

## **CHAPTER 12: DEPARTMENT OF PRIMARY INDUSTRIES**

### **Key Findings of the Committee:**

- 12.1** The Department of Primary Industries' budget allocation for 2004-05 is \$342.8 million, a decrease of \$900,000 from the 2003-04 estimated actual expenditure.
- 12.2** The department has applied to carry forward \$30.3 million to 2004-05. This amount will be used to meet contractual obligations with external parties, and fund initiatives that commenced later than anticipated, and capital projects.
- 12.3** The State Government contributed \$61.7 million in 2003-04 to agriculture related research projects, which represented approximately half of the funding received from all sources for these projects.
- 12.4** Research funds are generated through the undertaking of specific projects, so there is no direct output funding to Primary Industries Research Victoria, which is the division responsible for drawing together the majority of the department's scientific research and development capability.
- 12.5** Returns on intellectual property generated by the department cover items such as canola production, with the department having bred 70 per cent of canola varieties grown in Australia.
- 12.6** Royalty income generated on behalf of the Department of Primary Industries and joint equity holders from patents and plant breeders rights for 2002-03 and 2003-04 amounted to \$1.81 million and \$1.78 million respectively. Given the significant investment made by the Government in Victoria's agricultural research and development program, the Committee believes that there could be scope for generating a greater return in royalty income.
- 12.7** A reporting framework needs to be developed to improve accountability for moneys directed at research. The framework should also cover the commercial arm of research in the form of the state's intellectual property interests.
- 12.8** The Government considers that its \$12 billion target for food and fibre exports by 2010 can be achieved, provided drought recovery continues and foreign exchange rates remain stable.

- 12.9 Industry has made a significant injection of funds to find new sources of oil and gas, and to finance petroleum related projects, with approximately \$400 million invested in exploration over the past two years. The Government estimates that \$8 to \$10 billion will be invested in projected developments over the next ten years.**
- 12.10 A major issue confronting the Resources portfolio is the request by International Power Hazelwood to gain access to 92 million tonnes of new coal deposits. If approval is not forthcoming and no additional works are undertaken by Hazelwood, coal resources at the power station would be exhausted by 2009 and the Government would have to make decisions regarding alternative power sources. The Committee considers that it is in the state's interest to resolve this matter in a timely manner.**
- 12.11 There is an urgent requirement for the development of new technologies to reduce greenhouse gas emissions so projects can be both economically viable and more environmentally safe.**

## **Departmental review**

### **12.1 Departmental overview**

The Department of Primary Industries supports the ministerial portfolios of agriculture and resources. The department's objectives focus on achieving:<sup>1</sup>

- strong economic activity evidenced by jobs, investment and exports;
- a high quality natural resource base for the long-term; and
- resilient industries and communities.

#### **12.1.1 Key challenges for the department in 2004-05**

The Minister for Agriculture informed the Committee that the challenges in 2004-05 include intense market competition, increasing consumer demands and issues that centre on natural resource management and increased competition for natural resources.<sup>2</sup> With regard to the agrifood sector, the Minister brought to the Committee's notice that recent developments in trade reform and developments in, for example, Thailand, are challenges that the department needs to address.<sup>3</sup>

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<sup>1</sup> Department of Primary Industries, *2002-03 Annual Report*, p.1

<sup>2</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

<sup>3</sup> *ibid.*, p.5

The Minister for Resources advised that the goals and challenges relate to:<sup>4</sup>

- protecting the environment;
- operating on a triple bottom line approach whereby projects need to be economically viable, ensure real community benefits and minimise the effect on the environment;
- reducing greenhouse gas emissions;
- improving health and safety within the community; and
- working with the community on a range of projects.

The department identified the following key risks in 2004-05:<sup>5</sup>

- destruction/disaster leading to loss of production and resulting in financial compensation;
- destruction/disaster leading to fatalities; and
- unsustainability due to disease contamination or overuse.

Strategies developed by the department to address the above risks are:<sup>6</sup>

- enhanced biosecurity and market assurance: development of an enhanced disease surveillance system and response manual for emergency situations;
- defending farms against disease: appointment of a senior quarantine and biosecurity officer and improvements to the department's plant biosecurity capability;
- drought assistance: monitoring drought conditions and response needs; and
- bushfire recovery assistance: provision of practical and financial assistance for farmers, communities and industries, including development of the bushfire recovery call centre.

### **12.1.2 Key factors influencing the budget estimates**

The department indicated that the specific factors and projects that influenced the development of its budget estimates for 2004-05 focus on the sustainable development of primary industries for the benefit of all Victorians.<sup>7</sup> Major projects that had an impact on the development of the estimates include the following:

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<sup>4</sup> Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, pp.1, 3

<sup>5</sup> Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

<sup>6</sup> *ibid.*

<sup>7</sup> *ibid.*, pp.2-3

- Melbourne Wholesale Markets Redevelopment;
- National Eradication Program for Red Imported Fire Ants; and
- FarmBis 111.

## 12.2 Output management framework

Two Ministers have responsibility for the department's output groups and outputs (refer to exhibit 12.1).

### Exhibit 12.1: Department of Primary Industries Ministerial responsibilities

Output group	Output	Responsible Minister/s	2004-05 Budget (\$ million)
Agriculture	Biosecurity and Market Access	Minister for Agriculture	57.4
	Sustainable Agriculture and Food Sector Development		224.3
<b>Sub total</b>			<b>281.7</b>
Fisheries	Sustainable Fisheries Utilisation Services	Minister for Agriculture	21.5
	Industry and Community Compliance Services		17.7
	Aquaculture and Fishing Industry Development		3.6
<b>Sub total</b>			<b>42.8</b>
Minerals & Petroleum	Minerals and Petroleum Regulation Services	Minister for Resources	8.2
	Minerals and Petroleum Industry Development and Information		10.1
<b>Sub total</b>			<b>18.3</b>
<b>Total</b>			<b>342.8</b>

Source: Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

## 12.3 Budget summary/financial analysis

Exhibit 12.2 shows the output groups for the Department of Primary Industries. departmental output costs are expected to be \$342.8 million in 2004-05, down \$900,000 or 0.3 per cent of the expected outcome for 2003-04.

**Exhibit 12.2: Department of Primary Industries  
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
<b>Output group</b>	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation (a)</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(%)</b>
Agriculture	239.7	285.1	281.7	-1.2
Fisheries	40.3	40.7	42.8	5.2
Minerals and Petroleum	17.3	17.9	18.3	2.2
<b>Total</b>	<b>297.3</b>	<b>343.7</b>	<b>342.8</b>	<b>-0.3</b>

Note: (a) A negative variance indicates that the 2004-05 budget decreased compared with the 2003-04 revised estimated actual outcome

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.111–138,192–200

### 12.3.1 Operating performance

The Statement of Financial Performance, summarised in exhibit 12.3, shows that the department is forecasting a surplus of \$900,000 in 2004-05.

**Exhibit 12.3: Department of Primary Industries  
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation (a)</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(%)</b>
<b>Controlled items</b>				
Operating revenue	296.8	344.2	343.8	-0.1
Operating expenses	297.3	343.8	(b) 342.9	-0.3
<b>Net result</b>	<b>(c) -0.5</b>	<b>0.4</b>	<b>0.9</b>	<b>125.0</b>
<b>Administered items</b>				
Administered revenue	74.6	110.5	93.5	-15.4
Administered expenses	74.6	114.3	93.2	-18.5
<b>Surplus/Deficit</b>	<b>0.0</b>	<b>(c) -3.8</b>	<b>0.3</b>	<b>107.9</b>

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 revised estimated actual outcome

(b) The difference between the Operating expense budget of \$342.9 million for 2004-05 (Budget Paper No. 4) and the Output group budget for 2004-05 of \$342.8 million shown in exhibit 12.2 (Budget Paper No. 3) is due to rounding

(c) Net result is different to the result included in the Budget Papers due to rounding

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.87, 90

The main components of the operating revenue budget for 2004-05 relate to output appropriations (\$305.4 million) and sale of goods and services (\$29.3 million), while

the main categories within the 2004-05 budget for operating expenses are employee benefits (\$140.7 million), supplies and services (\$133.9 million) and grants and other payments (\$32 million).<sup>8</sup>

In 2003-04, total revenue was expected to increase by \$47.4 million from the published budget, with a corresponding increase in total expenses by \$46.5 million. These increases were due to additional funding for the Exceptional Circumstances Drought Assistance Program, the State's contribution to the national eradication program for red imported fire ants and increased external funding towards scientific research.<sup>9</sup>

While operating revenue and expenses are expected to decrease slightly in 2004-05 due to the winding down of the Exceptional Circumstances Program, this reduction is largely offset by new Government initiatives such as the relocation and redevelopment of the Melbourne Wholesale Markets.<sup>10</sup> The 2004-05 budget has allocated \$3.7 million towards this initiative in 2004-05 with a further \$1.1 million in 2005-06.<sup>11</sup>

The department also receives funds from the Commonwealth Government that are reflected in the administered items, which were expected to decrease in 2004-05 due to the winding down of drought assistance.<sup>12</sup> The Committee understands that a number of Victorian farmers did not apply for the drought assistance and, as a result, some of the Commonwealth and state funding was not expended.<sup>13</sup>

### **12.3.2 Balance sheet performance**

Exhibit 12.4 shows that the department's net asset position is expected to improve by \$15.4 million from 30 June 2004 to 30 June 2005. This increase is mainly attributable to capital contributions received by the department to fund the redevelopment of the Melbourne Showgrounds.<sup>14</sup>

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<sup>8</sup> Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, pp.15-16

<sup>9</sup> Budget Paper No. 4, 2004-05 Statement of Finances, p.86

<sup>10</sup> *ibid.*

<sup>11</sup> Budget Paper No. 3, 2004-05 Service Delivery, p.260

<sup>12</sup> Budget Paper No. 4, 2004-05 Statement of Finances, p.87

<sup>13</sup> Minister for Agriculture's response, to the Committee's additional follow-up question

<sup>14</sup> Budget Paper No. 4, 2004-05 Statement of Finances, p.86

**Exhibit 12.4: Department of Primary Industries  
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation</b>
	(\$ million)	(\$ million)	(\$ million)	(%)
<b>Controlled items</b>				
Controlled assets	391.1	334.5	349.9	4.6
Controlled liabilities	55.5	55.5	55.5	0.0
<b>Net assets</b>	<b>335.6</b>	<b>279.0</b>	<b>294.4</b>	<b>5.5</b>
<b>Administered items</b>				
Administered assets	30.6	26.7	26.9	0.7
Administered liabilities	6.6	6.6	6.5	-1.5

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.89-90

### 12.3.3 Carry over funding

In relation to the Agriculture portfolio, the Department of Primary Industries has applied to carry forward \$21.4 million of output appropriation to 2004-05, of which \$12.7 million relates to administered revenue required to meet contractual obligations with external parties in 2004-05.<sup>15</sup> The remaining \$8.7 million relates to initiatives that commenced later than anticipated or have encountered delays in implementation.<sup>16</sup>

A capital carry over of \$8.9 million has also been requested to complete the Primary Industries Research Victoria's Modernisation Project, the marine and freshwater resources site redevelopment and the Laverton information technology and document management centre projects.<sup>17</sup>

## 12.4 Human resources issues

Exhibit 12.5 shows that the total number of staff in the department in June 2004 was 2,633.8 (on an equivalent full-time basis).

<sup>15</sup> Minister for Agriculture's response, to the Committee's follow up questions, p.20

<sup>16</sup> *ibid.*

<sup>17</sup> *ibid.*

**Exhibit 12.5: Department of Primary Industries  
Equivalent Full Time Staff**

<b>Classification</b>	<b>June 2003 Actual</b>	<b>June 2004 Estimate</b>	<b>June 2005 Estimate</b>
Secretary	1.0	1.0	1.0
Executive Officers	13.0	19.0	19.0
Principal Scientists	36.6	46.1	46.1
Field Officers	68.8	72.6	73.6
Other (VPS 1 to 5 as at 30 June 2003 and Grade 1 to 6 as at 30 June 2004 and 2005)	2,437.7	2,495.1	2,522.1
<b>Total</b>	<b>2,559.1</b>	<b>2,633.8</b>	<b>2,661.8</b>

Source: *Department of Primary Industries' response to the Committee's 2004-05 Budget Estimates questionnaire, pp.14-15*

The Committee was interested to determine the reason for the size of the department's executive service showing an increase of almost 50 per cent from 30 June 2003 to 30 June 2004. The factors that have led to this increase are:<sup>18</sup>

- the 30 June 2003 actual figure of 13 Executive Officers did not include three vacant positions, whereas the estimated figure at 30 June 2004 of 19 included three vacant positions. The Minister for Agriculture explained that, all Executive Officers are employed on contract and the estimated figures provided in response to the PAEC questionnaire assumed the current four vacant positions (including the Secretary) would be all filled by the 30 June 2004 which did not eventuate; and
- the actual figure as at 30 June 2004 includes three new positions, two of which have been transferred from two other departments and the other new position has been approved by the Department of Premier and Cabinet.

## **12.5 Agriculture portfolio**

### **12.5.1 2004-05 outlook for the portfolio**

The Minister for Agriculture informed the Committee that the priorities for the portfolio in 2004-05 are to:<sup>19</sup>

- promote primary industries and attract investment;
- improve productivity;
- protect Victoria from disease and pests;

<sup>18</sup> *ibid.*, pp.12-13

<sup>19</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

- work in partnership with communities and think strategically;
- plan effectively and develop regulations to safeguard Victoria's resources and the environment.

Some of the major activities planned for 2004-05 include:<sup>20</sup>

- Drought: exceptional circumstances funding - \$5.3 million (\$10.8 million over two years to 2004-05);
- FarmBis 111 - \$2.5 million (a total of \$5.5 million over three years to 2006-07);
- National eradication program for red imported fire ants - \$4 million (a total of \$8.4 million over four years to 2006-07); and
- Victoria: Leading the Way - \$3.7 million for the relocation of the Melbourne Wholesale Markets (\$4.8 million over two years to 2005-06).<sup>21</sup>

### 12.5.2 Analysis of the budget

The Minister for Agriculture has sole responsibility for the Agriculture and Fisheries output groups. Exhibit 12.6 shows that these outputs account for \$324.5 million (or 94.7 per cent) of the department's 2004-05 Budget.

**Exhibit 12.6: Agriculture Portfolio Output costs**

Output Group	Outputs under the responsibility of the Minister for Agriculture	2004-05 Budget (\$ million)
Agriculture	Biosecurity and Market Access	57.4
	Sustainable Agriculture and Food Sector Development	224.3
<b>Sub total</b>		<b>281.7</b>
Fisheries	Sustainable Fisheries Utilisation Services	21.5
	Industry and Community Compliance Services	17.7
	Aquaculture and Fishing Industry Development	3.6
<b>Sub total</b>		<b>42.8</b>
<b>Total</b>		<b>324.5</b>

Sources: *Budget Paper No. 3, 2004-05 Service Delivery, pp.192–198; Department of Infrastructure's response to the Committee's 2004-05 Budget Estimates questionnaire, p.1*

<sup>20</sup> Budget Paper No. 3, 2004-05 Service Delivery, p.297

<sup>21</sup> *ibid.*, p.260

### 12.5.3 Performance measures

In relation to the Agriculture portfolio, of the 51 performance measures<sup>22</sup> covering the department's outputs for 2004-05, there are two new performance measures dealing with the delivery of services to the forestry sector, which reflect the transfer of responsibility for the Private Forestry Program from the Department of Sustainability and Environment.<sup>23</sup> These relate to the selection of areas for the development of an integrated catchment scale approach to test commercial environmental forestry as part of implementing the Plantation Investment Strategy and the completion of the West RFA sawlog farming project.

Within the Sustainable Fisheries Utilisation Services output, one performance measure has been discontinued since 2003-04 that related to the completion of a survey of under-exploited areas for harvesting abalone.<sup>24</sup>

The Committee maintains that the Department of Primary Industries should include additional outcome focused measures in the Budget Papers. The existing performance measures are focused on activities, which are not accompanied by measures to assess achievements. For example, there are no performance measures to assess whether:

- the number of animal pest, disease and residue control plans assisted industry to access markets;<sup>25</sup>
- the number of extension groups that promoted sustainable farming systems;<sup>26</sup>
- technical publications in international and peer review journals that promoted productivity and sustainable farming systems;<sup>27</sup> and
- the number of additional management plans completed that contributed to the sustainable utilisation of commercial and recreational fisheries.<sup>28</sup>

The Committee recommends that:

**Recommendation 129:**                    **The Department of Primary Industries expand the performance measures contained in the Budget Papers covering the Agriculture portfolio.**

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<sup>22</sup> *ibid.*, pp.192–198

<sup>23</sup> Department of Primary Industries, response to the Committee's *2004-05 Budget Estimates questionnaire*, p.10

<sup>24</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.348

<sup>25</sup> *ibid.*, p.192

<sup>26</sup> *ibid.*, p.193

<sup>27</sup> *ibid.*

<sup>28</sup> *ibid.*, p.195

The Committee was interested to find that the department had been proactive in utilising internal audit in 2003 to:<sup>29</sup>

- understand the processes and systems in place to collect and report against the performance measures; and
- verify the accuracy of data contained in these reports.

The finding that 98 per cent of the 67 performance measures reviewed had appropriate collection systems provided an assurance that the department had appropriate processes and systems to collect and report performance information to major stakeholders.<sup>30</sup>

In order to provide assurance that information reported against performance measures is reliable, the Committee supports the undertaking of internal assessments to verify the adequacy of collection and reporting systems and maintains that this practice should be extended across agencies.

The Committee recommends that:

**Recommendation 130:**                    **All Government agencies, in the context of reporting accurate information on performance, utilise their internal audit capability to examine whether collection and reporting systems are reliable.**

#### **12.5.4 Key issues impacting on the portfolio**

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Agriculture identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05:

##### **(a) Research activities**

##### **Research programs – operational arrangements and expenditure**

Primary Industries Research Victoria (PIRVic), a division within the Department of Primary Industries, draws together the majority of the department's scientific research and development capability previously held by the Department of Natural Resources and Environment.<sup>31</sup> The two exceptions are the Forest Science Centre and the Arthur

<sup>29</sup> Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.11

<sup>30</sup> *ibid.*

<sup>31</sup> Minister for Agriculture's response to Committee's follow up questions, p.8

Rylah Institute, which are located within the Department of Sustainability and Environment.<sup>32</sup>

The department's research activities cover the scientific disciplines of: animal genetics and genomics; animal health sciences; animal production sciences; environmental health and chemistry; landscape systems; marine and freshwater systems; plant genetics and genomics; plant health sciences; plant production sciences; soil and water sciences.<sup>33</sup>

The Minister advised the Committee that all research is funded through particular projects.<sup>34</sup> Apart from funding received from rural industry research corporations, the State Government and industry sources, funding is also derived from commercial sources where the department:<sup>35</sup>

- undertakes contract research for the private sector; or
- receives a return where the State holds the intellectual property rights over various project work, and these moneys are then reinvested in research related activity.

The Commonwealth indirectly provides research funding to Victoria through the provision of funding to rural industry research corporations, which in turn provide funding for various research projects in Victoria.

The Committee noted that, as research funds are generated through the undertaking of specific projects, there is no direct output funding to Primary Industries Research Victoria.<sup>36</sup> Priorities are formulated through strategies developed by the policy divisions, in consultation with relevant industry sectors.<sup>37</sup>

A breakdown of funding for the year ended 30 June 2004, according to the various funding sources, is outlined in exhibit 12.7.<sup>38</sup>

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<sup>32</sup> *ibid.*

<sup>33</sup> Department of Primary Industries, *2002-03 Annual Report*, p.39

<sup>34</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.13

<sup>35</sup> *ibid.*, p.12

<sup>36</sup> *ibid.* p.13

<sup>37</sup> *ibid.*

<sup>38</sup> Minister for Agriculture's response to the Committee's follow up questions, p.8

**Exhibit 12.7: Department of Primary Industries and  
Department of Sustainability and Environment  
Sources of research funding for 2003-04**

<b>Department</b>	<b>Commercial \$000</b>	<b>Rural industry research corporations \$000</b>	<b>Industry \$000</b>	<b>State \$000</b>	<b>Total \$000</b>
Department of Primary Industries – Agriculture	23,003	21,152	6,188	(a) 50,640	100,983
Department of Primary Industries – Fisheries	828	2,199	1,295	(a) 5,915	10,237
Department of Sustainability and Environment (b)	774	365	4,524	(a) 5,157	10,820
<b>Total</b>	<b>24,605</b>	<b>23,716</b>	<b>12,007</b>	<b>(a) 61,712</b>	<b>122,040</b>

Note: (a) Includes \$13.5 million for depreciation and capital assets charge across funding sources

(b) Includes the Forest Science Centre and the Arthur Rylah Institute

Source: Minister for Agriculture's response to the Committee's follow-up questions, p.9

### **Commercial activities – intellectual property**

The Committee was interested to learn about the commercial nature of the department's research activities and the organisational structure in place for managing this function.

The Committee was advised that returns on intellectual property generated by the department cover items such as the growing of canola, whereby 70 per cent of canola varieties grown in Australia were bred by the department.<sup>39</sup> In holding the intellectual property over those varieties (i.e. the department holds in the public interest the base variety - base germ plasm, which can be accessed for breeding), income generated for the state can be used on enhancing Victoria's research capability.<sup>40</sup>

The Committee was informed that Agriculture Victoria Services Pty. Ltd., a wholly owned Government entity and subsidiary of the Department of Primary Industries, is responsible for registering, managing and commercialisation of patents and plant breeders rights generated from the department's research programs.<sup>41</sup> Primary Industries Research Victoria generates the patents, while Agriculture Victoria Services Pty. Ltd. hold the patents and undertake the commercial negotiations.<sup>42</sup>

<sup>39</sup> Dr C.Noble, Executive Director, Primary Industries Research Victoria, transcript of evidence, 22 June 2004, p.12

<sup>40</sup> *ibid.*, p.13

<sup>41</sup> Minister for Agriculture's response, to the Committee's follow up questions, p.9

<sup>42</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.14

While Agriculture Victoria Services Pty. Ltd. is the department’s commercial arm, the Committee was informed by the Minister that there are two other companies involved in the commercialisation process.<sup>43</sup> Relevant details concerning these government owned companies are listed below.<sup>44</sup>

**Exhibit 12.8: Department of Primary Industries  
agricultural research programs – some participating companies**

Phytogene Pty. Ltd	Commonwealth funds were provided to establish a company in relation to a gene discovered by the department that deals with slowing down the rate of senescence in plants. It has potential application in a very broad range of crops, for example, in slowing the rate at which vegetables might break down once they are on the shelf and delaying the onset of flowering in grasses. Further research is required to prove that this particular gene is effective.
AgGenomics Pty. Ltd.	This company provides genetic testing of primarily plant material.

Source: Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.14

In response to the Committee’s questions, the Minister advised that royalty income generated on behalf of the Department of Primary Industries and joint equity holders from patents and plant breeders rights for 2002-03 and 2003-04 was \$1.81 million and \$1.78 million respectively.<sup>45</sup> The Committee believes the department should maintain information that discloses the amount of funding from all sources that is used in development work as distinct from research. This information could be used by the Parliament and interested stakeholders to assess whether the state is generating an appropriate return in the form of royalty income from agriculture research that involves the development of intellectual property. Based on the aggregate level of funding for Victoria’s research and development program, the Committee is of the view that there could be scope for generating a greater return to the state from royalty income.

The Committee acknowledges the importance of scientific research and development in creating an environment that fosters sustainable, profitable production and industries that export to the world and promote economic growth.<sup>46</sup> Given the prime role that research plays in stimulating exports and the importance of exports to the economic performance of the state, there is a need for of a reporting framework to enhance accountability for moneys directed at research. The Committee believes it is essential that research activities of the state be linked to funding, Government outcomes and research objectives. It is also important that benefits, in terms of achievements and income generated for the state, be transparent to the Parliament and the public. The department’s reporting framework should also cover the commercial

<sup>43</sup> *ibid.*

<sup>44</sup> *ibid.*

<sup>45</sup> Minister for Agriculture’s response, to the Committee’s follow up questions, p.9

<sup>46</sup> Budget Paper No. 3, 2004-05 Service Delivery, p.192

arm of research in the form of intellectual property interests of the state. Disclosure of this type of material would facilitate the making of judgements about whether:

- commercial opportunities for the state emanating from research activities are maximised; and
- the commercialisation process is undertaken in an effective manner.

The Committee reiterates its recommendation made in the *Report on the 2002-2003 Budget Outcomes* for performance measures and targets to be published for research activities undertaken by the research institutes, which would complement a more expansive form of reporting.<sup>47</sup>

The Committee recommends that:

### **Recommendation 131:**

- (a) **The Department of Primary Industries prepare an annual research report card on its agricultural research activities. This document should include a consolidation of relevant information concerning Victoria's agricultural research and development program, and the benefits potentially available to the private sector from participation in state research activities;**
- (b) **A synopsis of this report be included in the Department of Primary Industries' annual report; and**
- (c) **The commercialisation activities of the Department of Primary Industries relating to agricultural research activities that involve the development of intellectual property should have a greater focus on maximising financial returns to the state.**

### **(b) *Export development***

The Committee enquired about the progress made in achieving the Government's \$12 billion target for food and fibre exports by 2010.<sup>48</sup> The Minister advised that provided drought recovery continues and the dollar remains stable, the Government

<sup>47</sup> Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, p.383

<sup>48</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.31

believes the target for 2010 can be achieved.<sup>49</sup> The Minister indicated that if the state can continue to experience growth in its processed food sector by stimulating interest, then Victoria will have to be more productive.<sup>50</sup> The Minister explained that trade development work, regulatory activity, research and development and extension activities will provide a framework to make industries more competitive and expand export markets.<sup>51</sup>

The Minister brought to the Committee's attention the following Government programs which are directly relevant to stimulating exports and attributed successful outcomes to these programs:

- the International Market Development Program,<sup>52</sup>
- the Naturally Victorian Initiative.<sup>53</sup>

Other export focused Government programs where the Department of Primary Industries has an involvement are:<sup>54</sup>

- the Opening Doors Export Plan
- the Next Generation Food Strategy

The Committee was pleased to hear from the Minister that the Government is still committed to the 2010 target<sup>55</sup> and that good outcomes are flowing from the Government's food and fibre export initiatives. The Committee recognises that various external factors, such as those that relate to environmental and economic conditions affecting exports, are beyond the control of the Victorian Government. It is for these reasons that the Government will need to assess on an ongoing basis whether the \$12 billion food and fibre export target to be achieved by 2010 is in fact realistic and attainable, given the Minister's comment that *'in terms of food and fibre we hit \$8 billion two years ago and that has dropped back to \$6 billion'*.<sup>56</sup>

### **(c) Recreational Fishing Licence Trust Account**

At the estimates hearing, the Committee was informed that based on a survey in 2003, around \$400 million was expended by the public on fishing related products and services in 2000-01 and that about 230,000 recreational fishing licences are sold each year.<sup>57</sup>

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<sup>49</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.10

<sup>50</sup> *ibid.*, p.11

<sup>51</sup> *ibid.*

<sup>52</sup> Minister for Agriculture's response to the Committee's follow-up questions, p.1

<sup>53</sup> *ibid.*, p.2

<sup>54</sup> Minister for Agriculture's response to the Committee's follow-up questions, pp.7-8

<sup>55</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.10

<sup>56</sup> *ibid.*

<sup>57</sup> Mr P. Mainey, Acting Executive Director, Fisheries Victoria, transcript of evidence, 22 June 2004, p.4

The Minister informed the Committee that fishing licence fees are credited to the Recreational Fishing Licence Trust Account.<sup>58</sup> Funds are disbursed on projects for the benefit of recreational fishing activities in Victoria.<sup>59</sup> The Government has established a fisheries revenue allocation committee, comprising representative stakeholders, to provide advice to the Minister on disbursements of the funds.<sup>60</sup> The revised 2003-04 revenue budget for the Recreational Fishing Licence Trust Account was \$4.1 million (\$4.2 million for 2004-05).<sup>61</sup>

The Committee noted that the balance of the trust account at 2 July 2004 was \$1.8 million.<sup>62</sup> Proposed disbursements are as follows:<sup>63</sup>

- 41 proposed recreational fishing grant program projects are intended to commence during 2004-05;
- eight previously approved projects that commenced in 2003-04 have been extended into 2004-05;
- recreational fishing licence sales commissions payable to retailers (6 per cent of face-value of licences sold) for 2003-04; and
- repayment of an internal borrowing to finance compensation payments (and related items) emanating from the cancellation of commercial fishery access licences at Lake Tyers and Mallacoota Inlet.

As part of the estimates process, the Committee was interested in the accountability arrangements in place for disclosing collections and disbursements from the trust account. The Minister brought to the Committee's notice that a report on the receipts and disbursements from the Recreational Fishing Licence Trust Account, audited by the Victorian Auditor-General, is tabled in Parliament in October each year.<sup>64</sup> Information regarding these disbursements is included in the annual Recreational Fishing Guide of which 300,000 copies are available at no charge to the public.<sup>65</sup> Information is also included in a Fisheries Victoria's fortnightly newsletter – 'Fishfax', which is distributed to approximately 1,800 individuals/organisations, and posted on the Internet.<sup>66</sup>

The Committee believes that there is a strong level of accountability to the recreational fishing community, the Parliament and the public on licence fees collected and disbursements met from the trust account. It was pleasing to see that the Government is committed to ensuring recreational fishers are told what their licence fees are spent on and are given a say in determining that expenditure. The Committee

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<sup>58</sup> Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

<sup>59</sup> Mr P. Mainey, Acting Executive Director, Fisheries Victoria, transcript of evidence, 22 June 2004, p.4

<sup>60</sup> *ibid.*

<sup>61</sup> Minister for Agriculture's response to the Committee's follow-up questions, p.11

<sup>62</sup> *ibid.*, p.1

<sup>63</sup> *ibid.*

<sup>64</sup> Minister for Agriculture's response to the Committee's additional follow-up questions, p.2

<sup>65</sup> *ibid.*

<sup>66</sup> *ibid.*

is of the view that, given the limited disclosure of the transactions relating to trust accounts in the Budget Papers and, to some extent, annual reports, the Government should consider applying the accountability arrangements that apply to the Recreational Fishing Licence Trust Account to other major trust accounts that are of public interest.

The Committee recommends that:

**Recommendation 132:**            **The Government undertake a review of the major trust accounts within the trust fund to determine whether there is scope for applying the accountability arrangements in place for the Recreational Fishing Licence Trust Account to other major trust accounts.**

**(d)            *Free Trade Agreement between Australia and the United States***

The Committee was interested to learn about the potential impact of the Free Trade Agreement between Australia and the United States on the Victorian agricultural industry and the achievement of Government outcomes. The Minister explained the Agreement's effect on Victoria and its Agriculture portfolio:<sup>67</sup>

*The position of the Government on the US/Australia Free Trade Agreement (FTA) is one balanced on the total impact on the State and measures taken to deal with any negative impacts in certain sectors – including those potential impacts on agriculture. To extract agriculture only is to give a false impression of the total picture. With that in mind, the following comments can be made:*

*The main features of the FTA of relevance to Victorian agriculture are:*

- *the volume of dairy product currently imported (by America) under tariff rate quotas that can be sent duty free will be nearly trebled, but the over-quota tariff level will remain unchanged;*
- *two thirds of agricultural tariffs, including lamb, sheep meat, and most horticultural products, will be eliminated immediately, and a further 9% within four years, but the canned fruit industry must wait 18 years for full tariff elimination;*
- *the beef quota of 378,000 tonnes to increase by 18% over an 18 year period;*
- *single desk marketing arrangements (including the Australian Wheat Board) are preserved; and*
- *quarantine and food safety arrangements are not affected by the agreement, but new consultative mechanisms should ensure improved understanding of each country's situation.*

<sup>67</sup> Minister for Agriculture's response to the Committee's follow-up questions, p.17–18

*However, these comments need to be taken as indicative only as there are a number of mechanisms of review available to the USA to review these access arrangements.*

*Should there be no review by the US, which cannot be guaranteed, Victorian agriculture is likely to be a modest net beneficiary of the FTA, and the increase in Gross State Product from agriculture has been recently estimated in economic modelling work for the Commonwealth at \$11.5 million.*

*The Agreement limits gains in the most sensitive agricultural areas where gains were potentially greatest, i.e. sugar, dairy products and beef. However, the immediate or eventual elimination of other tariffs produces minor gains in other agricultural areas (e.g. lamb), which could become more significant over time. The Agreement may make a modest contribution to the achievement of Victoria's food and fibre export target of \$12 billion by 2010.*

The Committee believes that disclosing the impact of the Free Trade Agreement, between the United States and Australia, on budget sector outputs and new initiatives across Victoria's portfolio sectors in future Budget Papers would constructively contribute to the improvement of information conveyed to the Parliament and the community.

The Committee recommends that:

**Recommendation 133:**                    **The Government publish a report that contains an assessment of the total impact of the Free Trade Agreement between the United States and Australia on Victoria, including the Agriculture portfolio, after the Agreement has been in operation for a sufficient period of time.**

**(e)            *PrimeSafe – seafood safety scheme***

The Minister briefed the Committee on the following key features of the seafood safety scheme:<sup>68</sup>

- PrimeSafe is an independent statutory authority. Its mission is to improve the quality and safety of meat and seafood processed and marketed in Victoria, through a regulatory environment;
- PrimeSafe is responsible for determining and administering the seafood safety scheme;

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<sup>68</sup> Minister for Agriculture's response to the Committee's follow-up questions, pp.3-4

- the seafood safety scheme covers the chain from wild catch and aquaculture to retail;
- PrimeSafe provided an estimate of \$550,000 per annum for the total cost of administering the seafood safety scheme. The estimate was based on a number of factors, which included the following:
  - a significant part of the seafood industry was unregulated for food safety with, for example, wild catch harvest not regulated by local government;
  - a significant proportion of licensees in the seafood industry do not have fixed premises i.e. boats. Regulatory management costs are anticipated to be higher per business as a result; and
  - PrimeSafe will have to develop suitable standards and guidelines for seafood, particularly at the wild catch end of the chain, as there are no national standards at present that can be adopted; and
- the costs of the seafood safety scheme are funded by industry; and
- PrimeSafe is required to consult with industry prior to establishing licence fees.

The Committee is of the view that the department needs to ensure that the costs borne by the seafood industry for the administration of the seafood safety scheme are kept to a minimum.

The Committee recommends that:

**Recommendation 134:**            **The Department of Primary Industries monitor the costs incurred by PrimeSafe in administering the regulatory environment to ensure that the funding contributed by the seafood industry towards the seafood safety scheme are fair and reasonable.**

## **12.6 Resources portfolio**

### **12.6.1 2004-05 outlook for the portfolio**

The Resources portfolio is supported by the Minerals and Petroleum Division of the Department of Primary Industries.<sup>69</sup>

According to a ministerial statement issued by the Minister for Energy Industries and Resources in December 2003, the Government intends to:<sup>70</sup>

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<sup>69</sup> Department of Primary Industries, *2002-03 Annual Report*, pp.32–37

- continue to invest in geology to attract exploration and development;
- maintain and improve a transparent and streamlined regulatory regime, developing electronic business practices;
- ensure long-term secure supplies of low cost resources and energy to all Victorians;
- support and encourage sustainable exploration and development practices;
- harness innovative techniques to find and use untapped resources;
- further encourage community participation in decision making; and
- improve environmental and occupational health and safety outcomes in partnership with industry.

The Victorian Initiative for Minerals and Petroleum (VIMP) is the Government's major program to support and promote mineral and petroleum exploration in Victoria. Through the VIMP geophysical survey data, ground gravity data and GIS (geographic information system) geological data have been captured in a database. The geological data enhances the understanding of the state's mineral and petroleum exploration potentials. Some of the successful exploration activities include the new gas fields in the Otway Basin; mineral sands in northwest Victoria; and new gold minings throughout Victoria.<sup>71</sup>

Some of the major initiatives contained in the 2004-05 budget include:

- \$9.8 million over seven years from 2005-06 to provide research funding to explore ways to grow a sustainable coal industry;<sup>72</sup>
- funding of \$900,000 to the Greenhouse Gas Technologies Cooperative Research Centre for a period of three years to 2006-07 (\$300,000 in 2004-05);<sup>73</sup> and
- \$400,000 to pilot new approaches to natural resource allocation that will involve the running of a pilot to demonstrate the recent innovation in auction design and electronic bidding in allocating natural resources to provide maximum returns to the community.<sup>74</sup>

Ongoing initiatives funded from previous budgets include:<sup>75</sup>

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<sup>70</sup> Hon. T. Theophanous, MP, Minister for Energy Industries and Resources, media release *A bright future for Victorian resources*, 3 December 2003

<sup>71</sup> Department of Primary Industries, Victorian Initiative for Minerals and Petroleum, [www.dpi.vic.gov.au](http://www.dpi.vic.gov.au), accessed 8 June 2004

<sup>72</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.33

<sup>73</sup> *ibid.*, p.260

<sup>74</sup> *ibid.*, pp.34, 297-298

<sup>75</sup> Department of Primary Industries, 2003-04 Budget fact sheet, *Minerals and Petroleum - an overview*, May 2004

- the fourth year of a \$4 million investment over four years for the Victorian Initiative for Minerals and Petroleum; and
- the fourth year of a \$3.5 million investment over four years support responsible industry development.

### 12.6.2 Analysis of the budget

The Minister for Resources has responsibility for two outputs in the department. Exhibit 12.9 shows that these outputs account for \$18.3 million (or 5.3 per cent) of the department's 2004-05 Budget.

**Exhibit 12.9: Resources Portfolio  
Output costs**

Output Group	Outputs under the responsibility of the Minister for Resources	2004-05 Budget (\$ million)
Minerals and Petroleum	Minerals and Petroleum Regulation Services	8.2
	Minerals and Petroleum Industry Development and Information	10.1
<b>Total</b>		<b>18.3</b>

Sources: *Budget Paper No. 3, 2004-05 Service Delivery, pp.199–200; Department of Infrastructure's response to the Committee's 2004-05 Budget Estimates questionnaire, p.1*

### 12.6.3 Performance measures

With regard to the Resources portfolio, there are no new performance measures in the Budget Papers for 2004-05 and none have been discontinued.

As is the case with the Agriculture portfolio, performance measures published in the Budget Papers are primarily process orientated and do not provide sufficient information to adequately assess the achievement of outcomes.

The department advised the Committee that, where possible, broader indicators are used to judge the competitiveness of Victoria.<sup>76</sup> The department cited as an example, the level of exploration expenditure incurred within Victoria compared to the national level of exploration expenditure which is used as an indicator to assess how well Victoria is performing in the area of attracting investment.<sup>77</sup> The department indicated

<sup>76</sup> Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

<sup>77</sup> *ibid.*

that Victoria has lifted this rate to above 6 per cent over recent years, a result which reflects positively on the performance of the department.<sup>78</sup>

The department also advised that its Minerals and Petroleum Division continues to monitor and improve its performance.<sup>79</sup> The Regulation Branch regularly reviews comparable data that is available to assess its performance relative to other areas.<sup>80</sup> Assessments are regularly made in terms of how other states are providing minerals and petroleum information to industry relative to the department's efforts (e.g. on-line delivery) and through appropriate forums, staff continually seek feedback from key stakeholders as to the quality of the information and products provided by the department.<sup>81</sup> The Committee was pleased to hear from the department that feedback indicates that the quality of the geological work undertaken in Victoria is of a very high standard.<sup>82</sup>

#### **12.6.4 Key issues impacting on the portfolio**

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Resources identified the following key issues that will impact on the resources portfolio and its budget estimates for 2004-05.

##### **(a) Minerals and petroleum sector**

The 2004-05 budget provides \$18.3 million to the minerals and petroleum output group.<sup>83</sup>

At the estimates hearing the Minister informed the Committee that the minerals and petroleum outputs from the Resources portfolio assist industry by attracting and facilitating investment, by encouraging and developing technologies to minimise the impact on the environment and by developing and enforcing a regulatory framework for health, safety and environmental management.<sup>84</sup>

The Committee was interested to learn about the magnitude of the return generated for Victoria from the budget funding provided by the Government. The Minister brought to the Committee's attention that petroleum exploration in Victoria was now nearing record levels.<sup>85</sup> The following exhibit illustrates that there has been a significant injection of funds by industry to find new sources of oil and gas in Victoria and to finance petroleum related projects.

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<sup>78</sup> *ibid.*

<sup>79</sup> *ibid.*

<sup>80</sup> *ibid.*

<sup>81</sup> *ibid.*

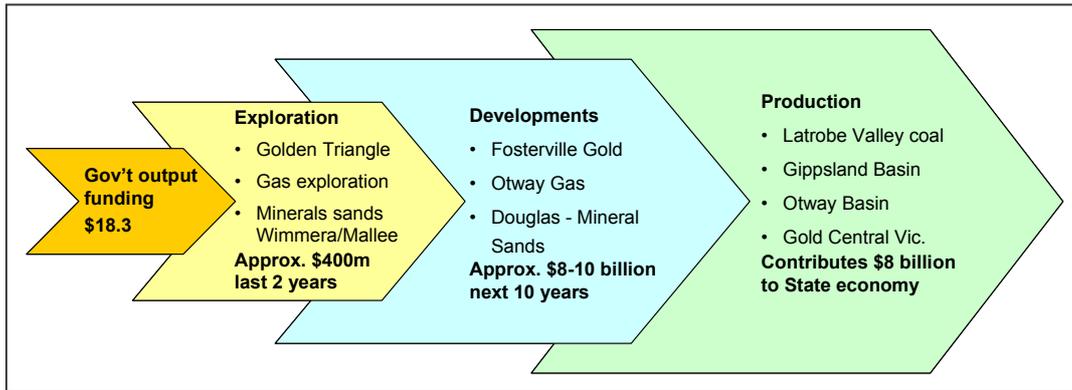
<sup>82</sup> *ibid.*

<sup>83</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.199–200

<sup>84</sup> Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.2

<sup>85</sup> *ibid.*, p.8

**Exhibit 12.10: Minerals and Petroleum Sector – Government investments and returns to Victoria**



Source: *Power point presentation (slide 4) by Minister for Resources at the 2004-05 Budget Estimates hearing, 23 June 2004*

At the request of the Committee, the Minister provided the following summary of petroleum related projects under development or consideration, the estimated project cost and benefits to Victoria.

**Exhibit 12.11: Summary of petroleum related projects under development or under consideration**

<b>Project Description</b>	<b>Estimated Project Cost</b>	<b>Benefits to Victoria</b>
Minerva – Gas field development in the Otway Basin (in construction)	\$250 million	<ul style="list-style-type: none"> <li>• Supply of gas to regional and interstate markets</li> <li>• Ensures greater diversity of the supply of gas – enhances supply security</li> <li>• 600 people will be involved in the construction phase and 25-30 permanent staff employed when fully operational</li> </ul>
BassGas – Gas field development located offshore near Inverloch (in construction)	\$400 million	<ul style="list-style-type: none"> <li>• 1,000 people will be involved in the construction phase and approximately 45 people employed permanently</li> <li>• Increases gas supply security and provides an alternative to the Longford facility</li> </ul>
Sole – Gas field development in the Gippsland Basin (on hold pending market)	\$165 million	<ul style="list-style-type: none"> <li>• Will increase gas supply security from non Esso/BHP gas production</li> </ul>
Otway Gas – Gas field development in the Otway Basin (pending approval)	\$1.1 billion	<ul style="list-style-type: none"> <li>• Enhances gas supply security to Victoria</li> <li>• Supply of gas to interstate markets</li> <li>• Project with over a 10 year life and can supply over 10% of South Eastern Australia's current gas demand</li> <li>• 1,300 people employed during construction and 30 permanent roles during operation</li> </ul>
Casino – Gas field development in the Otway Basin (pending approval)	\$200 million	<ul style="list-style-type: none"> <li>• Increase gas supply security and diversity</li> <li>• Positive impact on regional Victoria</li> </ul>
Other possible gas projects that may proceed in the future include: <ul style="list-style-type: none"> <li>• Golden Beach (Gippsland Basin)</li> <li>• Kipper (Gippsland Basin)</li> <li>• La Bella (Otway Basin)</li> </ul>		

Source: Minister for Resources' response to the Committee's follow up questions, pp.2–3

The Minister further informed the Committee that investment in exploration and development directly affects businesses in rural Victoria, with up to \$63 million spent

in 2002-03 by the oil and gas industry on goods and services purchased from local businesses.<sup>86</sup>

**(b) Hazelwood power station – access to new coal deposits**

The Minister advised the Committee that the vision for the Resources portfolio is for a safe, sustainable and dynamic minerals and petroleum industry that contributes to the wealth and wellbeing of Victorians.<sup>87</sup> The Minister indicated that, in order to realise this vision, new projects need to be economically viable, ensure real community benefits and protect the environment.<sup>88</sup>

The Committee was informed by the Minister that a major issue confronting the Resources portfolio concerns the request by International Power Hazelwood, which owns the Hazelwood power station, to gain access to 92 million tonnes of new coal deposits by developing the West Field mine.<sup>89</sup> According to articles in the media, negotiations between the Government and Hazelwood, which have extended over more than a year, relate to the greenhouse gas emission levels to which Hazelwood would have to commit, before obtaining Government approval to develop the West Field mine.<sup>90</sup> Hazelwood emits the highest greenhouse gas levels of the state's electricity generators.<sup>91</sup> The Committee understands that:<sup>92</sup>

- the Government is calling for Hazelwood to install new technology, capable of reducing greenhouse gas emissions by 30 million tonnes of carbon dioxide between 2009 and 2031, in return for a mining permit;
- if approval is not forthcoming for the development of the West Field mine, coal resources at the Hazelwood power station would be exhausted by 2009;
- apart from the environmental impost, development of the West Field mine would cost International Power Hazelwood \$380 million and would involve moving the Strzelecki Highway, the Morwell River, two creeks, the town of Driffield and 11 families;
- International Power Hazelwood will close down the power station in 2009 if a satisfactory deal is not reached and, if this was to occur, this action would leave Victoria without 20 per cent (or 1600 megawatts) of its baseload power capacity. Electricity regulators believe a further 1000 megawatts of baseload power would need to be built to sustain Victoria's future needs.

<sup>86</sup> *ibid.*

<sup>87</sup> *ibid.*, p.2

<sup>88</sup> *ibid.*

<sup>89</sup> *ibid.*, p.3

<sup>90</sup> R.Myer, 'Victoria may set Hazelwood coal deal deadline', *The Age*, 10 June 2004, p.3

<sup>91</sup> R.Myer, 'Hazelwood chiefs turn to Brumby', *The Age*, 23 June 2004

<sup>92</sup> R.Myer, 'Victoria may set Hazelwood coal deal deadline', *The Age*, 10 June 2004, p.3

- If Hazelwood were to close, the Government would have to make decisions regarding alternative power sources, with possible options including:<sup>93</sup>
  - a large gas fired power station;
  - larger interconnect lines to New South Wales to tap into power surpluses in the northern States; or
  - re-tendering the brown coal lease at Hazelwood.

In discussing this matter with the Minister, the Committee was informed that:

- the Government wishes to apply the same formula for the brown coal tender,<sup>94</sup> which would require reduced emissions from the use of the new coal in order to make it available. However, the Government was prepared to offer a concession allowing Hazelwood to spread the reduced emissions over the life of the entire mine in order for the Government's demand to become an achievable objective for the power station and allowing for the Government to be seen as environmentally responsible;<sup>95</sup>
- if no additional steps were taken by Hazelwood such as shifting the river or building the roadworks, then 2009 would probably be the date beyond which they would be struggling to access further coal;<sup>96</sup> and
- Hazelwood is the dirtiest of Victoria's power stations. For every 1 megawatt of electricity it produces, it also produces 1.55 tonnes of CO<sup>2</sup> into the atmosphere. Accordingly, the Government's view is that, in return for providing additional coal to the power station, a reduction in greenhouse emissions should be required from the operator.<sup>97</sup>

The Committee appreciates that the economic focus of investors and community expectations in terms of safe and environmentally responsible behaviour may at times differ. In relation to the commencement of large scale projects, this conflict can lead to protracted negotiations with regulating bodies. Despite such conflicts and competing agendas, the Committee is of the view that it is in the state's interest for a resolution to be reached in a timely manner with regard to Hazelwood's application for access to new coal fields.

The Committee recognises the urgent requirement for the development of new and advanced technologies to reduce greenhouse gas emissions into the atmosphere, so that projects can be both economically viable and environmentally safe. The

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<sup>93</sup> *ibid.*

<sup>94</sup> Minister for Energy and Resources, media release, 17 July 2002, which indicated that in announcing the outcomes of the successful Brown Coal Tender, the Minister for Energy and Resources stated that *'for projects to proceed to mining stage, they will need to meet specific greenhouse emission targets that are 33 to 79 per cent better than current Victorian best practice and 24 to 76 per cent better than international best practice.'*

<sup>95</sup> Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.3

<sup>96</sup> *ibid.*, p.4

<sup>97</sup> *ibid.*, p.6

Government is aware that it cannot demand emission levels that cannot be met with existing technology. This situation can also impact on future investment in Victoria by companies using coal fire energy. The Committee was interested in the outcomes achieved to date and the technologies being trialled or planned by the:

- Cooperative Research Centre for Clean Power from Lignite that came into existence on 1 July 1999,<sup>98</sup> and
- Cooperative Research Centre for Greenhouse Gas Technologies, which commenced operation in July 2003.<sup>99</sup>

On the issue of geosequestration (i.e. the injecting and storing carbon dioxide (CO<sup>2</sup>) in permanent deep underground rock structures), which is a potential solution to greenhouse gas emissions, a research program is under development by the Cooperative Research Centre for Greenhouse Gas Technologies.<sup>100</sup> The Minister informed the Committee that, although geosequestration is an important process, there are also other technologies under development which can reduce emissions.<sup>101</sup> The Minister advised that:<sup>102</sup>

- geosequestration is a new technology that will be applied to future power stations in 20–30 years time and is not relevant to existing power stations;
- with regard to Victoria's existing infrastructure, it is important to examine technologies such as coal drying technologies and super critical boilers aimed at reducing the amount of emissions at the present time;
- the 2004-05 budget provided funding of \$750,000 over three years for greenhouse abatement research to be undertaken by the Cooperative Research Centre for Greenhouse Gas Technologies; and
- while it is worth investing in geosequestration, it is a technology that may or may not work and is not the only answer to the emission reduction problem.

The Minister also advised that the Cooperative Research Centre for Greenhouse Gas Technologies is proposing the commencement of a major geosequestration pilot project in early 2005, with the site likely to be located in Victoria.<sup>103</sup>

The Minister informed the Committee that the Government does not accept that carbon sequestered underground is the only long-term solution to emission reduction as it believes that:<sup>104</sup>

<sup>98</sup> Minister for Resources' response to the Committee's follow-up questions, p.5

<sup>99</sup> *ibid.*, p.6

<sup>100</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.263

<sup>101</sup> Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, pp.10–11

<sup>102</sup> *ibid.*

<sup>103</sup> Minister for Resources' response to the Committee's follow-up questions, p.6

<sup>104</sup> Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.10

- Victoria should adopt the international target under the Kyoto Protocol for greenhouse gas emissions; and
- there should be national leadership in relation to an emission trading or emission reduction scheme.

The Committee supports the adoption of a triple bottom line approach noting that the projects need to be economically viable, ensure real community benefits and, importantly, minimise the effect on the environment.

The Committee recommends that:

**Recommendation 135:**                    **The Department of Primary Industries disclose in its annual report details of any variations from the requirements of the Brown Coal Tender agreed to by the Government, to enable the Hazelwood power station to have access to new coal fields.**