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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO COST RECOVERY

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

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON WEDNESDAY, 29 NOVEMBER 2000, AT 9.33 AM

Continued from 28/11/00

RS 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, and with me my fellow commissioner, Judith Sloan, on my right, and our associate commissioner, Robin Stewardson, on my left. Public hearings have been held already in Melbourne, Sydney and this week in Canberra. We'll be resuming in Canberra next week, and then we'll be holding hearings 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 out near 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 the competition principles agreement between the Commonwealth and states and territories. Public submissions are vital if the commission is to be successful in these tasks. The public hearings provide the opportunity for participants to make oral presentations and discuss their submissions with the commissioners. This is an important part of the inquiry process, as 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 tape a transcript for the public record. Transcripts are normally available on the commission's Web site within a day or two of the hearings, and we send each participant a transcript of their session's proceedings. I'm now turning to our first participant today, which is the Australian Livestock Transporters Association. Could you please both give your names and your position with the association, for the transcript.

MR GUNNING: My name's Robert Gunning. I'm executive director of Australian Livestock Transporters Association. We've got some sort of subtleties about the relationships that we are sort of bringing to the table today. I'm really here because I've got that role of executive director of the Australian Livestock Transporters Association, but I guess from your point of view, more significantly, I'm also chairman of what we call the Taxes, Charges and Roads Group of our key peak body, which is the Australian Trucking Association. So we belong to the Australian Trucking Association, and in that role I chair the Taxes, Charges and Roads Group. So I'm here from both the association point of view and our broader umbrella group, and Neil Gow, my colleague, is here from the - - -

MRS OWENS: Excuse me, Neil needs to give his own name.

MR GUNNING: Yes, I know. Neil is here from the ATA (Australian Trucking Association). I'm sorry, I just probably ran on too far there, but, I mean, my name is Robert Gunning, ALTA, but also here as chair of the taxes and charges group for the Australian Trucking Association.

MRS OWENS: Thank you.

MR GOW: I'm Neil Gow, research and policy adviser at the Australian Trucking Association.

MRS OWENS: Thank you very much, and thank you for the submission that we've all read. I understand, Mr Gunning, that you wish to make a few opening comments, opening remarks, relating to your submission.

MR GUNNING: Yes, I do. We'll just try and be brief. I guess the big perception we have is that we were all told, and there's a fair bit of evidence of it, that, you know, the community, the governments are suffering from reform fatigue. We think we are, in terms of time, sort of back down the time scale where a whole lot of other industries have been and gone already. We think we're back at the stage where our industry and the cost recovery programs are still embedded in the department of state sort of morass, which I won't go into. I guess our vision for our industry is that we would like to see ourselves move out of that, along a path that generically is really identical to the path that a whole number of other industries have pushed along, and the next step for us that we think is very key, is having the road user charge that's recognised through the intergovernmental agreement on heavy vehicle charges, or heavy vehicles, and that governments sometimes tell us in some aspects of themselves, it actually is a road user charge and is partly built into the tax changes that came in on 1 July. We'd like to see that actually more formalised in the way of laying the foundation for the standard approach in our industry, corporatisation of the industry, the drawing together of charges on the one hand, expenditure on the other, and we see the first vital step in that as getting more formality about the designation, and it's quite specific. It's a 20-cent per litre charge/tax on diesel that goes into a cost recovery program. So that to us is the key issue. All the rest of it, I think, is fairly conventional.

PROF SLOAN: Is that what we might call hypothecation, the taxes are raised for a specific purpose and that specific purpose is actually fulfilled? Is that your point?

MR GUNNING: Yes, I mean, I guess we've got some problems with the word "hypothecation", because it's usually used, in our experience, as a defensive mechanism to fend off the notion of continuing to reform the road transport trucking industry. For example, aviation went through a process where the aviation excises were attributed to the cost recovery program back in the early 70s, and over time have evolved into much more sophisticated charging instruments. Treasury at the time didn't stand in the way of that, and so you can't do it because of hypothecation. When, you know, when telecommunications and Australia Post were formed, the same sort of arguments could have been made, you know, can't do it because hypothecation is a bad thing. Yes, it is hypothecation. It's earmarking.

PROF SLOAN: I'm not saying it's a bad thing.

MR GUNNING: No, I'm just saying, I mean, in practice it is. I know you're not, but, I mean, the word "hypothecation" is often used to say we can't do the reforms in road transport because hypothecation is a bad thing and drawing together charges on the one hand and expenditure on the other is, you know, ruled out just because we've not waved this word around.

PROF SLOAN: You prefer the term "designation" or - - -

MR GUNNING: Designation or earmarking or - - -

MRS OWENS: You talked about formalisation as well, so formalisation is also referring to the hypothecation and the designation and the earmarking.

MR GUNNING: As a functional thing, yes, and we'd prefer to in fact designate it as a road-user charge.

DR STEWARDSON: Your submission says on page 1, "As currently structured, the intergovernmental agreement on road transport provides that a designated portion of the fuel excise, currently 20 cents per litre, is recognised as a road-user charge" etcetera. Is that not a fairly formal sort of a thing? What more formal do you want?

MR GUNNING: Well, the ultimate, I think, as a good focus point at least, would be to have the treasurer agree such a thing formally, or for the government in some way, at the upper levels of the government, to actually announce such a thing formally. We have on a number of occasions written and sought such a formal response, and it's not just happenstance that we don't get that formal response back. That's why I say it depends which aspect of government you look at, because you could quite reasonably say, as you're saying, well, isn't it in the intergovernmental agreement, and isn't that agreement appended to the National Road Transport Commission Act, and the answer's yes, and yet when we write to the treasurer and ask for reassurance on that point, the responses we get are singularly silent.

PROF SLOAN: So what are you suggesting, that this is really a form of taxation?

MR GUNNING: No, what I'm suggesting is we think we're on the verge of recognising all respects as a charge, but we still think that there's some strategic manoeuvring going on, so that when it suits governments - and it's governments of all kinds and persuasions and all levels - when it suits governments, they call what we pay, a charge, and when it suits them they call it a tax, and we are not in a situation where we have clarity or transparency.

DR STEWARDSON: But is the significance of this that if it - are you suspicious that if it suits government, they can sometimes use the money raised through this charge and/or tax for purposes other than roads, whereas they're meant to use it for roads? Is that your concern?

MR GUNNING: No, that's our second concern actually. It's our second concern.

DR STEWARDSON: I'm not quite clear about your first concern.

MR GUNNING: Our first concern - - -

MRS OWENS: Yes, I'm a bit puzzled too, because I would have thought if you're really putting a case for hypothecation, the main reason you want that hypothecation is so that money comes back to benefit the industry through better roads, and I think the government this week, without hypothecation, has actually done pretty well for the road transport sector more generally.

MR GUNNING: No, our first concern - and now we're going to get into some deep complexity, I guess - the current situation is this, in essence: there's an excise, a constant excise rate that applies to both petrol and diesel, and at the moment it's about 37-odd cents a litre. It applies to both petrol and diesel. In the case of almost all diesel - and there's an exception that I won't go into straightaway - we get an on-road grant. When the truck, the commercial truck over 4.5 tonnes, which is important to us, that's our break point, goes on the road, it attracts an on-road grant of 17 cents. That on-road grant is in fact designed to ensure that the net excise paid by a truck on the road is 20 cents per litre, and the 20 cents per litre, the net, with this complicated process, is exactly in line with the recommendations from the National Road Transport Commission, which in essence is the gatekeeper and the adviser on what that charge should be.

To give you some sort of further depth there, just to try and demonstrate my point a bit more, I guess, is that prior to the tax reform changes on 1 July, the designated rate was 18 cents per litre. It went to 20 cents per litre as from, you know, midnight on 30 June, and that 20 cents per litre was embodied, in the way that I've just discussed, in the tax reform changes that have come in. So our primary concern, just to drive home - - -

PROF SLOAN: You'd be happy with that though?

MR GUNNING: Yes, we're quite pleased with the outcome, very pleased with the outcome, but our primary concern would be that because we lack formality, because we lack what we regard as substantive policy on the issue, it would be quite open to any treasurer at some future date to stand up in the parliament and say in essence, well, we've been looking at the budget and it's all gloom and doom, and we've decided that we'll do the following: for example, we'll reduce the on-road grant, or we'll even change it in some way. Our point really is that we want the on-road grant to be simply that which is required to deliver the outcome of the road-user charge element, whatever it is. That's our policy point. We of course would argue about the quantum and the nature of it and all that sort of stuff, but we lack at the moment, that policy framework.

MRS OWENS: But even with a policy framework, that could change anyway.

MR GUNNING: Indeed.

MRS OWENS: You never set anything in concrete.

MR GUNNING: Indeed, but let's switch say to the aviation area. Where the aviation cost recovery programs apply, all of those charges they pay to the different bodies could change, but nonetheless there's a structure and a framework. So they have some confidence about what the outcome would be. We don't have that kind of support.

MRS OWENS: Do the current charges take account of the external costs, you know, the costs of pollution and so on, or is that not factored in?

MR GUNNING: Well that's - can I just sort of go back a step? The short answer is no, not really. There's a little bit of a caveat there. But I think our more substantive argument is we don't ourselves preclude the possibility that some of the things we're talking about my change over time, so that we don't currently have externalities in. We aren't actually kind of instinctively opposed to the idea of bringing externalities in. We wouldn't just reject that out of hand. What we would worry about though, is the integrity in which that was done. So if you gave us a framework within which there was some integrity about the way externalities were brought in, then I think we could engage in the debate about what the appropriate level was, quite well. While our base is not there, while we suspect that many of these things are just devices to taxes, then the industry would be suspicious and worried and so on.

Now, just turning to the question, "are externalities in"? No, not really. When I talked about the on-road grant of 17 cents per litre, trucks in the cities between 4.5 tonnes and 20 tonnes gross vehicle mass don't get the on-road grant. They're excluded, and the argument for excluding them was really an argument about externalities. In a lot of ways, we'd like to engage in that debate, because we don't totally preclude the idea of handling externalities. We would think that 17.798, whatever it is, is too high an assessment. All the stuff we see suggests lower figures but we don't get the chance to have that debate really, because we don't have the framework in which we can have that discussion.

MRS OWENS: Do you have an ideal framework? Have you got an ideal policy framework you would like to see in place?

MR GUNNING: We have, but I think it's not much different from the kind of ideal framework that the Productivity Commission has talked about since almost the beginning of time.

PROF SLOAN: Yes, we are very good at frameworks.

MR GUNNING: Our focus is really on what's the next step. How can we get to the next practical step? The next practical step for us is very clear. It can be epitomised as a statement by the treasurer that, "Yes, the residual element of tax you

are paying is the road user charge."

PROF SLOAN: You are not that unhappy though, are you, really? You haven't come here to have a really big whinge, have you?

MR GUNNING: It might be a matter of style more than anything else.

PROF SLOAN: Just a cheerful person by disposition. I think you pull the punches in the submission. You are clearly not completely unhappy with the - well, the tax decreasing of course, you are happy with that.

MR GUNNING: If you role back a bit, that ATA when it started out about 10 years ago had two very clear goals. One very clear goal was to improve the safety performance and image of the industry which we are not going to discuss here. But I mean the short story for us is that we have reduced fatalities and accidents more generally by the order of 50 per cent since we started. That's a combination of what regulators have done and what we have done. We think we have more than exceeded the sort of goals we had in the safety and professionalism area. We still have a way to go, but that's that.

The other side of the story was when we started out we thought that the trucking industry on average was taxed indirectly about two and a half times more than the Australian average and we gave ourselves a goal that by the year 2000 when we started out, to have the Australian trucking industry taxed at the average rate of all Australian industries. We think on 1 July we achieved that. We think that's good for Australia.

PROF SLOAN: So that's happy.

MR GUNNING: That's a happy bit. I guess another interesting thing for us is that in Australia when you push those kind of reform agendas you can get really bogged down in the partisan debate we have between parties. We think we managed to steer a course in a very steady way about tax reform. We think our particular cause was helped along a lot by the previous government when Bob Hawke was prime minister. He took a personal interest in this issue. We often remind parliamentarians of all persuasions that for us the reform process started with Bob Hawke and in essence at the tax level it's got to where it has got right now under a Liberal prime minister, John Howard. So we think that is something to feel comfortable about, because of course tax reform was controversial and it was very difficult for us to stick in our role saying this is a good thing, when a quite partisan debate broke out.

MRS OWENS: I was going to just come to a point you make on page 2 when you are talking about the advantages of fuel taxes and you say that, "The charges paid by vehicle class reflect much more accurately than is often realised the weight carried and the distance travelled." I think there are other groups which may not actually agree with that. I did an inquiry into Australian railways about a year ago and as you are probably no doubt well aware, there is some dispute about that among your

counterparts in the rail sector, who pointed to the arrangements in New Zealand which they said actually far more accurately picked up those factors than our arrangements here. Have you got any views on the New Zealand system that you would like to share with us?

MR GUNNING: I guess really in that area my starting point would probably be just to reassert what we said and that is if people have those claims about how there is this great divergence, then they should make it objective, actually put down what they think the issues are and let's see what's going on. One of the interesting things about the Australian trucking cost recovery program is that it is actually truly transparent and I think it's ironic that the word "transparent" is often used to disguise what's going on. Often when you are told something is transparent it's actually incredibly opaque.

With the cost recovery system we have, you can find out every last detail. Every last detail. You can go right down and you can see not only the way the mechanics have worked, you can also see the judgments that have been exercised. So if someone has a view as some rail interests often put forward that it's all wrong, well, given it is transparent, I think they should do more than just make these assertions. They should come along and demonstrate how and where it is wrong, because when they do that, they typically have a few problems. One is they seize on the New Zealand experience. New Zealand was very early into the area of trying to develop heavy vehicle charges. Our view is that in fact the graph of charges is too steep. The New Zealanders went fully into this notion of the fourth power rule, which I'm sure you have heard before - no? Do you want me to go - - -

MRS OWENS: You can.

MR GUNNING: Fourth power rule holds that as the weight on an axle increases, then the road wear increases as to the fourth power. We have done some research in that area. It is very difficult to actually find the academic articles that allegedly produce the fourth power rule, although it exists somewhere around, but they have never actually as far as I can work out, been published in any peer review. It is one of those kind of mythical things that grew out of a process. I could go into that a bit more if you like, but New Zealand adopted this fourth power rule. My own view is that engineers have a predisposition towards adopting power rules. It suits them for materials purposes, but the fourth power rule is actually misapplied when you try and ask this more meaningful question, "What's the relationship between the weight you put on an axis and the actual result in expenditure that is required to either build the road or maintain the road?" It is not a fourth power relationship, it is not a simple fourth power relationship. It is a much more complicated relationship of the kind that we have reflected in the Australian heavy vehicle charge arrangements. So New Zealand is stuck on this fourth power rule. It suits them over there to do that.

PROF SLOAN: It is only a small place.

MR GUNNING: Yes, it's only a small place.

MRS OWENS: They can do lots of things in New Zealand that it's much harder to do here, because they are more concentrated.

MR GUNNING: Coastal shipping is still a real live issue in New Zealand. It's a phenomenally different country to Australia. So given distance - land distance doesn't bear so heavily on their economic engine, it is probably not so costly for them to get their charges wrong, it came out of a particular environment, it's true.

MRS OWENS: I think they also put these particular - I don't know what the bits of equipment are they have on every truck to actually measure distance and so on?

MR GUNNING: They have a thing called a hubdometer which fills us with horror in the sense that we see all sorts of needs for integrity, integrity in government in our cost recovery programs, but certainly integrity in the way you charge them. The hubdometer doesn't produce a system with great integrity.

MRS OWENS: What's wrong with it?

PROF SLOAN: Subject to fraud?

MR GUNNING: Indeed, yes.

MRS OWENS: It's like odometers, where you can play with them.

MR GUNNING: It's even worse than that. I think over the years they have improved the specification of their hubdometers, but it's not very good at all and it's a very paper-based system. Part of the idea is you walk into a post office and you buy a piece of paper that says you are entitled to travel 1000 kilometres and when you get to the next thousand kilometres you go back into a post office. Let's take that experience into Australia? The other thing I think of as interesting about New Zealand that struck me is one thing we do know and part of this cost recovery stuff has pushed along a lot more research into that relationship, what happens to axles and roads and what happens to expenditures: Australians have actually been in the forefront in this area and I think we actually should be proud of that. One thing we know is there is a strong influence exerted by the nature of the soil underneath and it's not trivial.

So for example as far as we can work out, carrying heavy loads on roads during hot times of the year where you have a substantial surface underneath, causes practically no road wear at all. That's not trivial, because what I have just described is the collection of the Australian grain harvest. We have a whole lot of axle mass limits that are probably completely inappropriate. Our scientific advice is telling us more and more about that. That's just by way of saying Australia. Let's go to New Zealand - - -

PROF SLOAN: It's the koala factor.

MR GUNNING: No, it's not, it's geology. Go to New Zealand and you have only got to drive along - - -

PROF SLOAN: It's Australia being unique, that's the koala factor.

MR GUNNING: And New Zealand too. You only have to go to New Zealand and drive along their national highway - - -

PROF SLOAN: They have a kiwi factor.

MR GUNNING: - - - and observe that it's on shifting soft soil - I'm actually trying to be serious. Shifting soft soil has a tremendous impact on the relationship between what's on a truck and what's happening to the road. A tremendous impact.

PROF SLOAN: So in a sense what you are saying though is collecting the charges - let's call them charges - through a fuel levy is probably the way to go, because what you are saying here is that it's kind of roughly proportional.

MR GUNNING: It's extremely proportional.

PROF SLOAN: So let's just stick with that, because it is administratively easy and it's feasible - - -

MR GUNNING: That's what we are saying, yes.

PROF SLOAN: - - - and not subject to fraud really, is it?

MR GUNNING: Much less. Put it another way around, if you have a bright spark idea that there is some better alternative, well, if it is so easy, come and demonstrate it, show it. We wouldn't close our eyes to the notion that you could demonstrate an alternative, but people who sort of wonder around saying, "It's not perfect and I have this you beaut system - - -"

PROF SLOAN: No, I think that's good. I think in our guidelines this issue of feasibility, administrative ease, low transaction costs and the like is going to have to figure there somewhere. There is no point of devising a you beaut cost recovery structure which has extremely high transaction costs. You say there on that same page - although you might say it's out of date now - "This research commission by your association has consistently shown that taxes on trucking" etcetera etcetera. Was that in the 38 cent days that you were doing that?

MR GUNNING: Yes, it was. I brought it along.

PROF SLOAN: Have you? Okay. We might like a copy of that.

MR GUNNING: I could maybe leave you with a copy of this.

PROF SLOAN: That would be absolutely - - -

MR GUNNING: It was done in March 94.

PROF SLOAN: No, but still it might also give us some additional background material.

MR GUNNING: It was commissioned by the Australian trucking association, then known as the Road Transport Forum. I found it interesting from my point of view particularly, because it went along and tried to identify the industries in Australia that are most affected by excessive taxes on fuel. One of those, I think it was the second or third industry, was meat and meat products. Of course meat and meat products is in fact so highly taxed through diesel on account of taxing livestock transporters in essence.

PROF SLOAN: We can understand that.

DR STEWARDSON: Your case is somewhat different from most of the other submissions that we have had, in that most of the others relate to either things like regulation of chemicals and pharmaceuticals where the argument is, well, okay, maybe it's a public good or something in the public interest that there be safety standards and maybe perhaps the industry should pay for the actual assessment of their product to see if it conforms and then maybe it is a public good to enforce that the standard is maintained. The other sort of category we have is things like the Bureau of Statistics and the library and the Bureau of Meteorology where you have a big research-type project where it's claimed it's in the public interest to have all this and the user just pays the marginal cost of him getting it from the store is the typical thing. Your case is quite a different one from that. I wonder if you would like to make any comments about if our guidelines which we have to try and produce to cover these two sort of situations which of themselves, the two I have described, are different for a start how we would if we were trying to relate your situation to those other two cases of chemical regulators or libraries. What have we got here? We've got a road system which maybe is in the public interest, but we've clearly got private use of it by your members. We've got a bigger component of private use here than say or perhaps in the Bureau of Statistics - maybe.

MR GUNNING: Yes, I think the first thought that went through our heads looking at your inquiry was: are you covering our issue at all?

MRS OWENS: It's gone through our heads too. I don't think we're ruling it out though.

MR GUNNING: Yes. So one of the sort of starting points we made in our submission - I hope - was we read the issues paper and saw that (a) we were encouraged to respond if we thought we had some peripheral interest and (b) the thing that struck us most was that the guideline was that you were reviewing all of

those cost recovery programs that in some way or another are reflected in Commonwealth legislation, administration and/or practice. Our cost recovery arrangements are actually formally in the intergovernmental agreement on heavy vehicles, it's called, of 1992 and the key gatekeeping body, the National Road Transport Commission, is actually set up through a Commonwealth act. So the program, the heavy vehicle agreement, is appended to the act. So in that sense we thought we were within scope.

DR STEWARDSON: I wasn't so much addressing whether you were or you weren't but - - -

MR GUNNING: No, I know you weren't but I was just trying to say that went through our heads. What also struck us was there's a great variety of programs. I'm just trying to think of the relationship between our program and say a dangerous goods and/or bodies like the ABS. I think it's true to say that we see ourselves as much more in the efficiency industry kind of bracket, but we wouldn't preclude the possible - in fact we think it's blindingly obvious - that there are bits of the road system that actually reflect community service obligations. Just as a matter of interest, I was at a BTE, Bureau of Transport Economics, conference yesterday where they've been trying to delineate which bits of the road system clearly reflect community service obligations, are there for access reasons, not for efficiency reasons.

DR STEWARDSON: These are, what, in broad terms outback roads or main highway roads?

MR GUNNING: In broad terms what they've discovered is pretty much what you'd expect. There is a range of regional roads in Australia that have been sealed with low traffic volumes, between about 200 and 300 vehicles a day, of which on average in Australia about 5 or 6 per cent are trucks, just to give you some perspective. You've got a country road, on average about 5 or 6 per cent of trucks, although the further out you get, the more commercial activity you get, so some roads you'd get 30 per cent or 40 per cent of the traffic. So those roads are sealed, and strict sort of economic analysis would suggest you wouldn't have sealed them.

That's pretty much what you'd expect, because we ourselves have this belief, and I'm sure people demonstrate through their votes and the way people talk that there is a strong access component in a lot of regional roads. How do you handle that? The first order answer I think is you just have a community service obligation. So that I think in part resolves the question of how do we compare to dangerous goods and the ABS: in a sense where there is a public interest, then you have an explicit recognition of it.

The ABS example I think is almost a flip side of that. What came first - I think that's the ABS question, isn't it? - was a governmental need for information, and then you have this marginal add-on person who fronts up. Should they pay the whole costs of getting that service or just the run-on costs of what it costs to give them some information.

MRS OWENS: Is that CSO in the case of those regional roads, for example, made explicit?

MR GUNNING: No, it's not.

MRS OWENS: And this is part of your initial point about having some degree of a policy framework that makes all of these things more explicit?

MR GUNNING: Yes. I guess I broadly refer to the traditional Productivity Commission model. One part of that model that does strike us as having particular difficulty is that it's obvious that governments and parliaments are generally reluctant to designate community service obligations, and there are good and bad reasons for that.

PROF SLOAN: Because you have to pay money for them.

MR GUNNING: That seems to me to be a good reason.

PROF SLOAN: Yes, but not from their point of view.

DR STEWARDSON: Sorry, what was the good reason? I didn't hear.

PROF SLOAN: It generally has to come out of consolidated revenue. You have to make an explicit budget allegation. In my experience they are very reluctant to do that when they can fund it elsewhere, in other ways.

MR GUNNING: That's right, and for good reason. What's interesting about our society is it works a lot on institutional frameworks, I think, and one of the institutional frameworks we have that's overall a good institutional framework, I would have thought, is the favour things called the treasury. But, of course, once you identify a community service obligation, treasuries generally insist on going wild over them and continually running arguments up to government like, "You're now spending - - -"

PROF SLOAN: "You don't really need it."

MR GUNNING: Yes, "You don't really need it," and so on. It becomes a sort point that gets continually attacked, whereas by their behaviour it's obvious that treasuries don't do the same assault job when you bury it. When it's disguised and buried, they don't do it. So there are all these wonderful people all saying, "Let's be explicit about this and let's admit that we're - - -"

PROF SLOAN: I think you're right. It's a political economy. We go this in our inquiry on the bush. They'd would prefer the cross-subsidies embedded because they're more sustainable than an explicit CSO which is funded directly out of the budget, because each year that's kind of reviewed, whereas something that's

embedded - but the trouble with the cross-subsidy model is that the person who's paying the cross-subsidy may end up getting awfully jacked of it.

MR GUNNING: But it's even worse than that, and it is that the person who's the beneficiary of the cross-subsidy is actually able to utterly ignore the costs of it and you can see phenomenal costs, whereas if you actually walked up to the beneficiary - and some things I've seen - and you said to them, "Would you rather have a reliable telephone line or would you like to have say half of the half a million dollars it's going to cost to put a telephone line in?" or an electricity line or whatever, the recipient might well say, "I think I'll have the cost and I'll make do with whatever I've got." None of those possibilities emerge when it's submerged, neither the person who's being cross-subsidised - - -

PROF SLOAN: A kind of cross-padding in that model. Is that what you're saying?

MR GUNNING: Cross-padding, just misapplication of the subsidy, all of those things apply. But of course the other reasons why community service obligations aren't popular is because governments and parliaments don't really want people often to know who it is who's the beneficiary.

PROF SLOAN: No, I think they don't mind knowing who the beneficiary is, they just don't want the payer to be identified.

MR GUNNING: I think it's worse than that. They don't want people to know who the beneficiary is.

PROF SLOAN: That's where you get votes.

MRS OWENS: Why wouldn't they want the beneficiary known?

MR GUNNING: I didn't say the beneficiary shouldn't know, I just meant the population at large shouldn't know who the beneficiary is.

MRS OWENS: Sometimes there are votes in doing good works.

MR GUNNING: Sometimes, yes, but not always.

PROF SLOAN: There's a private good, so we want the beneficiaries to realise they're on a good deal but we don't want anyone else to really know.

MR GUNNING: Yes.

MRS OWENS: But sometimes, like with the flood at the moment in northern New South Wales, I think the government is quite proud to be saying on the public record, "We're going to assist these people. They're going to have significant problems for the next 12 months and we're going to help them through." They're not trying to hide that support, and that's really a CSO helping Australians in times of need.

MR GUNNING: At that level it's a CSO, but we have many members, for example, whose businesses have been devastated. We'd like to get them into those scheme on any objective criteria you like. On average, on the whole, they are kept out. If you revealed who the actual beneficiaries were of those schemes, you might have a different view apart from this heartfelt notion - - -

PROF SLOAN: Particularly when they've bought cheap land in flood-prone areas and they've been flooded out every year for the past five years, you might be a little less sympathetic.

MR GUNNING: It's not as if the model that says we're all happy enough to reveal what's going on and CSOs have all these wonderful efficiencies applies without any sense of disquiet. It's quite an issue, I think, to get those models up and running.

PROF SLOAN: Did you want to add something, Neil?

MR GOW: No, not at this stage.

PROF SLOAN: Really? You've got a nice tie on, so - - -

MR GOW: Yes, some people say you shouldn't wear a Christmas tie till December but - - -

MRS OWENS: No, I think get into the spirit of it now.

MR GOW: I think it's all downhill from Melbourne Cup day myself.

MRS OWENS: It depends how you see it. I think we just all sort of edge through to Christmas and get there somehow or other. Have you got any other questions?

PROF SLOAN: No. I think the real issue is where you fit in here, but I think we take the points on board. I think some of the themes in your submission are about transparency, accountability.

MR GUNNING: Very much, yes.

PROF SLOAN: It's not as if the themes that you're raising are foreign to us at all, so certainly we can fit that in.

MRS OWENS: Okay. Thank you very much for coming and we'll now break for morning tea and resume at 10.30.

MRS OWENS: Our next participant this morning is Mr Hadlow. I would like you to repeat your name and the capacity in which you are appearing before us today for the transcript.

MR HADLOW: My name is Robert Frank Hadlow. I'm known as Bob Hadlow. I'm a private individual engaged in research into an historical subject.

MRS OWENS: Thank you and thank you very much for coming - can I call you Bob?

MR HADLOW: You may, please.

MRS OWENS: You can call us by our first names too, most people do. I thought your submission was a really interesting submission and I thought there was a lot of work that had actually gone into collecting that information and those prices that are charged for photocopying, both at the Commonwealth and the state organisations, the information agencies that you have been using, being the National Library and ScreenSound and so on. So I would like to thank you for that, because there was obviously quite a lot of effort gone into it. Probably I think it reflects the degree of frustration as well - I may be wrong there - with the Commonwealth organisations that you have been dealing with where the charges seem to be significantly higher. Maybe if you would just like to run us through some of your concerns, that would be useful.

MR HADLOW: The project I'm working on is Australia's horse-drawn goods vehicles. It is a subject that nobody has written about previously. There are lots of words about wheel wagons and drays, but Australia produced an enormous range of vehicles to carry goods around this country for about 130 years and yet nobody has really recorded them. That takes me around the country to a lot of historical societies, a lot of museums, a lot of different organisations and that's why I have a list of government organisations that I have been visiting, primarily the National Library because of the books and documents they hold; the national archives; ScreenSound because of photographs. That's the sort of way it goes.

My subject is sort of rather simple. It's just the cost of photocopying. In my submission I put black and white and I didn't even mention the colour photocopying, because that's another subject. What I would like to say is that all of the Commonwealth organisations that I have had anything to do with have been absolutely supremely helpful with what I am doing. They sort of understand that I'm trying to record something that is of benefit to them, museums and other places like that and the assistance they provide is really substantial. But you come to this point where you need a service that's additional to what everybody else is doing and that's where I have run into this problem. Really it comes down to the question of why at Commonwealth facilities over the last two years have I been charged 20 cents a photocopy page when I go down the street and get it for 6 cents?

The sort of process that one goes through is that there is an interlibrary

cataloguing system called Kinetica. I don't know whether you are aware of it. But you can look up all sorts of subjects in this and every book that is logged into it around every library in Australia. Then you go to the National Library and find out if they have one and at the same time you find out whether the public library has one. At the National Library, if I can't find one outside of that source I have to photocopy it there, but at the public library I just go and borrow the book, whiz down to Officeworks, do it for 6 cents and the job's done.

It is a huge difference in cost. I'm privately funded. It is out of my own resources and I have at times and I know this may sound as though I'm copying a complete book which is not permissible, but at times I have had bills of \$70 or \$80 for photocopying on the DIY process when I've done it myself, because there would be a lot of documents. For example I spent four months at the War Memorial, because in this subject one of the categories are the vehicles that were used in the First World War. Again, nobody has recorded them. There are a few photographs and mentions in books, but when you get down to the technical details of these things, there are records scattered all over the place and I'm trying to bring them together.

MRS OWENS: Good on you. Are you going to produce a book as a result of this?

MR HADLOW: I'm working on two books and a series of drawings in between. Way back in the 1880s through to about 1925 there was a journal that supported the coach building and the carriage building trade and that included a lot of drawings, mostly of carriages, but includes some drawings of the commercial vehicles. I have logged all those. When I'm out in the country if I find one of those grey rotting wrecks I'll measure it and draw it if it's not in the series of original drawings. Because they are just vanishing. So many of them have gone already. The first book is a catalogue of all of these vehicles. I am up to 244 completely different types of vehicle at the moment and some of my old coach builder friends tell me I'm dragging my feet. My target should be somewhere over 500, because in those days they built a vehicle for every conceivable job. For example, there were bird catchers wagons. There were all the bakers and butchers' carts that were quite common - - -

MRS OWENS: I remember those.

MR HADLOW: - - - but there were all sorts of other vehicles.

PROF SLOAN: Are you that old?

MRS OWENS: Yes.

MR HADLOW: All sorts of other vehicles. So I'm doing this book that's a catalogue. The middle section is a whole series of full technical workshop drawings and some time in the future I want to do a technical book. Because for example you may look at a wagon and another wagon and another wagon and they all look the same, but they are not. All the blacksmiths and the wheelwrights around the country had individual interpretations of what should be built. So you get all sorts of

variations on a theme and unless somebody records it, it's going to be lost.

MRS OWENS: Yes, it's going to disappear, because a lot of them would have rotted away and during wars would have been used for firewood and all sorts of things.

MR HADLOW: There are some treasures out there, but you have to really spend a great deal of time looking for them and being passed on from local people to local people before you actually find them. I had a question that I really wanted to put to you and that's what is the definition of cost recovery? That's something I couldn't - - -

PROF SLOAN: That's up to the presiding commissioner to answer I think.

MRS OWENS: Thank you. How do I answer this one?

DR STEWARDSON: It's just charging and getting back from the user some money to go part way or all the way towards recouping the cost of the organisation in question.

MRS OWENS: Or the actual service that's been provided by that organisation, but I think some people see cost recovery as being a mechanism to recover all the costs that have been incurred in providing that service or regulating a particular product. Others see that it is just a means of making a contribution to undertaking that service or doing the regulatory activity. So in the context of photocopying for example, I don't know the basis of those charges, but you have made the point that those charges, because they are so much lower at the state and regional level and universities and so on and even by private providers, commercial operators and newsagents and so on, that there is obviously a bit more than cost recovery. It is cost plus recovery that's going on.

MR HADLOW: That's really why I asked the question.

PROF SLOAN: One of our participants noted that what had crept into the language now is "full cost recovery", but I mean what your submission is kind of hinting at is that this is actually more than full cost recovery, because you kind of benchmark this. I wonder whether it's the kind of thing that - I mean because as you say, the people who are working for these agencies are very helpful to you - - -

MR HADLOW: Extremely so.

PROF SLOAN: Which in a sense is kind of - those people are being paid and so that's very helpful to you - it's kind of a case of thoughtlessness more than anything else with the pricing structure. They haven't really thought it through in terms of what the implications are for individuals.

MR HADLOW: I think the helpfulness goes to everybody. There is a constant stream of people into places like the National Library.

PROF SLOAN: But they don't personally endorse the photocopying charges at all.

MR HADLOW: No, point taken, but that service thing is to a point where somebody wants photocopying. They are helpful to everybody. I really made this case not just for my own benefit, because I hear quite a lot of the students that are in there complaining about the cost - - -

PROF SLOAN: They couldn't afford \$70.

MR HADLOW: - - - and I hear people in other places complaining about why it is as expensive. I think probably the situation has occurred because Officeworks has appeared in relatively recent times and you can go there, you can do the copying at this 6-cent charge, some places it's 5 cents, but there is an attendant there all the time to help you, explain machines. If a machine is in difficulty they will correct it, but that is not the case when you go to most of the Commonwealth facilities.

DR STEWARDSON: I think the serious point you are making and you have established very clearly that the cost is above what presumably is the marginal cost of conducting photocopying in these various institutions. Your point is very well made. So there is fairly obviously some cross-subsidisation from the photocopying charge to other parts of the library's operation. Strictly speaking, as economists, cross-subsidisation is a thing that has, to put it mildly, a big question mark over it. But I would like to be devil's advocate. I wonder whether it is, if you like, a shorthand way and almost an efficient way of collecting some other charges.

For example these organisations don't charge you for going in, although presumably they could and their task in a sense is to have the facility there. They could charge you an entrance fee. They don't charge you a fee for the service of someone going and getting the book out of the stack, if that's where it has come from and presumably they could and also presumably part of the reason they don't do that is that it's not an efficient way of collecting money. It might well cost more to charge for that than to not to. So maybe they are doing this overcharging unintentionally, but maybe also this is a way of charging for some things they could charge for, but don't and it's an efficient way. That of course assumes that most people who go to the libraries do want to photocopy. You sound as though you are a particularly heavy photocopier. I don't know. Anyway, I just put it to you - what's your response to that? That while strictly speaking you appear to have established cross-subsidisation, is it all that bad a thing?

MR HADLOW: Well, it's not cost recovery, it's cost recovery plus and I noticed in the documents that I received, there is a mention of cost padding.

DR STEWARDSON: It's cost recovery if I could just interrupt. It depends whether you are wanting to isolate the cost recovery to every specific component of the service or of the whole service of access to the library.

MRS OWENS: It's not a very transparent way of doing it, if that's what they are trying to do, is it?

MR HADLOW: No, it's not, because they are not telling me in actual fact if I do photocopying I am actually subsidising part of the other service, which is free to everybody else

PROF SLOAN: Yes, because non-photocopiers then get subsidised.

MR HADLOW: If they charged for people to go through the door I think the numbers would reduce considerably and that's not what the library is there for.

MRS OWENS: No, it's not the purpose.

MR HADLOW: But I think there needs to be an honesty factor about it. If the cost of producing one photocopy page is really 6 cents, somebody needs to explain to everybody that the other 14 cents are for other reasons. In fact I mentioned in my covering letter that I will send you some other details which I wanted to be confidential and I have come across a couple of situations which are relevant to that position.

PROF SLOAN: Because presumably it can get to the point where it essentially kills off activities. You have obviously been extremely determined and energetic, but for someone who might think, "I might like to do this", they get going, people are helpful, friendly and the like, but when they realise what kind of financial challenge is ahead of them they kind of drop it.

MR HADLOW: I have absolutely no case or argument against cost recovery as long as it is that. But to give you an example, I also mentioned about photocopying. There is no specification, there is no standard. What comes out of the machine - if you'd like to have a look at this, this cost me \$15.50. It was not a DIY, it was one that was done by the staff, but the sort of job that comes out of the machine.

PROF SLOAN: It's a bit average, isn't it?

MR HADLOW: I took it back and it was given back to me.

PROF SLOAN: With the bill?

MR HADLOW: To give you another instance, I've listened to people at the War Memorial that have gone to look for records of their grandparents in the First World War or parents in the Second World War and have gone to the copying machine to copy DIY copies themselves and they're so disappointed because there's no quality. They pick up what is a reasonably clean document but because the machines are not serviced or not looked after they finish up with a very disappointing documents. Some of those people may have come from the other side of the country.

PROF SLOAN: If you go to Officeworks and you're unhappy with the quality you can say - - -

MR HADLOW: They adjust it instantaneously, yes. They will even go and replace - these things are charged with a card, you buy a card and they'll even change the card for you, reload the card.

DR STEWARDSON: The National Library people are going to talk to us some time and we will put your point to them.

MR HADLOW: Thank you very much.

MRS OWENS: We're actually seeing them this afternoon and they have given us a submission which sets out their charging arrangements which on the surface sounds quite good, but they have arrangements where if it is a researcher like you, they say, "We try to avoid charging those people," so there is a bit of price discrimination. But I think what they've overlooked is this photocopying issue and what we will do this afternoon when we're talking to them is we will raise this issue with them and just get a response because I'd like to ask them why is it so much more expensive.

MR HADLOW: The other point I made was when the photocopying has to be done by staff the cost goes to 50 cents and in my submission I made the point that that looks like somebody is charging 60 bucks, 70 bucks an hour for labour which gets a bit expensive.

PROF SLOAN: Sure does. Thanks very much. You should contact my friends, the Michells in South Australia, they made their money out of - and they're one of the richest families in South Australia - it's a good story.

MR HADLOW: They're the wool people?

PROF SLOAN: Yes. They were kind of illiterate when they came out. They were actually Mitchells and some of them dropped the T because they couldn't really spell and they had these big bullock drays that went from the Burra-Clare region to Port Wakefield and that's how they made this money. Incredible.

MR HADLOW: Although I'm looking at the vehicles, of course you come across a lot of stories attached to them.

PROF SLOAN: I think it's a fantastic story.

MR HADLOW: Some of them extraordinary. Would you believe that from Wyndham to Halls Creek there was a man who had a six-wheel wagon which he built.

PROF SLOAN: That's rough country.

MR HADLOW: It is. The reason it's rough country he built his own six-wheel wagon, it was a three-month round trip and it was hauled by 72 donkeys.

PROF SLOAN: Where did he get the donkeys from?

MR HADLOW: Elders originally imported them but to hitch up a team that big, that makes one of these big trucks on the highway look a bit small.

MRS OWENS: Thank you very much, Bob, that was very interesting.

PROF SLOAN: Good luck with your work.

MRS OWENS: We will just break for a minute and we'll call the next participants.

PROF SLOAN: We'll watch in the bookshops. I don't think you'll get rich from it.

MR HADLOW: No, I'm going to get poor.

MRS OWENS: The next participant this morning is the Australian Surveying and Land Information Group, sometimes known as AUSLIG. Could you please each give your name and position with AUSLIG, for the transcript.

MR HOBSON: David Hobson, manager executive and program support area.

MR NAIRN: My name's Alister Nairn, and I'm the manager of the spatial data infrastructure program.

MR SHEPHERD: Ian Shepherd, the manager of the information access program.

MRS OWENS: Good, thank you, and thank you very much for the submission and for the previous visit and the information you supplied to us at that time. I understand you have some opening remarks you'd like to make before we ask you some questions and enter into some discussion.

MR HOBSON: Well, firstly I'd like to apologise for the absence of our general manager, Peter Holland. Unfortunately he had a long-standing commitment to some meetings in Japan, but it's interesting that in part they're discussing the issues of relevance to this enquiry, in that he is - or one of those is access to and pricing of Australia's contribution to a global map, and also our participation in spatial data infrastructure activities in the Asia-Pacific region. Just turning very briefly to our submission, AUSLIG has existed in various forms since 1910, or thereabouts, and the most recent significant changes took place in 1996 and 1997 when we sold our commercial arm to SKM and outsourced most of our production activities. So as a result of those changes, AUSLIG now focuses on its community service obligations or public interest activities of geodesy, mapping, maritime boundaries, remote sensing and spatial data infrastructure and the distribution of products that are produced by those programs.

Our pricing policy is in broad compliance with the policy developed by the Commonwealth spatial data committee, CSDC, which was generated in response to the Australia-New Zealand Land Information Council's draft national transfer agreement, data transfer agreement. This Commonwealth public interest spatial data transfer policy is aimed at maximising cost-effective use of Commonwealth spatial data produced and funded as a public interest activity, and section 9.1 of that policy states that generally at least the average cost of transfer incurred by the supplier in providing a copy of, or access to a data set listed in the schedule, should be charged. In other words, the cost of transferring the data spread over an estimated number of transactions. The average cost of transfer will include direct costs, as well as an estimated pro-rata share of all overhead costs in producing the distribution service. To determine these costs, AUSLIG has had a staff time-recording system in place for more than 25 years, and coupled with an accrual accounting package, which has been operational for over 10 years, is able to assign direct and indirect costs to the process of distribution.

Returning to the CSDC policy, it goes on to add that royalties may be payable, and

that users will have a licence to use data, rather than ownership of that data. In practice, individual products produced by AUSLIG are priced as shown in table 1 on page 4 of our submission, and this ranges from free to market price, and prices are published in our catalogue and on our Web site. Our products are distributed through a national network of wholesalers and retailers, and through the Internet, and these arrangements are there to ensure that there is broad community access to our products.

With regard to comparison with state and overseas agencies, you may have noted the examples we have provided in our submission. Within Australia there is now an emphasis on maximising economic and social benefit by wide access to the fundamental spatial data sets provided by agencies such as AUSLIG. Overseas there still exists the wide range of views on how much to charge for these data. However, the benefits for maximising access are still recognised, as well as the importance of national consistency in content, currency and style of spatial information. It's on this last point that we probably differ most from the United States of America's viewpoint. With the realistic constraints which exist on the provision of funds to produce spatial data, charging a small fee for their use that reflects the cost of providing that service, discourages unrealistic or ambit requests, and assists to maintain quality and currency, while not discouraging the legitimate users. Thank you.

MRS OWENS: Good, thank you very much for that. There are a number of issues we want to raise with you. I think this issue of maximising access is an important one, and we've discussed this with quite a few people, but I suppose the question relates really to the level of prices and the extent to which the level of prices may be prohibitive for certain groups out there, and there's a number of groups that may find the charges excessive. You know, individual farmers for example, local government may have concerns. Some small businesses may find the prices quite high. In your table 1 that you pointed us to in your opening comments, David, you mentioned that you've got this table where you have some goods are free, which I guess are the goods that you've defined as being public goods, but then you have packaged products and customised products. Now, I understand that customised products you may wish to establish or charge a market price, because you're doing something - I would see that that's probably what we'd define as a private good, but I think the ones in the middle I'm wondering about, you know, what this market price is and whether the packaged products are products that you really just can take off the shelf and distribute, and I'm wondering why you're not charging a marginal cost rate and whether that market price for those goods acts as a deterrent to some of these groups?

MR HOBSON: There's a few points there that I'd like to address. The first one is that we consider all our products public good. The customised ones, for instance, satellite imagery, we still don't charge the cost of accessing and archiving the data, but we are constrained by the overseas satellite operators who do charge significant licence fees in some instances. So we are obliged through the contracts with them to recover, or to charge those licence fees. Going back to the packaged items, we do charge a market price there, but that does equate to the cost of distribution,

essentially, the printing of a map and the putting on a shelf and having it sold through a wholesaler or a distributor, but the whole process of collecting the data which goes into that map, we certainly don't charge. I mean, the standard price for a map is, what, \$7 - \$7.70.

PROF SLOAN: It's hard to see that as a deterrent to the farmer.

MR HOBSON: We've just released a new package of two CDs covering the whole of Australia. You might like to talk a bit more about that one, but it's under \$100. This is mapping coverage of the whole of Australia for under \$100.

DR STEWARDSON: Can I just pursue that particular point a little more? You say that the market price in this table on page 4, you really mean transfer cost as defined in 9.1 of your - - -

MR HOBSON: Essentially, yes, an average across all our products.

DR STEWARDSON: Okay, well, can I just get clear about the definition of the average cost for transfer. You say it will include direct costs, as well as an estimated pro-rata share of all overhead costs in providing the distribution. Now, when you say that, you mean, do you, just the overhead cost actually related to the distribution. For example, if you've got a manager distribution, it would be a share of that person's costs. It's not a share of the costs of - - -

MR HOBSON: The whole organisation, no. It's just the share of that manager. It's the warehouse, the costs of the rent for the warehouse where the maps are stored, it's a share of the accommodation costs where the people are actually housed to handle the distribution.

DR STEWARDSON: Okay, well, now, are other people providing this service in competition with you, the maps.

MR HOBSON: Essentially, no, for 80 per cent of Australia. There are equivalent products developed by state governments and people for the more developed areas around the coastline of Australia, but for 80 per cent of the land coverage, we provide the only maps, essentially.

DR STEWARDSON: They get their basic information from you, to start with.

MR HOBSON: No, they would collect the information themselves, but we have arrangements with the state governments whereby they provide us with revision information and we provide them with information too, so that we - - -

PROF SLOAN: That's just freely available, is it?

MR SHEPHERD: We have a memorandum of understandings with the state mapping organisations, to share data for the purposes of - - -

PROF SLOAN: Yes, so there's no charging - - -

MR SHEPHERD: No.

DR STEWARDSON: So what happens if they choose to sell at a price that's different from your transfer, average cost of transfer, and you've got two principles there that don't necessarily coincide, the market price and the average cost of transfer?

MR SHEPHERD: Our price is based on the cost of the transfer, but it also takes market forces into account. Different states and different map producers, who, I must emphasise, are making maps at different scales. They're not making the same product, so there's no overlap of product. We have the only national coverage of Australia at the scale that we produce. So their prices, they establish independently, and they are different prices to our price for an equivalent product, not the same product, and that's why we've put market price here, because each of us establishes a price for a product, based on their own costs, and also what the market will bear.

DR STEWARDSON: Okay, so you don't match the other people. You carry on with your average cost of transfer.

MR SHEPHERD: Yes.

MRS OWENS: I think market price is a bit kind of misleading for us.

MR SHEPHERD: I think it is. I think that definition is not - - -

MRS OWENS: I think it's not kind of with the right term, is it, because I'm thinking, Oh, God, you're matching the market, you know, but you're actually saying - - -

MR SHEPHERD: No, I think we're saying if our costs were \$8, but if the market would only pay \$1, then we would have to look at the dollar price.

MRS OWENS: Well, you see, we interpret market price, that's why I asked the question. It's what the market - - -

PROF SLOAN: Or what competitors - I mean, you really don't have any competitors in a sense.

MRS OWENS: I'm wondering whether under this 9.1 whether it really is an average cost of transfer, or whether it's actually a marginal cost, you know, the additional costs of transferring to that particular customer, and I just wonder whether it actually is a marginal cost that you actually are - - -

PROF SLOAN: It's an avoidable cost, I think, that's probably how we'd see it,

because if you didn't distribute it, you wouldn't bear that cost.

MR HOBSON: Marginal cost in manufacturing terms is the cost of distributing the next widget, in a sense, if you've got a thousand, whereas this is a little bit more than that, really, in that we're averaging across all the widgets that we produce, I guess - - -

DR STEWARDSON: It's very close to a marginal cost.

MR HOBSON: It is very close to it, but it's probably not quite the same, because we do include the costs of storing those previous thousand widgets, in the average cost that we - - -

MRS OWENS: Sorry, I was just going to ask - I just want to come back to my initial question, which was a long convoluted one, but there is this question of access and whether there have been people that have expressed concern that they just can't afford to get the information they want from - - -

MR HOBSON: Yes, I didn't address that issue. It is an issue that we try to work with people as much as we can. We do have special arrangements for academic institutions seeking data for research purposes. Is that given to them, or does - - -

MR SHEPHERD: That's at the direct cost of producing that piece of data to send to them, so it's a very low cost, normally 50 to \$150 for the research.

PROF SLOAN: So there's a kind of - some flexibility.

MR SHEPHERD: Yes, we understand.

PROF SLOAN: Flexibility, depending on the nature of the user.

MR SHEPHERD: User, yes.

MRS OWENS: Sorry, I interrupted Robin.

DR STEWARDSON: No, merely while we were on clause 9 of your transfer document, 9.4 refers to a department of finance paper, setting out principles for your to apply, and if we haven't already got that - - -

MRS OWENS: We've got that.

DR STEWARDSON: Have we?

MRS OWENS: Yes. That's the 1995 paper, isn't it? I just read it as being the 1995 paper.

MR NAIRN: The 1995 paper is the Commonwealth policy one that you've got. It's

part of our submission. I think the one you're referring to isn't part of this submission.

MRS OWENS: No, no, but I think we've actually - well, you are referring to that department of finance, the paper they put out in 1995?

MR NAIRN: I think it was 1995.

MRS OWENS: On costing principles?

MR NAIRN: Yes.

MRS OWENS: Yes, we've got that.

DR STEWARDSON: It actually seems to specifically relate to Commonwealth spatial data. That's the one you're talking about, is it?

MRS OWENS: Okay, I just read it as - - -

DR STEWARDSON: I wonder if maybe you could perhaps be kind enough to check with our team afterwards, and if we haven't got this particular document, if you're happy to give it to us, that would be helpful.

MR NAIRN: Certainly.

MRS OWENS: I thought we got that when we came on a visit.

DR STEWARDSON: We may have. I don't have it with me in Canberra.

MRS OWENS: We can check later.

MR SHEPHERD: May I make an additional comment on your question about access and pricing generally?

MRS OWENS: Yes.

MR SHEPHERD: Sensing that there could be some issues of access to our data because of price, we have been conscious of trying to reduce our prices as much as we possibly can, within the framework of the policy we have.

PROF SLOAN: You have with the Internet too, haven't you?

MR SHEPHERD: Yes, so for example, our framework data set, which is a national coverage of data, which is really our benchmark data, was about \$40,000 for a national coverage during the 90s, and in 1998 we collectively chose to - after a lot of market research - to reduce that price to a national coverage of 13,000 to stimulate, you know, interest in the data.

PROF SLOAN: Did it?

MR SHEPHERD: Well, we've certainly distributed more tiles, more pieces of data, but we haven't reached any increase in income as a result of it, so it hasn't been a benefit financially.

PROF SLOAN: Elasticity of one.

MR SHEPHERD: Yes, that's right, that's my problem. A bit less, maybe, and also our other flagship product for the online world is a raster product that Dave mentioned, of all our maps, and the first version of this we produced was 7 CDs that cost \$540, or \$100 a CD. We've now used technology to compress the new version to two CDs, and that's selling for \$100, as Dave mentioned, and that's had a very positive influence. We released that just a few months ago with a thousand copies pressed, and they sold out within a couple of months.

PROF SLOAN: Walking out of the shops.

MR SHEPHERD: Yes, so there was definitely an increase in demand because of that.

MRS OWENS: What about the other government agencies that you could conceivably be working in tandem with? We've seen, for example, this afternoon, the Australian Geological Survey Organisation. Is there a lot of interaction between AUSLIG and AGSO?

MR NAIRN: Yes, I mean AGSO use our base topographic data as the basis for underlay information, new framework information to base their geological information on top of. So we provide data for them as a topographic framework for their products.

PROF SLOAN: Do you charge for that?

MR NAIRN: We charge them for the initial supply of the data, for a site licence to use the data and any update information that they require.

MRS OWENS: Do you think there's potential for greater use of that data if the charges were less or is charging not the factor in the use of the data?

MR NAIRN: Greater use of the AGSO data?

MRS OWENS: Yes.

PROF SLOAN: Or your data.

MR NAIRN: Our data.

MR: Generally, do you mean or by AGSO?

MRS OWENS: By AGSO. Do you think - you know, could more be done?

MR NAIRN: I don't think AGSO are limiting their use of our data because of the price. They can buy the whole of Australia for \$13,000 and put it on their intranet and use it throughout the whole organisation. So I don't think that is a hurdle for them in terms of the price of our product.

MRS OWENS: But are there other products that they may potentially may want to use where they would have to pay more than the \$13,000 or is it just that basic information?

MR SHEPHERD: No, they use remote sensing products from satellites, satellite imagery. They're using this for a very important project that they can probably tell you about, oil seep detection in terms of exploration for new oil fields and they acquire data for that purpose and that is one of the data sets charged at market price. We are partners with them in the marketing of that project to the customers and those projects have been quite successful commercially as well. So I don't see that the price of that data has been an inhibitor to its access.

MRS OWENS: But if you're working in partnership on some of this, why charge them at all. If you're just actually working together potentially could - - -

MR SHEPHERD: This data is acquired from overseas and we have to pay anyway.

MRS OWENS: That's the satellite one?

MR SHEPHERD: Yes.

MRS OWENS: Do you buy data off AGSO? It doesn't work the other way?

MR NAIRN: We don't need the geological data that they produce for our products.

PROF SLOAN: Can I go back, Dave, to that sort of threshold question which is - I think towards the end of your introductory remarks you're talking really about using some form of cost recovery as a kind of demand management tool, kind of demand rationing. So you're trying to not put too high price on it, but to make sure that the users do actually value it and do require it.

MR HOBSON: And so we can handle the demand and maintain - - -

PROF SLOAN: Try and discourage frivolous - - -

MR HOBSON: Yes, frivolous and to maintain the quality of the data.

PROF SLOAN: Yes.

MR HOBSON: That's an issue that has come up in the US, that because they give their data away they are having trouble maintaining the - - -

PROF SLOAN: I think that's one of the themes coming out that wisely used a degree of cost recovery is quite important to ration demand, you know, without deterring appropriate and legitimate use. Your experience seems to suggest that you don't have to charge too high a price to - - -

MR HOBSON: If we can cover the cost of the distribution that is sufficient. It would have implications for us if we were obliged to give the data away because that would mean we would have less funds to spend on updating the data.

PROF SLOAN: You probably take the realistic view that the government is not necessarily going to give you more money just because the demand for your products increases dramatically.

MR HOBSON: That's right.

PROF SLOAN: Or at a minimum would be a lag.

DR STEWARDSON: Can we just pick up on the point you mentioned earlier about international arrangements where - I forget the precise terminology - but you got some information from international bodies or overseas bodies which obliged you to pass on costs to your customers. What sort of magnitude of costs are we talking about here. I mean, is this a sort of a situation where you yourselves are the soul of generosity and modesty in your charges but these other things that you're passing on are large?

MR HOBSON: It's essentially the satellite access fees that we are obliged by contract to pass on.

MR NAIRN: We don't pass on all the costs of our access fees. Your question is really limited to our use of remote sensing information where we are forced by international supply agreements to pay a fee for the data that we're onselling. Ian, do you know the quantum of those - - -

MR SHEPHERD: We pay about \$2 million a year.

DR STEWARDSON: I understood you to say that you had to charge to pass on the fee as well. Is that not correct?

MR NAIRN: My understanding is that is part of the contract.

PROF SLOAN: That's for a customised service.

MR HOBSON: No, I'd need to refer that but - - -

DR STEWARDSON: Could I just ask you just perhaps then to take then on notice what my question is. You've talked about situations where you have to pay a fee to an overseas or international body. I understood you to say you were also obliged to pass that fee on in your charge to your ultimate user, so I would like it if you could to confirm or deny that. Assuming you are passing it on, what sort of magnitude are we talking about in terms of the total charge that you are making to your user. Are we talking about something that is very significant are we talking about a relatively minor amount?

MR HOBSON: I certainly will take that on notice.

DR STEWARDSON: Thank you.

PROF SLOAN: We were quite attracted to one of your I suppose revenue arrangements which was the application of royalties to particular products. But it is true that of the moneys you recover royalties are a relatively small proportion. Is that right?

MR HOBSON: Yes, definitely.

PROF SLOAN: I mean, the royalty kind of idea, we were wondering whether it has wider applicability. It's pretty uncommon but maybe you'd just like to, certainly for the purposes of the transcript, run through the conditions under which royalty arrangements are suitable.

MR SHEPHERD: Certainly. We seek to charge royalties to users of our product in a variety of forms, and historically it's come through the publication of our maps in hard copy form for atlases or tour guides or formats such as that, and we have developed guidelines, a set of guidelines, for charging a royalty for the use of that material based on some guidelines that were also set by the ordinance survey in the UK. So we have policed those guidelines - if we could use that word - for some time, relatively successfully. In the publishing business they are used to acknowledging copyright when paying royalties for the use of material. So it was quite a comfortable working arrangement with these users of our data.

DR STEWARDSON: Could I ask you about those. The three examples that you've given in attachment A, if I understand correctly, the first two are in fact a lump sum charge and it's the third one that relates to a percentage of the number of copies sold by your customer.

MR SHEPHERD: Yes.

DR STEWARDSON: I assumed when we were talking about royalties that in fact you were talking all the time about something that was a charge, probably some sort of percentage, of copies sold. The first two, which I take it you are putting up there as examples of royalties - you say so on page 5, I think - - -

MR SHEPHERD: Yes.

DR STEWARDSON: - - - it's really just a slightly different sort of fee, isn't it?

MR SHEPHERD: Yes, the - well, in the first one the print run, I think, is a contributing factor to the volume issue but I take your point that those two are a one-off fee and we actually encourage that because of the administrative convenience of just having a single transaction.

DR STEWARDSON: Okay. That sort of leads on - sorry.

MR SHEPHERD: We do act - when I talk about guidelines, we do in fact have agreements that are annual agreements or agreements that are based on the actual usage of the product. Every year they'll tell us how many books they've printed and sold, and they'll pay us a fee based on that.

PROF SLOAN: I mean, that is an issue, isn't it? You've got to kind of get an administratively feasible and low cost way of - I mean, because - - -

MR SHEPHERD: That's right, unfortunate - - -

PROF SLOAN: - - - wasn't it Screen Sound that had got a loyalty cheque for 18 cents?

MR NAIRN: That's what we're trying to avoid, where there's not very many dollars involved and to make it more simple we'd rather - and the people wanting the data usually prefer a small up-front fee than rather the accounting process of looking after an 18 cents time - - -

DR STEWARDSON: So I guess what I'm asking you is if you've got any comment on it because when you talked to us about royalties it sounded really a good idea and a nice way of charging your customer who's going to go on to make a profit out of your information and something that maybe other organisations could copy. But is your experience that really the administrative cost of this is such that it's really only a very odd exceptional case where the royalty proper is appropriate and cost effective? Is that what you're telling us?

MR SHEPHERD: Cost effective, I would agree, yes. There's also the issue of risk for the publisher or developer of Web sites and things these days are also included but having to pay this up-front in one up-front fee is difficult for them. So sometimes they're more interested in a spread-out shared risk type of operation.

PROF SLOAN: Sure.

MR SHEPHERD: That's when we would talk about that and negotiate something along those lines if it suited them. But generally we are conscious of the fact that the cost of administering our royalty system is high compared to the income it generates and that only a few, like, the Reader's Digest Atlas that I think was given to you during your visit - - -

PROF SLOAN: Yes, I know. I don't know who got that in the end. I think it went to the library. It was only charged for access to it.

MR SHEPHERD: It was a case where it was a good royalty earner but they are the exception rather than the rule. Mostly it's people wanting to include a map in a book and it's a free royalty situation "Yes, do it" and that's the end of it.

MRS OWENS: Can I just ask you, when you're actually administering this how do you know, for example, what the print run is for the Readers Digest? Is it based on an honesty system, that they will tell you what they've printed?

MR SHEPHERD: Yes.

MRS OWENS: So somebody in your organisation has to monitor what is actually happening to your information after it goes out the door, don't they? To be able to actually implement a royalty you've got to know what's actually happened.

MR SHEPHERD: In the agreement will be a clause where they send us the information on production and sales on which we then - - -

PROF SLOAN: They do have some sort of auditing process. I think that system would completely break down if there's - - -

MRS OWENS: But who's auditing? I mean, who's doing - - -

PROF SLOAN: Some auditor of the publisher. I mean, there's obviously scope for - - -

MR SHEPHERD: We have the right to audit their books in our agreement. We don't do it regularly, because it's another high cost for a low return. It's all a balancing.

DR STEWARDSON: You spoke earlier on about community service obligation, I think, or you certainly do in your submission. Does AUSLIG have a formal statement of a CSO or is that something that's implicit?

MR HOBSON: We've had formal statements. Whether they'd be considered

current or not I guess is a question. Certainly we had an agreement we signed with the Department of Finance and Administration in 1997 which referred specifically to our community service obligations which is our mapping, geodesy, maritime boundaries, spatial data infrastructure and remote sensing programs, so they were defined in that context with the MOU with the Department of Finance.

PROF SLOAN: Can I go back to that point about that bit of you that was sold off which is kind of an interesting theory to us because often economists would say if you can't have full cost recovery, why is it in the public sector? So what was the nature of that bit of you that was sold off?

MR HOBSON: It was basically project surveying services which are available in the private sector - - -

PROF SLOAN: So it's a highly contestable market already?

MR HOBSON: Yes, surveys for aerodromes, for ATSIC, for defence and things and those services were available in the private sector.

MRS OWENS: At what point where they sold off? Did you hold on to that for a while until a private sector market had developed or was it always there?

MR HOBSON: There's always been a cottage industry, I guess it could be described, capable of doing that work, some elements of it - perhaps not all of it. But the government made a decision after a review of AUSLIG in 1996 that we would sell our commercial arm.

MR NAIRN: I think you have to go back historically to see the reason the government originally did this sort of work and it was started when the nation was being developed, putting infrastructure in across the country, building Canberra. There wasn't the supply of skilled people needed in those days to do the projects that the government wanted to do, so they took it on themselves. They had cadetships, they trained people to build up the skills and have the capacity when it wasn't there in the private sector. Over the years, as the economy has developed, that market has developed. Our previous Minister was quoted as using the Yellow Pages test to justify selling that off because you could look in the Yellow Pages and find this service available in the private sector, therefore there wasn't a good case to keep it in government.

PROF SLOAN: It's created a nice clean model for us because you haven't got the mixing of clearly commercial activity with a public interest function. You've kind of remained a - - -

MR HOBSON: It's made it simpler for us too - - -

PROF SLOAN: Yes.

MR HOBSON: - - - in terms of we're not seen to be competing with the private

sector.

PROF SLOAN: No, I think there were kind of some hints in that for our guidelines really, where there are clearly identifiable bits of organisations where there's private sector competition. You have to ask that threshold question, would it be better to let it go.

MRS OWENS: The Bureau of Meteorology is one example where they have a commercial unit within the bureau which is basically competing out there in the marketplace to do certain activities. We have asked them why is that there and how long will that remain, so that's why I was interested in the store process as to when you have these things off and go.

PROF SLOAN: It would take some time though, as you say - - -

MR HOBSON: Correct, 12 months to sell - - -

PROF SLOAN: No, but also it took time for the private market to develop too.

MR HOBSON: Yes.

MR NAIRN: And I guess the process started - really started, the commercialisation - when they put us on to cost recovery - you know, the level playing field - in about 1989, so we were operating to a degree commercially between 89 and the time it was sold off in 96. It was after that that we've gone back to now just doing things that are in the public interest.

MRS OWENS: The bread and butter.

MR NAIRN: Yes.

MR HOBSON: We did have that issue of cross-subsidisation before that. No matter how careful we were in our accounting systems, we were still open to accusations of cross-subsidisation.

DR STEWARDSON: Could we just go back for a minute to the average cost of transfer. Can you give us a rough feel for a typical product, what the direct costs are and what proportion of the charge is direct cost and what proportion is the pro rata share of the overheads? Is adding in this pro rata share of the overheads for this sort of thing a very significant proportion of the total costs that you come to? I mean, I would have imagined that if you're doing lots and lots of these things and producing a large number of them, that maybe the pro rata overhead is a relatively small addition to the cost.

MR HOBSON: Certainly historically, when we looked at the figures, the indirect costs are less than the direct costs in that. In fact the Department of Finance currently offers guidelines on this which suggest about - if you're looking at a \$100,000 cost for

a person for a year, it's an average cost - about 64,000 of that is salary and salary on-costs and about 28,000 is administrative costs and about 8000 is property. I think those figures are probably fairly accurate, so you're looking at perhaps 64 per cent being direct salary costs and associated things and about 36 per cent being overhead costs.

DR STEWARDSON: I'm sorry, that wasn't quite what I was meaning. As I read 9.1 in your thing, you're talking about direct costs being media consumables - I take it that's paper and whatever else you print your stuff on - computer processing and freight.

MR HOBSON: In terms of the CSDC policy paper?

DR STEWARDSON: Yes.

MR HOBSON: In terms of that distinction, I would think the direct costs would be quite low because they actually included labour in the overhead costs there, so on that, in terms of figures, the direct would be quite low. The indirect would be much higher by about - - -

MR NAIRN: For example - we'd have to go back to our figures to give you a particular product and a break-up of it - but if you pick that twin-pack CD product that we spoke about for \$99, the actual direct cost of that CD might be closer to \$10. To put the data on it, the two CDs in a pack with a little bit of documentation and then there's the cost of posting it and sending it out, it might be 10, 15 dollars, but the other costs in answering the user queries, taking the orders, processing the orders, add up to the extra money. But I'd agree that the direct costs in that case are probably smaller than the indirect costs for the distribution of products.

MRS OWENS: Towards the end of your submission you've given us examples of different states and what's happening in different states, and I guess it raised a question in my mind. You refer to Victoria and Western Australia and Tasmania and I was wondering about the other states.

PROF SLOAN: They don't count.

MRS OWENS: Well, there is New South Wales. It's quite big.

PROF SLOAN: Yes, okay.

MR HOBSON: New South Wales is the one state which probably has been the slowest to take up the policy idea of maximising access. We did refer to it just very briefly in paragraph 37. They are also looking at changing their pricing policy. Do you want to add some more to that?

MR NAIRN: Well, I guess we don't know too much about the current New South Wales policy because there was a cabinet submission that they were preparing on new

policy. They've done a restructure. So we don't know the details of their new policy yet, so we haven't added too much in there on that case. But traditionally they have charged high prices for their products and we understand that the new policy will be to reduce those prices for public interest-type data.

MRS OWENS: We'll follow that one through as it becomes available. Presumably that information will become available some time during the life of our inquiry. I'd just like to go back to the American situation again for a minute. I think you basically don't like that idea - we talked about this earlier - because of the concern about demand management really; a question that Judith was asking you. One thing I was worried about: you say that, "It can lead to greater demand but without adequate funding can result in lower quality products," and I was wondering if that actually was the case in the United States that what was going out were lower quality products.

MR HOBSON: That's certainly our understanding, just from anecdotal evidence. Yes, certainly the people that have visited us have expressed concern about their inability to meet demand with a quality product because it is available free.

MRS OWENS: And what, the U.K. is somewhere else in this? You've got Europe as guidelines that would apply there. Have you got those or have we got a copy of those?

MR HOBSON: Do you know anything about - we'll see what we can get.

MR NAIRN: I don't think you've got them. We'll have to check it out for you.

MRS OWENS: I'm not sure whether we've got them either.

PROF SLOAN: I like that New Zealand discount. I thought that was the mother of all discounts; \$2 million to 1500.

MRS OWENS: Yes.

MR HOBSON: Yes, that's quite remarkable.

MR NAIRN: They've gone from one extreme to the other.

PROF SLOAN: I don't think there was too much demand at \$2 million.

MRS OWENS: No, I presume they had no demand at \$2 million and they were probably wondering why. It's a bargain.

MR NAIRN: Well, that's been the case in Queensland, too. They had a very high price and there was very little demand. They reduced the price - nowhere near 15,000 but something like, you know, 100,000 from 2 million - and the demand has gone up so they're revenue has actually increased.

PROF SLOAN: There's something about price and demand, isn't there? It does work.

MR NAIRN: This New Zealand policy is - - -

PROF SLOAN: Although I'm not sure you'd have to be a brain surgeon to realise that there's not going to be much demand at \$2 million, but anyway.

MR NAIRN: No. New Zealand policies are pretty new and we don't know how it's bedding down yet, how their sales and things are going.

PROF SLOAN: No.

MR BURBIDGE: (Indistinct)

PROF SLOAN: Excuse me, if you don't mind, we can't take - if you'd like to come up and - - -

MRS OWENS: Did you hear what he said, David?

MR HOBSON: No.

MRS OWENS: You might need to come up and give your name.

PROF SLOAN: Come up, yes.

MRS OWENS: I'm sorry, this is the only formal part of the process because they can't figure out who you are. Why don't you give you name and you can tell us?

MR BURBIDGE: Brian Burbidge. I'm the general manager's executive officer. One of the issues with quality of products in the United States and other - well, maybe not so much in the United States but certainly in places where they're charging a lot for the products is that it generates, if you like, an underground for data products where they're producing surrogate products which don't necessarily have the same quality. I believe that is a problem in some states within Australia, so charging a lot of money for products is not necessarily - well, limits the access but it also generates a black market, so to speak.

MRS OWENS: Thanks. That was actually worth probably coming up to say that.

PROF SLOAN: No, I thought it was a great submission and I liked our visit, even though I didn't get the Reader's Digest book. I think we've got one at home, a 1963 version or something. No, you're another good case study for us. You've thought a lot about the issues and it's really very helpful.

MRS OWENS: Have you anything else, David, you want to say before we close

this session?

MR HOBSON: No.

MRS OWENS: Thanks very much for coming, and we'll just break for a minute.

MR HOBSON: Sorry, there was one thing. We did note the comment from the Northern Territory geological survey.

MRS OWENS: Yes.

MR SHEPHERD: I spoke to them yesterday.

MRS OWENS: Yes.

MR SHEPHERD: Dr Gee, I think his name is. So we had a good discussion. He explained to me again - we had been in contact with him. The manager of our mapping program was there just a couple of months ago and showed me the report of her discussion with him. His interest is in being able to distribute images at least of all the data in the Northern Territory free. So he's interested in having a collage, if I can describe it in that general term, of geological information, topographic information and socio-economic data, all related to the geological market, freely available on the Web. So our issue is that it just hasn't fitted neatly into our access policies of the past and so we haven't yet accommodated his wish. So we have to keep working on that to try and find a compromise solution that keeps him happy, but doesn't sort of change our policy totally.

DR STEWARDSON: So the problem is that you want to charge whatever the term is, average transfer cost. Is that correct?

MR SHEPHERD: No, this would actually be a royalty. We would treat him as a value added distributor. He is producing a package of information which is - - -

PROF SLOAN: Who is he?

MR SHEPHERD: He is the director of the Northern Territory Geological Survey.

MRS OWENS: But I suppose if he is not going to charge, you can't get a royalty, so that's your problem.

MR SHEPHERD: Yes, that's right. I explained to him the latest pricing structures that we have and we will try and explore - I said the royalties would be less, because the price is less if it's based on a percentage of the product and so he is interested in pursuing that discussion.

MRS OWENS: But why not an upfront - - -

MR SHEPHERD: Sorry, it would be an up-front royalty fee, it would be one of these one-off fees that then freed him of any administrative issues of paying ongoing royalty which he wouldn't be happy about.

DR STEWARDSON: The bit in your submission - I think I'm correct, aren't I - in relation to the three states that you do talk about, is all talking about distributing this information as cheaply as possible to encourage development, which is basically what he is doing. But I take it from what you are saying that the other states are levying some fee, whereas the difference with him is that he wants to provide it totally for free. Is that the difference?

MR SHEPHERD: As far as I'm aware none of the other states distribute their topographic data for free, they do provide a charge of some small fee. He is hoping to distribute topographic data for nothing.

MRS OWENS: While I still have you there, there was another issue and this will only take a minute, but the people we are seeing this afternoon, the Australian Geological Survey Organisation, have a target revenue of I think 30 per cent. It's a bit like the CSIRO. How did you avoid having one of those imposed on you?

MR HOBSON: We did actually have targets set in a cabinet decision back in 1988 when AUSLIG was first formed. We had targets for several years there. I guess they became of a lesser interest to the Department of Finance when they put us onto our commercial basis in 1989 or 1990. So they just sort of gradually disappeared from view over that time.

MRS OWENS: It's interesting how two organisations doing roughly similar sort of things, there is a different approach been adopted.

MR HOBSON: I think ours came from a full commercial background to being a public interest organisation, whereas theirs has come from the other direction, from charging nothing up to revenue targets. It could be that we get pulled back into that at some stage, but we would hope not.

MRS OWENS: I don't think they are very keen on it either when you read their submission, if you have a look at their submission.

MR HOBSON: It does create tension with the principle of maximising access.

MRS OWENS: It does indeed, because the incentives are to try and push - somehow you have to get that 30 per cent, so you have to push it into your prices which dilutes that incentive to maintain access for your services. So there are some problems with it.

MR NAIRN: And it also introduces that problem of competition with the private

sector if you try and maximise the revenue and set market prices, you all of a sudden find yourself in competition.

MR HOBSON: Developing new products which aren't really public interest products to try and achieve that revenue target.

MRS OWENS: Thank you. I think it was actually worth coming back on for those further comments. We will once again try and break now and see how we go this time. Thanks very much.

MRS OWENS: We will now resume. The next participant this morning is the Australian Customs Service. Welcome, and could you please each give your name and your position with the Australian Customs Service for the transcript.

MR COCHRANE: Thank you. My name is Alistair Cochrane. I'm the chief financial officer.

MS COTTERILL: I'm Nicole Cotterill. I'm currently the director of management accounting services.

MR BUCKPITT: My name is Jeff Buckpitt. I'm the national manager of the imports-exports function.

MRS OWENS: Good, thank you, and thank you very much for the submission and thanks for coming today. We have had a few submissions that have raised issues relating to the Australian Customs Service, which probably doesn't surprise you, so we're looking forward to having a discussion about the submission and some of the issues that have been raised by one particular participant. So if you'd like to - I think Nicole was going to make some opening comments, so if you would do that, and then we'll enter into some discussion, thank you.

MS COTTERILL: Just as I previously said, I'm the director of management accounting services and I'm responsible for the development and maintenance of all cost recovery activity in Customs, or the cost recovery model. As identified in the submission, Customs is currently responsible for collecting significant amounts of Commonwealth revenue, including approximately \$4.1 billion in customs duty, about 1.2 billion in the goods and services tax on imports, and we're also responsible for calculating and administering an additional 13 billion in goods and services tax, which is deferred by importers. Customs has also been cost recovering selected government services over a number of years. Currently the most significant cost recovery activities are the passenger movement charge, which earns approximately 226 million; import processing cost recovery of approximately 74 to 75 million; and section 31 cost recovery charges, which will be about 63.4 million this financial year.

As mentioned in the submission, cost recovery in Customs is segregated into three groups. The three groups are Customs cost recovery charges, section 31 charges and the passenger movement charge. This segregation is mainly due to the distinction in Customs cost recovery activity between the passenger movement charge and the other cost recovery revenue. The distinction involves not only the pricing of the activity, but the eventual use of the revenue. In both cost recovery groups, Customs has control over the pricing of the activity and the ultimate use of the funds. The pricing of the passenger movement charge is not within the control of Customs, and nor is the money receipted to Customs or at any stage in the future appropriated to Customs.

I'll give you just a brief description of the passenger movement charge, but the main focus of my submission will be on Customs cost recovery charges. The passenger movement charge was introduced initially in October 1978, and was then known as

departure tax. In January 1995 the government introduced the passenger movement scheme as a cost recovery measure to recover the cost of Customs immigration and quarantine processing of both incoming and outgoing passengers, and the cost of the issue of short-term visas. Although the charge seeks to recover the cost of processing incoming and outgoing passengers, the charge is levied only on outgoing passengers. The current charge is \$30 and is levied on all passengers, with the exception of those that are exempt through legislation. About or approximately \$17 of that charge is related to Customs. The \$17 component of the passenger movement charge was calculated through a consideration of the actual costs incurred in passenger processing. The charge was determined prior to the development of the current Customs cost recovery model. The costs incurred in passenger processing were in 1997 subject to a review titled The Review of the Quantum of the Passenger Movement Charge.

The Australian national audit office recently completed a performance order titled The Passenger Movement Charge Follow-up Audit in which it stated that the passenger movement charge was introduced as a cost recovery measure, but in law it was a tax with a 1998/999 budget decision to increase the passenger movement charge from \$27 to \$30 per passenger. A policy shift has taken place. The passenger movement charge is levied under Commonwealth taxing powers and is now partly applied as a general revenue-raising source. As a consequence the passenger movement charge is no longer solely linked to cost recovery of Customs, Immigration and Quarantine.

The additional \$3 was a policy decision taken by government. It was part of a range of initiatives that impacted on the implementation of the national action plan for tourism in a budget context. That initiative sought to achieve about \$82 million over the following four years. The \$63.4 million that's referred to in the submission in section 31 charges that will be collected by Customs this year is of a cost recovery nature. The most significant portion relates to charges imposed on other government agencies for services provided. There is a small portion related to asset sales and the sale of Customs publications. The section 31 charges that are imposed on external agencies and clients are imposed when an additional cost is borne by Customs for a delivery of a good or service and where no funding has been appropriated to Customs through its annual budget. An example was given in the submission. Another example is of our current responsibility for the administration of the goods and services tax where we will cost recover from the Australian Taxation Office for that service that we provide to them.

Most section 31 charges that are imposed by Customs are determined through an activity-based costing model which is also used for Customs cost recovery charges. Of the 63.4 million in the section 31 charges, 89 per cent or 90 per cent are recovered from other government agencies. The rest has to do with the sale of assets and the recovery of property costs in terms of Custom subleasing agreements.

I'll now address the area of Customs import processing charges. In the August 1996 budget the government announced that cost recovery charges would apply to certain Customs commercial activities. The decision was to apply full cost recovery to all

activities directly or indirectly required to process imports. The government decision did not apply to the processing of export transactions or any activity associated with the Customs community protection role. Cost recovery was introduced by government as part of its general policy of aligning costs with the sectors of the community that benefit from the provision of public services - in this case importers - and to assist in the reduction of the budget deficit. It was proposed as a package of saving revenue measures needed to meet the portfolio saving targets over the following four years.

Customs annual funding in effect was reduced by an amount of \$46.09 million which is equivalent to that which was to be raised through cost recovery. This represented 64.6 million less 18.5 million. Prior to the implementation of those cost recovery charges, in April 1997 Customs imposed an IT charge on all electronic transactions. That charge sought to recover IT costs or electronic processing costs only and that charge resulted in collections of the 18.5 million that I just referred to. At today's date import processing cost and revenue collection stands at approximately 75 million per annum. Following the decision to introduce cost recovery charges Customs developed an activity-based costing model. The model is underpinned by the Customs Activity Dictionary that distinguishes 167 activities within Customs.

All resources consumed in Customs are attributed to one of those 167 activities. The attribution is undertaken on a quarterly basis by way of a snapshot process. Each staff member within Customs is required to identify all their time spent against the identified activities for a four-week period. For the purposes of the costing model a weighted average of all snapshots is used or is currently used from 1998. We do this because each snapshot is taken at a different time period through the year which enables us to use the results of snapshots from both high and low workload periods. Each year we remove the earliest year's snapshot result to enable us to keep information up-to-date. The snapshot results can be found in the price review, of which I've bought you a copy.

The average from the snapshot forms the basis for salary calculations. Based on this average a cash salary figure, which is the amount of salary paid against each activity, again based on an average of the snapshot salary results is calculated. The figure is then extrapolated over a 12 month period. An overtime figure is also calculated, again based on the average overtime recorded against that actual activity during the snapshot period and then extrapolated over 12 months. We then undertake a reconciliation of the total salary expense calculated to the salary expense figure identified in the audited financial statements. Administrative and property costs are attributed to activities based on the staff information collected.

Administrative and property costs are extracted and also reconciled against the audited financial statements. Generally speaking the number of staff recorded against an activity is the basis for all attribution of administration and property costs. However where we can identify a direct cost for a particular activity - and the easiest ones or an example is all administrative costs incurred at airports are very easy to attribute to a particular activity - are then directly attributed.

Information technology costs are attributed to activities based on a sophisticated IT costing model. The model identifies and calculates the cost of running all Customs systems and allocates costs according to the activities that utilise those systems. Costs are allocated on a percentage basis. This percentage is based on statistical information, most importantly the amount of MIP, Million of Instructions per Second, hours used by each system. Costs associated with desktops, phones and faxes, etcetera, are allocated based on the number of staff which are recorded against each activity. All costs associated with the activities that are directly or indirectly required to process imports are recovered through cost recovery charges.

Of equal importance is the costing of activities that are not cost recovered, including export and community protection activities. The full cost of these activities are calculated in the model to ensure that no over-recovery is occurring, to provide assurance to industry that these activities are not recovered through charges. The full cost of all activities is reconciled to the audited financial statements. The model described above was utilised to calculate the initial costs incurred with regard to import-processing-related transactions in April 1997. The first externally audited review which was undertaken by KPMG of the charges identified that collections for the first six months of cost recovery were within one per cent.

Customs maintains this detailed activity-based costing of its services to ensure that costs recovered are clearly aligned to the cost calculated to process import transactions but the charges imposed are limited to the calculated costs of delivery the functions. Charges are externally reviewed biannually to ensure that they reflect any changes in the costing structure that are recorded in the costing model. The full activity-based costing model is provided to industry representatives through a number of forums. A price review report is provided to members of industry forums on a biannual basis or by direct request. Discussion on the results of each review occurs with industry representatives, also on a biannual basis, through the Customs National Consultative Committee. This committee has representatives from the Customs Brokers Council of Australia, the Australian Federation of International Forwarders, the Australian Air Transport Association, the Australian Shipping Federation, the Australian Chamber of Commerce and Industry, the Law Council of Australia and chartered accountants. The model just discussed is currently under development and will also be used for GST costing purposes. This will require the model to be subject to additional audit activity. Customs has recently completed an industry consultation process on a new pricing structure that will be introduced with the introduction of cargo management re-engineering in Customs. Cargo re-engineering will introduce totally new cargo processing systems and procedures. As such, all charges and the way charges are levied will change. It is not expected however that there will be any change in the total cost recovery pool.

That concludes the formal part.

MRS OWENS: Thank you. That was very detailed and I was really pleased that you spelled out some details of your costing model because I think one of the things

we were going to ask you for was to give us some details of your costing model. So you must have foreshadowed that, you must have read out minds. One of the interesting questions, I think, that we've been wondering about is the passage of movement charge at that stage where it no longer was a cost recovery measure but became a form of taxation, and I was wondering if you could explain - if you know the answer to this - what the thinking was behind moving from the sort of cost recovery tool to just a revenue-raising measure.

MR BUCKPITT: I don't think we are in a position to answer that, Commissioner. The decision was not really explained other than the government's intention that it would broaden the basis upon which cost recovery activity was to occur, namely the reference that Nicole has given to tourism being included in part of the cost recovery base. The comments from the ANAO that the tax has gone from being a cost recovery charge to something broader than that, to my knowledge is the first public statement of that kind and I think part of what's behind that is implicit in the difficulty of trying to precisely determine what the cost of all the activities across the four agencies would be. So I think that the tax is in fact of the broad order of actual cost but because there is not a process in place to audit the cost across all four agencies, and given the legislative basis for the tax, namely taxing legislation, I think that's what's prompted to the ANAO to make that observation.

DR STEWARDSON: Is it not though legislated under a tax act in the first place so that although it was called cost recovery, it is perfectly legal for it to be - - -

MR BUCKPITT: That's correct. In fact that same observation could be made in respect of customers and cost recovery activity, that it has always been clearly on the basis that it was a cost recovery measure and hence the elaborate process we go through with industry to justify it but nevertheless most of the charges are reflected in taxing legislation.

MRS OWENS: One of the other participants that came to see us here on Monday, the Electronic International Trade Services Pty Ltd, Mr Martin Feil, raised one concern that he had and you've probably heard it before, that he was concerned that you have under your Customs cost recovery charges, charges on imports but he raised the question of why these charges weren't also imposed on export transactions or activity as well. Is there a clear argument as to why it related to one and not the other?

MS COTTERILL: That was a deliberate decision made by government. They did not want to increase the business costs for exporters at the time and that was actually stated in the speech given when they introduced cost recovery charges.

MRS OWENS: But do you think that's appropriate? Do you think there should be a distinction made?

MS COTTERILL: In terms of Australian industry, yes.

MR BUCKPITT: I think that's really an issue for government to decide, whether they want to recover the cost of the export activity and at this point in time the government has decided that they don't want to do that.

MRS OWENS: Could you speak up please. Those microphones don't amplify. They just - - -

MR BUCKPITT: Yes, okay.

PROF SLOAN: Is it true though that many more of the costs are actually attributed to the imports as opposed to the exports anyway?

MS COTTERILL: No.

MRS OWENS: No.

DR STEWARDSON: Could you actually just elaborate for us what your service actually does for the importers and for the exporters please?

MS COTTERILL: Certainly. Anybody that brings an import into this country which has a value of over \$250 in air and sea or over \$1000 in the post environment is required to lodge an entry with Customs. That entry is electronically processed by us and then we profile that entry for community protection purposes, for trade agreement purposes and for quarantine purposes. We also check the Customs value of that information. Once we approve that or once that is processed through all of those profiles, that is then approved by us and the goods are released to the importer. Exporters is similar but slightly different in that they do not have to wait for us to approve the entry on exit. They tell us - they are required to put in an export entry with numerous details that we require for trade reasons, community protection reasons and information that is required by the Australian Bureau of Statistics. Then they export the goods.

PROF SLOAN: So the importers are subsidising the exporters?

MS COTTERILL: Not at all, no. As I said before, we have 167 activities within Customs. Every single one of those is fully costed. Within that costing model it's quite transparent and the costs of export processing are not recovered from importers; it's only import processing activities.

MRS OWENS: Could I just clarify that 167. In your submission I think you actually refer to a different figure. It was something like 140. So you've revised that estimate?

MS COTTERILL: Yes, we recently did a review. We've got a number of additional activities, particularly as a result of the goods and services tax, which includes a tourist refund scheme and others.

PROF SLOAN: One of our participants likened this charge to paying to put in your tax return. He didn't obviously like it. I mean, because these arrangements are there for the benefit of the public. I mean, you've got here that they're for the benefit of importers but I mean, imports are for the benefit of the community as a whole, are they not, because we allow them in.

MR BUCKPITT: That's true but certainly we're not talking about a payment in respect of the processing of Customs duty which might be more the equivalent of you know making a payment to lodge your tax return. What we're talking about is the fact that there is a cost to the Australian community in respect of the safeguards that we have in place to ensure the imports coming into Australia are appropriate and by ensuring that the costs are met through a cost recovery mechanism, the importers are effectively meeting that cost so the government is essentially saying it's not - - -

PROF SLOAN: But this system hasn't been put in for the benefit of the importers. It has been put in for the benefit of the Australian public, hasn't it. The government didn't think, "Oh God, we must do something to help the importers. We'll put this thing in." It's actually to protect the public, isn't it?

MR BUCKPITT: That's certainly correct but the point is that but for the importers there would not be this process required. So on those grounds I think the logic is that the importers should meet the cost of the function.

PROF SLOAN: But they of course don't meet the cost. They just then pass the costs on to the purchasers of the imported products.

MR BUCKPITT: They directly meet the costs and on the whole they do pass them on, that's correct.

DR STEWARDSON: It's quite analogous, isn't it, and I imagine you've thought about this because you presumably get a lot of people asking you about it, to the manufacturers of pharmaceutical products and chemicals which are regulated and which are assessed or their products are assessed for safety for the community but the manufacturers have to pay for the assessment and the analogous question is: is this being done for the benefit of the community and if so, why should the manufacturer pay for it? Similarly, if the testing for community protection, trade quarantine, is for the benefit of the Australian community I guess the analogous question is why should the importer pay for it?

MR BUCKPITT: We understand the argument and I guess up until 1996 that's why our activities were in fact budget funded. It was basically a policy decision of the government to transfer the cost out of government appropriations to cost recovery.

PROF SLOAN: You talk about your detailed activity based costing and the like. I wonder without the kind of cost recovery initiatives you would have gone to these kinds of lengths to identify costs according to activities. Do you think there has been a kind of positive impact in terms of really thinking through efficient and effective

operation of the Customs service more generally?

MR BUCKPITT: There certainly has. The activity based costing model - Nicole has explained - is one that I think would have been established irrespective of the government's initiative in this area. It has been used for a number of very major initiatives within customs. As Nicole explained, one of the things that we're currently doing is expanding its use to assist us in accounting to the Australian Taxation Office for very substantial revenues that we receive from them. Over the last few years it has been used for three or four major initiatives and consistent with the government's move to accrual accounting it has been very helpful in costing our outputs.

DR STEWARDSON: It seemed to be a very detailed and thorough system that you were describing. Leaving aside the fact that I guess a lot of importers don't like paying a fee at all - leaving that whimsical point aside, have you had criticism about the actual accounting system or are people happy that this is a pretty thorough and fair and equitable one if they're going to be charged at all?

MS COTTERILL: Yes, I think that I've had no criticism on the model at all since 1997 and a lot of work in the last three years to ensure that it has been developed, and yes, have - - -

MR BUCKPITT: I would qualify the answer. I would say that when people understand the model then they're accepting of it. It is a complex model and until such time as they understand it, they can take issue with it. There is one other area though that we have had representations in recent years and that concerns a particular charge in respect of refund applications.

DR STEWARDSON: In respect of what?

MR BUCKPITT: Refund applications, and the concept there is that if an importer wishes to adjust an entry after it's been lodged there is a fee for doing that and that causes some heartache at times because it may be that the desire to adjust the entry relates to an overstatement on the importer's part as to the costs that they might incur, so they're due for a refund, but with a further charge to lodge the refund application, that whittles that away. One of the things that was explained is that we are looking to a new cost structure in the not too distant future associated with cargo management re-engineering. One aspect of that is that we are proposing that there will be no refund application fee as such; that that cost will be borne as part of an overhead for the total costing structure so that people who are in that situation and are seeking a refund won't see a substantial part of it whittled away by virtue of the refund application fee.

DR STEWARDSON: Have you done any assessment of the cost to your organisation of running this fairly detailed accounting system?

MS COTTERILL: It's minimal. In terms of the actual costing model and putting it together, it's undertaken by myself and one other person. It's certainly not a full-time

job by any means. We don't have sophisticated systems that back it up. We run it through Excel spreadsheets using pivot tables and they're fairly complex and I think that we probably will need to move from that soon but it's quite minimal in terms of costing. The snapshot processes that are undertaken in terms of timing on a quarterly basis are something that the organisation would undertake anyway, with or without cost recovery.

MRS OWENS: And you would have the model and the complex accounting system regardless.

MS COTTERILL: We don't have a complex accounting system. It's run basically from Excel spreadsheets and yes, in terms of the fact that we need to calculate the full cost of our outputs, and a number of other things, yes, we would - we need it.

MRS OWENS: I think that's really an expectation the Department of Finance and Administration for all agencies and departments to move in that direction so you can't really attribute what you're doing to running a cost recovery system.

MS COTTERILL: No.

DR STEWARDSON: Nonetheless it is something that some agencies have suggested to us is a hurdle to them in precisely focusing their recover, that it's so costly to get the detailed accounting system to do that which always seems a bit surprising since the private sector does this sort of thing. Anyway, you're obviously suggesting that you handle it with no problem.

MR BUCKPITT: I think we would say the biggest impediment is not the cost, it's the complexity of getting it right and it took customs a couple of years before we were really confident in the quality of the data that we were generating from our costing systems. It's not something that you can introduce in a couple of months' time and then be comfortable about the quality of your information. You look at the result from one snapshot and then you do another snapshot and you will find substantial variation and the question is whether or not that's due to changes in workload or errors in the collection system. So our concern about the process for agencies going into doing this would not be so much the cost but the complexities in getting it right and you don't do that quickly. It takes some time to bed down.

MRS OWENS: But once it beds down - I suppose there's always ongoing improvement but once you've got the system bedded down then you just move on.

MR BUCKPITT: That's correct.

MRS OWENS: One of the other issues that was raised in that submission by Martin Feil that I've mentioned before was the issue of consultation and I understand there's a customs national consultative committee and he argued that there was no - he was concerned about the nature of the representation on that committee and said that the importers were not represented. Is that correct?

MS COTTERILL: The persons from the Australian Chamber of Commerce and Industry is the representative of the importers.

MR BUCKPITT: The difficulty is that there is no importers' association as such so that's why we go to the Chamber of Commerce to provide a representative.

MRS OWENS: But do they then have - I mean, I think Coles Myer is one of the biggest importers in the country. Why don't we just get someone from Coles Myer?

MR BUCKPITT: Indeed. They have had representatives from Coles Myer.

MRS OWENS: Okay. So they kind of then select it down?

MR BUCKPITT: Yes.

PROF SLOAN: So they actually were the representative?

MR BUCKPITT: Yes.

PROF SLOAN: Some of those other groups sounded a bit peripheral though.

MS COTTERILL: They're all - freight forwarders and brokers are some of our major clients. They're the people that interact with us.

DR STEWARDSON: Sorry, who are the major clients?

MS COTTERILL: Freight forwarders and brokers. I can't give you an exact figure so I wouldn't want to be quoted but I think about 40 per cent of all entries that are lodged with customs - it's probably more than that - are lodged with us by a broker or a freight forwarder who acts on behalf of an importer. So the people that are mentioned there are freight forwarders and brokers.

MRS OWENS: And they're the ones that are really getting their hands dirty with the importing process, rather than - - -

MS COTTERILL: Yes.

PROF SLOAN: And they're on the committee?

MS COTTERILL: Yes.

MRS OWENS: So have there been any complaints to you about the composition of this committee or is this something that's just popped up in this inquiry?

MS COTTERILL: I'm not aware of it, but in terms of the price review, the price

review is also provided to the industry reference group last year where we gave a presentation on the cost recovery model, and that had several importers. In fact, I think there was about 25 represented in that committee. But no, I've never heard any complaints about the customs - - -

MRS OWENS: You mentioned the price review in your opening comments, Nicole. You said that you've got a copy that you can give us?

MS COTTERILL: Yes.

MRS OWENS: Are you going to table that document?

MS COTTERILL: Yes.

MRS OWENS: Thank you. And it has no confidential material in it? Thanks very much for that. It could be very useful.

MR BUCKPITT: Could I perhaps also comment on the extent to which we've consulted with industry more generally outside of the committee that we referred to a moment ago? That committee is a committee that we've essentially reported to in respect of the outcome of each of the six-monthly reviews. But in addition to that, when we introduced the costing structure in 95/96 and with regard to our current plans to do some new costing structure following the introduction of cargo management re-engineering, we've undertaken very extensive consultation processes to take the current plans to move to a new structure.

We've distributed several hundred copies of discussion papers about principles that might underpin the new cost structure. That was distributed through a number of organisations that have an interest. We've put information on our Web site about these initiatives. We've been out to regions to talk to the import brokers, shippers and others in every state and run public seminars. Those seminars have been to explain cargo management re-engineering more generally, but one aspect has been to also provide industry with our thinking about what the charging structure might look like. So we've made fairly substantial efforts. The difficulty that we have though is that the numbers of importers are literally hundreds of thousands and to reach every one of them is impractical and just couldn't be done.

MRS OWENS: This re-engineering cargo - what is it?

MR BUCKPITT: Cargo management re-engineering.

MRS OWENS: Is that going to overall lead to a reduction in charges? It sounds as if you're going through a process of increasing productivity, increasing the efficiency of the organisation and that should feed through into the charges.

MR BUCKPITT: We've indicated to industry that we do anticipate modest savings associated with a lower cost IT platform of the order of five million dollars per

annum.

MRS OWENS: Well, that's worth having.

MR BUCKPITT: That's worth having.

MRS OWENS: Indeed. I've just got a couple of questions here. If you give me a minute, I'm trying to read the writing. This gets more complicated because we have to actually look at some pages. The first question, I'll read it out to you and we'll work it out as we go. It says, "Could you please clarify what the cost recovery charges cover?" You said earlier that they cover community protection activities but there's a paragraph at the bottom of page 4 and the top of page 5 which suggests that they don't.

MS COTTERILL: They definitely don't. The government decision was very clear that we would not recover the cost of export processing transactions or community protection activities.

MR BUCKPITT: The tax per day sets out what the charges are.

MS COTTERILL: It says it on page 2 as well.

MRS OWENS: So I think maybe something was misinterpreted.

DR STEWARDSON: With the community protection, is that just for exports or for imports?

MS COTTERILL: Both.

DR STEWARDSON: For both?

MS COTTERILL: Yes, nothing to do with community protection.

DR STEWARDSON: Okay. When you were telling us what you do for importers, you referred to the fact that the entry form allows you to check for community protection, trade purposes and quarantine, and I think also ABS statistics purposes. So you do those four things but your cost recovery is not for the community protection in respect of imports, but it's for the other three things: trade purposes, quarantine and ABS. Is that right?

MS COTTERILL: Generally speaking, yes. There are some commercial policy activities that are not cost recovered. One example is any effort put in by customs in determining rules of origin for example is not - we see that as a government policy. Therefore we then don't recover on that activity - but, yes, generally speaking.

MR BUCKPITT: It might also help if we give you a bit more explanation as to

what we mean by community protection activity.

MRS OWENS: That might be useful, yes.

MR BUCKPITT: An example of what we mean by that would be our work in profiling for narcotic drugs as part of imports and actually opening containers in the search for narcotics. That's community protection-type work. It's not directly related to the processing of an import entry.

MRS OWENS: So what you're doing in terms of all your activities is there's a sort of a broader sense in which you're actually protecting the community from, you know, problems relating to the imports material but then there's this more narrower sense in which you have something called "community protection activities"? I mean, is your *raison d'être* is to actually protect the community at the broadest level?

MR BUCKPITT: Yes, and for that reason what we do in establishing our activity dictionary with 167 activities is to identify what proportion of each and every one of those activities should be the subject of cost recovery. Now, in some cases it's clearly a hundred per cent or zero per cent but there are some activities which are split across the two and it's only in respect of that proportion of the cost that is not community protection which is then subject to cost recovery, and we've been open with industry as to how we've apportioned percentages to each of those activities.

DR STEWARDSON: The community protection in searching for narcotics sounds like broadly a policing sort of function and police tend not to be specifically cost-recovered, so I can understand that. But quarantine? It seems to have a bit of the same sort of nature to it that you do - - -

MS COTTERILL: But we don't recover for those activities.

DR STEWARDSON: You don't recover for quarantine?

MS COTTERILL: No, quarantine we will consider to be community protection.

DR STEWARDSON: Sorry, of the four things that you do for importers or in respect of imports, there's community protection you don't - trade purposes. What's this - this is seeing whether there's any remaining duty to be levied? Is that what trade purposes means?

MS COTTERILL: I guess I should have explained it clearer. When we collect information I guess it's for two separate reasons we collect the information so that we can determine the port of origin and the valuation of the good etcetera so we can calculate duty and GST and also indirectly so we can provide that information to the Australian Bureau of Statistics to determine balance of trade etcetera.

DR STEWARDSON: So that part you do cost recover?

MS COTTERILL: Yes.

DR STEWARDSON: And then quarantine you don't?

MS COTTERILL: No.

MR BUCKPITT: No, our role in relation to quarantine is more that of intermediary inasmuch as the Australian Quarantine Service has its own set of charges in respect of quarantine activity. We receive information from an importer about an entry that is lodged and a subset of that information is provided to the Australian Quarantine Service.

DR STEWARDSON: Do you have a policing role if people are trying to sneak something through that they shouldn't?

MR BUCKPITT: We can act on behalf of the Australian Quarantine Service or they can do an examination of the cargo themselves. It's more typically the latter.

DR STEWARDSON: So you're really only cost recovering of those things that you do for the importer. It's only the things that you call trade purposes including the statistics for the ABS?

MS COTTERILL: We call them commercial versus border, so commercial purposes.

MRS OWENS: The other issue is the extent to which I suppose whether our trading partners also charge or have cost recovery for inputs in the sorts of arrangements and whether indeed the input processing fees are consistent with our World Trade Organisation of WTO obligations, so whether indeed they might be seen as a barrier to trade.

MS COTTERILL: I mean, I'm aware of a lot of countries, such as New Zealand, America, UK etcetera that do charge. They charge on a different basis than we do. Most of them impose an ad valorem rate which we looked at at the time when we were first told we needed to implement cost recovery which we decided against because we didn't believe the ad valorem rate was a true indicator of the actual cost incurred and I'm fairly certain that if you compare the ad valorem rate that's identified for the USA compared to our own, ours is a lot lower.

MRS OWENS: It hasn't been raised as a WTO issue at any stage.

MR BUCKPITT: No, it hasn't, no.

PROF SLOAN: I mean, we can go over this - it goes back to - the importers are receiving a benefit in the sense that we have a gatekeeper and they have to get through the gate. One might say it was a bit unfair to be charging them for statistical services because what does the importer particularly get out of knowing what the

balance of payments is and the balance of trade. We don't out there charge people who provide us with statistics.

MR BUCKPITT: That part of our function is really on the margins. The heart of what is involved in the processing of the import activity is in processing the entries and it's more as a download at the back end of the process that the Australian Bureau of Statistics receives information about the number of entries and the value and so on. So it's an important function but in terms of being an add-on to what we would otherwise do it's a very tiny part.

PROF SLOAN: It just goes back to that philosophical issue of whether - and I mean, this is one of our guidelines. I'm pretty sure, without necessarily tying my hands to my fellow commissioners, we will argue in our guidelines that cost recovery should have absolutely nothing to do with reducing the budget deficit. That's quite an inappropriate use of cost recovery. You only have cost recovery for internally logical reasons and the state of the budget deficit is something completely different. I mean, I'm not being critical of your submission. You were kind of responding to the political economy pressures that you were under and I suppose when we're asking the question, you know, in what sense are the importers the beneficiaries of the services you're providing, it's also a big philosophical issue.

MR BUCKPITT: It is, and I think the reference to the budget deficit is a quotation from the government's announcement at the time.

PROF SLOAN: I'm not being at all critical and I'm sure your reasoning of why these things were introduced is right.

MRS OWENS: We'll keep you posted, I think. You can see what we say in our draft report.

PROF SLOAN: You might want to kind of keep a tab on what's going through with the submissions.

MRS OWENS: And we understand the difficulty you have actually commenting on some of those underlying political economy questions.

PROF SLOAN: Yes, you've done a very good job.

MRS OWENS: I mean, what you're receiving is, you know, instructions from on high as to what to do - - -

PROF SLOAN: And the decision to exempt exports was a political rather than a logical decision.

MR COCHRANE: From a logical point of view it's really important to make a distinction that we don't comment on government policy, we implement government policy.

MRS OWENS: No, we understand that and I think other agencies are in exactly the same position to you but with the export issue that Martin Feil raised, I mean he basically made the point or it may have been my colleague Judith, that there's a perception that exports are good and imports aren't but of course imports provide - become costs of inputs into processes in Australia and can add to costs of Australian manufacturers for example.

PROF SLOAN: The exports.

MRS OWENS: No, the imports.

PROF SLOAN: No, but you import inputs that become exports.

MRS OWENS: Yes. So we basically see that, you know, maybe there shouldn't be such a distinction made. That may mean you don't charge for any of it or if you're going to charge you charge for both but to have differential arrangements, you know, as an economist I think we'd probably say that doesn't make a lot of sense. It is a very clear submission.

MR BUCKPITT: We look forward to your report.

MRS OWENS: Thanks very much for coming. We will now break for lunch and we will be resuming at 1.15.

(Luncheon adjournment)

MRS OWENS: The next participant this afternoon is the Environmental Research and Information Consortium Pty Ltd. Welcome. Could you please give your name and your position with the company for the record for the transcript.

MR GOURLAY: Yes, my name is Rob Gourlay. I'm the managing director of Environmental Research and Information Consortium Pty Ltd. We're based in Canberra.

MRS OWENS: Could you give us just a little bit of background as to what your company does.

MR GOURLAY: Yes, my company is involved in research, development and the application of remote sense data primarily for resource assessment or risk assessment of natural resources for a whole range of industries which range from mining, forestry, agriculture and include government agencies - include a number of the Commonwealth agencies such as defence, who use land and so forth, through to state agencies who are undertaking assessments of regulation control to local government who are looking at issues of land use, planning and so forth.

PROF SLOAN: What's your disciplinary background then? Are you a scientist?

MR GOURLAY: I'm an environmental scientist.

MRS OWENS: You want to make a few opening remarks?

MR GOURLAY: Yes, just to provide some context to my submission. My company has been operating now for eight years and I believe the growth of the company and the services that I can provide have been stifled quite significantly by the high cost of public data and the access to that data. New technology has enabled companies like mine now to process large volumes of data at a national level and to undertake research and development and to reduce innovative products and services that in the past have been undertaken by other government agencies. In fact, the whole area of the environmental area has principally been a government service of which private industry has emerged in the last perhaps 10 years.

Gaining access to this data has been extremely difficult because many of the government agencies are now required to earn external funds. In a lot of cases they have to earn a third of their funds from external sources. This then places them in competition with companies such as mine and one of the reactions to that is they use cost recovery as a means, I believe, of withholding data and making it more difficult for private industry to access that data while at the same time they form consortia to use the data amongst themselves to provide services. I think also that requirement to obtain external sources is a disincentive for them to implement the National Competition Policy.

Also, I believe it's a disincentive for them to develop an industry policy whereby they might collaborate with the industry and I'd like to give examples later on of a

particular agency within CSIRO that has lost contact with my industry almost completely because it now operates almost entirely providing services to multinationals and overseas companies. So I guess in summary the point is that cost recovery, when it is applied to public data, into public IP, has significant impact on new emerging companies involved in using spatial data and these companies are adding considerable value to the Australian economy through their risk assessment work in getting enterprises into the right locations and so forth and also now competing, internationally providing these services.

Also it has a great impact on the public. I think the greatest impact is on rural areas of Australia because they are such large areas and the data requirements are so larger but there are also organisations who have the least capacity to pay for this data. The costs then is - it's a disincentive to even engage in sustainable development projects. I would certainly like to see the commission look critically at the cost of data because I know that economies that make their data freely available are leading in terms of innovation and I think this cost recovery on public data is stifling innovation in our private industry.

MRS OWENS: Thanks very much. I think you've actually made some very important points and I'm very pleased - I think we're all very pleased to have your feedback. I said before we started that it's very important for us to get to the users of the data that is coming out of these information agencies because we need to get a very clear idea of what the impact is on the users. If the data is costing a significant amount. If it's stifling innovation, I think we need that sort of evidence before us and we're particularly keen on getting examples of where these problems may be arising and I think one of the issues that you raised in your submission and just briefly touched on there was the requirement by government imposing 30 per cent funding targets from external sources on some of the agencies, which doesn't seem to be applied consistently across the board and you have expressed concern about setting such targets. Would you like to expand on that, what impact that has had on you and your company?

MR GOURLAY: Yes, there are a number of agencies that I have approached for collaboration and to perhaps collaborate particularly on R and D and innovation which include the Bureau of Rural Sciences, CSIRO, the Australian Marine Science and Technology Organisation, AGSO. These agencies actually are quite reluctant to collaborate because unless I bring a significant amount of money to the table as an external source, they believe that they have to - they would prefer to collaborate with organisations that have much deeper pockets than my company, which in most cases would be a multinational, and I just give an example.

The Environmental Remote Sensing Group within the CSIRO Land and Water Division, its clients principally are overseas companies who would include PT Freeport Indonesia, Chevron Overseas Petroleum and Ball Aerospace. They will collaborate with those because they can bring to the party the one-third of the money they need and those overseas companies can then access two-thirds of the Treasury moneys which significantly lowers their costs in terms of research and development,

but in most cases they end up not doing R and D. It tends to be just a straight consulting service. A consequence of that is this group that should be servicing the remote sensing industry in Australia which is an emerging industry. There's now a huge gulf between that particular group which the industry would expect to be providing R and D services and access to IP and so forth. There's such a huge gulf now - there is no contact now between this group, I believe, and the SMEs involved in remote sensing in Australia.

PROF SLOAN: Can I just clarify. I mean, are your concerns essentially twofold: (1) that agencies that have, you know, cost recovery targets end up basically competing in the same territory that you might?

MR GOURLAY: Yes.

PROF SLOAN: Okay. And that's where you were bringing in competition policy.

MR GOURLAY: Yes.

PROF SLOAN: But the second point is that because of their charging arrangements in respect of data in particular, which is also kind of part of their cost recovery activities, that's making life for you in a private business very difficult.

MR GOURLAY: Yes, my capacity to access these markets is really restricted because I cannot compete. I believe - - -

PROF SLOAN: So either way there's a kind of reduction in the size of an industry sector that might otherwise exist.

MR GOURLAY: Yes, in the last 10 years there has been no company in Australia emerge that would compete with my company. I think the reason is that they just find that they cannot compete in the marketplace. This is an emerging - internationally an emerging and very important industry.

PROF SLOAN: Yes.

MR GOURLAY: In using remote sensing for resource mapping and monitoring. It affects issues of greenhouse gas - - -

PROF SLOAN: So are you involved in environmental impact statements.

MR GOURLAY: Yes.

PROF SLOAN: Which are often required of course before project approvals and the like.

MR GOURLAY: That's right.

DR STEWARDSON: Are there in fact sufficient companies in Australia, particularly small, medium-sized ones in your specific area and in the related area, the sort of things you've been talking about - are there in fact sufficient to do all this work or is part of the reason that the government agencies go downstream that they feel that they have to develop an industry, if you like, where there is an inadequate one in existence?

MR GOURLAY: I believe the government agencies would probably argue that, that there is a gap in the market, but the reason that gap is there because in the last 10 years they haven't allowed industries to emerge and what is now happening is we're now seeing a number of large companies come into Australia and acquiring companies such as mine. So we're seeing international companies from Canada, from France, Germany, emerging here in Australia who can probably operate at a loss for three years, acquire an Australian company and get some foothold. But there are probably enough companies. In my area there's probably 30 companies, all-up in Australia, in the remote sensing industry. So I'd say they are adequate. They just need an opportunity to grow. They need the cash flow and access to the market to grow.

DR STEWARDSON: What sort of cost recovery scheme, if any, would you think was reasonable for the government agencies that you've been criticising to have?

MR GOURLAY: Yes, I personally believe that public data should be available at no cost and this is the policy of the Victorian government and the Northern Territory government. They make their data freely available to my company. As a consequence of that we initiate a number of activities in those states. For example, in the Northern Territory, finding new sites for neam oil and for sandalwood development. In Victoria we're using that data to go to the market with finding new sites for viticulture and so forth. By getting access to the data we can speculate within the industry. We can acquire knowledge and information that we can take to the investment market but without that we can't do that and therefore the company would not grow. So it's only where the data is freely available. I think most people in this industry would be prepared to pay a small cost for the cost to the media or the cost to put the data onto the media which might be a CD-ROM but that would probably be no more than probably \$300 for a large dataset.

PROF SLOAN: You weren't here for Auslig and I don't think you actually have much to do with Auslig, do you?

MR GOURLAY: Yes, Auslig - I acquire all of my satellite data from Auslig.

PROF SLOAN: Okay. They seem to have - that might be a slightly different product but they just basically charge the average distribution costs.

MR GOURLAY: Yes, I don't have a big issue with Auslig. I think they are heavily subsidising the data to start with so there is a public subsidy of that data and it is being made available at a reasonable price because the data is not collected by the Australian

government per se. It's collected by international agencies who own the satellites. I'm really talking about data that's acquired by the Australian government for which the Australian government spends about 150 million every year to acquire these data but basically lock it away in the vault.

PROF SLOAN: But it's worthwhile having your opinion about Auslig on record I think because they are, as far as we can gather, really making an attempt to maximise access.

MR GOURLAY: They have been and they have had industry at their throat for a long time and they have reduced their prices although they don't have an industry policy. But they have attempted to reduce prices and they have recently removed licences. For example, if you use part of their data you had to fill in a form and send it in. You ended up paying very small amounts of money, probably less than \$20 but it would cost you more than \$20 to keep all the records. I mean, these licensing arrangements are really a great burden, I think, and a lot of agencies do have licensing, which is a way of restricting the use of the data so people will buy more data. Auslig has made attempts to lift those restrictions and those licenses so we can now use the data two or three times for different clients for the same area and that of course adds great productivity to our industry if we can do that. There are enormous productivity gains that would come out of lifting these restrictions.

MRS OWENS: You have also used AGSO, the Australian Geological Survey Organisation, who we will be seeing later today.

MR GOURLAY: Yes.

MRS OWENS: Have you got more problems with what AGSO is doing?

MR GOURLAY: Yes, it's that sort of organisation. I have spoken at length to that organisation but they tell me that if they were to reduce their prices to zero which I think they would probably dearly love to so that the data could be used, and I think they appreciate the value of their data, that it's not just used by the mining industry now. It's used by industries like mine who can now process that physical data to do soil mapping. We've actually developed technology - they got us into the finals of the trade and technology awards last year. It's leading-edge technology, so geophysical data is used for a wide range of applications now - groundwater assessment, soil mapping, a whole range of things to do with regional development and so on, but I think they have been basically told by the treasurer if they reduce their prices that will be taken from their budget so they won't reduce the prices.

MRS OWENS: And they've got a revenue target as well?

MR GOURLAY: They've got a revenue target so while they might want to provide the data and they understand the value that would be created by making the data available, but yes, the cost of geophysical data I think is far too high. For any local government to engage my company and then to buy the geophysical data and perhaps

buy the climate data, they just can't kick off a project that would probably help them attract new businesses to their local government area or would help them with sustainable development in local government area. The major restriction is the cost of data.

DR STEWARDSON: Is the problem partly the timing of the cost, that it's an up-front cost to you. If they, for example, charged some sort of royalty arrangement or percentage of the profits you earned so that you paid it after you got your money, would that be a better arrangement?

MR GOURLAY: Yes. In fact, I think that's probably quite a reasonable scheme. In fact, I believe that Auslig ought to apply that to satellite data so that when it's used we then start to pay for that use. But there is a large up-front cost. If I wanted to buy all satellite data for Australia it would cost me hundreds of thousands of dollars but I could use that to look at issues of greenhouse and a whole host of other issues and I think that's a good idea and I think along with the geophysical data as well.

DR STEWARDSON: Auslig's comment was that the royalty arrangement, while they do do it for some occasions, is fairly cumbersome.

MR GOURLAY: Yes, they would say that they would have difficulty in trying to control its use.

PROF SLOAN: I suppose one of my concerns is it seems to me there are two kind of things you can do. You can undertake commission work and you can tell the project sponsor, these are the kind of data you need and these are the costs. Then they will say, "Well, you know, can you kind of cut it down a bit, and stuff." So you kind of actually probably undermining the quality of the work that you undertake at first count. But there's a kind of second kind of running a company like yours. I might kind of think of just independently developing products and then going out and selling them, right.

MR GOURLAY: Yes. That's a very important point.

PROF SLOAN: But it seems to me that you're prohibited from doing that really unless you have a very strong balance sheet.

MR GOURLAY: Precisely. Yes, for me to get my foot in the door in the market I need to walk into my potential clients with a product, at least a demonstration of what can be done. To do that I might take some data over their area, let's say satellite data or geophysical data, and process some of that and attempt, just by demonstrating the value that it would bring to their decision-making. A government agency can do that because it can just freely go to the drawer, pull the data out and do that. So it gains a marketing position far superior to what I can because I've got to buy the data up-front to do that. So that's an investment - it's a risk I've got to take to buy that data to achieve that service. But by making the data freely available - - -

MRS OWENS: That's part of your competitive neutrality issue you're raising in a sense.

MR GOURLAY: Yes.

MRS OWENS: It's a darn site easier for them to - - -

MR GOURLAY: Yes, and AGSO provide services that they can compete with me. They provide - their officers work in the Department of Environment and Heritage providing services that I could provide. They provide services to Pacific Island countries that I could provide because they're required to burn these external sources but again they have access to the data to do it as well.

MRS OWENS: I mean, one of the ways around it would be for them to actually - for there to be some insistence that they effective shadow price that initial investment and that has to be recouped from the customers so otherwise you're going to be undercut, aren't you? I mean, if they're kind of achieving that - - -

MR GOURLAY: That's right, yes. They have enormous leverage too. Because they have access to the data they have enormous marketing leverage.

MRS OWENS: Yes, and they've got the cash I suppose, too.

MR GOURLAY: Yes.

DR STEWARDSON: Do you have any dealings with the Bureau of Meteorology or is its information irrelevant for you?

MR GOURLAY: No, most important. Most work that I do involving regional development requires climate assessment. It could be assessment of frost risk for viticulture. I mean, just this morning I had a request to look at new sites in Australia for growing poppies for opium. So to do that you have to use climate data. You have to find out based on the plant's physiology where is the best climate. So I need the climate data for the whole of Australia and I've had to buy that and it has cost me tens of thousands of dollars to buy.

DR STEWARDSON: I can't remember offhand the bureau's pricing policy. I thought it was just the marginal cost, but in terms of their downstream activities that might be competitive with yours, I think they have told us that they go to lengths to ring fence their downstream activities and they have to buy from the basis part of the bureau the information at the same price that you get it for. Is that your experience? Do you think that's working like that?

MR GOURLAY: I'm not sure what they pay for their data. I just know that the cost of the data would be very high for any SME to use and most SMEs in my position would need the climate data for the whole of Australia, assuming that you'd want your clients to come from anywhere in Australia. I can access the climate data

for the whole of the USA at no cost at all. I can look for new viticulture sites in the Napa Valley and so forth. It doesn't cost me anything to access that data.

DR STEWARDSON: Can you not access Australia data via America because of the interchange that has to go on between countries?

MR GOURLAY: There's some very coarse level data but I'm really talking about data that is collected from particular stations and you need the fine level data to do any assessment of risk because it's very fine. You can access very broad level climate data but it's inadequate for site selection for new enterprises.

DR STEWARDSON: Have they explained to you the basis on which they're levying their charge for this stuff that you want to buy?

MR GOURLAY: Yes, because they have a policy to recover as much cost as possible on that data and I think the same with the Australian Geological Survey Organisation, if they remove that their budget will be affected.

PROF SLOAN: It is because it is.

MRS OWENS: No, the Bureau of Meteorology doesn't actually have a 30 per cent requirement but what you're arguing is they still have - internally they're driven to try and recover costs?

MR GOURLAY: Yes.

MRS OWENS: But they do have a fairly well established pricing policy as far as I understand it, as Robin said, where for any activities which are deemed to be a mixed public private activity it's based on marginal cost and if it's deemed to be a private activity they basically have to compete out there in the marketplace and there's internal pricing that goes on.

MR GOURLAY: Yes, that probably is the case, I don't know. I'm really saying that if the climate data for Australia were available either at no cost or very little cost, there would be far more companies using it and I think the productivity gains and the gains for the Australian economy would be far greater than locking it away and selling it at a high price.

DR STEWARDSON: I guess what I'm trying to get at but I suspect you don't have the information to be able to answer the question and you really need to ask the bureau, I think that they would probably say that what you're wanting is what they call the value adding service where they've got to do some extra work or hone in on a very particular area for you and their charging policy would be just to charge you the cost of that extra work that they have to do for you. So I guess the question in my mind is are they - given that you find it a prohibitively large cost - in fact charging you more than that bit of theory would suggest or is this type of work just intrinsically very, very expensive to do and that you need to have a company with very deep

pockets to be able to buy it? But I suspect that you probably can't answer the question.

MR GOURLAY: The work that we do with climate data can be very complex, there's no doubt about that and I don't mind the Bureau of Meteorology competing with me in the marketplace as a value adder. That's what we do. We don't make any money out of selling climate data. I'm only buying it so I can add value to it for a client and all my services and products are value added products. I'm not just selling climate data but that data has no value until someone adds value to it. On its own it just has no value but they do put a value on it, obviously, when they sell it up-front.

PROF SLOAN: Is this a sense - and I say this partly from personal experience, actually, having run a university research centre which was faced particular with the issue of ABS costs where notwithstanding my kind of in-principle unease with the arrangement, concluded that it was actually quite good for my research centre because we knew how the system worked. We kind of, you know, got used to the charging and knew how - and it sounds to me like there's kind of a barrier to entry into your industry, isn't there?

MR GOURLAY: Yes.

PROF SLOAN: So notwithstanding your frustrations, is there a sense in which - I mean, it kind of plays into the hands of existing players rather than new entrants, doesn't it?

MR GOURLAY: I'm not sure - - -

PROF SLOAN: Your response shouldn't dilute your concern with the arrangements but you did say that this is an industry that should be growing but it's probably not.

MR GOURLAY: Yes, I would prefer the industry to grow because it's a bit like - if you've got a restaurant you'd like other restaurants around you to bring the crowds in and I do need other people in this industry to promote this industry, to collaborate with, to network with. I need this industry to grow, particularly for collaboration for overseas projects and so forth.

PROF SLOAN: Yes, where you want to fill mass - - -

MR GOURLAY: Precisely. I need the industry to grow and I've been active in the industry trying to help it to grow with the innovation council and a host of others. I've been spending the last two years trying to get this industry to grow, trying to remove the impediments to their growth.

PROF SLOAN: Yes, that's a good answer. I mean, one of the things that worried me too was when you said that these policies are rather inhibiting collaboration between your kinds of companies and these agencies which I would have thought was a very fruitful thing to happen, both for you and for the agencies themselves.

MR GOURLAY: Collaboration is very, very important. An example I gave of the environmental remote sensing group within CSIRO, that group should be providing significant R and D support to this industry but it doesn't because it's so focused on earning a quid outside and working it really does not provide support to the industry. Its focus and culture has been changed dramatically because it has to earn this money or it has to recover costs or whatever. So they've moved away, I believe, from fundamental research. I believe they actually do no research in this group.

MRS OWENS: It really comes back to what is the role of the CSIRO.

MR GOURLAY: It does, yes.

MRS OWENS: And it was a really interesting question we looked at a number of years ago when we did our inquiry into research and development and this policy was already in place then and there were a lot of people that basically made the same complaint as you, that the CSIRO is there to do the fundamental and the basic research to some extent and some applied research but somewhere you need to draw the line. They're not meant to be there competing with the private sector or undermining the growth of new companies.

MR GOURLAY: Precisely, and we see this also with the universities. Two companies who now compete with me, one is in the University of Canberra and one with RMIT. Both of these companies have been able to grow out of these public institutions but I'm sure the shareholders of those companies have never had to go out and get a loan to develop these companies and they are now major competitors. They are the only two companies that have emerged in the last 10 years but they've emerged within universities. They have access to significant IP and so forth. They've got students who undertake masters or PhD or post-doctorial studies. They have access to those students and that is a very unfair situation. I think universities have been pushed to earn more money and so forth and spin-off companies but what happens is you end up finding that these companies, the shareholder is the vice-chancellor, the dean and one of the associate professors.

MRS OWENS: I suppose there's a possibility at some stage in the future you could possibly bring in a competitive neutrality complaint.

MR GOURLAY: I've been thinking about that too. I'll see if I can get some of my other colleagues to join me on that.

DR STEWARDSON: Do you have any evidence of what's happening overseas - I think you mentioned the US - which is perhaps not a wildly good example because it's a so much bigger market that that could be the reason for the greater development there than merely the availability of the basic data? Do you have any knowledge of what's happening in Canada or other countries that might be a bit more comparable in size?

MR GOURLAY: Well, I do know in Canada - for my industry - what's called the spatial information industry and particularly in the area of remote sensing. The Canadian government has a very specific policy that if the work can be done by industry it must be done by industry. There's only one agency here in Australia that has that policy and that's the Australian Greenhouse Gas Office. It has a deliberate policy to support the remote sensing industry in Australia and it puts almost all of its work out to the private industry. In Canada, I think along with the US - they have very positive policies about industry support which includes making the data available at low cost. I think Canada would be an excellent model - and I think it's probably because we have an ex-Canadian heading up the Australian Greenhouse Gas Office at the moment that we have such a positive policy, industry policy in the Australian Greenhouse Gas Office.

DR STEWARDSON: But in Canada the policy is working in terms of the development of new - - -

MR GOURLAY: Yes, you see significant collaboration between industry and government in getting satellites up. Radar Sat is a very good example of a program or collaboration between industry and government but we don't see that in Australia unfortunately.

MRS OWENS: Can I just clarify - you've made a number of points in your conclusion which really summarise I think very well your position on these issues, but I'd just like to ask you about the first point where you say that the role of the Commonwealth government agencies be confined to policy development, regulation, control and quality assurance and the service delivery component left to private industry. What about the role of the Commonwealth government in actually collecting the basic data?

MR GOURLAY: Yes. Look, there's no doubt that government has a very important role to collect what I call public good data. That is data that helps - has a direct input to the Australian economy in terms of decision-making and to monitoring. So, for example, in my industry you need to collect data about the climate, about land, about water, and you need to use that to set up a baseline because at some point you need to undertake some monitoring to determine whether the management actions you put in place - either through land care or all the other things - have actually brought about some good. So the public investment into data collection is very important. I think the issue here is making that freely available so that the whole community can participate as stakeholders in that decision, support activity, and that monitoring and that corporate reporting that should come out of that public investment into baseline data. But, yes, I think that's part of the government's role and I think it's part of its quality assurance type role is to collect data so that industry can get on to deliver those services.

MRS OWENS: It was implicit in your third point but it was just not there in the first point.

MR GOURLAY: Yes.

MRS OWENS: The third point which you've just said is the removal of cost recovery from the public data.

MR GOURLAY: If I can just use an example: the Victorian state government has a very deliberate policy that the state agency should only be involved in regulation control and quality assurance and they are moving their government agencies out of the service delivery. In fact there's a lot more work comes up for tender in Victoria than in any other state. The worst state would be New South Wales. For example in Victoria I can buy all the CADASTA(?) data, that is the data that shows the property boundaries. I can buy that for \$5000. But in New South Wales it would probably cost me \$30 million to buy it for the whole state.

PROF SLOAN: That's the thing that's going to cabinet, I think. They are reviewing that you will be pleased to know. I think \$30 million is outside the - - -

MR GOURLAY: Yes, but companies like mine would buy the whole state because we do look at state issues across the whole state, yet they sell that data between the agencies for \$700. So the agency that actually owns the data - - -

PROF SLOAN: A big gap between that and \$30 million, isn't it?

MR GOURLAY: Yes, they sell it for \$700 to their other counterparts within government but it would cost me millions of dollars.

MRS OWENS: Probably not 30 million.

MR GOURLAY: Yes, we believe it's in that sort of order.

PROF SLOAN: Not a lot of demand I wouldn't have thought for that.

MRS OWENS: Not a realistic price that they have set.

MR GOURLAY: But there are a number of progressive governments, as I've mentioned, in Australia. The Victorian government and the Northern Territory government have I believe very good policies about public access to data and don't indulge in cost recovery exercises. I think they are reaping the benefits now in terms of regional development and sustainable development in those areas and attracting investment. By having cost recovery in New South Wales they're actually stifling development, particularly rural development.

DR STEWARDSON: Do you have anything more to say by way of examples of the development that that is stimulating. You gave an example about five minutes ago. But do you have any other examples either of companies that are setting up or of projects that are being stimulated by the Victorian government policy, specific to Victoria?

MR GOURLAY: I think the viticulture industry in Victoria is a very good example where there's significant stimulation because of access to data and that is encourage investment. The Northern Territory I believe is also going through that at the moment too, encouraging investment. This supermarket to Asia, because it needs to find new sites for food and for some of the niche markets of sandalwood and neam(?) oil, they're encouraging companies to use their data. That's why they send it to me. Almost on a monthly basis I receive data from those two states. They do it because they know that I will use it for either marketing or positioning for investment into their state.

MRS OWENS: More particularly is they know you're not getting it from the other states, they see it as a kind of big advantage.

MR GOURLAY: That's right, yes.

MRS OWENS: That's very interesting, Rob.

MR GOURLAY: Thank you very much.

MRS OWENS: Is there anything else you would like to say before we conclude this subject?

MR GOURLAY: No, I appreciate the opportunity.

MRS OWENS: Thanks. I think we've got a lot out of that and we can raise some of these issues you've raised with other participants so, thank you. We'll just adjourn for a minute.

MRS OWENS: We will now resume. The next participant this afternoon is the National Library of Australia. Welcome both of you and could you please both give your names and position with the National Library for the transcript.

MR TOLL: I'm David Toll. I'm the deputy director general of the National Library.

MR LINEHAN: Gerry Linehan, assistant director general, corporate services.

MRS OWENS: Good, thank you, and thank you very much for this submission and thank you for allowing us to visit you as well. So we've had a bit of contact with you during this inquiry which has been very worthwhile. I understand, David, that you will just maybe give us a very brief introduction to your submission.

MR TOLL: In summarising the submission the National Library Act provides for the library to make library material available from the National Collection as the council determines from time to time and that essentially is the key role of the organisation. We've been able to retain all of our revenue for some time so for those services which we provide at some form of cost recovery we are able to retain all the revenue. The library's current charging policy was developed in 1991 and we are currently reviewing that. The library has also implemented the balance core card performance management model. It was agreed earlier this year that the charging policy was a key element of that and that we needed to update the policy and to make sure that we have consistency in the charges that we apply.

The current charging policy allows for core services to be provided free of charge and for more advanced or value added services and services to other libraries to be charged at rates ranging from marginal costs through to profit in certain circumstances. I think that's all that I would say in summary.

MRS OWENS: Thank you. I thought it was interesting - you've attached some guidelines that you use. I presume - you said that this charging is being reviewed at the moment and presumably the guidelines might change but you're one of the few agencies that actually has guidelines written in this form that we've come across, I think. I think that might be fair to say and I thought that was quite refreshing. It was useful for us because we have to develop guidelines.

MR TOLL: We thought they were very out of date, actually, because they're 10 years or nine years old.

MRS OWENS: They may be out of date but the fact is that you have guidelines and I think that was the point I was trying to make. You may not think that the guidelines are particularly relevant in some aspects for the year 2000 but nevertheless I think it's actually commendable that you do have something so that everybody can look at that and understand really what your policy is because part of what we're concerned about, and I think other participants that we've been talking to, is this whole issue of transparency. If you've got the guidelines then you can point to that and say, "We have a charging policy." If you're say dealing with a library in one of the states and

you want to charge for something you can say, "This is why we do it in this way." So I just think it helps you get to first base, you doing this, and it minimises the chances of concern or disaffection on the part of the users of the library service.

DR STEWARDSON: I think that one of probably the first questions to start off with is if you could tell us - which I don't think you do in the submission - just how you define your core services which the Commonwealth provides the adequate funding for.

MR TOLL: Yes, this is probably one of the more difficult issues because where do you draw the line between a core service and an added value service is a key question for us all the time. For us a core service is for anyone to come into the building or to access the library's collections via electronic means and to obtain material for research purposes or for any purposes they have - entertainment, whatever their purposes are, and that is really the most core area of service I think: access to the collection and being able to consult the collection.

DR STEWARDSON: That's interesting because a potential definition would be having the material there catalogued and stored and available but you're taking the core service the next step, that it includes individual people's access to it.

MR TOLL: Yes. The complicating factor is the difference between on-site access and off-site access, I think, in the sense that the Australian library system applies standard charges for inter-library loan and at the moment that's about \$13. It's either \$13 or \$13.20 in some organisations.

PROF SLOAN: That's between all libraries. It's not - - -

MR TOLL: That's between all libraries.

PROF SLOAN: You haven't set that?

MR TOLL: No. It's cooperatively set as a charge. It was never intended to be a charge that accurately reflected the actual costs of inter-library loans but it was thought to be a reasonable cost for libraries to charge each other and it has increased over time. It was, I think, \$6 at one stage and it became \$9 and then \$12 and with the GST it has become \$13.

PROF SLOAN: Does that attract GST?

MR TOLL: Yes, that was a major issue.

PROF SLOAN: Isn't this an educational thing?

DR STEWARDSON: What would be a rough cost of in fact sending the books by inter-library, by in-service, compared with your charge of \$13?

MR TOLL: I think it's generally considered that the cost would be more than that and we have measured it from time to time, and we haven't done it recently, and the cost has been more than that. But I think it would really depend on the efficiency of the particular library and would also depend on issues such as economies of scale. For instance, some of the major universities do so much lending because they have large collections that they probably do get their unit cost down to a reasonably low level whereas some of the smaller libraries that lend in a very ad hoc way, because say they have particularly specialised resources, it probably would be more expensive for them.

DR STEWARDSON: But are you suggesting that \$13 is typically half the cost or one-tenth of the cost or one-hundredth?

MR TOLL: My feeling would be that the actual cost would probably range from about that figure of 12, 13 dollars, up to about 20 or 25 dollars and some organisations do actually charge a premium in terms of very fast track delivery. Say for instance you want to receive something within 24 hours, some organisations may charge on top of the \$13. They may charge an additional fee for guaranteed early delivery.

DR STEWARDSON: I guess a sort of slightly "have you stopped beating your mother" question really relates to this charge. When I read your paper I rather assumed that the core service was simply having the books in the library and available for people and that then when it came to access you were beginning to look at something that maybe you were going to consider charging for if it was sensible and economically feasible to do it. So I was wondering why you subsidised the inter-library loan stuff, given what you've said, that you regard your core service as including the access, I suppose I would turn my question around the other way and say why are you charging anything for it?

MR TOLL: Certainly you could ask that question. I think the major reason that we do charge for it because we do act cooperatively with other libraries and the charges goes right across the library sector - state libraries, university libraries, special libraries etcetera. Probably what would happen, I suspect, if we didn't charge anything, is a great deal more demand would come to us and that would increase our costs and that would then impact on other services that we were not able to provide.

PROF SLOAN: But you're not then passing the charge back onto the borrower?

MR TOLL: No, it's an inter-library charge, yes.

PROF SLOAN: At the universities of course, which I come from, there was talk about trying to actually charge - I'm not sure the students were ever part of the deal but the staff but then of course we all just went into a revolt and it never happened.

MR TOLL: I think some universities operate on the basis that a faculty or department has an account, if you like - - -

PROF SLOAN: Yes, and they ration it so, you know - I mean, the charge I suppose rations it. But I suppose some - I mean, you'd probably do quite well out of this, wouldn't you, because you've got such a huge collection.

MR TOLL: Yes.

PROF SLOAN: You'd be getting a lot of \$13.

MR TOLL: Yes, we do. I can't recall exactly how many actual inter-library loans - it's not only inter-library loans. It's also the provision of copies for journal articles for instance but I think that the figure is of the order of 80 to 90 thousand per annum.

PROF SLOAN: Right. But as you said, it's not clear that it's a profit maker anyway.

MR TOLL: No, I don't believe that it would be a profit making thing and it's unlikely that it would even cover the full costs if you counted in all of the overheads. It would probably cover the direct costs.

MRS OWENS: We had a participant this morning who is a researcher and he uses lots of government information agencies such as screen, sound, and the intellectual property agency and he has also used the National Library on occasions and he basically made very complimentary comments about the level of assistance he got from the staff and so on but his concern was about the amount of money he had to pay for photocopying. Have you heard this complaint?

MR TOLL: We are aware that there is another submission that was made on this topic that referred to photocopying charges.

MRS OWENS: Yes, it's submission number 34 but he was saying that - I can't remember totally the figures but most of the Commonwealth agencies the cost per page was about 20 cents whereas if you went to the local newsagent or to Officeworks or whatever it would be about 6 cents. Then in those agencies where they did the photocopying for you there was a labour charge on top of that it became very expensive. So he worked out it was costing about \$66 an hour for the labour costs. We were sort of speculating as we were talking to him as to whether, rather than charge directly for providing a service in the library, it has been sort of indirectly imposed through the photocopying charge onto the people that actually do photocopying. Would you care to comment on that? It might be a bit unfair. It's a bit of an ambush if you haven't read the submission.

MR TOLL: No, I haven't read it but could I say that our photocopying charges haven't increased for a number of years so there haven't been any recent increases. From my memory I would say it would be at least four years since there had been an increase in the charge and I am aware that when we have looked at those charges that we have looked at what we would consider to be comparable agencies which, as you

say, probably include other Commonwealth agencies but also state libraries and university libraries. So I can't - - -

PROF SLOAN: You're certainly way above universities if you're charging 20 cents.

MR TOLL: Yes.

MRS OWENS: La Trobe University charges 15 cents, the University of Canberra, 7.3 cents. They're all different, you know, but some have got a range up to 20 cents but quite a lot of them are significantly less and that means - - -

PROF SLOAN: So there's no deliberate policy - I mean, to cross-subsidise other activities?

MR TOLL: No, it's not. I believe it was felt to be a comparable charge in similar, if you like, major cultural institutions such as state libraries or other Commonwealth institutions.

MRS OWENS: You might like to take - - -

MR TOLL: Certainly we're very interested in looking at that and I think that we will study the comparable charges in other organisations or companies.

MRS OWENS: He did a very meticulous piece of research on photocopying charges which I think reflects on his ability - or generally as a researcher. He's researching something that's very interesting and he went to a lot of trouble. You know, it's a very, very small little submission but I was quite impressed with the amount of trouble he went to, to just get out all these charges.

MR TOLL: One other aspect of this perhaps is the fact that I don't believe we've had a lot of complaint about the photocopying charge but that's something that I'll certainly check on.

MRS OWENS: They might not have got all the way to you though.

MR TOLL: We have a mechanism of recording complaints at any level in a database so we are very conscious of hearing them, regardless of where they come from and - - -

MRS OWENS: And demand to see the boss on this one.

DR STEWARDSON: One particular point that he made in the discussion with us, which I don't think came out in his otherwise very excellent paper, was that he was doing quite a lot of photocopying because he's doing a substantial piece of research for a book and I don't know what the norm is for how many people are in fact doing the sort of volume that he's doing which of course makes this - the 20 cents add up to quite big bits of money for a private individual and to what extent people are more

just doing 20 pages here and there. I mean, I imagine that a lot of your customers might well say, "Drat, 20 cents, but it's only going to be \$2 altogether for what I want to do today, so what?" So I think he is coming from it not just from the point of view of principle, from the point of view of someone for whom it is, as a private individual, making quite a cost in total.

MR TOLL: I think I could say that we will certainly look at the issue and I think we can consult - we do have a way of identifying people who are doing more substantial research over long periods. We have a separate reading room called the Petherick room which people are able to use and actually retain a desk and retain all their materials over a period of time and this tends to be a way of knowing who is using the organisation intensively. So I think we could certainly target a number of people and find out the extent to which this is an impediment to their research.

DR STEWARDSON: That would certainly help some people. I think he made the point - he was going around to a lot of organisations, so it might not qualify you for your Pendrick room, whatever it's called. It's worth looking at. You do make the point that you think cross-subsidisation between services is legitimate. That's not something that everybody would agree with. Would you like to expand on that?

MR TOLL: I would have to say that I don't believe we have done a lot of conscious cross-subsidisation but I could give an example and that is that we have at times discounted our services to the schools market, for instance, simply because their ability to pay is so much less than that of say the higher education sector, the private sector or the state governments, for instance. So we have done that sort of thing on occasions where we have just believed that if we didn't discount the prices in some way then it would really be almost impossible for that particular group of potential customers to afford the services.

DR STEWARDSON: But who is wearing the subsidy, because if you have a fixed amount of money for some particular purpose you say you want to recover and you must recover and you lower it for one group then the other group you're going to have to charge a higher price. But if you're merely saying, "Our standard charge is so much and some people are deserving because they can't otherwise pay so we'll cut the price for them and we will bear the balance," then that is a rather different issue.

MR TOLL: I think in the case of the schools example I think the reality may be that the marginal costs of extra units of production would be so relatively low that we probably wouldn't lose out on that transaction in which case the other customers wouldn't effectively be subsidising it by paying higher charges.

PROF SLOAN: But you don't really have targets anyway, do you? I mean, it's kind of whatever happens comes in.

MR TOLL: No.

MR LINEHAN: I think it's one of the difficult ones because we don't sort of have

an area and say - and measure strictly the costs against the revenue, although we're moving to that in some of the areas, it's more managed in a bigger bucket. So as to who is wearing the subsidy is not an issue.

PROF SLOAN: You've got a board, haven't you - we're kind of interested in governance issues and whether boards help you keep focused on what is your core activity.

MR LINEHAN: Yes.

PROF SLOAN: I think one of my friends might be on your board - Winnie Pels.

MR TOLL: She is, indeed.

PROF SLOAN: Yes, I'd like your views on that, what is the role - I mean, because presumably most libraries don't actually have boards, do they?

MR TOLL: No, although state libraries do because they are usually are statutory authorities of one type or another. The board definitely has a role in these sorts of areas. I mean, each statutory authority has different legislation, so the way in which the board operates in a governance sense may vary. But in terms of the national library the board within the legislation is said to have responsibility for overall policy for the organisation and certainly charging issues would be seen as part of that overall policy. So the current work that we're doing in improving our costing methods and then leading on to a revision of our charging policy and reviewing all the services that we currently have in terms of that revised policy, we would certainly take to the board in terms of receiving their feedback but also agreement to go forward with any recommendations.

PROF SLOAN: It seems to me that it kind of gives a nice accountability thing that makes sure you don't lose sight of your core function.

MR TOLL: I think it does and I think one of the elements in that is that Commonwealth boards tend to have representation from across the country but also from a number of sectors. So we do have quite a cross-section of board members in terms of the perspectives that they bring and the experiences that they have had. So that sort of thing I think can act as a check, if you like, or it assists you in getting that sort of balance which will be appropriate.

PROF SLOAN: I don't know about this but I don't think the view of the library is a big building with books in it is right.

DR STEWARDSON: Thought transference. I was just thinking about that.

PROF SLOAN: It is really a much more comprehensive - and the librarian is not someone who covers the books and fills in the due card. It's really become a very different kind of activity, isn't it. I mean really the information providers - - -

MR TOLL: There are traditional services which we have referred to in terms of the printed collections and other collections, such as manuscripts and paintings and whatever which are physical artefacts but then of course there's the whole area of electronic information which I think we do address to some extent in this submission. But that's an area which I think is critical in the future because one of the points we made was that we believe that the potential for charging through the Web is actually quite limited because we believe people are not necessarily going to pay or don't expect to pay or don't want to pay.

PROF SLOAN: And haven't paid.

MR TOLL: And haven't paid in the past and because the electronic commerce has been somewhat delayed in terms of becoming very prominent - due to security issues and other such things - and the fact that micro-payments, for instance, is not really an established means of doing business on the Internet at this stage - - -

PROF SLOAN: I mean, I'm sure they will get to that stage - - -

MR TOLL: Absolutely.

PROF SLOAN: - - - and you'll basically have a card like we've got for the photocopy machines, you'll have that kind of micro account. But we aren't there, are we?

MR TOLL: No. It does mean in the short to medium term that we have introduced a lot of new services on the Web for which we haven't applied a charge. So part of our reviewing of charging will have to take into account any discrepancies that have grown between our more traditional services which are based on physical artefacts and our electronic services which are growing all the time.

PROF SLOAN: It's really an additional service, isn't it? It's not really as if you've been able to - I mean, you have to basically maintain the traditional services, don't you? So it's really an expansion of your activities.

MR TOLL: Indeed. This is one of the major funding issues for the organisation, how do you deal with both of these issues.

PROF SLOAN: Exactly.

MR TOLL: One of the things that was always predicted with the information revolution, if you like, is that printed materials would drop away and this in fact - our collecting of Australian printed materials is actually still going up, at the same time as we're having to come to terms with the collecting and preservation and provision of access to electronic data. This is one of the major challenges for the organisation at present.

MRS OWENS: This is going to be a challenge when you're developing this new charging and costing policy. I would presume that you would need to be really thinking very carefully about this.

MR TOLL: Absolutely.

MRS OWENS: Can you give us any indication at this stage about the direction of the thought processes of this new policy? Is it going to make a significant difference to the current guidelines? You spell out the way you're doing here, very briefly, about your costing - marginal costs, direct costs, direct plus, indirect and full costs. What's going to change?

MR TOLL: I think the major change will be that we are introducing improved costing methods within the organisation so the accuracy of data we have will be greatly improved in terms of making decisions on charging, having accurate information on costs as a basis or as one part of the decision-making in terms of setting charges. That will be one major improvement. I think as we did say in the submission the move to the accruals model I think is actually an advantage there because I think this is the basis for more accurate costing. In terms of the sort of issues that are set out in the charging policy that we have at present, I think many of those will remain because I think many of those issues remain relevant. I think the major issue will be dealing with this issue of consistency and that will be really the hardest part of it that we will have to go through and look at where we have inconsistency and why we have it and what could be done about that, based on those principles that are set out in that policy. That to me I think will be one of the major challenges for realising this policy.

MRS OWENS: I don't think we can take exception to all those things that you've listed there. I mean, we can go "Tick, tick, tick, it all sounds great." I think it's actually implementing it is where it really becomes a challenge especially when you've got - I mean, you're going to have to look at the consistency between your approach for the electronic data and the other activities. That's going to be actually quite difficult.

MR TOLL: That's right, and ask questions such as, "If we're not charging for this in the electronic environment and there's an equivalent service in the printed environment that we are charging for, what does that mean and why, and can that be sustained?"

DR STEWARDSON: Do you see a need to also try and have a totally contrary principle, namely one of flexibility, as between your customers, depending on their circumstances and need, and in a large organisation like yours would it be possible to do that if you wanted to?

MR TOLL: Yes, I think the existing guidelines do give that possibility and I imagine that will continue in the future. Another issue I think that we did address is that there are price sensitivity issues in terms of our customers.

PROF SLOAN: Yes, well, the economics graduate who wrote the submission. I just thought about the elasticity demand. That's right, you can cost something out but if the market won't - or that little segment of the market won't bear it, what's the point.

MR TOLL: Most of our market is either public sector or individuals, so we don't have a lot of private sector markets which means that there is a limit to what you can charge.

MR LINEHAN: That will be one of the issues for the electronic as well, with people accessing information electronically or what mechanism do we have to identify what part of the market they're coming from etcetera if they're using a home computer compared to a work computer or whatever the case may be.

MRS OWENS: It's going to be almost impossible really to do that.

PROF SLOAN: You don't have missions of like capturing the corporate market and things like that.

MR TOLL: No.

PROF SLOAN: I mean, it's caused quite a lot of trouble, I might have thought, because people read about things - "Well, hello, this is the state library, what are they doing?" It is certainly true that a lot of companies have run down their libraries and the like.

MR TOLL: No, we do not have that. We are not trying to provide, for instance, a business information service that would replace a library within a business for a company.

DR STEWARDSON: Just going back to that question of the difference between the library and other information agencies, I guess the difference is - you're right - that most of the other information agencies, the ABS and so on, there is a very specific value in the information that they get for their first customer - the government - before anybody else uses it at all, before you consider other use. Whereas I guess in a sense there is no particular merit in having all those books in a nice building if you don't have the customers.

MR TOLL: No. You really have to go back to the act for the organisation and the roles that are set out. If you price things at the point where you have no customers then you can't possibly - - -

PROF SLOAN: But, I mean, you would never contemplate getting people to pay to go in.

MR TOLL: No.

PROF SLOAN: You have to pay to go into the museum.

MR TOLL: Yes, well, certainly we see that as part of the core service that is funded by the government. Through appropriation that is our way of looking at that. We've used this term "added value" or "value added", whatever you want to say, to try to differentiate between those most basic of services which any citizen should have the right to and things where there's an extra benefit and there may be the need for some charge in order for us to be able to actually provide those services.

MRS OWENS: I only just have one more comment and that was you are developing the new charging policies and new guidelines, and we will be developing guidelines as well. How do we reconcile one with the other? You'll just keep an eye on what we're doing and we may pinch some ideas from you along the way.

MR TOLL: As we've said we were quite pleased when we heard that this cost recovery inquiry was taking place because the timing is very good for us. But we also see that we can probably benefit from any work that's done at a whole of government level in terms of any recommendations or findings that come out of it. So we believe we can benefit from that. So if you believe that you can benefit from anything that we have then we would be more than happy to share.

MRS OWENS: Well, you've helped us already. Thanks very much for coming along.

MR TOLL: You're welcome.

MRS OWENS: Thank you very much. We will have a break.

MRS OWENS: We'll now resume. The next participant this afternoon is the Australian Geological Survey Organisation. Could you please give your name and your position with AGSO for the transcript.

DR POWELL: Yes, my name is Trevor Powell. I'm the deputy chief executive officer and chief of the petroleum and marine division.

MRS OWENS: Good, thank you very much for that and thank you for coming on a little earlier than anticipated. We have read your submission but we'd be very happy if you'd like to make any introductory remarks. I think we agreed before we started, you might want to just launch into some discussion.

DR POWELL: Yes. I'll just say that we welcome the opportunity to appear before the commission because this is an issue that AGSO has been wrestling with for some time.

MRS OWENS: I think a few of the agencies have been wrestling with some of these issues for some time. You do note in your submission that, if you like, you have established - I think you used the word - "best practice" somewhere and you have obviously given these cost recovery issues a great deal of thought and have spent time trying to work out a logical policy for each of the main areas that you're engaged in. For us, I think it's very useful to have that set out in the way you have. Because my colleague Judith is leaving earlier, I might just hand over to see whether she wants to raise any issues first.

PROF SLOAN: So you have had this 30 per cent cost recovery target since 1993. Is that right?

DR POWELL: Yes, that's correct.

PROF SLOAN: What do you feel the background to that was?

DR POWELL: I think the background to it was that agencies such as CSIRO and other government science agencies had had this requirement put on them in order to, if you like, get them into an alignment with their potential clients. This was seen, applying it to AGSO, as a logical extension of that approach.

PROF SLOAN: It wasn't so much a budgetary - was your appropriation reduced by the 30 per cent?

DR POWELL: No, in our case we had gone through our review and our repositioning of our budget and in that process, a 30 per cent external revenue target was set, so it's a bit arguable as to whether it was taken off or not, but we had to grow our revenue beyond our existing appropriation.

PROF SLOAN: So to provide the basis for extra resources?

DR POWELL: Assuming that the appropriation base would be constant, yes. But I mean, the history is a bit tangled. There was no specific decision to reduce, but there had been a fluctuating appropriation base.

PROF SLOAN: It's been said with other agencies that - I hear what you say, that in a sense it was kind of a policy which was prompted by the need for you to be formulators with your user community and that sort of thing, but it has been said - not so much about your organisation but certainly about the CSIRO - is that it's distorted priority settings within those organisations, that CSIRO has kind of been driven down the consulting end of the research spectrum and it's undermined the fulfilment of their core set of activities which of course, in the case of CSIRO, is really basic research. Does that criticism resonate at all industrial relations of AGSO?

DR POWELL: It does. To some extent it depends upon the rigour with which this 30 per cent is adhered to because quite frankly, the validity of that approach has sought of been devalued over time. It's no longer rigorously applied, but there's a wonderful ambiguity left as to exactly where you should be positioned. Our observation would be that if we were genuinely pursuing that 30 per cent external revenue target, then it would distort our program and that would be a sad experience, when in fact these opportunities have come, because you end up, by the very nature of the process, because there is a substantial external funding provided, they leverage the better parts of the organisation by the very nature of the process and that ends up in a distortion in terms of how your appropriation funding is spent and so therein lies the dilemma.

PROF SLOAN: Yes, but we do have to recognise - I mean, I come from the university sector and I saw - "distorting" is perhaps a strong word, but it definitely leads to reprioritisation which is not always desirable. People actually often I think end up devaluing what is the core function because they become very driven by the sort of profit - - -

DR POWELL: Yes, in our particular case, the conflict comes because the appropriation funding is actually provided for a purpose, which we articulate in the submission, which is actually probably a public good purpose predominantly or a purpose for which the government wishes us to pursue a particular line of work, like attracting petroleum and mineral exploration investment in which the very nature of where we are in the market means essentially that charging any high cost recovery is inappropriate because it's what we call the pre-competitive stage.

PROF SLOAN: You're actually seeking to produce a public good, in the sense that you don't want to make it exclusive.

DR POWELL: That's correct.

PROF SLOAN: And you want it to be made available to all-comers who might then go on and do something more.

DR POWELL: Yes. Our competitive position is that Australia is trying to compete with other countries who are trying to attract that investment.

PROF SLOAN: Yes, that's true too.

DR POWELL: In this case, because the resources are located in Australia in a specific place and the resources are in fact owned by the crown and you get a secondary taxation for the right to exploit it, the government is in a sense an equity holder in the venture.

PROF SLOAN: You probably won't like me saying this: in one sense - you've written in the executive summary that your arrangements are consistent with best practice, but I must admit in reading through - and admittedly I did this when I was probably not quite on the ball - I detected a certain reservation with the policy in a sense. Let me put it another way: the organisation could find itself equally comfortable with an arrangement whereby it wasn't really recovering costs, it was just fulfilling its public good function which was to provide this information in an attempt to leverage up worthwhile activity.

DR POWELL: Yes. The difficulty we have is when we are selling products, particularly digital products which are relatively high cost. We are faced with a scenario where it has application across the broader range of applications than perhaps it was originally intended for. We find a group of customers and clients and users who have quite a bit of variation and capacity to pay. That's where the ambiguity becomes really difficult, and particularly at the present time where in the last couple of years, there's been a consolidation in the primary client base, mergers and so forth, and in fact there is an emergence of a consultancy sector and small company sector which the big companies are using as surrogates for their own exploration activities, and yet the capacity of them to fulfil that role is limited because of the pricing of these products. That's where the ambiguity becomes a real issue for us.

PROF SLOAN: Is that a quality dilution issue, do you think?

DR POWELL: Sorry, I'm not sure what you mean by "quality dilution".

PROF SLOAN: These intermediaries in a sense aren't able to afford the full range of data and so they're actually providing kind of partial advice.

DR POWELL: That's correct.

PROF SLOAN: So it's not a reflection on the quality of what you're producing.

DR POWELL: No, it's a price barrier to those smaller companies; because they are often innovators - I mean, essentially what many of these smaller companies do in the resources sector, they will take a position somewhere or attempt to take a position, get to a point, and then when they require extra funds, they will either reduce their

equity, and big companies will make it up, or they'll get taken over and get it that way. But you actually inhibit that sector by this pricing policy.

PROF SLOAN: Yes. I think we've heard from one of your clients today actually and he's making that same point. To give him his due, he wants the sector to increase. He would really like to see a flourishing, small to medium-sized enterprise sector servicing - not just the mining industry actually, he's saying there are all sorts of different clients.

DR POWELL: Yes, absolutely.

MRS OWENS: This was Mr Rob Gourlay from Environmental Research and Information Consortium who basically was saying that this is acting as a deterrent to innovation for the development of the industry more generally. He was really putting in a plea for no charges for some of these services, rather than being charged.

DR POWELL: I think what he's saying, strictly speaking - because I've read his submission and we've had very many discussions with him, so we're quite familiar - it's the price of data that is the issue. Part of the problem, I suspect, is that agencies like ourselves were positioned by this 30 per cent cost recovery requirement and as a result, the prices have been set, and particularly sales of geophysical data which tends to be higher up the market, the price chain. The organisation becomes reliant on that marginal cost of funding to actually do its activities, so our capacity to actually change the prices of our own volition without some sort of policy change in respect of the 30 per cent is very limited, and that's where the ambiguity comes in, because on the one hand, we are in the position of trying to encourage exploration to make material available so that people make informed decisions about where they want to be in the marketplace and yet the 30 per cent policy puts in place a barrier to us actually achieving that in part of the market sector. At the same time, if we were in a position to reduce our prices, we would have to restructure the whole cost base of the organisation because we'd become dependent upon that revenue stream for the marginal cost of doing things.

MRS OWENS: Do you think the notion of a 30 per cent target is now really redundant, that you're now required to have output-based budgeting?

DR POWELL: It is, but it's never been explicitly said that way, and whenever you go into situations where you're arguing about funding, people want it both ways. It's the ambiguity that exists because on the one hand, in a sort of budgetary sense, cost recovery looms its head as part of your costing exercise and people sign off on that and then at the same time, like the Department of Finance submission, it actually says quite clearly that you should not be entering into exercises for revenue-raising purposes, but there is an ambiguity in the approach, in the budgetary cycle on the one hand and the policy on the other.

MRS OWENS: I think this is where our guidelines may try and shed some light on some of these ambiguities. I mean, I hope we can do so and we will be looking at

issues such as these revenue targets because they do lead to all sorts of perverse incentives within the organisation which I think we need to really consider very seriously.

DR STEWARDSON: I would just like, if I could, to be a little clearer about this conflict of your targets. You've got the 30 per cent recovery target and yet in a number of categories of things that you do in your submission, you talk about charging a cost of transfer which I take it is the cost of getting the material and photocopying it and sending it out and maybe somebody's time doing that. You say that in connection with a number of categories of things, it's a cost of transfer. How do you actually reconcile these two aims, because I presume that your whole base cost of doing your basic work is a sufficiently larger proportion of your costs, that merely a transfer cost here, there and everywhere is not going to get you to your 30 per cent.

DR POWELL: No, typically sale of products doesn't. The issue depends upon which range of products we're talking about. The area where we have traditionally charged high is in the area of geophysical data which is very high-cost acquisition, and there is a capacity when you make that data available to a company for them to internalise some private benefit from it. For example, they can take that data which is in digital form, put it in their own computer systems, merge it with their existing data and hence, what they have got. If on the other hand you produce a report which is a written thing on regional geology, for example, it doesn't have quite the same - the capacity to internalise a benefit precisely to the company is somewhat diminished because it's like a reference book on the geology of an area, as distinct from a set of data that covers an area of interest that they're specifically interested in. So we have historically tended to price those highly and the revenue stream is sufficient to make a difference to the marginal cost - of meeting the marginal cost of many project activities.

The dilemma that we come into is that we get companies like Mr Gourlay's company who can use that data for another purpose, and yet there is not the same private benefit that can accrue. For example, airborne geophysical data can be used by a mining company to assist in area selection for a mine and the cost structures of mining companies are quite high, the return is very high, whereas in the same area, you may have people who are worrying about salinity who can use that data to help map out salinity. The benefit that they can derive from it is considerable, but they have no capacity to pay, and the returns to them are going to be spread out over a very, very long period of time, 30 years, while they fix the salinity up.

DR STEWARDSON: Is it possible to differentiate those markets and, say, bind the latter category to not divulge to the former?

DR POWELL: Yes, and we are faced with those sorts of problems. What happens is you end up with a considerable legal overhead in managing those licensing arrangements and particularly we have found the boundaries between those markets are actually quite porous and you find data moving backwards and forwards quite

easily, unbeknownst to us. The cost of actually trying to pursue any remedy to that is not just warranted, in terms of the organisation. We have the same problem with the universities. Many universities want to use the data for research and the education of their students because we are one of the main sources of that data. Obviously they can't afford to pay. We enter into licence agreements with them or attempt to, but we find that it's very hard to make it stick in practice. So again, we have an ambiguity and price differentiation between different markets with essentially the same product and I don't think it's practical.

DR STEWARDSON: Just two comments on that: one is I understand what you're saying and I can see that it could be very difficult. On the other hand, you yourself have said this is a difficult problem, in that deserving companies, who could use the material and indeed benefit not only themselves but presumably benefit the growth of the industry in Australia, are being kept out. So I guess it is something that would repay - looking very carefully at these legal problems - but I wonder whether in terms of costing, whether it would be any help if you were to charge those people on a royalty basis, say, so that they didn't have to pay the big up-front fee but did have to pay something approaching the same thing but over a period of time as they got a profit from developing the material that you've given.

DR POWELL: I could say two things: first of all, you can enter into royalty payments. With emerging technology, I think essentially that's where we will move to because the cost of these enterprises, managing and handling the data in their own enterprise, can become very large because these data sets are not trivial, they are very large. Of course they can be used for one-off activities like consultancies and things of that nature, but with the advent of modern technology, a more business model, once the band width gets to a sufficient size, would be that we would hold the data essentially and they would download parts of it for a fee, to use it. They would not store it themselves because it tends to evolve. New processing systems come into play and we can upgrade the quality progressively over time. But we get into the situation where they licence the right to use it over the Internet or something for a much reduced price, rather than buying the whole data set in the first place.

MRS OWENS: Is that a long way off or is that looming now?

DR POWELL: It depends on the IT gurus, I suppose. They tell us the band width coming. For certain styles of data, it's here and now, and we are actually piloting projects where they can make their own maps, using AGSO data on our site and download it, but some of the sizes of these data sets are still too large for them to effectively transfer because the band width isn't there.

DR STEWARDSON: It sounds as though you're telling us that even if you didn't have the 30 per cent cost recovery requirement that you would still have a pricing problem in these particular products you've been talking about because you would have totally different categories of customer, one for whom you would feel it was reasonable to charge a significantly higher price than the other.

DR POWELL: No, I think quite the contrary. If the 30 per cent wasn't there - what we would like is to have the same price for everybody for the same product, irrespective, and that would be pitched relatively low because that is the best way of us meeting our obligations to disseminate this information as widely as possible. We think, as we say in the submission, data is increasingly becoming a commodity and the value adding is how you use your knowledge to actually extract the value out of it, so there's a whole new repositioning going on. Because we are traditionally an information agency, our task has been to produce data, we have ended up historically in charging rather more for parts of it than we otherwise would, to meet this external revenue target.

DR STEWARDSON: Yes. You yourselves I think go downstream a bit though from the mere collection of the data. You're doing some of the value adding yourself.

DR POWELL: Yes. A geological map or a GIS is actually a model of the geology in which there's considerable intellectual input, as distinct from, say, an airborne geophysical survey which is the results of a survey. We do the surveys as part of our own processes of constructing a map, a geological map, which is a representation of the geology of an area, but the raw data has also value for people like mineral explorers in their own right.

DR STEWARDSON: So you are ending up, to an extent, competing with some of your own customers in that downstream activity?

DR POWELL: Not at the scale at which we operate, no, because the scale at which we operate is at a regional scale, that is, one to 250,000 maps or one to 100,000, for example, there are 512 one to 250,000 maps that go to the whole of Australia. In a mine site, it would occupy a very small fraction of one of those 250,000 maps. So we operate at that scale because what it does, it provides the regional information for companies to select the general geographic areas that they should be interested in. That's why we call it pre-competitive.

DR STEWARDSON: I think I'm correct in saying that again, Mr Gourlay made the point that because of cooperative work between, say, your organisation and I think it was state organisations or other government organisations, that they in fact can get input which he also would like, but they can get it a lot more cheaply than he can because they're doing it as part of some cooperative activity - - -

DR POWELL: Plus under the inter-government agreement on the environment which was a COAG decision, transfer of data between government departments is at the cost of transfer to avoid essentially the Commonwealth paying twice for the same data. So as a result, we're obliged to that agreement, to transfer data backwards and forwards for various purposes at relatively low cost.

DR STEWARDSON: So if they are in downstream value adding activities, this gives them an advantage over the private sector. Would this be true?

DR POWELL: They are not allowed to use it for commercial purposes. They're only allowed to use it for their internal government program purposes.

DR STEWARDSON: Do you have a feel for roughly what proportion of your activities are going to meet the public interest, public good activity versus what proportion is actually meeting the needs of industry?

DR POWELL: If you're trying to attract mineral and petroleum explorers to the country, which is essentially a process which the government wishes to happen in order for Australia's resources to be developed. You are inevitably getting into a situation where you are providing some benefit to the industry because you are helping them identify the place where they should explore and hopefully it's in Australia as compared with Madagascar. But the government is interested in doing that because the resources in the ground have no value to the Australian people unless they're discovered. First of all, you have to go through an exploration process which is inherently risky. One in a hundred ventures in the mining industry is successful; one in maybe 10 or 15 in the petroleum industry is successful. So as a result, you are faced with the situation where there is a mutual interest on behalf of the government and the industry in having this work done. The industry eventually pays in secondary taxation for the right to develop the resource once it's discovered. So the proportion of AGSO's budget which is devoted to that sort of activity is of the order of 65 per cent for two reasons: first of all, the offshore jurisdiction is a uniquely Commonwealth responsibility and so only the Commonwealth can do the work to attract investment offshore, and onshore, there is an agreement between the states and the Commonwealth called the national geoscience agreement, whereby the Commonwealth provides those specialist skills, where it's not cost-effective for each of the states to duplicate.

DR STEWARDSON: How would you designate the other 35 per cent?

DR POWELL: That's mostly things like nuclear monitoring, earthquake risk assessment, earthquake monitoring.

DR STEWARDSON: So that again - - -

DR POWELL: So that's genuine public good.

DR STEWARDSON: Okay. Just one other thing, your agency and others raises an interesting question for cost recovery in that the 30 per cent means you have to cost recover over your whole agency, whereas if one is looking very specifically at recovering costs for service, in some other organisations it's looking at the cost of a particular service and charging a fee very specifically for that and then it just sort of happens to wash out that for the agency as a whole, it happens to be X per cent as an outcome rather than as an aim. Do you have any comments that would help us in trying to design our guidelines from your experience of this trying to get a specific cost recovery or percentage thereof for the agency as a whole?

DR POWELL: I think it's worth me saying, as I indicated earlier, this 30 per cent cost recovery target, it's quite clear it's not being strictly adhered to. It's the ambiguity that it is not being removed and the message is that you get through the budget process as to whether you should or shouldn't be doing it; that's the problem. If there was a clear guideline that said yes, it's either or the other, then it would make your costing practices much more easy to handle and transparent. So having said that, the issue becomes one of - in an organisation like ours - if there was to be a cost recovery, then one should specify the areas or have a policy that says the agency must specify the areas or justify the areas. The irony however is that some of our public good areas are in fact quite good in the cost recovery game because they have unique skills that are sold government to government. For example, in our earthquake hazard assessment area, there is a great deal of interest in immediately surrounding countries in accessing that expertise through AusAid, so in fact in some of those areas, we can get full cost recovery plus a small profit by responding to an AusAid contract, but we would have an almost unique skill because it is a government function. So that's the irony of the situation, that the actual users of our own earthquake data is for a public good, state emergency management authorities, the EMA themselves, in which there is zero cost recovery.

MRS OWENS: I don't know if we discussed the Northern Territory issue.

DR STEWARDSON: No, we haven't raised that.

MRS OWENS: I think there's a submission, which I haven't got with me - - -

DR POWELL: It's from Dennis Gee, I think.

DR STEWARDSON: That's right, yes. He's basically unhappy with your costs.

MRS OWENS: Have you seen this?

DR POWELL: Yes, I've seen the submission.

DR STEWARDSON: Basically he's wanting to have data available and he feels your data is expensive and more so than it needs be for his purposes; that's the gist of what he's saying.

DR POWELL: Yes. The history of this is that we have this national geoscience agreement. It's predecessor was called the national geoscience mapping accord which is a partnership between the states and the Commonwealth to promote mineral exploration, onshore Australia, in the manner I've described. The states went through a phase where they went into full high cost recovery mode and what they found was it was not having the desired effect on mineral exploration activity. Unless you have people looking, you will not find the deposits, and they regard it their job to provide the basic information to keep people looking, and us, as partners with those, we get into all sorts of knots because we have a different cost recovery regime to them and as a result, it inhibits the ability to effectively partner with them. The reason it becomes

a problem is because the areas where we can get some revenue to meet this target is in fact through the sale of these geophysical data sets. Typically, we're doing that in partnership with them, so we have to go through some fairly complicated convolutions in terms of who is responsible for what. At the end of the day, they feel that it inhibits the aim of the activity, particular for the smaller companies.

DR STEWARDSON: In terms of the sentiments that you have expressed in your paper, it sounds to me as though you are being forced to do this because of your 30 per cent requirement, rather than because you feel that that's a particular process that you want to charge for.

DR POWELL: That would be true. If you look at the reasons why the appropriation money is given in the first place, to promote exploration, prior to - I mean, companies effectively compete for many of these leases. The better the competition, the more effective the exploration programs that are proposed, and so it can become a bit counterproductive, yet we have never yet found a satisfactory way of addressing through the policy or the budget process that issue.

MRS OWENS: We've just about finished, so thank you very much, Dr Powell, for coming and for coming on a little bit early. Is there any other issue you'd like to raise with us before we break briefly?

DR POWELL: I think we've aired it pretty thoroughly.

MRS OWENS: Yes. You've got a very thorough submission and I think that we've had a good discussion and I think clarified quite a few issues, so thank you very much.

DR POWELL: Okay, thank you.

MRS OWENS: We'll just break for a minute.

MRS OWENS: The last participant this afternoon is the Board of Airline Representatives. Welcome to the inquiry, and I'd like you to give your name and your position with the board for the transcript please.

MR BENNETT: Warren Bennett, executive director.

MRS OWENS: Good, thanks very much. I'm sorry this may be a little rushed. It's unfortunate your plane was a wee bit late. As we said off the transcript, if it happens to you, it can happen to anybody.

MR BENNETT: Exactly.

MRS OWENS: Would you like, Mr Bennett, to make any opening comments before we ask you some questions?

MR BENNETT: Yes, briefly I think I would. The airlines in Australia are required to make quite substantial contributions to government monopoly service providers for mandated services that airlines are required to access. As such, we have quite a significant interest in the level of charges that are imposed by those monopoly service providers, the efficiency of those charges and the way the charges are structured and also in terms of the access to data to demonstrate that in fact the charges that we're incurring are in fact efficient in terms of the operations of the organisations that we're dealing with.

There are four principles I think that airlines would like to emphasise as being relevant to government charges that we're forced to bear; firstly, efficiency. We want to ensure, as I said, that the charges are efficiently incurred, that we're not paying for significant inefficiencies in the operations of those government organisations. The second principle relates to user pays and equity. We want to make sure that the charges that we're incurring in fact relate solely to the services that we're receiving and that there are no cross-subsidies between our payments and those that are being made by other users of the services provided by the organisations. Because they are government monopoly organisations, we believe that public accountability and transparency is very important. We need access to sufficient information to allow us to ascertain whether or not the charges that are being posed on us are in fact efficiently incurred and we are in fact, as I said, paying for only those services that we're being charged for, and again because we're dealing with government monopoly service providers in many instances, we want to ensure that the quality of the service that is being delivered by those service providers is in fact to world's best practice.

The submission that we made outlined a number of government charges that we wanted to address specifically and they related to the passenger movement charged levied on departing passengers, the funding of some airport security functions through a levy on airlines, payments to Airservices Australia and payments to the Bureau of Meteorology. In the haste to get our submission together and in the context of trying to develop a submission on the SACL proposal for aeronautical charging, there are two matters that didn't get included and they were the noise levy that airlines have to

pay on arrivals at Sydney airport at the present time and at Adelaide airport in the future, and finally the proposal by Sydney Airports Corporation for the increase in charges for its aeronautical services. I wasn't sure in fact whether this inquiry covered a government corporation in terms of its charges. You're shaking your head. Does that mean - - -

MRS OWENS: I'm shaking my head. No, I think in our issues paper, we really defined those out - GBEs we defined.

MR BENNETT: This isn't a contestable market. This is where I got confused. I saw GBEs but then neglected the contestable market. SACL is a monopoly supplier of services in the market of airport operations in Sydney and New South Wales. So from that point of view, I might make a couple of comments on the SACL proposal.

MRS OWENS: I think you could make some comments on those now and if you wanted to provide any further material for us on those issues, you could do so at a later date. There'll be other opportunities throughout this inquiry to do so.

MR BENNETT: Yes, okay. If we start with the passenger movement charge, very quickly, because you do have most of the comments that I wanted to make in our submission, it's a charge levied on airline passengers departing Australia. We've been waging a constant battle with the government over the basis for that charge and the fact that we don't know whether it in fact overcollects for what it was originally described to us as being put in place for. It was originally described to us as being a levy to meet the costs of the border control agencies at Australia's airports, those border control agencies being the Department of Immigration, the Customs service and the Quarantine Inspection Service. We've done over the years successive analyses of the information available to us through public statements, by public data available from government, and that has shown quite clearly, we believe, that in fact if that's the purpose of the passenger movement charge, then it clearly overcollects. It raises more money than we believe is demonstrated by the government as being required for the border control functions as specified by the government in relation to the PMC.

The audit office produce a report in 1996-97 that showed quite clearly that they were overcollecting. The Australian Customs Service, the organisation responsible for the administration of the PMC, disputed that and instituted its own consultant's report to assess whether or not the PMC overcollected, and that reported purported to show that in fact it didn't overcollect. But it was a particularly poor report and it didn't take a great deal of analysis to demonstrate that there were considerable doubts about the findings of that report, and an appendix or an attachment to our submission shows some of the issues that we were able to raise in relation to that report and some of the holes that were clearly identifiable. It still showed, we think, that the PMC is significantly overcollected.

The problem we have with the passenger movement charge of course is that surreptitiously, there appears to have been a change in government policy. Whilst the PMC was always collected under the government's taxing powers, it was clearly

enunciated by the government as being a charge to recoup certain costs. Now, via another audit report conducted earlier this year, we find that it's now partly the collection of costs but apparently more a tax, as purely defined. So all of a sudden - because apparently the government was embarrassed about the fact that we were able to show quite clearly that it was overcollecting - they have decided to change the policy and we now have a situation where it's described as a tax, probably in the hope that we will go away and not keep complaining about it. But we will; it is a charge that airlines have to bear. Although it is generally passed on to passengers, not all passengers pay it. There are legitimate reasons why not all passengers pay it and there are slippages in systems that mean that because of lack of knowledge overseas where tickets are often issued, the passenger movement charge isn't imposed on the ticket. When you get to a departing passenger going out of Australia, the need to ensure facilitation quickly at airports means that airlines either ignore the fact that the passenger movement charge hasn't been paid in order to get the customer through fairly quickly and not hold up the flight, or they just don't notice in the convoluted processes of ticket issuing overseas that in fact the charge isn't applied.

That causes another concern for us because originally there was a 5 per cent tolerance allowed on the payments to the ACS for the passenger movement charge. It could be 5 per cent either way of the assessed charge based on departing passenger numbers. That was reduced by the ACS to 3 per cent a couple of years ago, and now the latest audit report wants it done away with completely, so again, that's going to be effectively a fine on airlines for failure to have the passenger movement charge collected by third parties who are beyond the control of the airlines anyway.

DR STEWARDSON: Can I interrupt because I have to go in a few minutes, before you get to the end of your list.

MR BENNETT: Sure.

DR STEWARDSON: I take it that last bit is really the nub of your comment. Presumably you're not all that fussed as to whether it's overcollection and therefore a tax or not.

MR BENNETT: No, we're very fussed about that.

DR STEWARDSON: The thing is that you are having to make up the shortfall for what is a tax and not just a cost recovery.

MR BENNETT: No, in fact that's the leftover bit at the end. What we're really concerned about is the fact that because the government overcollects the passenger movement charge in relation to the services that are provided by the CIQ agencies, we believe that that surplus fund should be used to pay for the costs of other government-mandated services that are imposed on the airlines, such as those mandated services that we believe are community service obligations, such as counter-terrorist first response services at airports, check bag screening, the x-raying of hold-stowed bags to ensure that there are no explosive devices on them, and passenger screening at

airports. They are community service obligations relating to the general safety of the community, but we believe that the excess charges from the PMC should be set aside.

DR STEWARDSON: Okay. So in other words, you think if it's going to be a tax, you'd like it to be a hypothecated tax?

MR BENNETT: Exactly, yes.

MRS OWENS: If it's going to be a tax, it raises a really interesting question as to whether the airlines should be actually collecting that on behalf of government anyway, if it's a tax.

MR BENNETT: We collect lots of things on behalf of government.

MRS OWENS: You could possibly send the government a bill and say, "We'll charge you for collecting your tax."

MR BENNETT: Airlines effectively are a very big petrol pump for the government in more ways than one, so yes, that does raise an issue. If I just move on quickly to the funding of airport security functions - that's the counter-terrorist first response function, as I said - there are a number of issues here. Firstly, it's payable according to aircraft weight. That's a fallacious basis upon which to charge the service anyway because it assumes that if you operate a bigger aircraft, you are inherently a higher terrorist risk and that's not necessarily the case.

MRS OWENS: Yes, I thought that was rather strange actually.

MR BENNETT: It is.

MRS OWENS: I didn't quite understand the rationale for that.

MR BENNETT: There is no rationale for that. It's just an easy way of doing it. That's the bottom line in a number of these charges that the government imposes on airlines. But we have a number of other problems though. Firstly, the APS, Australian Protective Service, is the sole provider of that service. Theoretically, airports can go to the Federal Police or state police to contract out the services, but the Federal Police have stated quite clearly they want absolutely nothing to do with it, and only in New South Wales has the state police taken any interest in the matter. So effectively we have the APS as the sole provider. Its cost structures are demonstrably higher than private service providers of security services. In very rough terms, I think an hourly rate for an APS employee, fully costed up, is about 50 to 55 dollars an hour; for a private security agency, it would be about 30 to 35 dollars an hour. That 30 to 35 would be increased somewhat because of the nature of the additional training that would be required to perform a CTFR function, but nevertheless, it would still be quite significantly below the APS cost structures, so that to us is a very serious flaw in the charging basis that we have for CTFR delivery. It should be contestable to allow private security agencies to do it.

The next issue we have with it is in fact we're paying for it but there are a lot of other beneficiaries of the CTFR service. The APS officers patrol airports. They don't patrol aircraft, so it is a community service obligation in the same way community policing at a Westfield shopping centre is a community service obligation. The CTFR function benefits other users of the airport, including the airport operator. It benefits the retail outlets at the airport. It benefits the travelling public, the meeters and greeters at the airport, and all other businesses who operate on the airport, so it does in fact provide a service for a large number of end users, and yet the airlines solely are responsible for paying for it.

MRS OWENS: I suppose some part of what you pay will get passed on eventually to the travelling public.

MR BENNETT: It certainly does, yes.

MRS OWENS: So one of those users will - - -

MR BENNETT: It's part of the overall airline cost structures that are used or assessed in trying to develop what the bottom line in terms of tickets might be. It's very hard to demonstrate how that flows through because airlines are involved in what amounts to a highly competitive international industry, so there are a large number of factors that are going to go into the pot to determine what fair structures might be. CTFR is just one of a broad range of government-imposed charges on the industry that are in fact an integral part of what airlines have to bear in determining their fare structures.

MRS OWENS: Do they have to pay those sort of charges overseas in the other countries?

MR BENNETT: It varies from country to country. I think it's true to say that in most instances though, it is treated as a community service obligation, particularly in North America, where a lot of the airports are community owned. They're owned by the cities that run them. Generally the security arrangements are provided by the city and it's just part of the overall cost structures that airlines bear in terms of aeronautical and non-aeronautical service charges at the airport.

Payments to Airservices Australia was the next point on the list, and I can't go into that very much because payments to Airservices Australia are fundamentally made through a levy on aviation fuel, an excise on aviation fuel. Now, I represent international airlines and the levy is not payable by international airlines. It's payable by domestic airlines.

MRS OWENS: But you've got New Zealand there that would be paying it.

MR BENNETT: No, only in terms of their domestic operations, if they ever have domestic operations, not in terms of their - - -

MRS OWENS: But one of your members does pay?

MR BENNETT: Yes, Ansett and Qantas are the two members who are forced to bear the great bulk of the cost of the Airservices Australia fuel excise levy. I don't want to speak on behalf of just Ansett and Qantas, especially on behalf of Ansett and Qantas in terms of their domestic operations when we represent international airlines. They will go into much more detail on that. But the fuel excise is really one of the most anomalous government charges you would ever want to come across. There is no transparency whatsoever. The Treasury just decides how much it wants to lump onto the fuel excise and there is no reconciliation at the end of the year to determine whether in fact the amount they have collected is over the amount they need for Airservices Australia and other services that are funded by the excise levy. It is truly one of the most anomalous government charges you would come across, but Ansett and Qantas will give you much more information on that.

MRS OWENS: I should just record for the transcript that at this stage, our second commissioner is departing and we now longer have a coram, but we may proceed and take the rest of the evidence. If we require any confirmation from you about using that material in our report, we will come back to you, if that's agreeable with you.

MR BENNETT: Yes, that's fine. I'll have to be careful now because I haven't got the SACL and I need to ensure I don't say anything nasty - overly nasty.

MRS OWENS: Yes, we'll both be really careful if that's the case. I won't ask you any tricky questions. But in the context of Airservices Australia, you also raised the issue of the towers at the regional locations and you were expressing concern that there is this price capping that's going on. I understand that's actually going to be taken off soon. Is that your understanding?

MR BENNETT: Yes, I think it is. I'm not sure of the exact timing of it. The point that we wanted to make there was that because of the lack of transparency about the detail of the costs associated with particular charges that Airservices Australia implements, we can't be sure that in fact there aren't still considerable cross-subsidies between the major towers around Australia which our members use, the international airlines, and the smaller regional towers which the GA aircraft and some domestic aircraft might use. There is no transparency to demonstrate that in fact what Airservices Australia has put in place is in fact a true site-specific costing structure and there is no transparency sufficient to allow us to assess that Airservices Australia is charging on the basis of efficiently incurred costs which is another problem that we perceive with Airservices Australia. They have in fact reduced their charges to tower navigation and rescue and firefighting service charges at the principal airports which the Board of Airline Representative's members use, but it's only been of the order of 4 or 5 per cent and yet we believe that there's probably scope for Airservices Australia to reduce its overall costs of the order of 20 to 30 per cent based on the very limited information that we've received from that organisation in the past. So there's a wide gap between 5 at the most and 20 to 30 at the most, which we believe needs to be

investigated thoroughly and a true user-pays system adopted to ensure that the international airlines are paying the true efficient cost for the services that they're accessing and that if a government subsidy is required to maintain the accessibility of general aviation aircraft to regional towers, then that subsidy be a specific government subsidy that's open and transparent and able to be assessed on a regular basis for its merit in its own right.

MRS OWENS: Yes, we're unclear I think at this stage whether we'll get a response from Airservices Australia on some of these issues because there's been some lack of clarity as to whether they should be involved in this inquiry. They very much see themselves like a GBE.

MR BENNETT: Their services aren't contestable at the moment. They are a monopoly provider.

MRS OWENS: Yes, so we're still trying to resolve that particular issue.

MR BENNETT: The Bureau of Meteorology, we have similar issues with the Bureau of Meteorology in terms of the way charges are levied on airlines. Again, it's via an en route navigation formula, as I've outlined in the submission, and that comprises a weight and a distance component to determine the amount of charge that is incurred by a particular airline for access to met aviation and weather services.

MRS OWENS: What would the weight and the distance have to do with the weather services that you're using?

MR BENNETT: It has nothing to do with it at all really, except to the extent that bigger planes fly at higher altitudes, but all users of met services have equal access to all data, every bit of data that a major overseas airline, such as United Airlines, would have access to; a small regional operator in New South Wales would have access to or even a GA pilot would have access to. So there is no reason why there should be any differentiation between the users of the service, because all users of the service have equal access to equal data. It is simply a means of imposing additional charges on those users of the service who are perceived to have a capacity to pay.

MRS OWENS: It's interesting, because we saw the bureau at these hearings and they have given us a submission which you may or may not have seen, but they were basically arguing that they're treating the aviation sector as a mixed public-private good and they say that they're charging an incremental cost, which to my mind and my understanding was that that incremental cost would actually be based on what they saw as the incremental cost of providing the services to the aviation industry, but basically what you're saying, there is this formula that doesn't actually reflect that incremental cost. Is that correct?

MR BENNETT: It certainly doesn't appear to reflect it from our point of view, from the information that's been provided to us by both Airservices Australia and the Bureau of Meteorology. Certainly the information doesn't provide us with any

comfort that what they're charging us truly reflects the delivery of the aviation meteorological services that we're seeking there. We can't ascertain that the division between the aviation weather requirement services, the maritime weather services and the general public weather services is allocated according to the true costs incurred in delivering those services. There's just been a total lack of transparency.

MRS OWENS: So again we've got a transparency issue there as well.

MR BENNETT: Exactly, yes. There are a series of other issues that I've outlined in the submission as well as transparency that really are worth noting. The airlines have a pathological hatred of pre-financing of capital expenditures and it's one of the main arguments that they enter into with airports around the world. Lo and behold, we've found in the data presented to us by the Bureau of Meteorology some pre-financing of capital expenditures by that organisation, so we find the hairs on the back of our necks rising quite significantly when that occurs, so that is a further problem.

MRS OWENS: Have you got any information about that that we could get access to?

MR BENNETT: Not off the top of my head. I could certainly supply that in a supplementary statement. That wouldn't be a problem.

MRS OWENS: So they're using what, a replacement cost basis for charging for some capital? How are they doing this?

MR BENNETT: No, they're just adjusting their charges for expenditure that will occur into the future, so they're saying now, "We're going to install this sort of equipment one or two years down the track. We're adjusting our charges now to allow us to undertake that.

MRS OWENS: I see. That would be somewhat unusual, wouldn't it?

MR BENNETT: Yes. The airlines feel it's unusual. The Bureau of Meteorology is not the only one that tries to do that though.

MRS OWENS: Who else?

MR BENNETT: Airport operators regularly try to do it as well, so it's not something that the Bureau of Meteorology is alone in.

MRS OWENS: If you can give us any more information on that, I think that would be very useful.

MR BENNETT: Yes. In going through this submission when I was coming down on the plane, point (c) in there about the changes to the accounting system from a cash accounting to an accrual accounting system, I said that that led to some accounting anomalies, including double counting of particular costs without outlining

what they were. I'll go back and in a supplementary statement provide a list of the issues that we had there as well.

MRS OWENS: That would be excellent, thanks.

MR BENNETT: Now, as I said at the start, there are other aviation charges that I don't want to deal with specifically, simply because they're probably outside my brief in terms of an international aviation representative and that's the funding of the Civil Aviation Safety Authority. That goes back to the issue of the aviation fuel excise and the fact that the great bulk of it is payable by Ansett and Qantas in their roles as domestic operators. It's not payable by international aviation operators. The other point is the funding of the Australian Competition and Consumer Commission airport pricing oversight arrangements. That is a particularly curious one. All other levies on industries to fund the work of the ACCC is levied on the industry participants who are actually being regulated. In this case, it's levied on the industry participants who are the customers of the organisations that are being regulated, so it really is topsy-turvy.

MRS OWENS: Is it levied on the international airlines in this case?

MR BENNETT: No.

MRS OWENS: No, this is just again the domestic.

MR BENNETT: Just again the domestic ones, yes. Excises can only be levied on operations within Australia. So you will, I'm sure, get very fulsome information about the operation of that levy though from both Qantas and Ansett when they appear before the public forum.

MRS OWENS: Yes, let's hope we do.

MR BENNETT: I'm sure you will. If I could just go on to SACL because, as I said, this is on the premise that SACL is a government monopoly service provider in an industry where it is not contestable. They are the monopoly provider of airport services for Sydney and for wider New South Wales. SACL has put forward a proposal to the airlines for an increase in aeronautical charges of around about 130 per cent overall. They're going from something of the order of - this is off the top of my head - \$98 million in aeronautical revenues up to around about 210 to 215 million dollars in aeronautical revenues. It's a very, very substantial increase in what they're proposing to charge the airlines. The curious thing is that there is no commensurate benefit that accrues to airport users as a result of that 130 per cent or more increase.

MRS OWENS: Which charges are we talking about?

MR BENNETT: We are talking about specifically the aeronautical charges which is the landing charge, the international terminal charge and the apron usage charge.

MRS OWENS: What justification have they given for doing so?

MR BENNETT: They have applied a building block approach to the development of what they term as allowable revenue. What they have done is taken an estimate of the cost of capital to them, the return on capital that they expect to receive, the return of capital, being the depreciation - so there's the return of capital, the return on capital, plus operating costs - so it's profits applied to their asset base, depreciation and operating costs. That methodology is a methodology that's been adopted by the ACCC in some other industries, including electricity and gas transmission. There are specific reasons why it can be applied to those industries. There are similarly specific reasons why it shouldn't be applied because of different economic structures and the economic nature of the industries to airports. It is a methodology that isn't in accord with the regulatory regime that's in place for other privatised airports in Australia. So SACL has simply asked for an increase in charges of 130 per cent because of its desire to assess charges via a different methodology to the current regulatory regime for privatised airports.

We believe that that proposal results in a very significant transfer of wealth from airlines and airline passengers, the city of Sydney and the wider New South Wales economy to SACL, and as I said, there is no commensurate benefit. There has been a major upgrade of Sydney airport during the last couple of years.

MRS OWENS: Because of the Olympics and other reasons.

MR BENNETT: That's right, yes.

MRS OWENS: So are they trying to recoup some of that?

MR BENNETT: That's right, they are trying to recoup that and there are a wide range of issues associated with their desire to recoup that, starting firstly with undertakings by the former Federal Airports Corporation, and previously SACL, when it took over from the Federal Airports Corporation, that it wouldn't seek to increase charges for aeronautical services as a result of that capital expansion because the growth in revenues from retail outlets in the terminal and growth in traffic for aeronautical services at the airport would be sufficient to meet the cost of the development that was undertaken. They have since gone back on that undertaking and not only have they gone back on it, but they are now seeking to increase charges to account for a total development cost of the order of \$700 million, when the original cost that was put to the airlines was \$350 million, so there was a huge blow-out in the cost of the proposal that was actually put to the airlines in the first instance. So there are a wide range of issues associated with the SACL proposal.

We are particularly concerned that the objective of the proposed increases at Sydney airport appears to be simply to bolster the sale price for the airport when Sydney is actually privatised.

MRS OWENS: What's happening with that? Is that going to go ahead now the

Olympics are out of the way?

MR BENNETT: The government's firm response over the last 12 months or so has always been that they wanted to sell Sydney airport during the first half of 2001. It's now getting to the stage however where there's speculation that in fact they may want to put it off until after the next election.

MRS OWENS: I wonder why.

MR BENNETT: Yes, it's part of a very contentious package of policy issues that the government has to grapple with in terms of the broader transport infrastructure associated with Sydney and New South Wales and wider across Australia. So it appears that there now may be some pressures on the government not to sell Sydney airport prior to the next election.

Given the fact that we believe that all they're trying to do is bolster the price of Sydney airport when it does get sold, we firmly believe that the Productivity Commission shouldn't endorse any sort of policy to increase prices charged by a public monopoly in order to increase the proceeds from the privatisation of that public monopoly.

MRS OWENS: That sounds like something for the guidelines, doesn't it?

MR BENNETT: Yes, it does. We firmly believe that it's directly contrary to the national competition policy, so we'll let you make up your own mind on that. But certainly so far as we're concerned, it is a very significant issue. I would be happy to provide the Productivity Commission with a copy of the submission that we're making to the ACCC tomorrow afternoon on our response to the SACL proposal. It goes through these issues in a great amount of detail, over a series of some 250 pages at the moment, but I'm sure you'll find it riveting.

MRS OWENS: I'm sure we will. We're used to reading very long documents, usually at midnight. The ACCC is currently reviewing this. What's the timing of their processes?

MR BENNETT: The timing of their process, we understand, is that there will be a public hearing on the SACL proposal on 13 December. They expect to have a draft decision out by mid-February, then there will be another period of public consultation for about a month or six weeks, and then a final decision will come out probably a month to six weeks after that, so we're looking at March, April, for a final decision. Our submission to the ACCC will be a public document as soon as it's provided to them, so it can be used more widely. So yes, a guideline - I'm glad I came.

MRS OWENS: There's a guideline there. I think it sounds like a pretty reasonable guideline. Do you want to say anything also about the noise levy that you raised at the beginning?

MR BENNETT: Yes, the noise levy, again it's transparency and the basis of collection as being the issues that we want to emphasise. We don't get information from the government to allow us to adequately determine that in fact the money that's being collected by the government is being directed towards the notional outcome that it's meant to achieve. There is no reconciliation of moneys collected and moneys spent on the noise amelioration program in Sydney. There appear to have been fairly lax controls over the undertaking of the work involved in the noise amelioration program and there had been rumours of problems associated with the distribution of moneys associated with that program. We've had discussions with the Department of Transport and Regional Services on this issue and they have assured us that their controls are now much more stringent and that the sorts of problems that might have occurred in the past - that they claimed didn't really occur - will not occur in the future.

But one of the significant issues is that there is no firm control in the system to ensure that if the work that is undertaken for a particular dwelling or building at some point in time is taken out as a result of renovations or simply as a result of being stolen by the owner to take to another dwelling, that the second owner or the next owner can't come back and say, "I want this done again." There are no effective controls to ensure that that doesn't occur, apart from a ministerial assurance that second bites of the cherry won't occur.

MRS OWENS: But there's nothing to actually stop it occurring and you actually indirectly pay for that through the levy?

MR BENNETT: That's right, yes. Again it's like the passenger movement charge, really the passenger is supposed to pay for it but the \$3.40 that's payable in Sydney was set as a very rough approximation of the notional charge that might flow out of a very, very complex formula associated again with aircraft size and engine size and the type of engine, the age of the aircraft, those sorts of things, and so whilst those carriers might have very up-to-date aircraft flying to Australia - probably get away with paying to the government pretty close to \$3.40 per passenger that they carry - other airlines operators that don't have such a new fleet really do get stung quite considerably because the \$3.40 generally doesn't go anywhere near towards covering the full cost of the payment that they have to make to the government based on that very complex formula. So it's a similar issue to the passenger movement charge there. It's effectively a tax on the airlines. That depends on your particular political point of view, I guess, or environmental point of view as to whether that's appropriate or not, but certainly the structure of the charge, the way the charge is administered and the incidence of the charge on particular airline operators doesn't again accord necessarily with the sort of policy that the government is trying to put in place. The wrong people are paying the wrong amounts of money, so it's a very complex issue. It really means that particular airlines are being discriminated against in terms of the amount that they have to pay. So that's principally the issue that we wanted to raise there, apart of course from the fact that there are considerable political pressures being built up by communities for ever widening the footprint that the noise amelioration plan should effect between Sydney, but now in Adelaide. The next one on the agenda is

probably Coolangatta. After that it's probably Perth and after Perth, it's probably everyone. So this sort of levy is probably something that will go on and on and on forever. It's not a happy scenario for the airlines.

MRS OWENS: It sounds like it could get quite more expensive for the airlines.

MR BENNETT: It does.

MRS OWENS: It's not a happy scenario for the passengers. I suppose it may be a happy result for the people that live near airports who actually chose to live near airports.

MR BENNETT: Exactly, that's right, they did. There are very serious questions about whether in fact the program is addressing those areas of noise-affected cities that really need to be addressed, and the Department of Transport and Regional Services, to its credit, bless its heart, is doing some more work on what the noise impacts might be around particular airports in capital cities to get a better assessment of what the particular impacts might be. But you do tend to find that areas well outside the noise imprint that was being developed by the department are seeking compensation via this fund.

MRS OWENS: So others that are on flight paths, well out.

MR BENNETT: Yes, that's right. So it is a significant political issue that the government has to address. We believe it's got to call a halt somewhere if it can be shown demonstrably that in fact the impact of aircraft noise on particular areas is not within the guidelines as set by the program, then there should not be any consideration whatsoever for the program works to be done in those areas.

MRS OWENS: There's just one other point I'd like to return to and that relates to the aviation fuel excise. You mentioned before in passing that it can only be levied on the domestic operators. I suppose it really raises the issue of does this actually mean that the charges other than the fuel excise levied under Tax Acts would not have to be paid by the international airlines as well?

MR BENNETT: That's an interesting point. If the passenger movement charge, for instance, is a tax, should it be paid by international operations? We haven't pursued that line. I might seek some legal advice on that.

MRS OWENS: Take that one on notice, yes.

MR BENNETT: Yes, I will, seek some legal advice on that.

MRS OWENS: It raises a set of issues for us more broadly because we've got charges being imposed by regulators on exporters, for example.

MR BENNETT: I'll attempt to get some preliminary findings on that matter in a

supplementary statement to you.

MRS OWENS: That would be very good. I think it might be a matter of just getting to a very highly paid lawyer or somebody who knows about these things and getting some advice, but it is an interesting issue.

MR BENNETT: Well, we'd want a good lawyer, so it would be an extremely highly paid lawyer.

MRS OWENS: Yes. You think government charges are bad; I think there's other members of the community that actually charge and the transparency is not great.

MR BENNETT: That's right, exactly. Yes, unfortunately government is not alone in this.

MRS OWENS: No.

MR BENNETT: I'll certainly follow that up though and see if I can get some preliminary results back to you.

MRS OWENS: Good, thank you. I think that's three things that we've asked for some follow-up. There was that and you said you'd give us - - -

MR BENNETT: There was the Bureau of Meteorology matter.

MRS OWENS: Yes, and there was the ACCC submission that you were going to provide for us.

MR BENNETT: Yes, that's right.

MRS OWENS: I think that's just about all I had to ask you. I thought just setting out all the costs that you were having to face was very useful because it actually adds up to a bigger picture. If you just look at each of those things individually, you say "well", but you add it all up, and the point you kept making about transparency I also think adds up to a very significant issue.

MR BENNETT: Yes, that's right. You will find I think that the Qantas and Ansett submissions will give you figures attaching to the comments that I have made today that puts the nature of the charges in perspective and the breadth of the charges in perspective, so you'll be able to attach some dollars to that. Believe me, they're very big dollars.

MRS OWENS: Thank you very much, Warren. I'd like to thank you for today and I know you've been involved or your organisation was involved in our earlier inquiry that I was also involved in, the international air services agreement, so we'd like to thank you for your ongoing interest in our work and participation and the submission.

MR BENNETT: We'll be back again for the PS Act inquiry as well.

MRS OWENS: Yes. You see, there's always something to keep you busy.

MR BENNETT: That's right.

MRS OWENS: You never run out of work to do. It keeps us all in jobs which is very nice.

MR BENNETT: Yes.

MRS OWENS: We'll now close the hearings in Canberra this week and we will be resuming back here at the Brassie Hotel next Tuesday at 8.45 am. Thank you.

**AT 4.46 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 5 DECEMBER 2000**

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