

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2006-07 budget estimates

Melbourne — 15 June 2006

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr B. Forwood

Ms D. L. Green

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Witnesses

Mr B. Cameron, Minister for Agriculture;

Mr P. Harris, secretary;

Mr D. Seymour, deputy secretary;

Dr B. Kefford, deputy secretary;

Mr S. Condron, chief financial officer;

Dr P. Appleford, executive director, Fisheries Victoria; and

Dr C. Noble, executive director, research and development, Department of Primary Industries.

The CHAIR—I declare open the Public Accounts and Estimates Committee hearings on the 2006-07 budget estimates for the Agriculture portfolio. I welcome the Hon. Bob Cameron MP, Minister for Agriculture, Mr Peter Harris, secretary of the Department of Primary Industries, Mr Dale Seymour, deputy secretary, Dr Bruce Kefford, deputy secretary, Mr Shaun Condron, chief financial officer, departmental officers, members of the public and the media. In accordance with the guidelines for public hearings, I remind members of the public they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or one of his staff members, can approach the table during the hearings. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of their transcripts as soon as they become available. They will be emailed to you and you have two working days to respond. I will call on the minister to give a brief presentation on the more complex and performance information that relates to the budget for the portfolio of Agriculture. Thank you, Minister, over to you for a 10-minute maximum presentation, then we will have an hour and 50 minutes for questions.

Mr CAMERON—Thank you, Chair and members of the committee. We have a little slide show to kick things off, as is the custom, and you can put that on your website if you so choose.

Slides shown.

Mr CAMERON—We will start with a brief overview of the Agriculture portfolio. The agricultural sector produces around \$9 billion a year in terms of goods, which include 6.4 billion litres of milk. We have a relatively good climate, good quality soils and clean water, and that helps underpin a strong, world-class agricultural sector in our great state. For example, 13 per cent of the world's dairy trade comes from Victoria, and our average cow produces 19 glasses of milk a day. Our dairy industry creates 6.4 billion litres of milk every year. There has been a huge change to make a huge industry over the last few decades.

Our coastal waters, bays and estuaries have over 2,000 kilometres of coastline, and inland Victoria features thousands of kilometres of rivers, streams and lakes, which are all important in terms of fishing, both recreational and commercial. We have a lot of unpolluted waters, unlike lots of other parts of the world. We produce things like mussels, abalone, rock lobster and snapper. We also have tremendous recreational fishing opportunities here. Of the 8.8 million hectares of public land, more than one-third is state forest. That is managed to a variety of uses, including the provision of wood and forest products on a sustainable basis. Victoria also is the largest plantation state in Australia.

I want you to have a look at this graph. Look at commodities and the gross value of agricultural production in terms of dollars per hectare. Victoria is a little state but, notwithstanding being little, we are a huge producer of agriculture. This graph demonstrates that, and you can see how Victoria, despite the small number of hectares but because of better production, achieves the results that you see there.

If we go to the next slide and have a look at Australia's food and fibre exports by state, as you can see, Victoria puts out more produce than any other state. There has been an annual trend growth of 3.2 per cent since 1997, so a good trend rate over the last decade. Key markets for Victorian food and fibre are Japan, China and the US. Our most valuable export market is Japan, and that is 14 per cent of Victoria's exports. China and the US are valued at \$811 million and \$799 million respectively. Other key markets are New Zealand, Malaysia and the United Kingdom.

Have a look at sheep meat. In relation to sheep meat, people often think that New South Wales is the dominant state. I have this up here so that nobody will be under any misapprehension about that. Exports of Victorian sheep increased in value in 2005 by \$61 million or 15 per cent, and fresh or chilled lamb cuts with the bone in were the most valuable sheep meat export, worth \$134 million. The US remains our biggest market, but other key markets are Japan, Canada and the United Arab Emirates.

I have already alluded to dairy. So that you can appreciate the size of dairy when it comes to exports,

84 per cent of all dairy exports in Australia come from Victoria. We have a very efficient industry, good water systems, good pasture systems and good grazing systems. So, as you can see, we dominate when it comes to dairy. In 2005 dairy exports were valued at \$2.1 billion, and dairy is the biggest export earner for Victoria. Powdered milk and cream, worth \$1 billion, made up almost half of our 84 per cent share.

In relation to wine exports, there have been issues in the wine industry with oversupply, and you may have read about that. This is a graph of what is happening in terms of exports. We continue to see strong growth, with a trend rate of around 11 per cent over the last eight years. If you have a look around the 19 or so wine regions, there are 2,000 grape growers producing 21 per cent of Australia's wine-making grapes. Our exports in 2004-05 were \$532 million, and that makes up 20 per cent of all Australian wine exports.

The next slide is about outputs, primary industries policy. For 2006-07 you will see the budget there of \$25.5 million. You can see some of the highlights there, and you might want to come back and ask questions about those later on. In relation to regulation and compliance, the budget is \$79.4 million. You will see some of the highlights there: the 13-FISH reporting line to curb illegal fishing, the development of a washing protocol to prevent the spread of potato cyst nematode and maintain access to markets for Victorian potatoes and also fisheries compliance legislation used as an example for other states' legislation, where we are leading the way.

In relation to strategic and applied science research, there is a budget in the upcoming financial year of \$182.7 million. DPI is the biggest science employer and the biggest science provider in the state. People often do not realise that, but it is just that we are spread over a vast area with a vast number of facilities. Some of the highlights there include work with the production of milk with high levels of selenium, the discovery of a bacteria-killing compound in wallaby milk; the development of a fuel efficient bantam 'super chook' and antifreeze for crop genes found in Antarctic hairgrass.

Sustainable practice change has a budget in the upcoming financial year of \$110 million. Some of the highlights in 2005-06 have been the coordinated response to plague locusts, the collaborative effort in terms of the bushfire response in the western half of the state this year and the export of Australian seed potatoes to Thailand, were proof that they posed no pest or disease threat.

There are also initiatives in the budget that were announced as part of the Provincial Victoria Statement last November, including boosting recreational fishing and tourism, streamlining property management systems for farmers, services and information for new landowners, improving provincial Victoria's biosecurity, a new sustainable timber industry council and implementing the plantation investments strategy.

The last slide is about new initiatives announced in the state budget. There was the replacement of the fisheries catch and effort system, which is very important. A catch and effort system gives you the data so that you can base future decisions around commercial fishing. It also gives you a good understanding of fishing, which also helps in relation to the recreational system so that we know what is happening in our waterways. There is also assistance for horticulture in Victoria, with \$1.5 million over three years. We will work through that with industry as to the best way to provide specific types of assistance. That wraps up the presentation.

The CHAIR—Thank you, Minister. I would like to go to an almost equally interesting topic—that is, fish stocking. Minister, I note in your presentation you mentioned the opportunities for fishing in Victoria. Could you give this committee some indication of what work is being done by your department in this regard to increase stakeholder satisfaction. I notice that in the quality performance measures:

Stakeholder satisfaction is maintained or enhanced by Fisheries Victoria for service delivery across commercial and non-commercial sectors—

was withdrawn. You mentioned that last year, from memory, saying it is difficult to identify client satisfaction. Can you tell us a little bit about fish stocking and how you make sure that there is an adequate performance measure?

Mr CAMERON—Yes, I will make some opening comments and Dr Peter Appleford, who is the head of Fisheries Victoria, will also make some comments. Recreational fishing is important to a lot of

people. It is also important to the economy, with around \$400 million of economic activity generated because people go fishing. They have to travel there. They might stay sometimes. They go and buy sinkers and fishing lines. In all, it generates a lot of activity of people getting out and about. We recognise that and that is why one of the things that we do is promote fish stocking. What that means is that we go and put fish in different waterways. We put all sorts of fish into the waterway. It depends where you are as to what fish goes in those particular waterways.

Ms GREEN—Like Yarrambat?

Mr CAMERON—Yes, like Yarrambat Lake on Wednesday—a perfect example—where some fish were put in for the school holidays. We put fish in for general fishing but over this term and last term we have been putting fish in the water in selected areas; putting some rainbow trout in for the school holidays so that it is nice and easy for kids to go down and hopefully their prospects of catching a fish at a nearby waterway are increased. We call those family fishing lakes or waterways. Those trout are about eight inches long.

Also, as part of the initiative announced in the provincial statement, we have identified five family fishing lakes, specifically to be premier fishing lakes where we will put in a lot more stockings of fish for kids to catch. They will be at Lilydale Lake, Kennington Lake, Jubilee Lake near Daylesford, Hyland Lake near Churchill, and the Eildon pondage. They have been chosen because they have good facilities nearby. There will be some smaller fish and some larger fish. I will ask Dr Appleford to take you over other aspects.

The CHAIR—With all due respect, we are trying to keep our answers to four minutes, so if you could be succinct we would appreciate it

Dr APPLEFORD—In regard to your question, there is a lot of support by the government recognising the importance of recreational fishing. One thing we do is stock fish around the state. In recent years we have stocked up to 1.3 million fish across the Victorian waterways for the benefit of general anglers. The majority of these fish have been rainbow trout, brown trout and other salmonid species and native species such as Murray cod, golden perch, silver perch and Australian bass.

With regard to satisfaction, we attempt to meet the satisfaction of the angler in regard to these stockings by using a process that we have used for many years called the fisheries consultation process, where we meet around the state with stakeholders and look at which waters are available, the stockings in those waters and then what sort of fish, what size of fish and how many fish should be put in those waters to meet the priorities of the anglers themselves. This deals a lot with the 50 family fishing lakes that the minister was talking about. They have been highly successful particularly in offering opportunities to disabled and junior anglers in the school vacations in locations with good access and close to transport and population bases.

Further, we provide a lot of support to the average fisher through the Recreational Fishing Grants program. That is derived from revenue for the recreational fishing licences. It also supports the fish stocking program. Annually the department puts approximately \$900,000 to \$1 million into that program itself but over the last few years, since 2001-02, \$430,000 from the recreational fishing licence revenue was also put into fish stocking. In addition, more than \$4.5 million has been allocated to another 130 projects in the areas of facilities, habitat improvements, education and research projects. Again, we try to meet the satisfaction of the stakeholders and the priorities through this process or a legislative process where there is a Fisheries Revenue Allocation Committee that involves two members from the recreational fishing peak body, two from the Fisheries Management Council and two from the department. They create the priorities over the program, the areas where money is most desired by the anglers and also prioritise the projects when they are received through the grants program.

The CHAIR—Thank you very much. There is follow-up on this from Mr Baxter. One thing I neglected to do was ask you to write down acronyms, please, for Hansard, and if you have any notes, I neglected to ask you to pass them up.

Mr BAXTER—I am interested in the emphasis on stocking for schoolchildren at Lake Yarrambat and other places for tourism and so on. Why then, if that is the emphasis, is it being funded from the already hard-pressed agricultural budget? Why isn't it coming out of tourism or somewhere more appropriate?

Mr CAMERON—You mean in relation to the stockings of those lakes that was announced in the provincial statement of \$3.2 million over four years?

Mr BAXTER—I am asking why is it coming out of the agriculture budget when you are emphasising its tourism benefits.

Mr CAMERON—We breed the fish at Snobs Creek. Fisheries Victoria breeds the fish, puts them in the water, has the initiative and has funded it.

Mr BAXTER—Out of the agriculture budget?

Mr CAMERON—No. With those five lakes that I referred to, there was a specific initiative announced in the Provincial Victoria Statement of \$3.2 million over four years.

Mr BAXTER—Your colleague has just informed us that ,of the more than \$1 million put in, \$432,000 is recovered from licence fees. Presumably the other \$560,000 has come out of the agriculture budget.

Mr CAMERON—Mr Baxter, that is what we do.

Mr BAXTER—I am asking why. If it is so important to tourism, and it probably is, why isn't it funded more appropriately? Why are we lumbered with it in agriculture?

Mr CAMERON—When you say 'we'—

Mr BAXTER—We farmers of Victoria, I am talking about.

Mr CAMERON—Farmers are not losing out, Mr Baxter, but fishers are winning. I respect that we have a difference of view, that you do not want to stock waters, that you might want to go back to less stockings as occurred when you were in government, but that is where we have a clear difference and that is a fair enough differentiation in the marketplace.

Mr BAXTER—I am not criticising the stocking. I want it funded from the right source.

Mr CAMERON—Let us follow that up. What would happen is that, instead of having the \$1 million for Fisheries Victoria, the government would take that away, put the funding into the department of education and then the department of education would have to have some arrangement with Fisheries Victoria to do the work. The department of education would write a cheque for \$1 million, send it to Fisheries Victoria. Fisheries Victoria would grow the fish and then put them in the water. Like, hello?

Mr BAXTER—Minister, I thought the whole purpose of this public accounts and estimates committee was to ensure that the budget accurately reflects and sheets home where expenditure should properly be attributed.

The CHAIR—Let the minister make comment. I think he has already answered that, but he may wish to restate what he has already stated.

Mr CAMERON—I do not want to restate it. That is exactly what occurred during the time when you were in government as well, except you did it to a lesser extent.

Ms GREEN—From my perspective, I see it as adding to the market. You are catching trout at the end of them.

The CHAIR—Thank you. Mr Rich-Phillips.

Mr RICH-PHILLIPS—Thank you, Chair. Minister, I would like to ask you about the variations in

your output groups from the 2005-06 budget to the 2005 revised actual. There are some fairly substantial variations recorded in the budget papers. I was wondering if some of them might be the moving forward—

Mr CAMERON—Whereabouts are you? Could you just direct me to it?

Mr RICH-PHILLIPS—Page 207 of Budget Paper No. 3, the starting place.

Mr CAMERON—Yes.

Mr RICH-PHILLIPS—The first column is the 2005-06 budget and the second column is the expected outcome for this year. With respect to the regulation and compliance group, we have roughly a \$20 million increase from budget to actual; for strategic and applied scientific, roughly a \$16 million increase versus budget; and for sustainable practice change, a fairly large increase, about \$40 million. Could you give us a breakdown, please, of what the nature of those increases are in actual versus budget for the current financial year?

Mr CAMERON—I will make some broad comments and then Mr Condron can make some remarks. During the course of the year we have a normal budget and then other things occur; for example, EC payments were made of—

Mr CONDRON—Around \$30 million.

Mr CAMERON—around \$30 million. The bulk of that money comes from the federal government—90 per cent. It goes on our books and then off our books, and that has an impact in relation to the revised budget. Also, because of land acquisition for the relocation of the Melbourne market to Epping, that results in a book transfer which is also reflected. They are examples of things that reflect the revised budget. Mr Condron can be more specific, if you want to ask him some questions.

Mr RICH-PHILLIPS—Thank you. It would be helpful if you could provide a breakdown of the variations between the budget and expected outcome for 2005-06.

Mr CONDRON—Which output?

Mr RICH-PHILLIPS—The three substantial ones.

Mr CONDRON—I will go through the major ones. The major movements were additional funding for locusts, in the order of \$6 million.

Mr CAMERON—That was by way of a TA.

Mr CONDRON—That was a treasurer's advance; therefore it was one-off, and two loans that we received in the current year for rehabilitation of the Benambra mine site in East Gippsland and the voluntary buyback of commercial fishing licences in bays and inlets. They are the main reasons around regulation compliance. Those three add up to about \$15 million. For strategic and applied scientific research, we had a larger than estimated carryover of funding from the previous year, particularly in the area of external funding from rural industry research corporations.

Mr RICH-PHILLIPS—Wasn't that anticipated in the budget process last year?

Mr CONDRON—We had an estimate in there, which proved to be lower than the actual carryover.

Mr RICH-PHILLIPS—Okay.

Mr CAMERON—About 34 per cent of DPI's budget is from external sources, so variations are inevitable.

Mr RICH-PHILLIPS—I will come back to that.

Mr CONDRON—There was also a realignment of some trust fund expenditure that goes through for commercial research. In the previous year in the budget it was allocated against sustainable practice change, and we realigned that to the area where it was more likely to go in an output sense. As Mr Baxter said, it is about getting the expenditure to be more reflective of where it should be, and we moved that over to the scientific research output. That was the reason for the shift there. In terms of the sustainable practice change output, there was the book entry that the minister referred to before for the transfer of appropriation to enable the purchase of the market's land in Epping, which is \$14 million, and the Commonwealth EC funding, which was in the order of \$30 million, offset by the change in the trust fund that I referred to earlier.

Mr RICH-PHILLIPS—The change in the trust fund was roughly \$4 million.

Mr CONDRON—Roughly. It was about \$7 million. There were some other things which offset that within the output. I am just referring to the major ones.

Mr RICH-PHILLIPS—Why wasn't the book entry for the land purchase picked up in the budget, because it was expected?

Mr CONDRON—It was in the budget. It was against the department's capital appropriation. We moved it to the output appropriation because the department itself did not end up with that land on its books. It will be reflected elsewhere within government, so we had to reflect it that way in our budget.

The CHAIR—Where will it be reflected?

Mr CONDRON—Because it was compulsorily acquired, it is reflected in the Department of Infrastructure's books. It was a transfer through our department to them.

Mr RICH-PHILLIPS—Thank you.

The CHAIR—Ms Romanes.

Ms ROMANES—Thanks, Chair. Minister on pages 209 and 210 we have various performance indicators under the output measure, regulation and compliance, and in particular on the top of page 210 there is one which says:

We are aiming to enhance or maintain levels of community compliance to achieve sustainability within a fisheries resource and/or area.

Can you tell us more about how well we have done in achieving that objective: tell us more about the strategies over the previous reporting period and how these measures help reduce illegal fishing?

Mr CAMERON—Thank you, Ms Romanes. I will make some opening comments and Dr Appleford will make some remarks. Obviously compliance in fishing is something that we have to be constantly vigilant about. When we talk about illegal fishing, what we are really talking about is theft: theft from the community of a community resource. If the commercial sector take too much from the total resource, it will affect other commercial operators. We have people who take too many fish out of the rivers, for example, and that will affect other recreational fishers. That theft from the community is a significant issue.

A couple of years ago we introduced 13-FISH, a reporting hotline, which has been very successful, and also Fisheries Victoria does a lot of work monitoring, particularly in relation to abalone theft. Dr Appleford.

Dr APPLEFORD—Thank you, Minister. In regard to the performance measure, we maintain a performance of above 90 per cent. The reason for that is to make sure that the resources are allocated to where they are needed. If we have a high level of compliance, then it is not of great benefit to apply the resources in that particular area. One of the great advantages of the 13-FISH, 24-hour, seven day a week reporting number is that it allows the opportunity for stewardship within the community, so that they get involved in supporting the protection of the resource. They also have the ability to actively target offences when they are occurring

and provide a lot of information to go into our intelligence database.

One of the key changes that we have made in recent years to fisheries employment in Victoria—and other states are moving to this—is with regard to evidence information-driven enforcement. We get the intelligence, analyse it and see where we can best apply our resources to get the greatest outcome at the end of the day. That allows us to have targeted operations, so instead of just general patrolling we are now moving into a target operations scheme. That has been shown in other industries in other states to be the most effective way to maintain a high level of community compliance in these sorts of regulatory fields. We can then achieve high-level operations, such as Operation Thruster, which was conducted this year. As a result of Operation Thruster, we managed to apprehend one of the biggest buyers of illicit abalone in Victoria. He was going around the state, into South Australia and also up to New South Wales, buying and on-selling abalone. He was the market component. So not only do we put fear into people who sell abalone but we also got a large amount of market disruption there, which is a key target for the operations that we undertake.

We also have native fish strategies. There is potential displacement of abalone crime into native fish, which is now becoming very popular in the marketplaces. We conduct target operations with regard to Murray cod and golden perch in inland waters, and we are apprehending offenders who organise crimes in those areas, to stop the displacement. We are also targeting marine species, such as snapper, where there is illegal trade from amateurs who are legally catching their bag limit but then putting that into the marketplace. We are also decreasing that through market disruption. Joint operations with New South Wales have resulted in the apprehension of a high-profile New South Wales abalone thief entering into Victoria. An operation called Aragon Blue identified the highest profile female abalone thief in Australia, and she was apprehended in the marine park at Point Cook. So it is not only deterring abalone theft; it has also resulted in the protection of the marine park in that area.

A final example is Operation Opal at the Melbourne airport. In this operation we checked the baggage for breaking the export limit for abalone. It is one of the last legal loopholes where abalone is being put into the marketplace. Intelligence from that operation will be used to try to drive legislative reform at the Commonwealth level to close that final loophole. We are attacking organised crime but also levels of compliance in Victoria—a number of levels at the take: at the amateur/professional level; at the organised criminal level; and also at the market level.

The CHAIR—Do you have any figures that you could give us in terms of prosecutions?

Dr APPLEFORD—We would be able to get those figures together.

The CHAIR—It would be useful to put that data in the report. Thank you. Mr Rich-Phillips.

Mr RICH-PHILLIPS—I would like to go back to the issue you raised before of the external source of funding, the 34 per cent. That was for 2005-06. The budget papers refer to that figure.

Mr CAMERON—Which page are we on?

Mr RICH-PHILLIPS—Page 205 of Budget Paper No. 3. Can you tell the committee how concentrated the sources of that 34 per cent are? Is it a small number of external parties contributing, and therefore there is a high risk if any of them were to withdraw that funding?

Mr CAMERON—Mainly, they are the RIRCs; rural industry research corporations. Do you understand what they are?

Mr RICH-PHILLIPS—No.

Mr CAMERON—If, for example, you are a dairy farmer, every time you produce a litre of milk a fraction of that gets collected. It is a federal levy and it goes to a body called Dairy Australia. The same if you sell a bale of wool; a fraction goes to another RIRC. The same if you sell red meat; a levy goes to another RIRC, for example, Meat and Livestock Australia. The federal government puts in funds as well. So they are big industry bodies which give a lot of direction about where funding is going to go. What tends to happen is

that those RIRCs and the federal government want to invest in certain projects, and then a state might go along and do that with them. So industry has a lot to say as a result of this, and industry has a lot to say in which way research is going to go on the ground. So it is the RIRCs and the federal government.

Mr HARRIS—Thirty-four per cent roughly falls this way. About \$36 million comes directly from the Commonwealth for funding these purposes: fee-for-service business run by the research arm of the department, about \$30 million; the rural industry research corporations that the minister was referring to, about \$29 million; catchment management authorities; about \$8½ million. That includes Commonwealth funding under the NAP and NHT programs directed through those CMAs. Where we tender for work for them, we gain that work. There is a bit of money for Biosecurity Victoria, about \$6 million; some related funds like that, and then recreational fishing funds about \$4 million. As you can tell, it adds up to quite a large part of the department's budget; over \$130 million in the coming year.

Mr RICH-PHILLIPS—How many research corporations are there? The minister gave three or four examples.

Mr HARRIS—There are a few big ones like that, and there are the smaller ones. The primary ones that we are interested in are horticulture, Dairy Australia, the grains corporation and Meat and Livestock Corporation.

Mr RICH-PHILLIPS—For the budget year 2006-07 do you expect a similar percentage of your revenue will be externally sourced? Is it fairly consistent?

Mr HARRIS—It is an ever-increasing amount, with roughly the same staff. We attract higher and higher levels of external funding. That is partially because projects are more and more expensive; not just in staff terms, but also in terms of equipment. You will have seen some of our announcements recently. We are right at the high end of genetics based research. what I call the boatload of super computers syndrome. You actually need super computers to run some of the kinds of experimentation that are done. So it is not just a question of labour: it is a question of substantial IT input and also equipment. Overall, the point of the statement in the budget papers was for the elucidation of all those interested in the nature of the department. It is quite an unusual beast, and not the traditional department that might be considered to be funded directly from a government source and, therefore, pretty much able to rely, year upon year, on that funding source straight from the state government.

Mr RICH-PHILLIPS—What sort of contingency does the department have if one or more of these external sources were to withdraw? Have you considered that from a risk point of view?

Mr HARRIS—Yes. We run a very intensive resource allocation process inside the department, which means we take the government's money and match it to external funds and attempt to leverage higher levels of external funding. But that process also enables us to reallocate when funds are not available; where an external funder signals an end to a project we will actually reallocate. As a result of that reallocation, from time to time we have staffing impacts. Again, you will have seen some of the contention that occurs around that in the last year. As I have said, it is quite an intensive resource allocation process; highly competitive. We employ a small group to make judgments about where the greatest prospect for external funding can be found. Also, our research arm is continuously reviewing staffing capability levels in an attempt to match that capability with the desires of external funders to research in particular areas.

In an administrative sense I could say that, having worked in a large number of Commonwealth and state departments, and in the private sector, I have never seen more intensive resource allocation process than applies in this department for that very reason; because of the substantial dependency on external funding. It does create this management paradigm which is quite different to, what I call, a traditional department of state. It is also intensely valuable obviously, because the more that we can leverage external funds into Victoria for research, the more research functionality we can put in place. Generally speaking, we are working with the interests of our suite of industries, rather than anybody else's industries. So it is quite a positive strategy from that perspective.

Ms ROMANES—I wanted to ask Mr Harris if we have the flexibility to attract people to these

positions? Can we pay them extra or find ways to attract them to Victoria?

Mr HARRIS—It is a very good question that you ask because that is the heart of it, obviously. The greater capability you have, the more willingness there is for funders to offer you money. The more money you have, the more people you will attract to work with you. That is the positive circle. It can become very negative in the opposite direction. Dr Clive Noble runs our science research arm, PIRVic, and Clive's area can speak to this. We share employment with the University of Melbourne for a person who works in geospatial science. Clive will need to explain what that it is, if we need to go into it. For example, it is a capability that we would not be able to sustain ourselves, but between us and the University of Melbourne we share a resource person for the purposes of potentially enhancing our capability and attracting external funding.

Increasingly, we will have to go down that path. I think in the questionnaire that the committee sent out you will see that we talk about staffing strategies a little bit like that and the capability that we will need to keep attracting. We also have a strategy under way with the creation of a national biosecurity centre, a project for which the government gave us some funding to start off last year which will be designed to put more of our researchers out of, what you might call, DPI housing into a university context where they are potentially more likely to attract other funding than the traditional agricultural research funding. We keep the capability. They might attract Australian Research Council grants or other university related funding activity. Also it is quite attractive for them because in the university environment, obviously, we get substantial access to postgraduate students, but they would have even more access in a university campus. Strategies like that are particularly important to us.

The CHAIR—Before Mr Baxter asks his question, could Bruce please assist? DPI is the most difficult for transcripts; acronyms and scientific words. So we really need you to write down anything that would not be in the Oxford Dictionary.

Mr HARRIS—PIRVic is Primary Industry Research Victoria. It is the department's research arm.

The CHAIR—That is the only one you have picked up, but there were probably 10 in the last answer that would be difficult for Hansard. Mr Baxter.

Mr BAXTER—Thank you, Chair. Following up the last two questions, is the department taking up all the opportunities that present from outside sources offering funds for particular R&D projects or are you in a position where you are having to knock some back?

Mr HARRIS—No, we definitely do not take up all external offers. We have a sort of benchmark. Although I would like to tell you that it is a hard and fast rule, it is obviously flexible, because you have to make some judgments about which areas you would like to get into and you might, at an early stage of entering into a new area, take a limited amount of external funding as being sufficient to access it and take the risk of getting into that area of research. Generally speaking, we like to get maybe a fifty-fifty matching. If we cannot get a fifty-fifty matching, we will get as much as we can for an ongoing relationship with an external research funder.

You might have noticed that last year we stated in our corporate plan update, which we do annually, quite clearly that there were certain areas of research funding where we were getting insufficient external funding to remain in those areas. Effectively, the limited amount of funds we had inside the department from state sources—the ones that we could redirect—were being eaten up to such an extent that we did not think we could remain in an area where we had such a limited amount of external research funding, and there had been a history of that external research funding body being unprepared to move to a higher level of research funding.

We do not take up every offer, but we very much have a mind on the future likely research capabilities that a research entity like ours should be involved in. We do comparative analysis with our counterparts in other states, and Dr Kefford is involved in an arrangement with the CSIRO for capability analysis to make sure we are not duplicating. There will be some areas there where, if they are going to grow and we do not think we are necessarily going to be that effective, we will get out of those areas. The quid pro quo is we will want to know from them if there are some areas that they are going to get out of and we will grow, and that is an

ongoing exchange which occurs between Dr Noble's organisation and Dr Kefford's.

The CHAIR—Thank you very much. Mr Merlino.

Mr MERLINO—Thanks, Chair. Minister, can we return to your presentation and the slide 'Outputs, Primary Industries Policy'. It states there:

192 hectares of new aquaculture fisheries reserves to be released via auction.

Could you please detail for the committee the status of the proposed auctions for the reserves and the benefit that will flow from that.

Mr CAMERON—Remember, we established the marine parks some years ago, and the ECC—Environment Conservation Council—said that we should go down this path but also as part of that, to boost industry, there should be more aquaculture zones. As a result of that, the work was done, the areas were identified and we will be having an auction on 22 June for those 192 hectares that you referred to. They are out in Port Phillip Bay. We suspect there will be quite a bit of interest there, probably from the likes of mussel producers, but that is open and remains to be seen. The benefit of that is obviously going to be in terms of jobs and economic development. The leases are being prepared.

You may have heard of Professor Charlie Plott of the California Institute of Technology in terms of combinational auction systems. I imagine what you are thinking is what I said: 'What the hell is a combinational auction system?' If you have a series of lots, you will take bids. Someone will say, 'I'm happy to put in a bid for this and this,' and someone else will say, 'I'm happy to have this, which is what you want, but that and that,' so it is to try and get the best combinational return for the state.

Mr MERLINO—Thank you.

The CHAIR—Thank you. Mr Baxter.

Mr BAXTER—Minister, it is the middle of June and we are a week off the winter solstice.

Mr CAMERON—Yes.

Mr BAXTER—Apart from Far East Gippsland, there has not been an autumn break. I do not think the budget mentions the word 'drought' at all. How prepared is the department to deal with what appears to be an emerging drought? Bear in mind we are probably in our eleventh successive year of below average rainfall, so the ability of farmers to ride out another severe dry is very limited.

Mr CAMERON—Obviously, we will have to wait and see how the season progresses, but clearly in the grain belt people are very nervous, particularly in the Mallee and the Wimmera. Last year, you will remember, we had a very late break, as things turned out. This year we had a partial break in the first half of May. We had rain in a lot of areas, but it has been very dry since. We did not have substantial amounts of rain. As a result of that, for example, the EC in the northern dairy area was due to conclude last Thursday, but the federal government announced that they were rolling it over for two more months to see how things go. A substantial part of the area north of the great divide is covered by EC at the present time, and the central area and another area in the north. On 21 July I think that finishes, and the federal government is presently doing its assessment around whether or not to extend it.

I might get Dr Kefford to talk to you in relation to broader issues about preparation and what the department has been doing in terms of extension about getting people better prepared for these sorts of conditions, which in particular came out of the large drought that we had a few years ago and the focus that has been given to that.

Dr KEFFORD—Thank you, Minister. In general terms, the department is always well prepared for emergency response. In recent years, we have exercised our preparedness many times. We rarely go off alert in regard to this. One emergency often leads to another, so we can run from drought into fire, for example.

The capability in the organisation is quite strong. We are very familiar with the process of preparing for and recovering from these emergencies. The minister highlighted a crucial point in regard to drought. There have been recent discussions nationally—and the recent Corish report has pointed towards the fact that preparedness is really the key to dealing with these issues. Many farmers spend effort in anticipating and dealing with drought through various contingency plans, which might take the form of fodder reserves, financial reserves and other forms of preparing for drought issues. The tragedy with droughts is that those that are prepared actually anticipate the impacts better, they make decisions earlier and they come out of the drought in better shape.

Mr BAXTER—I do not argue with that.

Dr KEFFORD—Those that do not are hit hardest, they respond less well and they actually slip further behind. To that end, we put an enormous effort into drought preparedness. We use FarmBIS and our normal extension programs to promote this. For the bulk of people, I suspect we are having a significant impact. The tail of the population, however, remains a concern. When they are hit with droughts or successive emergencies, they slip further and further behind and we wind up often, in that case, with adjustment problems, which we again help with as best we can. The short answer to your question is we are constantly well prepared for dealing with these situations.

Mr BAXTER—I have one supplementary question. I share the sentiments that have been expressed. It is that second group that we always need to deal with and have some responsibility to assist. In this circumstance, if we are moving into a big drought this year, they are at the end of the tether anyway. It is not as if they have had a couple of good years. Last time, 2002 I think it probably was, there was a good deal of criticism with the time taken to prepare EC applications for the Commonwealth. The state, rightly or wrongly, copped some of the blame for that. Has that issue been addressed in terms of preparation for what material might need to be provided to the feds?

Mr CAMERON—Yes, but I remember when I became the minister I had all the councils in and we quickly prepared applications. There has been a lot of argy-bargy since that time about national drought reform and the Prime Minister last May announced the new national drought arrangements. One of the commitments that the federal government gave is that they would respond a lot quicker to drought applications. Whenever a drought application is made, we put it in straightaway. If people want some assistance, we will give them some help. In terms of doing that, and I think our experience from a few years ago says that we are capable of turning that around a lot quicker with the commitment from the federal government that, as long as you can get the details in and you can put in more details later, they will do all of the assessments; so, yes, we are.

However, when you have a look at a map of the state, north of the divide there are already substantial areas, enormous areas, that are already EC areas. The question will arise when those EC declarations come to an end: will they be rolled over, like the one last Thursday? As part of the new national drought arrangements, the federal government, of its own volition, near the end of an EC declaration period, will make its own assessment; then it will make a decision. They have tried to take away some of that federal-state argy-bargy which has been counterproductive in the past, which is a good initiative on their part.

Mr SOMYUREK—Minister, if I refer you to appendix A, Budget Paper No. 3, page 329, Moving Forward, there is a heading there, Plague Locust Control, which talks about funding being provided to meet the urgent additional costs of control activities in Northern Victoria and the Swifts Creek region. I understand \$6 million was allocated in 2005-06 for plague locust control.

Mr CAMERON—Yes.

Mr SOMYUREK—There are two parts to my question: could you please explain to the committee how this funding was spent and could you comment on the effectiveness of the locust control activities undertaken in Northern Victoria and the Swifts Creek region during 2005-06.

Mr CAMERON—Just have a look at plague locusts. They come from the north. You can have a good year for plague locusts, a bad year for everyone else, especially if it is warm and wet. When plague

locusts decide to move, they can move hundreds of kilometres at once. When we go back to last year, at the end of autumn there were plague locusts that obviously came into the Swifts Creek area and there were plague locusts in the Mitiamo area, undetected by anyone. That might be because they had laid eggs and died. Once the eggs are laid, it is very difficult to know that you are looking at plague locusts and if you get a bit of wind over it, you would not know they were there anyway.

At the start of spring we had large hatchings of plague locusts in the north, particularly around that Mitiamo area and in the Swifts Creek area. We sprayed on public land, councils sprayed along roadsides and land-holders sprayed on their land. The net effect of all of that, in retrospect, was probably getting up to an 80 per cent kill rate. That sounds good but the trouble with plague locusts is that, because they can explode in numbers, you can have a lot more. Going to the north of the state, we ended up with sightings subsequently further south between Mitiamo and Bendigo, across Maryborough, that sort of area. We were preparing ourselves for a second generation. If you have the right conditions, you have one generation and the next generation then you get a third generation. Then you have them everywhere.

However, the second generation substantially faltered, we suspect because there was rain in January but it was also very dry. A couple of things could have occurred. It could have been that a lot hatched but the weather was then so hot that they died a couple of days later and the farmer did not notice it occurring on his property. If it were happening up the back paddock, you would not notice. Unless you were out looking around everywhere, you would not know that. Another alternative may have been that some hatched, which were detected and the farmer killed them. However, there might still be a whole lot of eggs in the ground. We will not know the answer to that question until spring time. Nobody can tell us the answer to that.

The second generation hatchings can be over a period of time, over a period of days. The best chemical to use there is Fipronil. It comes in a four-litre container. It is extremely expensive and you might only need to use 100 millilitres or 200 millilitres but you are not allowed to decant it, so I cannot put a bit in a vegemite jar for you to take home and put something in another vegemite jar for someone else to take home. That is because of the rules from the federal regulator about these things that we have to respect. We introduced a scheme where collectives of people could come together and get a can and go around and put some in your tank and some in another person's tank. That is what occurred at Swifts Creek on a far more extensive scale, because conditions are better up there. It is a bit damper and the terrain is terrible for spraying on your own land. It is easier between Bendigo and Mitiamo, Maryborough way. Mr Baxter may tell you that out Swifts Creek way it is not easy.

Mr BAXTER—Mitiamo is as flat as this table.

Mr CAMERON—That is right and it is not hard to see. You know what you are doing. At Swifts Creek it is very difficult, so we did a lot of spraying from the air. We used a chemical called Metarhizium. It is an expensive chemical but we had to use that expensive chemical because we were near forest and native vegetation and the like. Farmers also did a lot of spraying. Again in spring there will be eggs in the ground and I suspect come spring it will be a question of seeing where we left off and then having to make some assessments about the next round of tackling it. But overall, locusts did not move out of that Swifts Creek area, that valley. In Northern Victoria, a lot of them may have died or there still may be eggs in the ground. We will be ready to pick up where we left off in that event, in terms of broadcasting the message to farmers, getting the message out. We have had things in the letterbox, also radio and local ads, to alert people to this issue. One of the biggest factors is that, if someone does not know what is happening down in their back paddock, nobody will know about it until they are jumping around; they are airborne.

The CHAIR—Mr Clark.

Mr CLARK—Minister, in your presentation you gave us some time series on Victorian wine exports, but you did not give us a time series on any of the food and fibre exports that you featured in your three previous slides. Could you tell the committee, either now or on notice, what the trend has been in the level of food and fibre exports in various categories for Victoria over recent years, and whether the government is pleased or otherwise with those trends.

Mr CAMERON—Yes. We can probably give you some preliminary comments and provide the

others more particularly. Mr Clark, you are looking at dairy, meat, wine—all of the key indicators. Mr Harris might be able to help.

Mr HARRIS—Yes, I have some data. Broadly speaking, our export figures are still recovering from the 2002-03 drought. Food and fibre exports in 2005 were \$6.8 billion, which is at a slightly lower level from the peak a couple of years before that. Trend growth remains positive but we certainly cannot say that we have recovered yet in our export targets from the impacts of the drought. Neither has the rest of Australia. In 2005, Victoria accounted for 27 per cent of food and fibre exports. That is up one per cent, so we are still growing, even though we are not at the level that we were a couple of years. In New South Wales they are not going as well as they would have liked in exports.

In terms of individual commodities, wine is a positive story still and has increased. In the calendar year 2005 over 2004, there was a \$146 million improvement, which is 30 per cent, so still quite a significant increase in wine. But in grains, for example, the numbers were nowhere near as positive. In terms of exports, they are down substantially over the previous year.

Mr CLARK—Is that a result of a poor season two seasons ago?

Mr HARRIS—Yes, that is right. There is a sequencing of exports and export shipments that affects that. There are also some confidentiality rules around grains, and we are never quite sure from year to year. We have the ABS. We do not have the full confidential suite of information. Fibre is the same: it is 20 per cent lower, and that is partially a value effect in terms of lower prices. So overall we would say that right now Victoria has not recovered from the drought effects. We are not back at the levels that we were in our peak year of 2002. Part of that is obviously the shift in the dollar but we have also seen a substantial shift in production. Wine is the positive story.

Mr CLARK—The message that we can take out of that is that drought or near-drought conditions are a lingering problem, as Mr Baxter has referred to. Do you agree with that assessment? Is there a policy response that the government can make to that situation?

Mr CAMERON—One of the things that you see when you look at the figures is that we have had good dairy growth over the years and that has levelled off post-drought. We hope to see that pick up again. The fluctuations in the dollar in recent years have not been widely and broadly supported across the rural sector, so there are not many things that we can do about that. Our response to all of these things—whether things are going bad or things are going well, in terms of international conditions—is to promote increased productivity. We live in a competitive world and Australian agriculture has always lived in that competitive environment, unlike a lot of other sectors of the economy. Good research, good application, and good productivity are the keys—whether things are good and you want them to go better or things are poor or moderate and you still want them to go better.

Mr RICH-PHILLIPS—Can you separate to what extent the softening over the last couple of years has been supply driven due to the drought, as distinct from international practice? Do you have a feeling for that? Obviously overall in the economy exports have been soft because of exchange rates. To what extent are your agriculture exports affected by exchange rates versus production factors?

Mr CAMERON—It is a bit hard because even the amount of domestic production ends up being measured in terms of dollars, rather than tonnes.

Mr HARRIS—People make their own estimates of separating out. The Bureau of Agricultural Economics in Canberra does some work on that, but even their figures are estimates. No-one can confidently say they are certain about the effect, but you will get the broad trend, without a doubt. I do not have that information in front of me and, if we did get it, it is not a departmental analysis that is taken out. The primary efforts on trade, as the minister said, are promoting productivity and we have trade strategies in particular markets. We do not analyse—

Mr RICH-PHILLIPS—You only rely on ABARE—

Mr CAMERON—The best work would come from ABARE at a national level, because they would measure, for example, how many litres of milk were produced from year to year and how many tonnes of wheat, as well as what that means in dollar terms.

Mr RICH-PHILLIPS—Thank you.

The CHAIR—Thank you. We will have a short break.

Hearing suspended.

The CHAIR—Ms Green?

Ms GREEN—I would like to refer you to page 210 of Budget Paper No. 3. The output group applied scientific research in its service delivery measurements and you referred to that into your presentation as well. It indicates the importance of science and innovation in the agriculture portfolio. Could you outline for the committee some examples of details of these programs?

Mr CAMERON—Yes. In particular, can I point to a recent announcement made when the Premier and the Treasurer were at Bio. That is a \$3 million collaborative project between one of the world's leading genomic research organisations and DPI to unveil the sequence of DNA in soil. The prestigious J. Craig Venter Institute in the US will use the same techniques to sequence DNA in soil as it pioneered and used to map the human genome. So we are going to do that work with them. I will get Dr Kefford to go over the benefits and extent of that. Pauline Mele of the department has been actively involved in these issues around soil for a long time, but I will get Dr Kefford to expand further.

Dr KEFFORD—At the outset it is worth noting that internationally recognised scientists like Craig Venter do not work with groups that are not world-class. I think this is recognition that, in important fields, DPI has scientists of that calibre. Not only do we have scientists with international reputations, we have some equipment which allows us to do very high throughput gene sequencing. We have the fastest gene sequencers in the world available to us, and this allows us to do large numbers of samples quickly, and other key soil types have been selected. The experimentation will assess the DNA sequences of the microbes in these soils. These microbes can have positive and negative effects on productive processes, so they can scavenge nutrients, for example, or they can conduct pathological processes which interfere with plant growth and the like. Both of these are of interest in an agricultural sense because we want to promote the positive aspects and interfere with the negative aspects of microbial activity in the soil.

The other key point about this work is that it is a huge source of genetic information that has previously only had a small amount of investigation. These modern techniques allow us to look into the genes of these microbes, to look for very special functions. So quite independent functions of plant growth, for example, might be discovered. We expect this will be a very interesting project, which will have applied direct outcomes which will benefit agriculture, and a string of other unexpected benefits will flow from this work, as is typical of strategic research.

The CHAIR—Before you leave that, how much did you say was going into that particular project?

Dr KEFFORD—That was the \$3 million announced.

The CHAIR—And what is being put in internationally, from the US?

Dr KEFFORD—That is the total figure.

The CHAIR—Total?

Dr KEFFORD—That is the total figure, and there will be a shared funding arrangements.

The CHAIR—It would not be estimates without me asking about intellectual property. The commercial benefits of this are obviously enormous. I do appreciate what you always say to me, that we do

this for the benefit of human kind, but there are also commercial spin-offs for commercial businesses, and we are putting taxpayers' funds into this. What is the taxpayer going to get in terms of not only helping humanity but having some financial returns to intellectual property coverage?

Dr KEFFORD—The department has a commercial arm called Agriculture Victoria Services, which has the significant purpose of commercialising intellectual property generated by our science. As we will in this case, we have agreements controlling the intellectual property, which generally are shared in terms of the equity. We put in half and they put in half, and we share the benefits. We patent relevant discoveries and commercialise them through various means. That might be licensing the intellectual property to a party, creating a spin-off company or, in some instances, simply commercialising the intellectual property by extending it; by taking that information to farmers direct. The net gain to the community, we believe, in those instances is that farmers, for instance, make money out of it for the community rather than the department, so there are a number of routes to commercialising the outcome.

The CHAIR—Mr Rich-Phillips.

Mr RICH-PHILLIPS—Thank you, Chair. Minister, I would like to ask you about the relocation of the Melbourne Wholesale Markets. What discussions are under way or, indeed, what decisions have been reached with respect to providing transitional assistance or relocation assistance for the 2,700 stallholders that are on the Melbourne site that will have to go to Epping.

Mr CAMERON—Commercial negotiations have not yet commenced with the operators down at the market. We will enter into discussions with those that want to go to Epping. Obviously, we want to present a package which we think will be a good thing for them to consider in relation to whether they move north or not.

Mr RICH-PHILLIPS—When would you anticipate that negotiation process—

Mr CAMERON—We anticipate that later in the year.

The CHAIR—My question goes to intellectual property. How much does the department invest in staff that work on intellectual property? In financial terms, how much do you get in terms of recompense for intellectual property, through your patents, and is there a net benefit or loss in that particular area? You may like to take that on notice.

Mr HARRIS—I will give you a general outline. The calculation you have asked for is nigh on impossible, and I will try to explain why. The department puts substantially in excess of \$100 million into research every year.

The CHAIR—Sorry, I am not asking about the research. I am talking about the staff that are allocated to work on intellectual property in terms of one, two, three, four, five staff. I do not know how many you have. How much are you getting by way of income through—

Mr HARRIS—It is a much simpler question if what you are really asking is how many people actually work in the area that commercialises intellectual property versus how much revenue comes in, because that is AVS that Dr Kefford has already outlined. That is a 'smell of an oily rag' operation. It is 1½ warm bodies, in practice, plus a board. Whilst it collects outsourced rated activity—for example, legal advice—

The CHAIR—Which I would count as part of the cost.

Mr HARRIS—overall it is a profit-making entity. It returns of the order of a couple of million a year, I think, which is put back into research capability in the department. As Dr Kefford was outlining earlier, it chooses the path to market for what is called formally protected IP, which is intellectual property that you have chosen to try and take out a patent on or otherwise protect in some way, to then on-sell either by licensing or some other arrangement in the market. Obviously, a much more substantial portion of IP is sent directly back into what we would call the market by taking it through extension activities to farmers, as

Dr Kefford said. Overall, if the bottom line question from the committee is: does the department get back more in revenue from formally protected IP than it spends creating and protecting that IP, the answer is yes.

The CHAIR—In the order of what? Can you take that on notice.

Dr KEFFORD—We can take it on notice.

The CHAIR—Thank you. Mr Baxter.

Mr BAXTER—Thanks, Chair. Turning to page 36 of Budget Paper No. 2, table 3.3 sets out the new asset funding by department, and the total there is a very significant sum of money. There is no doubt about that. But Primary Industries does not even crack the mill this year, with only \$3.2 million in the total TEI. I am not certain that I am interpreting this table correctly, bearing in mind the tremendous investment there is around the state in assets that are deployed by the department, in research institutes and so on. Minister, could you explain to the committee why Primary Industries seems to be so underdone in that table or does asset expenditure for the department appear somewhere else that I have not identified?

Mr CONDRON—This is just new asset funding within the budget, so it does not incorporate projects already approved such as the Melbourne Wholesale Markets redevelopment and the Royal Melbourne Showground redevelopment. We already have a number of substantial projects in place. One that is mentioned here is funding for the fisheries catch and effort system, which is a database so it is classified as an asset. It does not include already existing projects. The department's capital funding for the year is much larger than that.

Mr BAXTER—Despite the fact that there are some projects in the pipeline, which we acknowledge—and you enumerated some of them—we have come to the end of the line, so to speak. Does that mean there is no capital investment out there that needs to be made in agriculture or is there another reason why Primary Industries is so light on? Obviously, Human Services is always going to be big, and education and training is going to be significant. Bearing in mind the importance of agriculture to the state, which was outlined in the tables to begin with, it seems peculiar that we are not seeking year on year a reasonably significant ongoing investment or fresh investment.

Mr CAMERON—It is a question of where these things fall, Mr Baxter. If you have a look, for example, in the appropriations, there is \$72 million in 2005-06 and \$152 million in 2006-07. That is because we have been dealing with some very large projects; the showground project and the relocation of the Melbourne markets project. Mr Harris referred to the national biosecurity centre, where we are in discussions with CSIRO, the Commonwealth and some other states. That may very well be the next big thing to come along.

Mr BAXTER—This year we are in a bit of a trough. Is that fair comment?

Mr CAMERON—Yes. It is just a skip over. That is right.

Mr BAXTER—I hope, Minister, it is just a skip.

Mr CAMERON—Yes. Nevertheless, from those things that were previously said, in the appropriation we have \$152 million this year compared to \$72 million last year.

Mr BAXTER—On ongoing projects?

Mr CAMERON—On major asset investments.

The CHAIR—Mr Clark.

Mr CLARK—Can I take that further. I refer you to page 48 of Budget Paper No. 4, note 18, which shows the total intended purchases of property, plant and equipment by the department. If you look at the line for Primary Industries you will see \$6.6 million, \$7.9 million, \$6.8 million, \$6.1 million; relatively modest

numbers and certainly not consistent with the sorts of numbers that you have just mentioned from the appropriation bill, nor consistent with investment by the department in Epping or in the showgrounds. Could you explain to the committee the reason for the discrepancy between the appropriation bill and that line and, secondly, what is the accounting treatment going to be for the Epping redevelopment and the showgrounds, given that they are PPPs but I assume that they will still at some point come onto the government's books.

Mr CAMERON—I think the property, plant and equipment is a narrow component, but I will get Mr Condon to answer that and also to explain what the accounting treatment will be for the two other projects.

Mr CONDRON—'Property, plant and equipment' reflects the property, plant and equipment of the department, not necessarily the broader portfolio. The showgrounds project is being done through a joint venture arrangement with the Royal Agricultural Society, so it is not reflected as property, plant and equipment in this sense; it is an investment in the joint venture, which is a separately established entity that is holding those assets. We hold a share of that and it is reflected in the department's balance sheet but not in this table here in terms of purchases of plant and equipment. This reflects scientific equipment, upgrades to assets that the department owns in terms of facilities and so forth: agricultural research facilities, the catch and effort system that I mentioned earlier.

The redevelopment of the Melbourne markets is yet to be determined, but it is expected to be delivered under a PPP process. In that situation, the assets will end up with the Melbourne Market Authority. They are not reflected in this estimate here. As I said, they are not necessarily assets of the department—it is not an asset. This reflects the assets of the department, not necessarily the broader portfolio.

Mr CLARK—Where will the showgrounds end up being treated in the state's books when completed, and what is the explanation for the \$75 million that the minister mentioned for assets in the appropriation bill?

Mr CONDRON—It will be reflected in the department's balance sheet as an asset. However, it will be an investment in a joint venture, because it is not all of the state's asset. We own half the asset.

Mr CLARK—Is it treated as contributions to other sectors of government in the budget papers?

Mr HARRIS—If I can, Shaun, it is on page 101—that is the balance sheet—of Budget Paper No. 4. That is the one that you and I were talking about before we came over. That has the joint venture payments.

Mr CONDRON—The department's balance sheet?

Mr HARRIS—Yes.

Mr CONDRON—Investments accounted for using the equity method represent \$69 million, and that is the state's interest in that half-share in the development.

Mr CLARK—But how does it get to be on the balance sheet? Where does it appear in the cash flow statement?

Mr CONDRON—It will be funded by Treasury in terms of a capital contribution to the department, which we will then on-pass to the joint venture and it will be reflected as an investment in the joint venture in the department's balance sheet.

The CHAIR—Are you expecting that it might be a separate line item in the future? Is that what I am hearing?

Mr CONDRON—It is not a separate line item.

The CHAIR—In the future?

Mr CONDRON—No, not necessarily. It is a separate line item in the department's balance sheet.

Mr HARRIS—It is that line that you were telling them about earlier.

Mr CONDRON—Yes. The department has a liability of around \$80 million to contribute to the joint venture. That is the line item that recognises the state's contribution that. Then on the other side of the balance sheet we have an asset which is our interest in that joint venture or our half-share in the assets that are developed there.

Mr CLARK—It is an equity interest.

Mr HARRIS—Do you see the balance sheet 2.7.3?

The CHAIR—Page?

Mr HARRIS—Page 101.

Mr CLARK—101, yes.

Mr HARRIS—You drop down to non-current liabilities, and you drop down to 'other' and you will see \$88.9 million spread across the page, slightly falling. Those are our payments to the joint venture for the purposes of the showgrounds. When you say, 'Where is it recorded in these budget papers,' that is it. I cannot find it quickly here, but there is also an allocation separately recorded for the purposes of the markets at \$161 million, which is in a different reference point. We can come back and tell you where it is. But the problem with the complexity of accounting treatments is that the appropriation bills do not always show you all the allocations in the same form as you might traditionally expect from a balance sheet of an operating entity.

Mr CLARK—Yes. I understand that you are explaining it in terms of the departmental balance sheet and accounts—

Mr HARRIS—That is right. I am saying where we could tell you it is.

Mr CLARK—Yes. I am trying to trace it back to the whole-of-government accounts that appear in the start of Budget Paper No. 4, but it is probably not worth pursuing now. Maybe we will follow-up with some further questions in—

Mr HARRIS—That is probably the best way to do it.

Mr RICH-PHILLIPS—This might be one to take on notice.

The CHAIR—This is on major assets?

Mr RICH-PHILLIPS—This is on the accounting treatment. The reason why the liability that Mr Harris mentioned is larger than the asset shown, they may be able to—

Mr HARRIS—I think we know the answer to that. Again, you have a technical accounting treatment that occurred last year. The state effectively contributed more to the creation of the new showgrounds—the Auditor-General has commented on this in an Auditor-General's report already last year—than the asset it eventually ended up holding.

Mr RICH-PHILLIPS—That sounds like an interesting AG's report.

Mr HARRIS—Effectively, in order to fix the asset, we had to put more into it than the value of what we got out of it. It says that overall, and I think that was pretty much reflected in everyone's commonsense view. The showgrounds were pretty run down, and so we put in a little bit over \$100 million into that and ended up with an asset substantially less than that. The JV payment reflects the cost not just of creation of the

asset but of the maintaining of it over time. That is what those payments are. That is what came out of the tender process; effectively it created the PPP.

Mr CONDRON—It did so also on the basis of expected future benefit from that asset over time.

Mr SEYMOUR—If I could, Chair: it is very straightforward. It is the conversion of a capital allocation from the government to the department under a standard design and construct model to an amortisation over 25 years under a Partnerships Victoria funding model. Mr Clark is correct to question the manner in which that flows through to the department. That is properly accounted for in our balance sheet as a liability and on the other side as an asset, and so we have a fifty-fifty equity share in the joint venture with our joint venturer the Royal Agricultural Society. In terms of the funding arrangement that gave life to it, as the secretary has outlined, the state's contribution was in the order of \$100 million, the Royal Agricultural Society's contribution was in the order of about \$34 million—I do not have the number in front of me—which was the value of their freehold land.

That came in for a consolidation process through an act of parliament that gave rise to the joint venture and the asset—that being the land and the capital improvements on the land, together forming the total value of the Partnerships Victoria PPP deal. The total value of the exercise is reflected in the PPP contract. The concessionaire has an obligation over 25 years to maintain that facility to a certain standard and that is not at the expense of the RAS or, more importantly from our point of view, the state. Insofar as our payments to the concessionaire are concerned, they are the numbers in an amortisation sense over 25 years that the secretary outlined on page 101, which will convert in the cash flow funding model into a series of quarterly payments to the concessionaire through the joint venture.

The CHAIR—Thank you. Ms Romanes.

Ms ROMANES—Thanks, Chair. Minister, media attention in the research being undertaken by the Department of Primary Industries into the wallaby genome project is generating significant international interest in the work of our Victorian scientists. Can you outline for the committee the achievements of this project and why it is of such importance to Victoria?

Mr CAMERON—During Bio in Chicago the details of this work were presented and attracted quite a lot of attention. I might get Clive Noble, the head of DPI research, to expand on that and why this is potentially so important to us.

Dr NOBLE—Part of what we do in the strategic end of our science is to focus around molecular genetics; both in the plant and the animal area. From an animal perspective we put particular focus on the dairy industry because of its importance to Victoria. We do quite a bit of work around the genetics of lactation in the dairy cow. Similarly, there are a lot of other animal species that lactate. Part of the expertise we have developed through looking at the molecular genetics of lactation of the dairy cow we have applied to the wallaby. The wallaby in particular is of interest because it has some unique characteristics in terms of its milk production. Those unique characteristics, explained very simply, are that the young actually move outside into the pouch very early; much earlier than with a normal gestation for a dairy cow or for a human. It manages to survive quite nicely. The issue for us is: how can it actually survive in that manner?

In fact, the teats of a wallaby can each produce a different form of bioactives in the milk. One aspect that we are looking at is, how do the genes that control that relate to the genes that are in the dairy cow and, in turn, might relate to the bioactives that exist in milk? Of course, the main reason we have milk is to nurture the young. It is in fact the best carrier of anything from vitamins and minerals to various other bioactives. One aspect that we have discovered in that work is an antimicrobial that is present in wallaby milk, that has, as was reported at Bio and in the broader media, at this stage certainly, antibacterial microbial characteristics far stronger than anything else that we have seen, particularly against some of the so-called super bugs.

The interesting element to is that it also seems to have the capacity for us to synthesise it. In other words, not just generating it through wallaby milk, for example. We are not talking about milking wallabies in this instance. So that discovery has been part of a broader program, looking at dairy genetics, dairy genomics and molecular genetics. It is one of the spin-off benefits that you tend to get with that strategic science. There is

also the prospect, that we will be looking at, of how it relates to the dairy cow's milk and, in turn, human milk?

The CHAIR—Again, on the intellectual property, this will not just benefit the Victorian dairy industry, but internationally. So is there any likely financial benefit for the taxpayers of Victoria as a result of this work?

Mr CAMERON—Potentially, there could be quite a bit and I will explain why. It has been detected that its antibiotic is a hundred times more effective than penicillin.

The CHAIR—My dollar signs are just going off the radar screen.

Mr CAMERON—That is right. So of course we all get excited about that. This is the way of science; it always takes quite a while to get to the end point, and it also takes a long time to prove, and you have to do a whole lot of tests. It might be the case that it is a hundred times more effective with people, but it might cause you to grow another ear. I am exaggerating. So there is a whole lot of tests that have to be done. Nevertheless, the fact that we have been able to identify that is something that is potentially very exciting because something that potent has not been out there before.

The CHAIR—But that does not detract from the point I was making in the question.

Mr HARRIS—We are trying to protect the intellectual property from this, and there are discussions with commercial entities for that purpose.

The CHAIR—Good.

Mr CLARK—It is commonly said that Australians are good at research and development, and lousy at commercialisation. This sounds like, as the chair said, the dollar signs here could be running into the billions in terms of a worldwide pharmaceutical production and so on. So it does seem to be absolutely critical that we do properly secure our intellectual property rights and that we are prepared to think of the potential scale of this, and not just regard it as who is getting a few million here or there into the budget.

Mr CAMERON—Yes. As a result, this was put out at Bio in Chicago a few months ago and it was put out there to attract considerable interest. We had taken out a patent prior to revealing that. There is significant interest, so certainly that is something we would all like to be able to achieve.

The CHAIR—Mr Clark.

Mr CLARK—Could I turn to your slide on wine export growth, which is the time series you gave us. As Ms Green indicates, the improvement in Victoria's wine industry over the last 15 years or so is something that, as consumers, we all greatly appreciate. But my understanding is that, although we have been very successful on international markets, there is now something of an international glut in wine production around the world and that people are now having considerable difficulty in moving their stocks; not only in Victoria, but in many other places. That might be something you would expect from economic theory because of the lag between when you plant the vines and when they come to fruit; that people have anticipated one price and find another when they get to market.

What advice has your department been giving potential and current Victorian winegrowers over recent years about the likely future course of prices, and therefore of the potential pay-offs from their investments? What advice are you now giving existing winegrowers about how to respond to this apparent glut in worldwide wine production?

Mr CAMERON—When you see 'glut' in the newspaper, we are talking about a domestic glut. So what happens is the producers—the wineries are producing this much and this much, but the amount of grapes coming on stream instead of being that much and that much, are that much and that much. Probably the main contributor to that was the accelerated depreciation regime of the federal government. So if you planted you got accelerated depreciation. Knowing you, Mr Clark, I am sure that being a purist you would never be in

favour of these sorts of things because they cause a distortion. But, nevertheless, what happened was there was a distortion. There were a whole lot of plantings put in the ground which may very well have occurred over 10 or 15 years, but they were put in over a much shorter period of time.

So we ended up with a lot of vines being put in the ground. The accelerated depreciation, I think, was taken away in 2002. But what happens is all of those vines have come on stream. As a consequence of that, while the amount of wine across Australia continues to increase in production, the amount of grapes coming through the system has happened at a bigger rate. I will go to the response. The federal government had a national wine summit on this last week, but not much was going to come out of that in the way of direct and immediate assistance. But there were projects that industry wants to do together with the Commonwealth and the state. We are in discussions about those.

We also announced a few weeks ago, together with the wine industry—this came out of DIIRD—that we want to create a brand for Victoria in terms of trying to keep that trend going. Within industry itself there is a range of views. At one end you have the likes of John Brown. He would say that if you look at the cycles of these things over the years—the policy in their family is that when people are thinking about pulling out, that is when they plant—that is the most optimistic view. With most people, and you would have maybe seen the commentary about this in the last week or so, the view is there will be a catch-up and there will be a hard time until that catch-up occurs, but provided we can continue to keep on that export growth trend, which we all hope that we can, things will catch up.

One of the risks here may be, however, if industry gets spooked for too long a time because of the hardships in certain areas, that we end up in a position down the track where you do not have plantings in the coming years and we end up with a potential wine shortage on the world market going forward. This is something that we are going to have to monitor collectively across the nation, because we do not want to be in a position where the world does not see us as a reliable supplier.

Mr CLARK—You are saying it is purely domestic. I am looking at an article in the *Scotsman* newspaper that says Europe is glutted.

Mr CAMERON—I am sorry, I thought that was what you were referring to. You are talking about global—one or the other—are you?

Mr CLARK—Referring to the situation not just being limited to Australia, as you have said, but also we and California and other parts of the world are ramping-up our wine production and exports; it does seem to be more of an international problem than just due to the domestic Australian factors that you have been speaking about.

Mr CAMERON—The fact of the matter is that we have been able to push further and further. The graph that you referred to shows that that is the trend. Every year, we are exporting more wine. That is obviously the trend the want to maintain. However, domestically—

Mr CLARK—But if you are selling into a depressed international market, that is not necessarily going to be a solution.

Mr CAMERON—Domestically there is that issue, yes, but the issue internationally is what will happen to the world price of wine? If you have a lot of wine coming out of, for example, South America, then you have the issue of the dollar but you have the other issue as to the world price. They are issues that industry has to confront. We have to see how that pans out; but what you identified is that there are a whole lot of countries doing what Victoria is doing and what Australia has done.

Mr MERLINO—Minister, the importance of the dairy sector to the Victorian economy was made really clear with your presentation in the slides earlier. Can you please detail to the committee what the outputs and measures in the budget papers are delivering practically to enhance productivity in the dairy sector and, if you can, refer to the point in the slides that referred to the selenium in milk as well. I would like to learn more about that, please.

Mr CAMERON—I should not answer this, as Dr Kefford here is a key player in the dairy industry.

Dr KEFFORD—This is quite an exciting development which is an example of where the food industry is likely to head into the future. This is producing food which is not only nutritious, it is going to be functional in terms of health attributes. Our researchers have worked to develop a food supplement which leads to high levels of selenium in the milk. This is on the verge of being commercialised with a commercial company. It is expected to attract considerable interest in export markets. This is another example of us working with the dairy industry. We have taken funding from the Gardiner Foundation, which is another example like Dairy Australia; and our work with the National Centre for Functional Foods is dealing with other collaborators that work in this area.

The benefits from selenium in milk are quite numerous. They relate to improved growth, cardiovascular health, muscle function, the immune system and assistance in healthy ageing. The availability of the trace element is much enhanced in milk. In other words, you get a better result for the selenium in the form in which it is found in the milk than you would taking it in another form; so it is quite an exciting example of us getting better value from our milk using clever science.

Mr RICH-PHILLIPS—Minister, I would like to follow up on the issue of the showgrounds in terms of the public private partnership arrangement out there. It is an issue that is of interest to this committee, which is conducting a separate inquiry into PPPs across the state. We have discovered that no two are alike in terms of the model that is in place. That makes it very difficult in terms of their presentation in the budget and for this committee in examining how those projects are accounted for. Looking at your departmental submission to the committee and taking the showgrounds as an example, on page 10 of that submission, you have referred to the showgrounds and listed expected expenditure to 30 June as \$4.4 million. You have noted the reason for the difference against the budget. Then you have total end costs of \$100.7 million. Could you or perhaps Mr Seymour explain to the committee exactly what those two numbers mean: the \$4.4 million expenditure to date and what the total end cost of \$100.7 million is.

Mr SEYMOUR—As I mentioned earlier this afternoon, the allocation of a capital budget to a department typically under a PPP is then converted to an amortisation process for a fall in payments over the period of the concession deed which in this case is 25 years from the date of commercial acceptance, which we expect to be on 18 August 2006. In this case we will be able to declare victory and say that construction has been completed to the satisfaction of the parties. Whilst we are maintaining it as a capital program in our budget, and the CFO Mr Condron has already described why that is the case in the accounting sense, the numbers you have there reflect additional anticipated extra expenditure on the project under that form of accounting. Effectively that is reflecting project management costs to the builder and to Major Projects Victoria as the project manager, in order to get the construction phase of the project concluded.

The CHAIR—Can you give us that figure again, the project management cost?

Mr RICH-PHILLIPS—That is the \$4.4 million?

Mr SEYMOUR—All the \$4.4 million represents is the balance of expenditure this financial year on project related activities, bearing in mind that the accounting treatment is that this is part of the capital budget of the department, which will be transformed into concession payments over the life of the PPP. It will convert from a capital payment to an ongoing revenue stream of payments to the concessionaire via the joint venture.

Mr RICH-PHILLIPS—The \$100.7 million?

Mr SEYMOUR—That reflects the total capital investment by the state that was announced back in 2002—that is, the total value of the state's original commitment to the project, which was subsequently supplemented by an additional \$7.9 million in the budget last year, reflecting some additional costs which were external to the project construction task.

Mr RICH-PHILLIPS—And that \$7.9 million is not included in the \$100.7 million?

Mr SEYMOUR—The \$7.9 million is in the departmental budgets elsewhere.

Mr CONDRON—It is not included in the \$100.7 million. It is an addition for land remediation work.

Mr RICH-PHILLIPS—How does that \$100.7 million relate to the payments under the concession?

Mr SEYMOUR—The way to look at this in the accounting sense is to see the \$100.7 million converted from a capital payment or allocation to the department to a series of payments from the state and the Royal Agricultural Society to the joint venture on an ongoing basis. That \$100.7 million converts.

Mr RICH-PHILLIPS—Is that effectively the NPV?

Mr SEYMOUR—That is part of the NPV. The NPV is that plus other contributions to the joint venture through the performance by venue management and event management, for example, on the site through the life of the project. Together they make up the total contributions required to the joint venture from the state and—

Mr RICH-PHILLIPS—Separate from the capital?

Mr SEYMOUR—That is right, which make up the total amount of money that is paid from the joint venture to the concessionaire under the terms of the deed of agreement with the concessionaire over a 25-year period. They are quarterly payments, which are set through a performance contract between the joint venture and the concessionaire, which is PPS Solutions. That is the contracted body, and it is a consortium of interested parties that are responsible for the maintenance and upkeep of the showground site for the 25-year period.

The CHAIR—Do we have any indication of the maintenance requirements?

Mr SEYMOUR—If you have three or four hours, I could go through chapter and verse the 37 agreements that make up the PPP arrangement. They cover off all obligations in terms of maintaining the site to a specific standard. All of those specifications were put forward as part the RFP that went out and were assessed in accordance with Partnerships Victoria policy obligations, which now form the basis of those agreements between the concessionaire, the joint venture and the joint venturers, which is the Royal Agricultural Society. That is why I refer to them as performance contracts, because they require a certain level of performance by the concessionaire to maintain the asset on the site for a 25-year period.

The CHAIR—Who will monitor those performance—

Mr SEYMOUR—That monitoring is done in a number of ways. The joint venture has certain obligations in its own right to monitor performance on a quarterly basis with the concessionaire. The state, in the form of the Department of Primary Industries, is obviously very interested in ensuring that performance obligations are met, because it has a 50 per cent equity stake in the joint venture. There are three state directors on the joint venture, of which I am one, and we are directly involved in the monitoring and the management of those performance obligations. There are three directors nominated from the Royal Agricultural Society, who similarly are there to ensure performance from their perspective, as they hold the other 50 per cent risk or equity position in the project.

The CHAIR—Thank you very much. Mr Baxter for our last question.

Mr BAXTER—Thanks, Chair. Page 212 of Budget Paper No. 3 deals with the performance measures for outputs, including extension, and the department has a proud history over many decades now of running field days which have helped to educate farmers and local members of parliament about new initiatives. Why has a direction recently gone out to regional offices that local members of parliament are not to be invited to field days unless with the express approval of the secretary?

Mr CAMERON—I am unaware of that.

Mr HARRIS—The only thing I can think of that has gone out that could in any sense be

misconstrued to that effect is that we have put in place an arrangement—it has been in place for quite a while, but I have reinforced it this year—by which we want to be advised by our regional offices of the attendance at the office of any MP. That is primarily so that people are not blind sided by requests at short notice for advice or information on particular topics. There has certainly not been any barrier to attending field days or departmental extension arrangements or anything like that, that I am aware of. We were probably pushed into this by one particular federal MP arriving at one of our offices and holding a press conference in the foyer. I need to know if that sort of thing is occurring.

Mr BAXTER—That particular lady is well known for pulling media stunts, but don't penalise the rest of us!

Mr HARRIS—So you understand the situation I am in. What I have tried to do is to get the people who run our offices to say to an MP who wants to come, 'We have to give notice. Can you tell me what I am meant to be preparing for you.' Then they will tell us and we are meant to provide that information. We have never refused anybody the right to attend, and we would not. It is literally so that we are not blind sided by a subsequent media request. You understand my situation.

Mr BAXTER—I understand your situation, and I agree with it. If members of parliament, of whatever persuasion, want to use public offices for political ends, there needs to be some control. I do not object to that. I do not turn up at your offices unannounced, but I have over many years traditionally been invited to field days. I cannot get to them all, but those that I get to I find very educational. The advice that I have recently received, admittedly via a circuitous source, indicated that members of parliament were no longer to be invited to field days. If that needs a bit of follow-up, I would appreciate some clarification going out to the troops in the field.

Mr HARRIS—I will follow it up. It is not so. You have my assurance on that. It is MPs of all political persuasions. We want to know so that, if ABC Radio rings me up, my first answer is not, 'I didn't know.'

The CHAIR—Thank you, Minister, and thank you to your departmental officers who have provided us with yet another educational session of PAEC. Thank you to the departmental officers who have not appeared as witnesses but have prepared the questionnaire that was returned to us and also the briefing papers. We will be following up some of the questions you have taken on notice, together with some from our briefing paper that we have not had the chance to ask, and thank you in advance. Good evening.

Committee adjourned.