to enter into this activity, that you're going to go back to the minister and see if there could be some degree of discretion.

There are problems with all of these because as soon as you end up with discretion then you can end up quickly undermining your principles, and another one is if the administrative charges are prohibitively large - so it's not worth collecting the charge - and the broader community may also benefit. I think that is the tricky one, whether the broader community benefits, how you identify that and then how you identify the balance.

MR LOWNDES: Yes.

MRS OWENS: You've got other principles as well, and we've talked about the strict guidelines for the public/private benefits, but an interesting one is, "Comparisons with overseas cost recovery regimes should be undertaken to benchmark our activities," and I think it's actually quite interesting to say, "Well, if we found that we weren't doing so well because they were doing something different," who is right and who is wrong? Are we benchmarking - saying if there's any more revenue that that's something we should pick up - their particular approach. What I'm not is what best practice is.

MR LOWNDES: It's more I think just adding to the information set that we would have with our own regime. It's just to get a bit of a steer as to how other countries do it. It then becomes a matter of examining what differences there are, if any, and making a judgment as to whether there are reasons why we want to go down that particular path as distinct from what we're actually doing. I think it's the same sort of concept with most overseas comparisons and most sort of policy or administrative issues. It's a matter of sort of trying to learn what we can from it, but not necessarily assuming because someone else does it that it's necessarily right. I think you do have to take on board particular circumstances, but it can be particularly helpful as a starting point, if we're starting a regime from scratch and there's not necessarily a lot of knowledge as to how to go about it, is to get a bit of an idea where we can and what other people do in similar circumstances.

MRS OWENS: For, say, statistics, you will find that in America they don't charge for many of their statistical publications and so on, and in other countries they do. So where does that leave you? But it also raises the question - other countries may charge a lot less than we do, say, for a regulatory activity, and we've heard from other participants that could influence their competitive position - do we want to make the impact on the competitive position of industries here a criteria for not cost recovering or for cost recovering less than we should based on the other principles? It's an

interesting question. Have you got a comment on that one?

MR LOWNDES: It's a factor you take on board, I think, your effect on industry competitiveness. It's not necessarily something that you would automatically, just because we had a higher charge than someone else, just necessarily say, "We will go to the other charge." There are so many things that will affect industry competitiveness and you can't necessarily go through and just pick each one, and, for example, if other countries may have lower charges but then higher taxes generally if they're funding things out of consolidated revenue.

MRS OWENS: Or providing less for those charges, fewer services for the charges.

MR LOWNDES: Absolutely, that's the other side of it, so there's a range of sort of other factors you would have to take on board beyond just looking at a sort of a straight comparison, and also you will get issues as to just how important the actual cost in the overall scheme of things, and it may be in some cases it's not going to be particularly large, but it is, I think, the point. This is also a useful way of looking at the service level. We mentioned that in the introductory comments as to whether - this cost recovery is one thing, whether we've got the right level of service, and again that can be quite a hard thing to work out from scratch, and in some cases overseas regimes will be quite important in just working out what level of service you would actually provide.

MRS OWENS: Thank you for that, Terry. Thank you. I was wondering, have any of you got any other comments you would like to make?

MR MORRIS: Could I just clarify, we are not proposing a discretionary pricing regime for scientific and research launches. We are proposing a second-tier regime which would cost recover on a highly concessional basis.

MRS OWENS: And the government would become like a CSO. The government would provide an amount of money for a CSO.

MR MORRIS: Yes.

MRS OWENS: So it wouldn't be a cross-subsidy.

MR MORRIS: No.

MRS OWENS: But there would be additional resources to cover that.

MR MORRIS: That's right.

MRS OWENS: Thank you for clarifying that. I'm actually very impressed with your knowledge of the space industry. You've obviously done a fair bit of work on this.

MR MORRIS: The nature of the task embroils one in it, yes.

MRS OWENS: I think it would be a quite fascinating task.

DR STEWARDSON: It may just reflect our ignorance. He sounds good.

MRS OWENS: Maybe we need to do an inquiry into the space industry and then we would learn about it. Thank you very much for coming.

MR MORRIS: Thank you.

MRS OWENS: Sorry, to keep you so late, and we will now close for tonight and we resume tomorrow morning at 8.45 with the Therapeutic Goods Administration.

AT 6.16 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 7 DECEMBER 2000

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