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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO COST RECOVERY

PROF J. SLOAN, Presiding Commissioner
DR R. STEWARDSON, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON MONDAY, 11 DECEMBER 2000, AT 10.55 AM

Continued from 7/12/00 in Canberra

PROF SLOAN: Welcome to the resumption of the public hearings for the Productivity Commission's inquiry into cost recovery by the Commonwealth regulatory, administrative and information agencies. I'm Judith Sloan, and with me today is my fellow associate commissioner, Robin Stewardson, and the other commissioner on this inquiry, Helen Owens, is not here today and apologises. Public hearings have already been held in Melbourne, Sydney and Canberra and we resume this week in Melbourne and by video in Adelaide and Perth. The scope of the inquiry is specified in the terms of reference. Copies of this and other inquiry documents are available on the table outside in the bar area - I'm not sure it's the bar area - outside.

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. Public submissions are vital to the commission if the commission is to be successful in these tasks. The public hearings provide the opportunity for participants to make oral presentations and discuss their submissions with the commissioners. This is an important part of the public inquiry process and the commission is also able to seek clarification and pursue particular issues in greater depth. While we try to keep these hearings informal, we do take a transcript for the public record. Transcripts are normally available on the commission's Web site within a couple of days of the hearing and we will send each participant a transcript of their session's proceedings. At the end of the scheduled hearings for today, I will invite any persons present to make oral presentations should they wish to do so. I now turn to Mr Richard Cumpston, and you're representing the firm Cumpston Sarjeant Pty Ltd.

MR CUMPSTON: Yes, I am.

PROF SLOAN: Could you repeat your name for the purpose of transcript.

MR CUMPSTON: Richard Cumpston. I'm a director of Cumpston Sarjeant Pty Ltd.

PROF SLOAN: Thanks very much, Richard. Now, often it's quite useful for participants just to spend a period of time, five minutes or so, going through their submission.

MR CUMPSTON: Yes.

PROF SLOAN: We have read the submission, and thank you very much for it, but that probably is quite a useful way to start off.

MR CUMPSTON: All right. There are just a few short things I can add in that process. I mentioned that we were building - at the foot of page 1 - a very large regional model of Australia. If you don't mind, I've brought a description of that model which I presented at a conference last week.

PROF SLOAN: Yes, that would be very useful.

MR CUMPSTON: You can throw it out - - -

PROF SLOAN: No, not at all.

MR CUMPSTON: - - - but just so you know it exists.

PROF SLOAN: Yes, that was a high-flying conference, the Population Association.

MR CUMPSTON: It's a very lively conference indeed these days.

PROF SLOAN: It is.

MR CUMPSTON: If I could deal with the very narrow issues on pricing policy first and perhaps come back to the broader issues that that paper is part of. We are a heavy user of some of ABS' services, particularly their fixed-price publications and even their integrated regional database. We find those really useful for a wide range of purposes and we have no quarrel with their pricing policy in respect of those.

PROF SLOAN: So these are the actual kind of paper publications?

MR CUMPSTON: The paper publications, and for 3 or 4 thousand you can buy a very useful CD which has a big range of specialised stuff from ABS and other sources. They're very useful. We don't have a problem with any aspect of the pricing policy there, but over the years we've had a lot of problems with their pricing policies for special computer printouts, and it's really those that our submission is addressing solely. By coincidence, two weeks ago I gave a paper at this APA conference about business uses of demography and most of the paper was about ABS' role because they are so crucial to so many aspects of business and government. In preparing the paper, I talked to a number of senior ABS people and they gave me their policy papers on fees and their charge bases inasmuch as they're public, and I've quoted word for word the pricing policy at the top of page 2 of my submission and I say essentially that it's garbage. First, the high prices deter many potential users, so their sales are only reflecting a small part of the demand. The segment that uses often cannot judge the relevance of ABS data to their real needs without making explorations.

PROF SLOAN: I think that's a very strong point. We might come back to that.

MR CUMPSTON: Yes. I've got some more comment later in the paper about that. Then finally, specific data may be of considerable commercial value to a few users but also be relevant to many members of the community. Sometimes the ABS is operating a highest payer gets all policy. They set their price on the basis of what the most conspicuous user can afford to pay and not on the rest of the community. Then I deal specifically with data requests. This is the area that troubles us, that if you buy data from them, you'll pay labour hourly charges, what they call infrastructure charges - which is the bit we're objecting to - and the direct costs attributable to a consultancy

such as courier charges. Now, again we don't object to the labour charges, even though the actual level has been queried in your hearings. We don't object to direct costs. We think they're very proper. It's what they term the infrastructure charges, but are in fact their charges for data cells. That is a non-transparent scale. They won't publish it, but they did give me a few examples for the purpose of this paper, and they're the ones that appear on page 2.

If I could just quickly put that into context by giving one example of where we paid money for data cells. We were looking at migration between Australian statistical divisions, so there are 60 divisions, 60 destinations, that's 3600. We were looking at 10 age groups and two sexes, so there were 72,000 cells, so it very quickly mounts up for even quite a modest inquiry. So for that, by the look of it, we would have paid something like a thousand dollars. We thought that was a lot of money at the time. We were even more unhappy when we paid about \$700 for retirement village data which we found wasn't usable. It wasn't ABS' fault that they'd asked a new question in the census and they got very bad results to it, so we felt we couldn't ask them for our money back, but equally we'd spent a lot of money and then a lot of time trying to use the data and got nothing for it. So data isn't sort of a readily priceable commodity.

We do think that if you're doing any sort of statistical exploration, you need a lot more data than you wind up using because we will explore the area, do a variety of analyses and eventually settle on perhaps two or three really significant variables, but you may have used a dozen in the process. So to do a proper statistical investigation, you often need a lot more data than some novice might think.

There's also a particular problem with the non-transparent nature of the costs, of their scale of charges, because to find out how much something will cost, you have to make an inquiry and often you think it's a bit beyond your reach, so you will try several options and they will cost several options for you, and then eventually you may even decide it's all too expensive and go away, and we've wasted a lot of our time doing that and ABS wastes a lot of time, because they made skills to administer this non-transparent scale of charges. I got details from the last four annual reports about their revenue from different sources and I also talked to one or two of their people who are actually in client services.

The first point is obvious. They raise very little of their total costs from outside consultancies. I think it's 8.4 per cent in the last year. But in fact, business is probably at most paying a quarter of that. There's a heavy bias towards large government users - for example, with their electronic products, like their CDATE 96, which one expects business to use. In fact, 80 per cent of the revenue of that is coming from government. They don't have the figures but I think the business use of information consultancies, which is where you buy the data, is probably generating revenue of a million at most, which is way less than their total costs. That million is a very misleading figure because there's a number of offsets before it becomes clear revenue to them. Those offsets are firstly, tax. I think most businesses able to buy data would be paying tax, so immediately if they pay money to ABS, 30 per cent of

that is going back to the government. They're quite likely to be getting research incentives, so there's probably another 8 per cent I think going back to the government. I think on many occasions they would be buying the data to meet government consultancies. It's the consultancies who are actually the heavy users of ABS data and often their work is for governments. So that's three offsets. The fourth is ABS' own costs. It costs money to make those quotations to provide the data. So the net gain of all that to the government is perhaps half a million.

In terms of a very narrow submission, I don't believe the ABS is either fully informed or transparent in regard to these data cell charges and I noticed your presiding commissioner referring to the need for ministers to make fully informed and transparent decisions, and in this narrow instance, I don't think that process is occurring. I don't think ABS have done their homework in setting those data cell charges because there's no evidence in any of the inquiries I've made that they have actually thought about their supply-demand characteristics or their costs.

Turning very briefly to the broader aspect in our submission, I was really enthused by a comment that Rob Bastian made to you I think on page 536 of your 5 December hearing. He said:

How can we run a country or a society if we starve the populace of the information we need in order to engage in public debate and direct our politicians? I mean, it's just like burning books.

If we want to talk about clever countries, we need to get the data out there. Finally, although our work is very profit motivated, we believe it will have public benefit because we're very much interested in small areas - 2600 postcodes all around Australia, some which have massive inequality problems. I've already offered the results of our work to Simon Crean because I know he has a very strong concern with some of those regional problems. I've already offered it to the Business Council, although they may not perhaps have recorded the offer.

I do think that there's no such thing as pure business and pure government in this area, that if ABS can make its data available at much more modest cost, there'll be a strong benefit to the community as well as to business. Thank you for your time.

PROF SLOAN: Thanks very much, Richard, because this is a central issue for us because the ABS is certainly one of the largest information agencies of the Commonwealth and it's really very good to hear from users. I kind of feel a bit like an insider in a way, because having been a university researcher for a very long part of my professional life, a lot of your points resonate with me, I think particularly that point that you can't - well, there are two points, I think. To have a narrowly instrumental view of accessing data is wrong because as you say, you need - first of all, you don't know what you need until you've started the process really.

MR CUMPSTON: Yes, that's right.

PROF SLOAN: So you tend to need a whole lot more data than you'll eventually use to produce a very good product. Secondly, the point is that in fact until you get going and actually have some experience with the data and the like, again you can kind of make some mistakes - they're not mistakes, it's trial and error really.

MR CUMPSTON: Learning can be very slow.

PROF SLOAN: Yes. It seems to me that with the data cell charging rate, it kind of works against that because there's an assumption there that you can define precisely what you need before you've even started.

MR CUMPSTON: Yes, exactly.

DR STEWARDSON: Can I ask you firstly, what are the data cell charges - or the infrastructure charges, you called them - meant to represent, because I understand the ABS' policy is to charge basically marginal costs in relation to requests - the cost just simply of the request. They're charging labour costs separately. What is the infrastructure - - -

MR CUMPSTON: I've discussed this issue with them and I didn't get a very rational response. The response was it cost them a lot of money to have a computer system and put data into it and they want to recover some of that cost from the public, so they describe it as a marginal cost, whereas I would see it as a fixed cost.

PROF SLOAN: It's a bit hard to know but it seems a bit implausible that their costs would actually vary much according to the number of cells of data they provided because by and large, if you're accessing a cross-tab, that's the cost. I mean, to divide it up per cell seems a bit artificial, doesn't it?

MR CUMPSTON: There may be some very small marginal costs. They do have to confidentialise their data and that may be a partly manual process. So there may be some very small costs, but not this massively steep curve that they have got there.

DR STEWARDSON: But if it's something being done manually to make it confidential, would that not be in the labour costs?

MR CUMPSTON: Well, one would think so, yes.

DR STEWARDSON: It seems to be something we should find out about at some stage from them.

PROF SLOAN: I mean, it's really about whether we've got - I mean, it seems to me that if you charge a certain price for one lolly and then double the price for two lollies that makes some sense. But I'm just wondering whether their costs actually do vary that much by the number of cells they're producing, if they're producing large cross-tabulations.

MR CUMPSTON: We'd be very happy to pay a small uniform fee for each data cell. That wouldn't be objectionable. But these are just too high and they're too obscure.

DR STEWARDSON: I guess that, taking the devil's advocate view from what you've been saying, that there seems to be no suggestion that the ABS is charging for the view for part of the basic collection of their data. I mean, there's perhaps some contribution towards that in respect of the infrastructure charge. But even that's a bit of a question mark, just precisely what it is doing.

MR CUMPSTON: I'm very strong with Rob Bastian on that. We'd be more than happy to pay a higher tax rate. In fact it would be a good idea to bring the tax rate up above the 30 per cent, make it level with the personal tax rate. But we don't want to pay as taxpayers and then have to pay again. It's really, as he says, double taxation.

DR STEWARDSON: But I guess the question is, given that all that basic collection of data is there and subject to the question mark about the infrastructure costs, you are more or less being charged just the marginal cost of responding to your request, which is going to hopefully be a profit earner for you when you convert it into your product. I guess the question is you are already getting quite a lot from the ABS. Why should you get it, even just marginal cost, what you are then going to, yourself, make a profit on?

MR CUMPSTON: Well, if within government policy they want to maximise recovery charges we're happy to accept that too. But we just think they messed up this particular one. They're way beyond the optimum point for cost recovery. You know, forgetting any consideration of national interest but if they had a lower uniform charge per cell I bet they'd get a lot more money out of private industry.

DR STEWARDSON: So you think that they're misjudging the elasticity of demand.

MR CUMPSTON: Yes, exactly.

PROF SLOAN: Your personal experience tends to confirm that, I mean that you would be potentially bigger users.

MR CUMPSTON: Absolutely, yes.

PROF SLOAN: And that you're rationing your requests on the basis mainly that they're asking for.

MR CUMPSTON: Yes.

PROF SLOAN: I mean, certainly the figures kind of suggest - bear in mind, depending on, say, when census results come out there will be kind of tentatively more use made. But the figures you've got on page 3 are certainly telling us that there's not runaway demand for this product at the moment.

MR CUMPSTON: No.

PROF SLOAN: On that issue of quotations it has been our experience, or my experience as a university researcher, is that there was also a considerable lack of consistency in quotations and that you could kind of shop around the ABS a bit to get different prices. Have you ever experienced that?

MR CUMPSTON: No. We think they're great people, the ones you deal with.

PROF SLOAN: Yes, they're obliging, yes.

MR CUMPSTON: Very professional. Could I just mention we're opposed to intermediaries in this respect, because this came up in your hearing with the Department of Finance.

PROF SLOAN: Yes.

MR CUMPSTON: We're very opposed to buying data from intermediaries for two reasons. One is that it prevents us knowing fully what's reliable and not reliable about the data and secondly, it stops ABS getting full feedback from its users.

PROF SLOAN: Sorry, I'm not quite sure what you mean by intermediaries.

MR CUMPSTON: There has been a suggestion over a number of years, for at least a decade, that ABS should sell its data to a handful of private providers.

PROF SLOAN: I see.

MR CUMPSTON: Who should then satisfy the needs of the world at large, and we're strongly opposed to that.

DR STEWARDSON: I'm sorry, why?

MR CUMPSTON: Because data is not like widgets; it has problems. There's generally quite a few problems in understanding how the data is created and whether reliable and what's not, and we need access to the people who collected the data from time to time, to find out what's in it. So by having an intermediary you're stopping some of that process and secondly, that it's always a difficult call for ABS as to what particular data to collect and what to make available. If they've got a small number of intermediaries stopping them getting access to the broader users they won't make those decisions so well either.

PROF SLOAN: Because those intermediaries would be keen for the ABS to collect data which they would find easy to sell. I mean, there's quite a lot of data that the ABS collects which really has not much of a market, if you know what I mean.

MR CUMPSTON: It's particularly on the social side, on the regional side, where I think intermediaries are likely to blunt the process.

PROF SLOAN: Yes.

MR CUMPSTON: But anyway that's not even mentioned in our submission. It's just something I've picked up in the transcript.

PROF SLOAN: Where you say - because one of the suggestions, and it comes in with your recommendations, is the possible scope for new technology in this area and in some other statistical services overseas they basically provide their data on the Internet for everyone to use. Now, you're not actually kind of suggesting that, are you? You say facilities should be provided to allow users to request and receive data electronically without ABS manual intervention.

MR CUMPSTON: Yes.

PROF SLOAN: But that's still a large area of a specific request. I mean, how would you react to the idea that a lot more of this data would just simply be downloaded, having confidentialised various bits and pieces.

MR CUMPSTON: We're wildly in favour of free data.

PROF SLOAN: Are you?

MR CUMPSTON: Because we get that - I mean, ABS now has a terrific Web site where you can get all sorts of useful things for free.

PROF SLOAN: Yes.

MR CUMPSTON: But once you're talking about more complex statistical investigations they're not standard products.

PROF SLOAN: No.

MR CUMPSTON: We don't mind paying for them but we don't want an inefficient structure. It's really inefficient to have to get a number of manual price quotes before it then flows into the system. Often you want your data quickly as well.

PROF SLOAN: Right. And how do you find that in terms of the speed of delivery?

MR CUMPSTON: Once you get past the cost stage it's generally very quick. But the cost stage can be as long as the whole of the rest of the process together, and we know it's costly for us and it must be costly for them.

DR STEWARDSON: What is your sort of positive suggestion for how they should charge? Is it just labour costs, delivery costs?

MR CUMPSTON: Yes, those true marginal costs and really if they want to, we don't object to a small charge per cell. They're much smaller than the sorts of things we're talking about here.

PROF SLOAN: I think it's very useful. Did you have other points, Robin?

DR STEWARDSON: Just one small question: you mentioned universities getting a concession price.

PROF SLOAN: Yes, getting a lower rate.

DR STEWARDSON: And then being in competition with you. I thought that there was an arrangement with universities that what they got under that system was not going to be on-sold commercially. Am I wrong about that?

MR CUMPSTON: No, I think that's right. I read your transcript since I wrote the submission. I think ABS' intention is none of that data should be used for commercial research, commercial work. But that still leaves the universities with the same problem we suffer. We don't mind competing with the universities. That's very much what's happening today. Most, in fact, of the demographic analysis is done by university research centres. That's fine, but I just think the problems we suffer are the ones they suffer and we should be treated together, you know. So it shouldn't matter whether the research, the commercial research, is done in the university or outside. It should be the same fee basically.

PROF SLOAN: I suppose the argument runs something like this. Say someone is using the census to produce income levels by area, by postcode or whatever, and they're then selling that information to retailers in order for them to determine where they're going to drop their little leaflets. Now, there's a purely commercial purpose. I mean, should that not be charged as a different rate compared with the user which is, you know, looking at the social policy implications of the income variations across postcodes?

MR CUMPSTON: I think that's very hard. You can't quarantine data and I think the short answer is that the charges should be low for everybody. I think it's greedy to try and sort of hit a particular pocket. It's like governments picking winners. It's cheaper for them.

PROF SLOAN: Yes, but there are different demand curves in those two scenarios. You know, the impecunious university researcher really hasn't got access to the resources whereas someone who can on-sell essentially something profitably has obviously got a different demand curve.

MR CUMPSTON: I think we're all Australians.

PROF SLOAN: All right, Richard. Thank you very much for your participation.

MR CUMPSTON: Thank you for your time.

PROF SLOAN: Yes. Do watch the inquiry as it goes along.

PROF SLOAN: Hello, I'm Judith Sloan. How are you?

MR YOUNG: I am okay, thanks. I'm Michael Young, Judith.

PROF SLOAN: Right. This is my fellow associate commissioner, Robin Stewardson. Mike, just for the purpose of transcript, we need to know your name and position.

MR YOUNG: Michael Young from CSIRO Land and Water, the policy and economic research unit at Adelaide and I'm its director.

PROF SLOAN: Okay, thanks very much for that. At this stage, I think we've only got some talking points for discussion but you might actually like to talk to them for a few minutes because that's often a useful way to lead into questions.

MR YOUNG: I've worked most of my research career in the area of economics and environmental policy and about halfway through that, the government changed from making data freely available through to one which it charged the full cost of actually acquiring data and it's done that for all social, economic and environmental data. These data sets tend to be public good data sets, and a change that I've noticed is a change from an environment where this data was actually shared widely by a large number of people and used openly and exchanged freely to one where these data sets are now guarded very carefully, are used strategically for people to try and gain advantage and more importantly, aren't actually accessible in any book or to communities and this is becoming a major problem in areas like land and water management where the government has devolved responsibility down to catchment groups and to land care groups and so forth.

As they do this, these data sets are no longer being used and are being held only by central agencies. There's a real conflict there and I see a real need to try and actually rationalise such data collection arrangements and move towards a framework where these data sets are made available at marginal cost, and that's really the main point that I want to make. I see these data holdings, such as those held in ABARE and Environment Australia - actually in ABS and so forth, there's been public good data sets - and sharing them is not going to create any problems for Australia in terms of any rival competition. All we'll actually experience is an improvement in the quality of environment and resource use across Australia.

PROF SLOAN: Thanks very much for that, Mike. I was just actually going to - you just touched on it at the end - ask for you to give us some examples. We've just had a participant talk about ABS but you're not confining your remarks just to ABS data sets, are you?

MR YOUNG: No, I think it started with ABS. ABS was the first to move and then all the other state departments have actually responded in the same way, that if they had to have access through to ABS data and they had to pay for it, then they stopped being prepared to share information openly, so it's extended into lots of state

departments, into organisations like CSIRO, my own organisation, through into state departments of environment and so forth. There's a tension between whether these data sets are to be held as a strategic opportunity and something which is carefully controlled and only sold at full cost or if it's open to everyone.

DR STEWARDSON: But the ABS official policy, as I understand it, is to charge marginal cost. Now, we've just had a participant who has been questioning whether in practice that is what happens, but my understanding is that at least as a matter of policy, it's basically marginal cost for the ABS. Are you specifically talking about them or are you talking about other agencies?

MR YOUNG: It's the full spectrum, but certainly the ABS data sets that I access are not being supplied at marginal cost. Access to agricultural census data, for example, is about one and a half thousand, I think, for a state in Australia. I'd need to check those numbers - I'm sure you could also check the - but the marginal cost of supplying access to data sets like data on actually a CD should be in the vicinity of five or 10 dollars, because that is the marginal cost of actually copying it onto a CD. In fact it probably also should be up on the World Wide Web and downloadable easily, so anyone should be able to download it free at the cost of Web access. Some agencies are starting to supply such services though. ABS hasn't gone that way yet.

DR STEWARDSON: You mentioned ABARE and their agricultural statistics in particular. Are you looking for more detailed data than is put out in their basic publications?

MR YOUNG: Certainly I need access at times to special data sets and I have commissioned special runs for those and I would expect to pay the full cost of those services, but the standard survey data once again I think should be widely available. Increasingly, local catchment groups are looking for data sets like those collected through ABARE and find them extremely hard to access and also extremely expensive.

DR STEWARDSON: These aren't just things that used to be published in their fairly thick volumes of statistics some years ago?

MR YOUNG: No, I'm talking about those that are in those volumes of statistics are the results from their survey reports. They are now selling CDs for access to all their survey data which start in the tune of about \$500 for access through to a CD for the area, and when a local group is looking for information like that, they're only looking for one or two numbers out of the entire data set and it's not actually sold packaged up in a way that you can access it easily at a small scale. You have to acquire the whole lot. If you look at a typical local group that wants access to ABARE data or access to ABS data or access to DRS data for access to soil maps and so forth, the total cost for a local catchment group to obtain all that information from the separate agencies starts to mount up to thousands and thousands of dollars, and so they actually aren't using it.

DR STEWARDSON: You mentioned Environment Australia I think as one of your examples.

MR YOUNG: Yes.

DR STEWARDSON: What's the situation with them?

MR YOUNG: Environment Australia is caught. They have a policy, as I understand, of trying to release information freely to all people, but the licensing arrangements - they access data from others - often stop that from happening. So there are actually licensing problems that go back to state agencies who are now supplying information into Environment Australia on the condition that it isn't passed on to other people.

PROF SLOAN: That's an interesting issue actually, I think, Mike, because you've got here that there's a potential for intra-agency cooperation to be discouraged, especially when this requires an exchange of data. It seems to me that there are two things: one which is actually that it is a condition of buying the data that you actually don't pass it on, so once you have a kind of licensing arrangement, you have to - but I think the second point which is that the cost recovery processes are kind of encouraging a proprietary view of the data held by those who have paid for it, you know, paid the costs, that's quite an issue. We had a group which you probably don't know of which was called ACTRAC which is actually the group that is trying to look at the illegal laundering of money and funny movements in bank accounts and the like, and her view is that the last thing you wanted to do was to recover costs from the agencies she supplies information with because they'd ration it. What you're suggesting is that there's a kind of holding on to data as a result of the cost recovery process.

MR YOUNG: Very much so, because that creates a strategic opportunity for others to then go and obtain work, and people are very careful now to hold on to data sets so they can apply for other jobs and contracts because they have exclusive rights to it, and that's flowed into the agencies as well. You will find that all of the state departments are now competing with private agencies and with universities and are very careful about who has access through to their data.

PROF SLOAN: Can you give us an example of that? I mean, you can talk generically if you'd rather.

MR YOUNG: Yes, I think I'd rather talk generically. In the process around all of the national land and water resources audit, all of those contracts have been let out on a competitive tender basis. The auditor actually has an aim to integrate all of the data sets, and agencies have been very, very reluctant to share information because they would prefer work actually to flow into their own agencies, so there's been a lot of debate and going backwards and forwards about who has access to what data and at what cost. Data is being used as a negotiating framework tool actually in the entire audit process, even though it's collected through public agency activities and through

publicly financed work.

DR STEWARDSON: Are you making any distinction, Mike, between the use to which the data is put once it's been acquired? For example, would you make any distinction in respect of the price for that data if it was going to be used for policy research or for strictly commercial purposes used in some way, then to be sold on the market?

MR YOUNG: Good question. I think I would only make a distinction between data that in use creates problems of congestion or rivalry of some sort that need to be rationed through a price mechanism, otherwise I would regard all information as being wiser shared over all of Australia and all the world.

PROF SLOAN: So irrespective of the purposes to which it's supplied?

MR YOUNG: If it's collected originally for the furtherment of Australia's own interests as a nation - so if it starts off as a public good data set - I would hold it as a public good data set and keep it as wide as we possibly can in terms of use of it. So all people who seek to compete in actually an area to do with recreation for example would have actually free access to that data set.

PROF SLOAN: How has the cost recovery policies of these agencies affected your unit?

MR YOUNG: It has made us, in a number of cases, avoid accessing data set. A classical example which we went through and we finally were able to negotiate through was in actually the price of land and the value of land. When we were working in actually New South Wales we wanted access to land data over the entire state. The first response was that we would have to acquire that entire data set which would cost us \$6 million. We then said, "But we're only after a map of actually the value of all of New South Wales so we can look at it actually at that scale." We finally convinced the department to allocate to us at a price of actually 3000 after six months and about 10 flights up to Sydney and backwards and forwards, trying to convince them that it was in their interests to share the data on the value of land.

Then flowing through, as a result of that, we would love to have access to the same data for the National Land and Water Resources audit. Those data sets are held over all of Australia at the moment, as all land is actually rated at the moment, and to access that is impossible. The cost of even negotiating access to it, because it's sold to each local government on a cost recovery framework, is just so hard we actually aren't even trying even though all of it's available, and to be able to look at issues like land degradation and to actually link it up to the value of land is an obvious thing to do nationally. It can't be done.

DR STEWARDSON: With the data that you eventually paid \$3000 for, were you put under any restrictions as to the subsequent use you could make of that?

MR YOUNG: Total restrictions: it was a one-off licence to be used once and destroyed, and that's a standard arrangement. So in all these exercises we're normally licensed and we're required to destroy the data sets afterwards.

PROF SLOAN: It's quite an interesting theme though that you're kind of touching on, is the very high transactions costs associated with this. I mean, you might have paid \$3000 but you will have spent a whole lot more than \$3000 in transactions costs getting to the data.

MR YOUNG: Yes. I would probably think that the entire exercise cost us about 30,000 in flying up and down. If you priced my time at the normal rates I charge it out at, it was a huge cost. We were after it so we could show how important these data sets were and the same is that having actually collected them, they were destroyed.

DR STEWARDSON: You talk about other countries having data much more readily available. I think we've heard that the US has data pretty freely available without cost. Can you confirm that and what other countries do you have in mind when you made that comment?

MR YOUNG: Certainly in the United States and also the European community is trying to share its information openly I understand, and in the United States it's certainly the furthest - that actually all information is now up on the World Wide Web and you can download it at the cost of actually accessing it yourself, which is hardly any cost, and they are also starting to structure the data sets so you can zoom in for a local area and actually analyse it on the Web rather than actually having to download it all.

PROF SLOAN: Is that the model you'd like to see in Australia?

MR YOUNG: I would think for ABS and certainly for ABF, for actually state departments, the Land and Water Resources, that actually is the way to go. So local community can link up to data sets that are stored everywhere through a devolved system and link it all up and access it actually and analyse it quickly. People are after an impression about what's happening and in the past those data sets have been held centrally so all decisions are also made centrally.

PROF SLOAN: So does that solve the problem though of special runs? Presumably the data on the Web is not - is it manipulable to the point where you could have the data that you get out of special runs or do you need a different policy for special runs?

MR YOUNG: The special runs, you would need to keep those separate. But you would start to build the data sets one off. If you take for example the requirement for each local government to prepare a state of the environment report every year, they need access to the same road maps, the soil maps, the vegetation maps and so forth, the water catchment areas and so forth. All those could be organised once off and a

huge saving. So they'd all sit up there once and all analysed actually right through in a template framework rather than each of the agencies having to separately ask for access to organise for the data sets to be sent through and so forth. So you can organise a special run for the entire state and actually construct a data set so it's actually accessible internationally and nationally all in one hit, rather than having the process at the moment where everyone works in isolation, actually all of them having to acquire each element of the data set. So it's a total shift really.

PROF SLOAN: Yes, that would be. Presumably with the special runs though, then it's still the marginal costs of supply which is your recommendation.

MR YOUNG: Yes, it is. Yes, certainly for any special run I would actually always require marginal costs. But if you're after a large data set you should be able to access it in the same framework and that's a very low marginal cost.

PROF SLOAN: But does that include, you know, labour, the labour that would be required to - - -

MR YOUNG: That's right.

PROF SLOAN: Then of course the actual deliverables is pretty negligible now. You know, with CD or whatever it's nothing.

MR YOUNG: Yes. So it should go down to that. But the labour costs of actually organising this data set and collecting it should be, I think, out of consolidated revenue, largely - - -

PROF SLOAN: No, I'm not talking about the costs of collecting the original data but the costs of setting it up for a special request.

MR YOUNG: Yes. But if you take, for example, your own house and you actually own that small area in the region where you live, it should be feasible for you to log onto the Web and find out the size of the population in your street at your CD easily at marginal cost over the Web, rather than if you wanted to do it at the moment, if you were after the population in your district, actually I think you'd have to spend thousands to access that data from ABS. I think I'm right on that. You'd need to check that.

PROF SLOAN: Yes.

DR STEWARDSON: The Meteorology Bureau has told us that because of the international aspect of their data that they collect they have an obligation to exchange it with similar agencies overseas and vice-versa, and that because of the policy of some of those overseas agencies in releasing material this puts a check on the price that the Australian Meteorology Bureau can charge Australian customers for data because if it's too high they can go and get it from the States. I presume that the sort of data you're talking about isn't of the nature that would be exchanged internationally

and subject to that same sort of arrangement that I've just been describing.

MR YOUNG: Some of it would, because it's actually the climate to have the debate now. Previously I would have said no, but as we move into negotiating climate change around the Kyoto protocol a lot of people are after data on Australia's natural resources to try and estimate the size of - and actually fluxes through to the environment and into an international global accounting framework. So that has started to change. But previously, no, there wasn't a large demand for its data on Australia's natural resources and its environment.

PROF SLOAN: Can I ask - I mean, you may not want to answer this, but the CSIRO itself of course is now a partly cost-recovering agency. We understand that there's a kind of 30 per cent target. Would you like to comment on - and I don't know whether your unit is in the target.

MR YOUNG: It is in the target. CSIRO has made a separate submission I think to you. I haven't seen that so I'm not aware of it, so I can only talk as far as it has affected the group that I lead which is a small research unit. When you have a 30 per cent target and you translate that through to a research unit and then you look at those units that are able to actually work in a consulting environment like mine, that 30 per cent converts into a 70 or 80 per cent target and we would expect to be fluctuating between 70 and at times even 90 per cent external revenue in terms of the way we operate.

PROF SLOAN: So is that because your unit is more amenable to raising the kind of revenue and undertaking that work so there are units within the CSIRO that do nothing, or can't - well, you know.

MR YOUNG: Well, not nothing.

PROF SLOAN: They don't raise revenue externally.

MR YOUNG: On average those who are involved in research have to earn about 50 to 60 per cent. So on average it can be 30 per cent. If you take out all of the overhead of actually CSIRO, our library systems and all the backup and all those sorts of things, and if we have to average 30 per cent that means the real target is much more like about 50 per cent over all the research group in terms of external learning that they have to achieve. So we perform at 30 per cent actually over the entire organisation. The next step on from that - sorry?

PROF SLOAN: I was just going to ask you whether you've been there before and after this policy.

MR YOUNG: Yes, I was. I joined CSIRO originally back in 1976 and worked in the old days when everything was fully supported internally. My first research contract ever was in 1980. That was the first time I ever even saw anything outside. So CSIRO was starting to shift from it being a straight research agency with all

support from inside through to one where by about I guess the late 1980s, early 1990s, it was on the external target arrangements that are now set. I'm not sure when the change occurred. I was overseas at the time in the OECD and there was a big shift between the time I left and when I returned, a very, very big shift and change.

DR STEWARDSON: So could we expect customers of yours to complain about your cost charges?

MR YOUNG: Yes, they do. They complain more I guess about the fact that we can't integrate all the information sources. We're in a competing environment and one of the biggest constraints on the work that we try to complete is actually the cost of data. So in a competitive environment we're always trying to find ways to avoid having to acquire information simply because we can compete effectively and the sign is that's the wrong way to go. I'm also aware that we would gain a lot from access through to informations that we can't actually afford, in a competitive environment, to use and that's I guess the main point that I'm trying to make in various ways to you, that researchers now are trying to find ways to avoid collecting information, simply because it's expensive and then after they've got it they also try to actually hold it so they have a strategic advantage over all others.

PROF SLOAN: That's very useful, Mike. I think we can probably leave it there. It's probably hot over there in Adelaide, is it?

MR YOUNG: It is actually very hot. One other point I would like to make, if I could.

PROF SLOAN: Yes.

MR YOUNG: Something that I think is very important is that the reason for shifting to full cost recovery was to try and find out what data shouldn't be collected. We went through an environment where there was a lot of data that was uncollected and not used and by swapping over, we have actually reduced the size of our holdings back to information that is useful. I think there is a need to change through time and to actually have the type of framework we've had for the last, say, decade, and then convert back to marginal cost pricing policies again, recognising that that will result in problems through time where people start to collect and continue to collect data sets that have served their purpose and time. What we need is something that actually addresses that tendency for agencies to keep on collecting the wrong data and one way is to swap from marginal to full cost pricing and back again. I think we have had the cleansing that flowed from that first round and it's now time to swap back again.

DR STEWARDSON: That does seem a fairly brutal way of doing it, particularly for any data that you need a time series for to compare changes.

MR YOUNG: I would agree, but sometimes you have to swap. It is brutal and it's very blunt and I think we're now seeing all of the flaws from that that actually swap and change into this simple crude approach.

PROF SLOAN: I'm not sure I agree with that because you think of a lot of the social data, there's not a market, so you shift to full cost recovery and then the policy makers say, "Well, there's no demand for that, we'll scrub it." I think in fact in terms of the data that's collected for public good purposes, you can kind of figure that out from a lot of first principles, and maximising the use of it is probably as important an objective as anything. If you fully cost recover data where there's a very limited secondary market, it means that people won't use it, but that doesn't mean it's not useful.

MR YOUNG: That's true, but we have to look at the costs of collection. Certainly in the agricultural data, there was a lot of information that was collected on things that were dropping out of production at a very, very fine scale and a lot of detail, and they could well be dropped out of the system. The agencies found it very, very hard to do that prior to introducing full cost.

PROF SLOAN: I hear what you say that we have to have a system to allocate the scarce resources we devote to data collection and make sure we're not continuing to collect data which is of very marginal relevance, but I'm not sure I'd be hanging my hat on the cost recovery hatstand actually, but it's a useful point.

MR YOUNG: I don't think I could either. I think it's something which happened and it goes through my mind and I think why would you swap away from marginal cost through to full cost and what was the rationale for it? That's the only reason I could think of. I would prefer to find a second arrangement to do it that's more efficient.

PROF SLOAN: Okay, Mike.

MR YOUNG: Okay, let's leave it at that.

PROF SLOAN: Thanks very much. Thanks for your help. It's been very good for you to participate.

(Luncheon adjournment)

PROF SLOAN: My name is Judith Sloan and this is my fellow associate commissioner, Robin Stewardson. We're resuming the public hearings for the Productivity Commission's inquiry into cost recovery. Alecia, we've got your submission and we've read it, but sometimes it's useful if you want to spend a few minutes just going through the main points because that is often quite a useful way to start.

MS DARBONNE: Yes, not a problem. To begin with, the main issue I have here is with the processing of crocodile meat for domestic and export use. We have two government departments that we're accredited by. One is the Queensland DPI and the other one is AQIS, the Australian Quarantine Inspection authority. Basically both departments do exactly the same thing, except that AQIS is responsible for exporting. QLMA has the same basic structure but it can't approve product for export. So as about 60 to 70 per cent of the meat product is used for export, we really need to be accredited with AQIS. QLMA charges us an accreditation fee annually, as well as a levy on the product exported and I'm also charged the same fees by AQIS as well. I have the same system set up for AQIS as I have for QLMA which is a (indistinct) system, quality control, and the same information is required by both government departments. AQIS actually does audits. I have an A rating and have had one for quite a long time. QLMA do not do audits, they just gather information and I've never had any feedback from them.

PROF SLOAN: And that's compulsory for you to provide that information?

MS DARBONNE: Yes, it is. I actually use my AQIS return to fill out my QLMA one. It's a complete duplication.

PROF SLOAN: It sounds efficient from your point of view.

MS DARBONNE: Yes. I've been fighting this battle - I've talked to the ombudsman. They had an inquiry into QLMA. I've put submissions in to them and I've received no response from them. I've spoken to various people at QLMA to try and make sense of it. The other thing is, with QLMA, the way that they have set the system up is based on the cattle industry which is completely different to the crocodile industry. The cattle industry is a high-volume meat as their basic product, whereas the crocodile industry is low volume. Skins are essentially the main product, so it's pretty labour intensive. They base their fees on the amount of cattle units. They say one cattle unit equals eight crocodile units. If you look at it in volume, it doesn't equate. It doesn't make sense at all. What my feeling is also, we have this system where I'm charged a lot of fees, have to do a lot of paperwork which really isn't designed for my industry.

PROF SLOAN: Yes, we might get to that, the ratio between a cow and a crocodile.

MS DARBONNE: Yes.

PROF SLOAN: You seem a lot less critical of AQIS though than you are of

QLMA. Am I right in that?

MS DARBONNE: Yes, definitely. I know that an industry needs to accredit our facility, our processing facility. I don't have any complaints with that. I don't think one or the other is over-regulating me, but to have them both simultaneously be regulating me in the same fashion seems ridiculous, and AQIS is the government body which is responsible for export and they're far more stringent than the domestic Queensland QLMA requirements. I don't have a problem with the actual system, it's just the duplication.

PROF SLOAN: Yes. I wouldn't want to mislead you, Alecia, in the sense that - you know, our inquiry is looking at cost recovery activities of Commonwealth agencies.

MS DARBONNE: Yes.

PROF SLOAN: The issue of duplication of regulation and cost recovery of that regulation, it's of some interest to us, but clearly in a sense what the Queensland Livestock and Meat Authority does is outside the purview of our inquiry. I think you'd agree with that, Robin, wouldn't you?

DR STEWARDSON: Yes.

PROF SLOAN: So I don't want to give you false hope, if you know what I mean.

MS DARBONNE: Yes.

PROF SLOAN: Although this issue of regulatory duplication I think is of considerable concern. Is it that AQIS is just responsible for export and it has no remit over domestic consumption? Is that the reason?

MS DARBONNE: No, we have to bring out product to a certain standard. That standard is fine for domestic product and it's also fine for - they do monitor domestic production. We have to keep a list of records of everything we sell domestically, as well as export. It's completely - - -

PROF SLOAN: On the face of it, it's hard for us to understand actually, Alecia. I'm not sure why there would need to be two sets of regulatory overlay at all. Robin, have you got some questions?

DR STEWARDSON: Yes, I just wondered about AQIS. Do you feel you get value for money from them?

MS DARBONNE: Yes, I don't have a problem with AQIS whatsoever. I mean, it's strict but also I think it's fair.

DR STEWARDSON: You're quite happy that they do charge the full cost of their

service?

MS DARBONNE: Yes, I don't have a problem with the charges. Perhaps what needs to happen - I mean, I know this commission - and I did speak to them when I first asked to have a link-up with you - if you can't look at the state government issues, perhaps we should get some kind of rebate against the AQIS fee. If we're paying them once, why are we paying them twice? I don't know. That's just something I thought up off the top of my head to get something achieved.

DR STEWARDSON: I think it sounds a very reasonable complaint that you have there with the double charging. I think it's correct. We have no - well, we make recommendations to the Commonwealth government and they have asked us to talk about the Commonwealth authorities, so anything we said about your particular problem would be sort of obiter dicta, just a comment on the side so to speak. But I think you've certainly made your point very clearly that there's a fair bit of duplication going on there.

MS DARBONNE: Right.

PROF SLOAN: Do you know how this works in the beef industry? Have the beef producers got the same beef or do they have dedicated export abattoirs?

MS DARBONNE: Likewise, but we're not even in the beef industry.

PROF SLOAN: No.

MS DARBONNE: We're considered fish, which is very strange to use - there's a very clear delineation between the fish industry and the beef industry. They have totally separate bodies that deal with both. So it's very strange that although we're considered fish by both that we've been thrown into the meat industry - for what reason, I can't understand. So that's why I haven't spoken to the beef industry directly because it doesn't really relate to us. We're lobbying for two different industries.

DR STEWARDSON: I think the question was though whether you have any knowledge of other primary industries, perhaps particularly beef, where there's the same duplication that you're having with AQIS, having to give the inspections for export purposes and some other - - -

PROF SLOAN: And for domestic as well.

DR STEWARDSON: And for domestic, and some other department also having a role in these - - -

MS DARBONNE: I'm fairly certain that - no, the answer is that I think crocodile is it. I think the beef industry is monitored by the QLMA. They're monitored by the QLMA and AQIS is responsible for their exports, but AQIS does not accredit them. They do not require accreditation from both QLMA as well as AQIS. It seems to be

that the crocodile industry is kind of caught in the middle.

DR STEWARDSON: It may perhaps be because AQIS does inspect at the slaughterhouse stage, rather than the producer.

MS DARBONNE: Yes. The beef industry has a full-time vet. In their abattoirs they hire a full-time vet which is a QLMA vet, a state vet, and I think he signs off on it and the Australian Quarantine Inspection Service accepts that.

PROF SLOAN: Right. We might follow up on that. It seems to me that the complaint about two regulators is always stronger if you can find some others who are also badly affected by it. On that issue of the ratio, you know, the 240-kilogram cow, and they say one beef cattle equals eight crocodiles, this is for QLMA charges? That's not AQIS charges, is it?

MS DARBONNE: It doesn't relate to AQIS at all.

PROF SLOAN: Okay. 11 kilograms, that's a very light crocodile, isn't it? Is that a baby?

MS DARBONNE: Crocodiles are killed at around three years old, so I mean, sure, they grow to 70, but that is the best food conversion ratios, and for our main export market, handbags, that's the size that they're killed at.

PROF SLOAN: Right. They're only quite small.

MS DARBONNE: Yes, they're about five foot, and that's also gutted. That's not with their internals. That's likewise with the cattle - with the beef, I mean.

PROF SLOAN: So how did they ever come up with this ratio? It seems to - - -

MS DARBONNE: Arbitrary - doesn't it?

PROF SLOAN: Well, it seems so inaccurate.

MS DARBONNE: I don't know. I don't know how they came up with it. As well, the returns - I think I sent you the returns that they ask us to fill out - it doesn't even say "crocodile" in it. Again, it's not with any other kind of fish product, it's with wild game, so not only are we stuck with - that they're using the beef industry, they're also using the wild game industry for things like kangaroo and boar. Everything is farm bred and taken then directly to the abattoir. There's no wild caught animals. They have asked us to identify problems that they have with wild stock which don't relate to us. It's just kind of slapdash, the whole thing.

PROF SLOAN: It sounds a bit frustrating. So the AQIS fees, you said to Robin really you don't have a problem with them. I mean, how do they compare the AQIS fees with the QLMA ones?

MS DARBONNE: Well, with the AQIS fees they have a yearly accreditation fee, around \$2000, and then we get charged a fish levy which is just based on the quantity you export. So I can't remember, it's a few cents per kilo of exported and then of course you have your fee that you've got to pay if you have an inspector come and that sort of thing, which we routinely have to do, and you pay for all your documentation and so forth, whereas we pay about the same amount to QLMA and pay the same export levies for nothing, absolutely zero.

DR STEWARDSON: How often does an AQIS inspector come up and inspect you?

MS DARBONNE: They're from the Cairns branch. They don't actually have to come up. But they inspect us - we're an A rating so they inspect us every four or five months.

PROF SLOAN: You actually pay to be audited?

MS DARBONNE: Yes, pay to be audited.

PROF SLOAN: It's like paying to put in your tax return I think.

MS DARBONNE: Yes.

PROF SLOAN: Your submission gives us the impression that it's not AQIS - the two things that you're really concerned about is the regulatory duplication and then QLMA in terms of its fees and arrangements, because you say here you're having to provide them with the information but you never get any feedback on that information.

MS DARBONNE: Yes, that's correct. That is from the QLMA. From AQIS they're quite good about giving us feedback, about changes in government regulations and so forth. So unfortunately I don't have a gripe - my gripe isn't with AQIS, which is where it sounds like where you guys think that's where your role is.

PROF SLOAN: Yes.

MS DARBONNE: And unfortunately I need to be accredited with AQIS. QLMA cannot give me accreditation for exporting. Unfortunately it would be great if they could. Then I'd be happy to work with QLMA.

DR STEWARDSON: There's one thing that occurs to me and I don't know enough of my facts here. But for Commonwealth agencies, regulatory agencies, they do from time to time make a regulatory impact statement, in other words saying what the impact of the regulatory procedure is. Now, I don't know whether the state authorities have to do the same thing or not and I'm not sure that my colleagues in the room here do either. But it does strike me just as a bit of gratuitous comment really that maybe you

could ask whether they do have to, and whether in fact how they justify this bit of duplication in terms of regulating you when you appear to be getting nothing in return from them.

MS DARBONNE: For my money. Yes, actually I've been down that road. They did a review of the QLMA and I've made a submission and I've been trying to get a hold of the guy now, since changed departments, never responded to my submission and I've been trying to track him down. His phone number has been busy. He works for the DPI. It has been busy for something like three weeks now and we're trying to track down another number. So I have tried to deal with that and I've just hit a brick wall there too and the policy review has been finalised and I'm just trying to get feedback on my submission. So I am just having difficulty with QLMA trying to get any kind of response from them.

DR STEWARDSON: I can see it's very frustrating and you certainly, I would think, are entitled to a response from them. It may not necessarily be what you want but I would imagine you're certainly entitled to a response.

MS DARBONNE: Yes, exactly.

PROF SLOAN: All right, Alecia. Well, look, I'm not sure we want to offer false hope.

MS DARBONNE: No.

PROF SLOAN: But that issue of regulatory overlap I think would concern us in theory and it may be that if we could put Alecia onto the Office of Regulation Review - because they would know where the body is in Queensland. So we might follow you up, if you like. The Productivity Commission has a group called the Office of Regulation Review, which sounds quite promising for you, doesn't it?

MS DARBONNE: Yes.

PROF SLOAN: It is a Commonwealth body but it will know what's going on in the state. So I'll get my staff to contact you and try and follow that through.

MS DARBONNE: Right, okay. But as far as this commission is concerned it's probably not going to help me because it is a state matter.

PROF SLOAN: I think realistically it is a state matter and, you know, it's interesting what you say about AQIS because that is an issue to us. But it sounds as though you have less concern with AQIS than you do with the regulatory overlap in QLMA.

MS DARBONNE: Correct, yes.

PROF SLOAN: Okay, Alecia, thanks very much for your time though.

MS DARBONNE: Okay, thank you.

PROF SLOAN: My name is Judith Sloan and I'm one of the commissioners and this is my fellow associate commissioner, Robin Stewardson. We're on our final day of public hearings for the Productivity Commission's inquiry into cost recovery by Commonwealth regulatory, administrative and information agencies. For the purpose of transcript, could you state your name and organisation.

MR DeLANE: It's Robert DeLane, Agriculture Western Australia.

PROF SLOAN: We have received your submission, Rob, and sometimes in this context, it's useful for you to run through the main points and then we'll open it up to questions if that's okay.

MR DeLANE: Yes, sure. Thanks for that, Judith. Thanks for the opportunity. When we noted that there was an inquiry into cost recovery of regulatory services, it seemed a good opportunity to revisit the question of, "Why charge in particular areas?" We're involved in the regulatory business ourselves and the easiest trap to fall into with regulatory charging is to charge where you can, rather than where you should. In a couple of service areas that the Commonwealth is involved in, it seems that that question does need to be regularly asked. One of those which has most of the comment in the submission is in the area of export inspection charges. We actually provide the Australian Quarantine Inspection Service services here in Western Australia and we like to think we do that very well. As I've noted in the submission, the efficiency or effectiveness of AQIS services is not questioned by this submission, but rather the broader question, that with all of the regulatory charging which the Commonwealth does and all of the services and assistance the Commonwealth provides to the agricultural sector that the Commonwealth provides, is it appropriate that the Commonwealth charge us something like \$40 million a year to the agricultural sector for export inspection fees, when in fact this might be a significant impediment to something which the Commonwealth is actually trying to achieve, which is to foster exports. I think that's really it in a nutshell. Is the Commonwealth charging for export inspection fees because it should, because there's valid policy, productivity and efficiency reasons for doing that, or is it just as likely that the Commonwealth is charging for export inspections because it's a convenient point by which you can get good capture of fees and charges and hence contribute to broader cost recovery by the Commonwealth?

I think the same broad principles apply to the National Residue Survey which I think is actually just outside of your terms of reference because it's in fact not an imposed regulatory charge, it's more one probably by coercion than by direct imposition, but again the question needs to be asked: is it the most appropriate service to charge for or in fact is there a broader benefit that can be gained by either not imposing that cost on the rural sector or imposing it another way, either by charging somewhere else or in fact by winding back some of the other much more clumsy mechanisms that the Commonwealth is involved in, in providing assistance to the rural sector?

I think that's probably enough as an introduction, except to focus in on that

basic question, as we can all do in government: is the Commonwealth starting to fall over itself in charging for services on exports when in this modern world trade organisation environment that we work in, that is a charge or a service which can be subsidised or provided free by a national government? Even in the export enhancement area, does the Commonwealth have a number of investments to try and foster exports which are working counter to the imposition that the Commonwealth has already made through AQIS charges? I think that's probably enough of an introduction, Judith.

PROF SLOAN: Okay, Rob. We'll probably focus more on AQIS than the National Residue Survey. I'm not sure we've even fully wrapped our minds around the National Residue Survey. I don't know. What do you think, Robin? Do you think it's worth - - -

DR STEWARDSON: Let's start with AQIS.

PROF SLOAN: Let's focus on AQIS. That last point you made I think is right, that there are various programs which are directly facilitative of exports and in fact we have uncovered I think two probably relevantly significant cost recovery activities where exports are quarantined and one is in the customs service where there is an import processing charge but there's no export processing charge, even though there are costs associated with processing exports. The other example that Robin has pointed to is the conduct of Austrade which is I suppose is avowedly concerned with the facilitation of exports and does not fully cost recover quite a lot of its activity for that purpose. So I suppose what you're saying is that, "Here is AQIS which is only concerned with exports and yet it's a fully cost recovering agency."

MR DeLANE: Yes. AQIS is involved in its quarantine role for imports and it I think works on very much the same principles as we do there, in that those people who contribute to the risk should contribute reasonably to the cost of managing that risk. Sea containers coming in, for example, have to be inspected as quarantine safe, as it were, and the importers wear the costs on that. We apply very much the same principles for exports.

I guess the approach that I think is useful to take is to focus on the outcome which is trying to be achieved and in the national interest, the Commonwealth is endeavouring to facilitate export growth in many areas, and in my interest, in agriculture, it has activities as diverse as AQIS, as customs, as Austrade, as a supermarket to Asia, as a number of other programs, I think, facilitated through the Department of APA, and I think has a number of incentive programs for export marketing for overseas trips, for potential exporters and current exporters and supply chain facilitation and a whole range of things which are all designed to achieve the same outcome, which is international competitiveness and hopefully increase volume and diversity and returns from exports.

It just seems a little bit queer when we have so many of those programs and a number of them, if not the majority of them, are dependent on picking winners to

some degree, and that at the same time, once we've got winners who are actual exporters, we impose costs on those. It would seem cleaner and perhaps more authoritative for the Commonwealth to remove the impediments for people who are doing the exporting, even if that meant taking that funding away from some other - I think we would argue - much more clumsy assistance programs which are provided to the same sectors.

DR STEWARDSON: Do you think the AQIS charge is in fact quantitatively a significant charge for exporters in proportion to their overall costs?

MR DeLANE: I think a lot of them would argue that it's not and they now live with it. I think one of the arguments for charging a fee is to drive efficiency in the process and I think AQIS generally in its programs actually has got good mechanisms in place to deal with that. Grains is what I know a little bit about. I mean, they have restructured the work processes to minimise the impost, both time and money on industry, and so it's quite efficient. You asked the question: \$40 million - it's a big figure - nationally, is that a significant impost on exporters? No, it's not, if you look at the total value of exports which require AQIS' inspection, but you might equally ask the question, "Well, of all the other programs the Commonwealth has been involved in in funding, supposedly contributing to exports, a number of those would come together to be worth about \$40 million and you'd have to ask the question, do we achieve greater facilitation of export by funding \$40 million worth of what you might call initiative programs or in fact by removing \$40 million worth of export inspection charges? I think you could sustain an argument that the removal of some or the majority of the \$40 million will achieve at least the same outcome, if not significantly more outcome than the initiatives that are around. They're rarely terminated, these sorts of initiatives, and grow to be quite inefficient and bureaucratic after a time. I say that with the experience that we get caught in that same trap here in Western Australia.

DR STEWARDSON: Yes. Who is actually the beneficiary of the AQIS service?

MR DeLANE: The exporter is the beneficiary or the primary beneficiary, in that they're the people putting something on a boat or an aeroplane and so capture the first part of the financial return.

DR STEWARDSON: So prima facie it's not unreasonable that they pay the costs, but your argument is that there's a benefit from exporting to the country as a whole, and the country as a whole should foot that bill?

MR DeLANE: Look, we have no problem with a reasonable link between the beneficiary and the charge, and that probably occurs here. The inconsistency arises when the Commonwealth funds a whole number of other programs where the beneficiary is very, very poorly defined and certainly very difficult to argue that it's in the public interest any more than it is to subsidise an export inspection. In blissful isolation of all the other programs the export inspection charges is quite a neat system.

PROF SLOAN: It seems to me that this point though - and we've had other submissions to this effect. There don't seem to be many complaints about AQIS. In fact, more to the point, there seems to be a kind of responsiveness by AQIS and an improvement in their efficiency. Now, one of the things that we have to kind of make sure, is that a process that has been linked to cost recovery? Because you see, I think you've kind of alluded to it quickly, that you could have a taxpayer funded AQIS but if it wasn't properly funded and the funding, say, was diminished each year, that could probably be more costly to industry through delays, through unresponsiveness, because there's not that link, direct link with cost recovery. I mean, this is an important issue us, whether the cost recovery actually does provide a set of incentives to get that kind of fruitful interaction between the user and the agency and improved efficiency. Have you got any comment on that?

MR DeLANE: I think that's a very important point. We've got about 90 staff who provide the AQIS services here in Western Australia so we're fairly close to them in an operational sense and we interact with them a lot on the policy sense as well. We think they're a pretty good organisation and their industry consultation process, which has this regulatory review of the whole cost recovery and therefore transparency in it, is in fact quite good. In fact it's probably a very good benchmark across other agencies and other programs, and it certainly drives sufficiency. So I can see if you look for a very good policy foundation to cost recovery then there is some good reason why you should at least partially cost recover for things like AQIS inspection charges because it maintains that focus. The question is, should you - -

PROF SLOAN: Yes. I mean, I wondered whether that's where you were heading, that maybe partial cost recovery is the answer because it seems to me that if you had a solely government-funded organisation it would be hard to see that it would mimic that responsiveness and drive towards efficiency.

MR DeLANE: Yes, I agree with that and I think I made the comment in the written submission that there is certainly some justification for partial cost recovery. I mean, it's done even across the AQIS programs now. I mean, grains has been very easy to cost recover because it's such a simple and large system. Horticulture has not been fully cost recovered and there has been a lot of vigorous debate in the industry over the last couple of years as AQIS tried to move towards full cost recovery. The issues are different there. You're dealing with a lot of small producers, small exporters, and geographically diverse, and so the impost on them is perhaps per consignment or per business significantly greater than these in grains.

I think you need to ask the question: should AQIS on behalf of the Commonwealth be trying to fully cost recover in that area, or is in fact working against the broader outcome. So we're not making a case, we're just going back to core funding for the sake of it. I think the funding could be more problematic and I think there would be AQIS managers who would argue that greater independence from the Commonwealth treasury allocation is in fact a significant positive. I guess you'd have to argue then, if reliability of Commonwealth treasury funding is a

significant issue for agencies such as AQIS but doesn't seem to be an issue for all of those other programs that are funded by the Commonwealth which are designed to foster exports it's arguable if long-term fundings of those or consistency of funding of those is not such an issue that it is for question, you'd have to wonder why the Commonwealth is funding them at all.

DR STEWARDSON: Can I pick up one point you mentioned in passing then and that is the different distance that people are located and that AQIS inspectors have to travel to. Am I correct in interpreting your submission as saying that the actual basic charge is the same wherever in Australia but that there is, in addition, a travelling charge which does, in effect, mean that overall more remote locations are paying more for the AQIS service. Is that how it works?

MR DeLANE: Yes, I think that's how it works. AQIS again I think tries very hard with what they call their Big Mac pricing policy to make it as fair as is practical for their customers and so you're right: the charge is the same wherever you are in Australia. The trouble is of course as the distances are more remote and the business is more remote, the direct impost on those businesses may be considerably more. Again does that matter? Well, if that business is incurring that cost and the AQIS officer has to travel twice as far then they should pay for that. In isolation that's a reasonable position. When you look at the vast amounts of money the Commonwealth spends through other avenues, trying to foster regional development in the more remote parts of this country you say, "Here we've got two forces working against each other again and so equity of access of communications, education and health, we'll try and put money into those but we'll cost recover and make it actually difficult for people to run businesses in those areas, particularly export businesses, which would be the foundation of both economic and community development in those areas and contribute to solving some of those broader policy problems."

PROF SLOAN: They do have regional offices, don't they, anyway? We've heard AQIS has an office in Cairns, for example.

MR DeLANE: Yes, they do.

PROF SLOAN: That does mitigate the - - -

MR DeLANE: They do have regional offices and we have staff who provide AQIS services from a wide range of offices. You can get caught a bit in the same issues in the Commonwealth as we do. Of course with tightening and more businesslike approaches one of the things to do of course is centralise and so you end up imposing a greater cost on some of your customers because you chose to close an office. AQIS can get caught in that and we do in AgWest as well.

PROF SLOAN: Can I just return to that issue of partial cost recovery. I mean, what kind of percentage do you then plump for if you're saying that 100 per cent cost recovery is inconsistent with export facilitation which is the basis of a whole raft of programs, some of which you think are ineffective? You probably have some

supporters.

MR DeLANE: I think the question should be asked, Judith. I'm not passing judgment on it, but it's a question to be asked.

PROF SLOAN: No. Well, you'd have some supporters on that. But what kind of percentage is the right percentage, bearing in mind our discussion about the positive effect of some cost recovery on organisational efficiency?

MR DeLANE: Your guess is probably better than mine, Judith. But I mean, I think it probably needs to be - you've got to get people's attention I guess, so it needs to be sensible. I mean, pick a figure - 50 per cent? I think in our experience, across our range of services that we charge for as well as AQIS', I think that's probably about where it needs to be. So then in quantum you might only be talking about \$20 million here. But I think the principle is the most important one and if your inquiry could make some judgments about the outcome focus of the diversity of the program, some of which include regulated fees and charges, and then have where the Commonwealth imposes charges, for it to be on a very positive or very constructive policy base rather than this is just an area where we can capture members of industry and the community as they go through the gate and therefore we can charge them, which is how it can appear on occasions and I know that's how some of our customers view our cost recovery, is that we charge them where we can rather than where we should, to get the appropriate facilitation and behaviour pattern changes.

DR STEWARDSON: Do you in fact have a set of guidelines for your own charging policy?

MR DeLANE: No, we don't. We are pretty much picking up on the same principles. I thought some of the points which are made in your issues paper was a formalisation of the same sorts of points which we bring to ours. I mean, we certainly look at probably imposing greater impediments in areas where it is of less economic importance but a much greater risk and I guess I'm talking about import quarantine areas. So we simply work through issues: what's the magnitude of the risk, what's the magnitude of the benefit? Does the customer have an opportunity to capture the benefit and then are these activities which the community would broadly support and therefore should pay for? Are there efficiencies which can be driven by imposing some cost recovery or in fact full cost recovery and are you trying to modify some behaviour?

It's probably my own experience that the first reason why you should think about charging for something is where you're trying to modify the behaviour of your customers, given that you don't have as much flexibility I think as a government agency, as you might as a commercial company, to pick and choose where you're going to target your services to your customers. You really have to take all customers rather than pick a niche market. That being the case, you can use charging, if you like, to balance up the relationship you have with your customers or the focus of your public-funded activities according to customer groups and that's probably the

basis of why we were stimulated to put any submission to your inquiry, is to make sure that we are not modifying behaviour in the wrong direction by imposing a cost, that being in this case the AQIS inspection fees.

PROF SLOAN: I'm interested in this issue, Rob. I mean, clearly feasibility does have to come into it. I mean, I hear what you say, you know, that you shouldn't just be charging where you can. But let's say you conclude that you should charge but if it's not feasible or it's not feasible at a reasonable cost - and so I was kind of interested in what you were saying about charging in horticulture compared with charging in grains. It sounds as though there are rather high transaction costs for charging in horticulture compared with grains. Would you like to comment on that?

MR DeLANE: Yes, I think that's fair comment. I mean, grains is half of Australia's agricultural exports. It's all controlled. It's bulk shipments and goes out through probably about 15 ports I think. So it's possible to get economies of scale and so the efficiency there, and a very simple system to manage. It turns out to be a very small cost per tonne and it has been, I think, quite easy for AQIS to over cost recover in that area and that's often the biggest item on the agenda for discussion with the industry, is how to reset the charges next year to make sure that we're not over cost recovering.

Horticulture is very different, a very wide range of produce, some going by air, some going to ship, going out of any port, seaport or airport in Australia, where they can get freight access and often produced by niche producers, packers and exporters. Yes, it's a high transaction cost. There's probably no other way around it. Again I think the major focus of some of the industry discussions has been, "Well, how can we structure the charges so that it moderates the behaviour towards, for example, quality assurance schemes or towards use of central pack houses of whatever so that that impost is reduced?" and certainly that occurs. I mean, industry is pretty sharp on not wanting to pay your money unnecessarily to anyone, particularly government, and so they will to some extent - to the extent they can - try and restructure their business so that the impost is reduced. Whether they can go far enough in that I probably can't make a judgment. I think it is just the same in all sectors.

If you looked at, in an outcome sense, the range of assistance measures or Commonwealth costs which are incurred on behalf of the horticulture sector, you might say, "Well, we might do this better in a broader sense," and maybe if the regulator charges things which need to be perhaps higher on the agenda and in such forums as a supermarket to Asia and the like, where rather than just having the big promotional activities, they need to make sure that they don't have the left hand undoing what the right hand is doing.

PROF SLOAN: I think we might leave it there, Rob. I think it's very useful and it's nice always to have some figures. I think you're right to be pointing at some apparent inconsistencies. I think that's one of our themes, that there's lots of inconsistencies in the cost recovery regimes in place, so thanks very much for your submission. You can go and have some lunch. We decided it was lunchtime over there. Is that right?

MR DeLANE: It is. It's just gone 12.30, that's right.

PROF SLOAN: And it's probably hot too. Was there anything you wanted to add?

MR DeLANE: No, I think that's it. I think if I understand what the Productivity Commission is about at all - and I mean, this inquiry is quite targeted in its focus - but we are all about improved productivity and achievement of outcomes in an efficient way more broadly, and I would have thought - well, it's certainly open to you - but you almost needed to make some observations about regulated cost recovery in the broader context. Certainly our increasing experience, I think, is we work in a country where the number of government agencies and parts of government agencies, the number of quasi-government agencies, the number of government programs can become mind boggling, and in a sense itself can be a drain on productivity just for people trying to transact business dealings across that; that we do need to stay very strongly focused on what are the industry and community outcomes the government is trying to achieve and whether we have in fact got ourselves organised in such a way that we're ever likely to facilitate those outcomes. I think that's probably the basis of the discussion we've just had.

PROF SLOAN: Thanks very much, Rob. Hopefully - not hopefully - it will be the case that in our draft report and then the final report, we're working towards some guidelines for cost recovery which might in fact be also useful for your department. We're just kind of trying to drive the balance between all these considerations, so thanks very much for your help.

MR DeLANE: Thank you. I've enjoyed talking to you.

PROF SLOAN: Okay, thank you.

AT 3.38 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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