

**SUBCOMMITTEE OF THE STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

2012–13 BUDGET ESTIMATES HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 6 AUGUST 2012**

**SESSION ONE
DEPARTMENT OF AGRICULTURE AND FOOD**

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner
Hon Ljiljana Ravlich**

Hearing commenced at 2.14 pm

Hon ROBYN McSWEENEY

Minister for Child Protection, representing the Minister for Agriculture and Food, examined:

DELANE, MR ROBERT

Director General, sworn and examined:

HILL, MR TERRY

Executive Director, Irrigated Agriculture and Diversification, sworn and examined:

METCALFE, MR PETER

Executive Director, Grains, sworn and examined:

BOWLEY, MR MICHAEL

Acting Executive Director, Regional Operations and Development, sworn and examined:

SINGH, MR NARMIT

Acting Director, Finance, sworn and examined:

PAUST, MR GREGORY

Executive Director, Corporate Strategy and Operations, sworn and examined:

CHENNELL, DR KEVIN

Executive Director, Livestock Industries, sworn and examined:

The CHAIR: We might make a start; the minister will be with us shortly. On behalf of the Standing Committee on Estimates and Financial Operations, I welcome you to the hearing this afternoon. Before we begin, I am required to ask you all to either take an oath or affirmation. If you wish to take an oath, there is a copy of the Bible available on the table in front of you.

[Witnesses took the oath or affirmation.]

The CHAIR: You will have signed a document entitled “Information for Witnesses”. Have you read and understood that document?

The Witnesses: Yes.

The CHAIR: The hearing this afternoon is being held in public, although there is discretion available to the committee to hear evidence in private, either at the committee’s own motion, or at the request of the witness. If for some reason you wish to make a confidential statement during this afternoon’s proceedings, please request that the evidence be taken in closed session before answering the questions. Government agencies and departments have an important role and duty to assist the Parliament in scrutinising the budget papers on behalf of the people of Western Australia, and we value your assistance in this process. These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. It would greatly assist Hansard if you could please refer to the budget statement volumes or the consolidated account estimates, giving the page number, the item and the program in preface to your question. If supplementary information is to be provided, I ask for your cooperation in ensuring that it is delivered to the committee clerk within 10 working days of receipt of the questions. Should you be unable to meet this due date, could you

please advise the committee clerk immediately. We remind agency representatives to please respond to questions in a succinct manner, and to limit the extent of personal observations.

Was there any further correspondence from the minister as to whether she was happy or unhappy for us to continue? My preference would be that we start, unless you feel very strongly otherwise, mindful that we might be asking policy questions.

Mr Delane: In the absence of feedback from the cabinet, I think we will start. Clearly, if there are any matters that only a minister can and should address, perhaps I will ask that we hold those until the minister arrives.

The CHAIR: Absolutely. If you would like to indicate to me any questions that you think would be more appropriately asked when the minister is here, then we will see if we can accommodate that. I might ask members if they have questions.

Hon PHILIP GARDINER: Let me kick off with a few general questions. I refer to page 758 of the budget papers and “Business and Supply Chain Development” under “Service Summary”. It is pretty hard to get much detail out of this; I know that on page 761 there is some write-up. Can you just give me some examples of what is being proposed during this financial year, and maybe allocate the \$104.765 million which is on page 758 under “Business and Supply Chain Development” across some of the projects which you are doing by agricultural sector?

[2.20 pm]

Mr Delane: Sure. Thank you, Chair and member. Perhaps if I can just make some general comments and then perhaps we can go to the individual executive directors, who can talk in a little more detail about some of those. One of the things we have done in the department is restructure along industry supply chains. In other words, broadly the sector operates as a grains industry, livestock industry or separate livestock industries, and then a whole diversity of horticultural industries. The state’s agricultural and food sector is driven very strongly by export markets, although not all of them, of course. But what has become very clear, probably over several decades, is the criticality of having a very strong focus on markets and trade, if it is export, and working back through the supply chains to the farm. Historically, almost all of the Department of Agriculture’s investment has been on the farm. Under various phases of the department’s development over the last 15 years or so, there has been some shift more towards processing and some trade, but still relatively small; most of our investment in all sectors is still on the farm or very close to the farm.

Some members might remember some previous discussions, I think, including one in this room where we spent a long time trying to work through a very convoluted set of KPIs for the department. I think we all recognise that they were really very unhelpful. They were unhelpful to us and they are certainly no more helpful to the Parliament. So, what we sought to do is bring the department’s whole budget structure when we are reporting to Parliament down to really simple lines and so most of our industry development activity is now under business and supply chain development; so I will get the executive directors responsible for livestock and grains and irrigated agriculture to talk about some of the major projects within there. Then we have separated out transformational development—in other words, major initiatives, some of which are individual government initiatives such as the Ord River development, but other areas where we have got a significant investment—to not help the industry be more efficient or effective in what it does today but to go through a step change. So, they are the sorts of things that will come under transformational development; and then we have got our range of resource management, particularly land and water, but also some of our biosecurity programs. So that is the way it is structured and hence you note that \$105 million of the total investment is in business and supply chain development, another \$105 million is in resource risk and at the moment a relatively small amount in those step changes that each of the industry sectors needs to make. And, unfortunately, our sector is in a situation where our assessment is that almost every individual sector or subsector

of Agriculture and Food needs a transformational change in the marketplace in the returns that are achieved, in the production system or perhaps in the whole supply chain.

I am sorry that is a long introduction, but I suspect you will want to come back and talk a little more about KPIs. But what we have sought to do is really simplify our approach; structure it the way industry really operates; structure our budget the way it makes sense for us and, hopefully, makes sense of us reporting to Parliament; and make sure that we target our investment where it is going to make the most difference in the sector. Sometimes that is not on the farm and sometimes, if we actually want to make the most difference on the farm, we actually have to put our efforts elsewhere. Perhaps Terry Hill in irrigated agriculture might start with some examples and work through with Peter Metcalfe in grains and Kevin Chennell in livestock.

Mr Hill: Perhaps, Chair, if I just pick one example, I will very quickly talk about irrigated ag and diversification. We have got a couple of large industries that you will hear about in a minute. In Western Australia we have got the grains industry, wheat, the beef industry et cetera. Irrigated ag picks up the horticulture sector and other irrigated croppings; so it picks up wine, fruit, vegetables, floriculture and those kinds of sectors. If I might pick one, I think, which is quite a good example that we have been working with, it is the wine industry. You would be aware the wine industry has been through a difficult time in terms of a high Australian dollar and some challenges around profitability. We worked with the wine sector through the Wine Industry Association of WA and also did some value-chain analysis, if you like, ourselves to have a look at the sector and where we could invest well to best benefit the sector with the investment that we make, and we ended up in two places, basically. We ended up firstly doing some work around smoke taint, which was a key issue in the south west, and putting together a model which will roll out in this coming year that helps producers and foresters and others work out if you are going to light a controlled burn, when can you do it so that you have least impact on the grape crop in those areas. So that was very much at the farm level, I guess, at the community level. But we also worked together with the Wine Industry Association of WA on a marketing and promotion plan which we co-funded with them, and that will be rolling out; it certainly rolled out last year but running into the next two financial years. So, investment changed quite a lot, as Rob talked about, in terms of looking at the value chain, looking at where we could most impact working with the sector and then working at how we targeted our investments. So that was quite a big change for us and there have been some positive results from that marketing plan that we invested with the wine industry already. So that is one example from my area.

Mr Metcalfe: Thank you for the question. In the grains industry we have had a strong focus on productivity improvement and also recognising that just focusing on improving productivity without picking up the market component—trying to improve the price that we are receiving for the commodity—we were not going to make a great deal of progress. I am going to put two things together here. In the high rainfall area we have identified a need. There was a yield gap of about one to three tonnes per hectare between the actual yield that has been received and the potential yield that could be achieved. We developed an initiative called Bridging the Yield Gap. That has got quite a different way of doing business. It is around grower groups coming together and focusing on the profitability drivers. They move through a formal process around identifying the planning for profit and identifying the profit drivers—the things that make the biggest impact on their bottom line—and then developing a plan to improve those. How this came about was that we had a look at what the top 25 growers out of the plan farm surveys are actually doing, and when you have a look at some of their achievements, these guys are accumulating a net profit of \$230 000 a year on average over the last six years. So we were keen to understand what the differences were between them and a lot of the other growers. In fact they are actually getting an increasing level of indebtedness on the way through. So, interestingly enough, these 25 top growers were not the early adopters, the farm size was the same and also the soil tops and rainfall were very similar. The thing that they were doing was actually getting a 20 to 25 per cent increase in wheat yields, and so they

were getting the timing of the operations right. So, this initiative focuses on creating community practice to support them to develop their profit plans and then to implement those strategies going through, coupled together with the post-farm gate area where we are doing work in identifying markets that have a high-value end use and opening up new markets. So you would have heard that it is working in opening up the Saudi Arabian market and shipments of wheat into there; and, going forward, developing an initiative called AEGIC—the Australian Export Grains Innovation Centre. That will be a national centre of excellence and in fact it will actually be the front door for the export grains industry into Australia. So we are expecting that international delegations will come through to Perth and interact with the Western Australian grains industry. And vice versa: trade travelling out of Australia will arrange through AEGIC to tee up trips and one thing and another to key destinations that we are involved in.

[2.30 pm]

AEGIC is part of the national research, development and extension framework. In that process we have identified areas of national capability that we want to improve and to build on over time. To avoid duplication and fragmentation we have developed a plan across each of the state agencies so that core capability can be improved. Grain quality is the area in which Western Australia, the Department of Agriculture and Food and AEGIC will focus on predominantly. We believe that going forward with that will position the Western Australian grains industry to get into the high value markets, and coupling that with the issue of more profitable crops going forward will put us in a good position. There are a couple of examples of what we are doing.

Dr Chennell: Firstly I might define how we view a supply chain. For example, if you took sheep meat, the supply chain would include the producer; it would then move onto the stock agent, the processor and the end markets—the retailer, where that sheep meat is distributed. You would also include the banks and the various service groups that support that industry. If we look at sheep, we did some industry planning in 2009–10 that indicated the biggest issue for that industry was the lack of a clear shared industry vision. Another issue was not having enough sheep, so sheep supply, and the way we have tackled that was to pick up the issue of the whole supply chain to create a sheep industry leadership council, which has all participants in the supply chain represented. With the department, that group has come up with an initiative called More Sheep, which is looking at using technology, good management practice and good economics to encourage producers to pick up better practice to increase the number of lambs produced, which should have a positive impact on the supply issue. An exciting thing about that work is we have managed to engage banks, stock agents, live exporters and processors all together. They recognise that unless there is a concerted effort, the issue of sheep numbers, which have been decreasing in flock size over the last 10 years, will continue. There is a concerted industry effort, and we believe it will be much more effective than the previous approach has been. We have also done a lot of economic analysis to back up the positive influence that that action on management and reproduction can impact on the supply chain. There is one example.

Hon PHILIP GARDINER: I appreciate your contribution, but on picking up on each of those let us go to the horticultural area first, Terry. The wine industry has got its own unique characteristics and its brand is independent, in a way, of Western Australia's eat best buy west or Buy West Eat Best brand, whichever way it goes, and maybe that is a flaw in the brand. It is a good brand but I can never remember which way it goes, but that would not work on a carton of wine, yet the branding of Western Australia is a key to this. Let us deal with horticulture first. The Ord and Carnarvon are the great possibilities, and also the west midlands in different ways. When I see this amount of money, \$105 million, I really see that the intersect is going through the value chain, which includes a lot of infrastructure as well. How much do you get involved in the infrastructure aspects of actually getting our produce to the chosen markets based on the opportunities available in time to be effective?

Mr Hill: There are two parts to the question, I guess. The first is the opportunities that exist for the expansion of irrigated agriculture industries in the state, and the member talked about the Kimberley and the west midlands. We have activities in the east Kimberley around the Ord River that look at different land systems that might be suitable for irrigated agriculture. We are clearly working with the local community and the Miriuwung–Gajerrong people in the east Kimberley. At the moment we have a project looking at some areas of the Pago and Cockatoo sands in the Ord final agreement and the suitability of those soils and the practicality of that land being useful for irrigated agriculture. In land and water infrastructure, we have activities in the east Kimberley. If you roll down into the west Kimberley, at the moment we have an activity in which we are looking at the La Grange aquifer, which is south of Broome on the blacktop; it runs east and west off the blacktop for about 200 kilometres—actually, it is further than that. We are again working with the Indigenous communities in the area and the broader west Kimberley community looking at the land and water resources there and what possibilities there are for irrigated agriculture moving forward. You are right, if we move down into the Gascoyne, the Gascoyne food bowl project is continuing, and this year we will be looking at the land and water resources and firming up that information on the north side of the Gascoyne River for future expansion of that industry, which as you know is incredibly economically impactful on quite a small plot of land. Rolling down into the west midlands, we do not have a lot of activity in that area at the moment. Then down into the south west, where we are doing a significant amount of work looking at the planning situation of land and water infrastructure to support Perth’s future fresh food supplies, quite a bit of activity is going on in land-water planning infrastructure. In terms of getting industries together to deal with fundamental economic issues of scale and how they move forward in exporting and out of Western Australia, we export—it is a difficult number, because in irrigated agriculture the statistics are not great—probably 10 to 15 per cent of our product overseas, and quite a bit of product goes to the eastern states. There have not been any significant bottlenecks in transport infrastructure at this stage, but clearly if new areas and new production come on stream that will be a key issue for us to consider. What we have been doing at the trade end, I guess, in building capacity has been to take a group of exporters and business people across into South East Asia last year. You may have seen in the press that one of the major supermarket chains in Singapore signed up two of our largest carrot producers into long-term supply contracts at a price, which is an absolute first for us and really good news for the state in those people locking in those opportunities for overseas exports. I am not sure if that answers all of your question.

Hon PHILIP GARDINER: I was after the last part, because we all know about the other part, roughly. Are those carrot producers from Carnarvon?

Mr Hill: The carrot producers are from Gingin to Lancelin.

Hon PHILIP GARDINER: Do they go out of Perth?

Mr Hill: They go out of Freo.

Hon PHILIP GARDINER: The key point I am trying to get to, Terry, is when you are talking about the opportunities that are set out in this document, which is a good marketing document in a way—I am wondering whether it is a marketing document or a budget document, frankly—the marketing part of it is based on how good your infrastructure is in getting the transport down to a price and the speed of getting it to markets in time. How much are you involved in that forward planning, assessing what the cost of it has got to be and then engaging the other agencies to make sure you can achieve the opportunities you are talking about?

Mr Hill: At the moment with what we are producing and with the scale of the exports that we have, there have not been any significant bottlenecks or cost barriers in those sectors that we have identified. So when we have done the value chain analysis it has tended to be—we did the wine value chain analysis and the Australian dollar was very high. The carrot industry is continuing to grow and meet its needs, so we have not done a lot of work in that space. We do have our director

of industry economic performance, and I would have to check the name of the committee now, but Rob might be able to remind me.

[2.40 pm]

Mr Delane: I think it is called the Freight and Logistics Council.

Mr Hill: On the Freight and Logistics Council, we interact with other government agencies around those issues. But, in my sector, it has not been a big driver.

Hon PHILIP GARDINER: But will it be a big driver in two years' time or four years' time or six years' time?

Mr Hill: It will be —

Mr Delane: Chair, perhaps I could take that up. It is a good question. It is a very clear indication of where our role as an economic development department, which we have always been, is shifting and where we need to shift, because for industries that are either directly dependent on export markets or where even the domestic side of their industry is dependent on there being a viable export market, then you need to address the critical issues, wherever they exist, between the market and the producer. So, historically, going back 20 years, we have very little activity in this area. Now it is a serious issue for us, working with everyone across just about every sector that is looking to export to better inform decisions within government or the logistics industry or sector or producers, whether they are air freighting milk or they are air freighting fresh horticultural produce, or whether we are informing decisions around grain infrastructure, whole grain supply chain and grain logistics, discussion and government considerations being in part informed by work done by the department. The same exists in processing. It is not a very big sector for us. In Western Australia there is a lot of aspiration, but there is relatively little hard economic and policy work done. Particularly in Kevin Chennell's area of livestock, we have been doing quite a lot of work around planning and the prerequisites for a precinct for processing, the associated logistics for that, whether road transport, energy and other services are available, whether it makes economic sense for a processing facility or in fact a whole precinct to exist in a particular area or not. It is fine for government officers to have aspirations in that area, but, at the end of the day, companies have to make them work. We have been working right from the Ord River to probably the Scott River in the south of the state on those sorts of issues.

Hon PHILIP GARDINER: If we just take the same issue but outside horticulture, the dairy industry is a classic case. I know you are doing some work there and I know there is some milk going through to South-East Asia because the air freights are currently very cheap on a bulk business, but that is transitory probably. What kind of budget is in this \$105 million, for example, to see what you can actually do to get some sustainability and growth into the Western Australian dairy industry?

Mr Delane: Perhaps if Mr Chennell handles the dairy matters and then I might deal with some trade activities more generally.

Dr Chennell: In dairy, we have got several major projects going on. Firstly, we have an excellent relationship with Dairy Australia and we have got guaranteed funding from them which is matched—over matched at the moment—by state funding as well. So we are looking at feed base and how we can adjust the Western Australian feed base so that dairy farmers are more cost effective and productive. That is the first piece of work. That is a three-year piece of work on dairy feed base. We have also employed, and we are 50–50 funding, a dairy development officer with Dairy Australia. They take the national innovation and national research development and extension and put that into the WA dairy system. That is around research development and extension. We have some major pieces of work going on following the Strategis report into Western Australian dairy, which was sponsored by Wesfarmers, which suggested that the current situation would be enhanced or the current situation may not even be sustainable unless some export drive occurs into

South-East Asia in particular. We have taken that work and we have now analysed which particular countries in South-East Asia might be the best opportunities for that sort of an approach. That report has just been completed. We will now seek to look at Taiwan, Singapore, Malaysia and Indonesia, and we will work with local industry to just proof-up those supply chains and see whether those opportunities, which are widely talked about in the dairy industry but have not been realised, are going to work. Some of your comments about infrastructure will be part of that, because at the moment we are using sea infrastructure and we have a competitive advantage in that to South-East Asia, so we will be proofing those up. They are two examples of major pieces of work for the dairy industry, and that is the sort of work we will continue to do across the supply chain.

Hon PHILIP GARDINER: I appreciate that background, but how much is allocated was the question.

Dr Chennell: I can give one example.

Hon PHILIP GARDINER: For dairy.

Dr Chennell: For, firstly, the Dairy Australia work, we have got four or five staff working on that full time.

Hon PHILIP GARDINER: Just in toto of whatever you are doing for developing a strategic value chain.

Dr Chennell: You mean you are asking for the FTEs in the department?

Hon PHILIP GARDINER: No, just a rough dollar number of the \$105 million.

Dr Chennell: There is about one and a half million in there.

Hon PHILIP GARDINER: Okay; that is for this year, I presume. Is there a forward estimate on that?

Dr Chennell: The planning is to continue that work into the future —

Hon PHILIP GARDINER: So it might be one and a half for next year.

Dr Chennell: I do not see it radically changing.

Hon PHILIP GARDINER: As you know, developing value chains is a difficult business. I suspect it is going to take, I do not know, at least \$2 million and probably more like \$3 million to \$5 million to structure. Let me ask another question. How are you as an agency, when you have got a lot of small businesses—agriculture is basically a small business, apart from the Ord, where you might get the Chinese coming in and doing a whole lot and that might be appropriate for the Ord—working and with what methodology are you working to see how you can bring the small businesses together to give them the countervailing power to deal in overseas markets?

Mr Delane: Perhaps I can start and then the executive directors might add something to that. Historically, the sector talks a lot about industry, but there are only about 100 exporters from Western Australia. Of course, grains dominates in terms of value, so there are a relatively small number that export the biggest proportion of the state's export. But when you look at them in total, we are talking only about 100 businesses. In dairy, we are talking only about potential exporters of four, maybe five, businesses. So it is not a dairy industry which is going to do the export; it is going to be four or five businesses. Our approach, as it is increasingly right through the sector, is to say our economic development role is fulfilled by working closely with the businesses that in fact make up that economy. If we are going to have effective supply chains, effective exports, then we need to work very closely with those businesses. A feature of the last 18 months or so is that we have got much closer to those businesses down the supply chain, the processors and exporters, than we ever have historically and that, I think, has not always been easy, particularly as all of these markets are now deregulated. We have been developing those relationships and working out whether those businesses have aspiration, whether they have capability and what their issues are that we can assist

with. Sometimes that is a broad analysis, and we are doing some work on the potential for a milk powder processing plant. Sometimes they might like some industry assistance from government, which is difficult to do in the modern environment pretty much anywhere in the world not just here, or they might need some overseas trade assistance. So we are working with the overseas trade offices established by the WA government, several of which we have direct investment in, to assist them with market development. There is a range of things we do. The total amount—we would have to do some work on this—that we have got invested in what you might call processor to market development in dairy, I think, would be relatively small in the order of \$200 000. I am guessing. We would have to do some work on that. In our trade area, in general trade development, which will include some work on dairy, our investments are about \$1.7 million. But to actually calculate it out for dairy, we would need to do a little bit of work.

The CHAIR: We welcome the minister while there is a pause in proceedings.

Hon ROBYN McSWEENEY: Thank you. Sorry, Chair; I was stuck in cabinet.

The CHAIR: That is okay. We are very mindful to keep our questions appropriate to what the department can answer.

[2.50 pm]

Hon PHILIP GARDINER: I wish to take this a bit further. I am worried about whether we are grasping how difficult this is. It is not all new stuff that we are doing in the value chain. We have had all these strategy groups and so on, of which Terry Hill is well aware. I am sure that Peter was involved; I was certainly involved. There was an integration of the value chain. Money was not forthcoming to achieve it, at least in some areas anyway. You are aggregating a lot of money. I presume the research for the grains, for example, is in this \$105 million. Is that right?

Mr Delane: Yes.

Hon PHILIP GARDINER: We have changed the definition of what is value chain development. I agree with that. That is all fine because it is all integrated. The wheat board used to do that in the old days. They used to do some research and varietal testing and all that kind of stuff. That is in there. That is fine. When you start developing real value chain differences, you have to involve the private sector into the agency as consultants because even though the skills are very deep and broad, I am not sure whether they are there to actually work out where the markets are and how to negotiate with the potential distributors in South-East Asian places. You have to have someone to knock some heads together, say in the dairying industry and the processing. There is a facility that can do all the fresh milk and process it but there are three of them, which is inefficient. That comes back to the cost of production for the grower, which makes us less competitive. My real question is: how are you going to get around that element of it and what catalytic role can you play?

Mr Delane: It is a very important area. Hon Phil Gardiner has some direct knowledge in this area. We do not underestimate the difficulty of it. I will answer in a number of ways. Firstly, we have realigned on an industry supply chain, recognising that in livestock clearly there are beef, sheep and pork supply chains. Within that, each value chain is down to a connection of a series of businesses. We appreciate that some very good work is being done in eastern Australia around lamb supply chains where you need to get down to the processor and the supermarkets et cetera. You can get some very different answers when you get down to that level of detail as opposed to a broad analysis.

The fundamental issue for us is that we get very close to, and stay very close to, business. In some cases we are starting by engaging with the business. In the livestock area there has been some very good recent work engaging with them to work out whether they have any aspiration in that area and what assistance we can provide. We have been able to inform some of those businesses quite a lot with some broader work that we have done and can do, which is not available for them, or they would not be moved to do. In other cases, beginning with the overseas markets, our officers or WA

trade officers might have identified potential opportunities for a new wheat market, for example, which we bring very quickly back to the relevant companies. We might also provide technical support. Some of the nation's best cereal chemists, for example, might be working directly with those companies. We are very cognisant that this is difficult. It is difficult for the companies. Public officers are not involved in trade. We are only involved in trade assistance for the businesses that actually do it. We regularly get quite ill-informed criticism in the rural press about the department getting involved in marketing activities. We are not involved in marketing activities. We are involved in working with companies directly or by broadly informing companies in a sector about what market opportunities might be and how we can assist them in doing that. I can assure you that we do recognise how difficult it was—some of us still remember very vividly some of the hard work that was done, particularly in some livestock chains in meat and wool—and how much money some companies and the industry and the department expended for ephemeral results, if results at all, going back a decade or so.

Hon PHILIP GARDINER: I urge you not to shy away from criticism because if we are going to have a Western Australian brand out there, it has to mean something and it has to mean travel. Somewhere in here there should be some overseas travel of a significant kind if we are going to be presenting a brand. Government support is often quite a crucial thing in doing it. We already have those trade representatives, as you say, but it still needs people to talk about the quality controls and those kinds of things so that people are assured that there is an interest by government and the quality that we are delivering for the Buy West brand, if you like. Branding without an investment in it is a waste of money. Branding without a quality control in it is also a waste of money because every brand, such as Ford or Holden, has quality control. I urge you not to shy away from putting money into the marketing part. It would be good if there was some marketing in the value chain thing.

I had one additional question before I hand over to someone else. How much of the \$105 million across the different businesses would you allocate as research?

Mr Delane: I would be guessing. I do not think we have those figures here. We do work that material through. If we are talking to this committee later in the year, we intend to table some quite detailed breakup of our total budget on a sectoral supply chain basis, Australian Bureau of Statistics categories et cetera, which would enable that to be picked out. We need to go back and make some estimates of those figures and bring those back as a question on notice, if you do not mind.

The CHAIR: Would you clarify what the question was?

Hon PHILIP GARDINER: How much of the \$105 million of the supply chain development, which is functional expenditure, is research and how much is marketing and promotion? You have it for 2010–11, 2011–12 and the budget, so for the two years previous plus the budget.

Mr Delane: We might need to provide some explanation. We have had to retrofit. We have completely changed our whole KPI and budget structure. We have had to retrofit back to these new expenses in the service summary. I am not sure that we could do that at the same time for the categories. Certainly for the last financial year we have a complete breakdown by industry sector of estimates of those figures. We can provide that. We can provide the same information for this year. I think we will be able to present it in quite a clear way. Whether it has exactly the matrix table that you are looking for at the moment, we will see. If it does not meet your needs, we will update it from there.

[Supplementary Information No A1.]

Hon PHILIP GARDINER: I should just clarify that when I mentioned overseas travel and marketing, I meant going from breakfast through to dinner.

Mr Hill: Just to add to what to Rob Delane had to say, the other question you asked was about skills and the skills that the organisation needs to change. I thought it was just a chance to say that

yes, we have brought new skills to the organisation. As a result of working with industry and the businesses, we recognise that there are key issues around in agriculture. You would have heard some of the issues with that. We now have a full-time person who works with industry around their labour and their labour issues. In terms of infrastructure and planning, we have not had it before but we now have a full-time person with a planning background working with us so we brought those new skills into the organisation. As we are transforming the organisation, our traditional employee is an agricultural scientist but you are seeing quite a different cohort of people moving into the organisation.

[3.00 pm]

Hon LJILJANNA RAVLICH: I am referring to page 757 under “Major Spending Changes”, and I am interested in some of your savings. You will see a line there, “Transfer of NRM from control to administered”, which from 2012–13 through to over the forward estimates will net some \$40 million worth of savings. I am wondering whether you might just give us, director general, a bit of an overview of what that is all about.

Mr Delane: Thank you, member and chair. I will actually ask Narmit Singh, acting chief finance officer, to give the accounting explanation of that. There is no changing in the funding level; it is simply a way that it is handled in the department’s accounts.

Mr Singh: Basically, what has happened is that according to the accounting standards, that money is supposed to be administered money and therefore it has been transferred from Agriculture to the administrative accounts. So, basically there is no real impact on the spending account.

Hon LJILJANNA RAVLICH: So, it is a transfer from one account into another account?

Mr Singh: Yes.

Hon LJILJANNA RAVLICH: Why is it showing up as a saving if that is the case?

Mr Singh: It is not so much a saving as it has been taken out the DAFWA account and is being shown in the administered account. There is no saving in this.

Mr Delane: In effect, that is what it does—control funding. Theoretically, it is at the discretion of the director general, but that is funding specifically for that purpose; is not funding for another purpose. So it moves out of a controlled account into the administered account.

Hon LJILJANNA RAVLICH: We do not see a lot of this; it is a bit unusual, so that is why I have asked the question. This is the first time I have seen it in terms of any agency that has come before us. That is why I am interested, because it is highly unusual.

Mr Delane: I think this has occurred on advice from the Auditor General. We have had some interaction with the Office of the Auditor General around several accounts, whether they should be handled as controlled or administrative accounts, and in this case, the advice, I think I am correct on this, is that this should be handled as an administered account and so that is the way it is handled. Normally we report, and on page 769 we report the details of administered transactions, but they are not part of the department’s normal operating budget.

Hon LJILJANNA RAVLICH: I wonder whether you could provide the committee with the advice that the Auditor General gave you, this being the end result of his recommendations. If you can do that, that would be good.

Mr Delane: We will provide the advice and an explanation of why it is now treated as an administered fund rather than a controlled fund.

[*Supplementary Information No A2.*]

Hon LJILJANNA RAVLICH: In 2012–13 there would appear to be another saving of \$9 million and I am wondering whether you can explain that—that is, the transfer of regional livestock saleyards strategy from controlled to administered.

Hon ROBYN McSWEENEY: Just before you do that, you keep saying “savings”, but it is under “Major Spending Changes”.

Mr Singh: Again, it is the same thing this time; it is actually not a saving, it is again a transfer from the general operating account to the administrated account for accountability purposes, again, according to the accounting standards as advised by the Auditor General.

Hon LJILJANNA RAVLICH: All right, if you could provide that information.

Mr Delane: Sorry, Chair, just to finish on, on page 769 in the table “Details of Administered Transactions”, you can see that both of those items there and also, for example, “Caring for our country”, funding, which is commonwealth funding that we administer, also appears there. It is funding that appears in the department’s accounts that we administer, but we do not manage. It is not at our discretion as to where that funding is applied.

Hon LJILJANNA RAVLICH: In terms of your efficiency dividend and \$2.798 million savings in 2012–13, given that we are nearly three months into the financial year, you would have some idea of where those savings are in fact going to be. I wonder whether you could provide us with a schedule of the proposed savings for the 2012–13 financial year.

Mr Delane: We could provide that on notice, given the specific nature of the question. As with other agencies, in addressing priorities for the savings areas, clearly we target areas where we do not need to reduce services, so any area where we can achieve efficiency gains—the usual area of travel, the way we use short-term labour, those sorts of communication costs et cetera. But we are taking a broader approach to this. Budget efficiency dividends, in other words, reductions of funds available to us, is only one of the challenges for any business, public or private, nowadays, and so we have a range of other cost pressures as well. So, we have an overall efficiency approach and so each of the directorates has been working through that. We also have a whole-of-department efficiency strategy for which we are taking a longer term view. So, we are taking a very short-term view, what we need to do immediately to address that and what we do then need to in three months, and our executive will be reviewing our strategy again at the end of September, in 2012–13 and in fact in the out years. We have an efficiency program that is about not just squeezing the organisation and doing things the way we have always done them, but looking at quite different ways of working, including potentially what are known as radically efficient ways of working—quite different ways that we would not have contemplated before.

Hon LJILJANNA RAVLICH: What might that be? What is a radically efficient way to work? Maybe we could learn from you.

Mr Delane: That could be to actually stop and work with industry and say, “What are we actually trying to achieve here?” This is the way we have achieved what industry has needed for quite some time, but if we stop and work very closely with them and say, “We could actually achieve the result with new technology and with other changes that have occurred in the world”, we could actually achieve the same or a similar or a better result in a completely different way of working. I am not sure that we have been able to achieve any of those so far, because our world changes so much and as member Gardiner will know from being closely involved with the sector, virtually all of our industries are exposed to global forces of all kinds. We need to move as fast as the sector does, and so part of our challenge is to actually get that momentum and adopt all the new technology faster than competitor regions et cetera. I hope I will be able to report an outstanding radically efficient initiative when we come before the committee next time, but that is our approach.

Hon LJILJANNA RAVLICH: Just an update on how you will achieve the \$2.798 million will be a very good start.

[*Supplementary Information No A3.*]

The CHAIR: If I could, just because it is on the same line of questioning, perhaps get some detail in that. So, we are talking about meeting the efficiency dividend. Can you include in that specifics

as to which programs will be cut, if any, which programs will be reduced and when those changes will be implemented? Also, will there be a requirement to cut staff to meet that dividend; and, if so, in what section? That kind of detail—as much as you have under that.

Mr Delane: We will give a detailed response to that. Perhaps I will just guide the committee that given that we are making a range of other responses as well, some of those changes will not necessarily be tagged immediately back to the \$2.798 million, but we will go through a detailed explanation of the sorts of changes that we have made that will at least reach \$2.798 million. There are a number of other changes occurring as well.

Hon LJILJANNA RAVLICH: You have a fair idea, I think.

Hon ROBYN McSWEENEY: It is an ongoing process; it always is in government efficiency dividends. It is an ongoing process as to where and I think the director general has explained it very well.

Hon LJILJANNA RAVLICH: Could you explain to me in terms of Monsanto, when it originally bought into InterGrain what percentage shareholding it purchased?

Hon ROBYN McSWEENEY: Which page are you referring to?

Hon LJILJANNA RAVLICH: Let us just put it under “Desired outcome” on page 758, “A profitable, innovative and sustainable agrifood sector that benefits Western Australia.” We will put it there. That is a key goal.

[3.10 pm]

Mr Delane: I will get Peter Metcalfe—executive director, grain industries—to comment here. If we are not able to provide the precise percentage, then we will take that on notice.

Hon LJILJANNA RAVLICH: I am sure you will be able to, because it happened a year and a half ago.

Hon ROBYN McSWEENEY: He just said he may not be able to, so —

Hon LJILJANNA RAVLICH: And I am saying that from the committee’s point of view, minister, he should be able to; it happened nearly two years ago.

Hon ROBYN McSWEENEY: He just gave you an answer that said he may not be able to, so you should take that on face value.

The CHAIR: Mr Metcalfe.

Mr Metcalfe: Nineteen per cent.

Hon LJILJANNA RAVLICH: Could you provide the dollar value for that?

Mr Metcalfe: Actually, I am not sure —

Mr Delane: I do not think we can provide that.

Mr Metcalfe: I do not remember the dollar value. We can provide you with the dollar value; I just do not recall what it is, that is what I am saying.

[*Supplementary Information No A4.*]

Hon LJILJANNA RAVLICH: Can you advise the committee what the current shareholding of Monsanto is in InterGrain?

Mr Metcalfe: Nineteen per cent.

Hon LJILJANNA RAVLICH: It is still 19 per cent?

Mr Metcalfe: Yes.

Hon LJILJANNA RAVLICH: There was a proposal that they wanted to increase their shareholding to 26 per cent at some time in the future; are you saying that that has not materialised?

Mr Metcalfe: No, that is correct.

The CHAIR: I might just follow up while the member is just considering her next question. Are there any agreements in regards to any expectation of an increased share on that? Is there any agreement between the department and Monsanto?

Mr Metcalfe: Yes, there is an agreement between InterGrain and Monsanto. It is based upon InterGrain generating a positive EBIT, and then Monsanto agreeing at what point in time they want to move it up to that increased percentage of 26 per cent.

The CHAIR: So there is nothing to stop their share going above 19 per cent?

Mr Metcalfe: Yes, there is nothing, other than it can only move to 26 per cent; it can move from 19 to 26 per cent, based on the performance of InterGrain and its cash flow and profit and loss statement at a point in time.

The CHAIR: So InterGrain has to meet Monsanto's requirement for Monsanto to take a further interest in it; is that what I am understanding?

Mr Metcalfe: Yes. The agreement states that Monsanto will move to a 26 per cent share when InterGrain is in a position of having a positive profit and loss statement stated at a particular level. The reason for that is that it will not increase that liability going forward; it is simply part of the agreement in terms of how it appears on their books more so than anything else.

The CHAIR: But the department would not stand in the way of that increase to 26 per cent? That is what I am saying—maybe it is a question for the minister. Is it policy that if those conditions were such, Monsanto would get 26 per cent of InterGrain?

Hon ROBYN McSWEENEY: I will hand that over to the director general.

Mr Delane: Just for the record, the shareholding in InterGrain is held for the Western Australian government through the Western Australian Agricultural Authority, which is a legal entity established under the Biosecurity and Agriculture Management Act, which is administered by the department on behalf of the minister and the government. When InterGrain was set up, the agreement was such that WAAA had the majority shareholding, then Grains Research and Development Corporation, and then Monsanto has a shareholding. The position is that the maximum Monsanto shareholding is 26 per cent; there has been no consideration that I am aware of of any change to the shareholding. Should Monsanto choose to exercise that option, as Mr Metcalfe has explained, certain business performance conditions have to be satisfied by InterGrain before Monsanto is in a position to exercise that option, but even if they do, then their shareholding is limited to 26 per cent unless the other shareholders agree to change, and there has been no consideration of that change.

Hon PHILIP GARDINER: I have a question on the same issue.

The CHAIR: I will come to you in a second. Is InterGrain currently profitable?

Mr Delane: I have not seen the InterGrain accounts for this year, but —

Mr Metcalfe: I have not seen the accounts either. InterGrain has recently gone through some fairly large expansion so that they can get the infrastructure in place to compete with the eastern states operating companies and maintain their market share. They have done that at the expense of carrying profits forward, so they have used some of their equity to be able to achieve that. In terms of the profit and loss statements, it has changed the equity position, or the profit position, into an equity position. That is all it has done.

The CHAIR: Could you provide on notice a copy of that latest statement of where that is now?

Mr Metcalfe: Yes.

[*Supplementary Information No A5.*]

Mr Delane: Chair, could you be a little clearer?

The CHAIR: The profit and loss statement for InterGrain.

Hon PHILIP GARDINER: For last year?

The CHAIR: For last year.

Mr Delane: For 2011-12?

The CHAIR: Yes.

Hon LJILJANNA RAVLICH: Who sits on InterGrain?

Mr Delane: There are independent directors.

Hon LJILJANNA RAVLICH: Can we get the list of the independent directors of InterGrain?

[*Supplementary Information No A6.*]

The CHAIR: I was also going to ask for a copy of the agreement between Monsanto and InterGrain.

Mr Delane: I do not think there is anything commercial-in-confidence. The shareholding agreement et cetera have been around for quite some time.

Mr Metcalfe: So the shareholders agreement and the service agreement?

The CHAIR: Both, please.

My other question in this area was: when Monsanto became a shareholder in InterGrain, how did that process work? Was there a call for expressions of interest? Was there a tender document? How was that actually carried out?

Mr Delane: I do not remember whether we have discussed this with the committee previously or not, but there has been a massive change in the cereal breeding landscape in Australia over the last 10 years or so, and now the major breeding entities are companies. So there is InterGrain and a company called Australian Grain Technologies based out of Adelaide, and another company is —

Mr Metcalfe: LongReach.

Mr Delane: LongReach, based out of Melbourne. They are the major breeding companies. So when the company was established it was on a for-profit basis; it was intended that it would compete nationally, and it now does that. InterGrain breeds wheat and barley, and Monsanto was taken on as a shareholder on recommendation from the company.

The CHAIR: On its own recommendation or on a recommendation —

Mr Delane: Recommendation to the two shareholders—the Western Australian government through WAAA, and Grains Research and Development Corporation.

Mr Metcalfe: So it was not an expression of interest. The competing companies—LongReach and AGT—already have international and multinational partners. InterGrain then had a look, worldwide, for the best partnership fit and the best arrangements, and in the process of doing that it identified Monsanto as the most effective relationship for them going forward in terms of access to technology and breeding technology that they could bring back into the company.

The CHAIR: Who exactly identified that? When you say InterGrain, did —

Mr Metcalfe: The board of InterGrain.

The CHAIR: I would be interested to see any minutes that indicate the process you underwent to actually do that.

Mr Delane: I think —

The CHAIR: What kind of research did that involve?

Mr Delane: According to the documentation available to us, I think from memory—I am happy to provide more details—the company examined all the major technology providers in cereal breeding in the world, including several other major companies, and determined that for conventional breeding, normal breeding of wheat in particular, there were technologies for breeding methods, and technologies such as a particularly clever and costly piece of robotic technology that greatly speeds up the rate of normal breeding, and that Monsanto was the best fit for InterGrain as a company.

[3.20 pm]

Others have chosen to go with other international companies. The recommendation came forward. From memory, six or eight major international companies were looked at, but I stand corrected on that. The recommendation, which was accepted by the two shareholders, was that Monsanto provided the best opportunity for InterGrain to be successful in delivering the fastest rate of genetic advance that was possible to Western Australian and Australian grain growers. We need to remember that is the objective here. Western Australian and Australian grain growers compete in international markets. They need to achieve at least the same rate of advance as their competitors around the world.

The CHAIR: Is there a market for GM wheat anywhere in the world?

Mr Delane: The relationship with Monsanto was not based on GM technology —

The CHAIR: I would like you to answer that question specifically: is there a market anywhere currently in the world for GM wheat?

Mr Delane: To my knowledge there is no market for GM wheat.

The CHAIR: Exactly. I would like to have whatever minutes, documentation or research underpinning the decision to take on Monsanto in that relationship; whatever you have got.

Mr Delane: We will provide what we have available, Chair. We would have to go back and see what documentation we have available. We do not have any confidential minutes of the board meetings available to us.

The CHAIR: Even if you do, you have to make them available to Parliament.

Mr Delane: Sure.

Hon LJILJANNA RAVLICH: I understand InterGrain has already made it public that Monsanto paid \$10.5 million for a 20 per cent share of the public plant breeder—are you aware of that?

Mr Delane: I am aware there has been a whole lot of discussion and public release of information, Chair. We came prepared to deal with the current budget year. The matters largely being discussed here go back several years. Clearly, we are happy to provide that information to the committee, but this is —

Hon LJILJANNA RAVLICH: Clearly you are not because it was indicated to the committee that you do not know how much was paid by Monsanto. If that is correct, and \$10.5 million was paid, then I would say to you it is very serious to attempt to mislead a committee of the Parliament.

Hon ROBYN McSWEENEY: I would say to you that the director general is not —

Hon LJILJANNA RAVLICH: Either the agency knows how much was paid or does not know how much was paid.

Hon ROBYN McSWEENEY: That was very rude of you, Hon Ljiljanna Ravlich. One, he had not finished speaking and you said “clearly you do not”. You are actually calling the director general a liar. I think he deserves an apology. There are other ways to get your information without that—through you, Chair.

The CHAIR: Perhaps we could start that question again because I have to confess I did not actually hear the beginning of it. Hon Ljiljanna Ravlich, can you restate what it is you are asking?

Hon LJILJANNA RAVLICH: Madam Chair, I want to know whether the department knew that \$10.5 million had been paid by Monsanto for a 20 per cent share of the public plant breeder.

The CHAIR: Hold it there; that is the question.

Mr Delane: Just to be clear here, we are not in the business of providing the committee with guesses. I think the question was: do we know what the figure is.

The CHAIR: Do you prefer to take that on notice?

Mr Delane: At the moment we do not know what the figure is. That figure may be on the public record. We are very happy to provide that figure and any other detail that we have. It is as simple as that.

[*Supplementary Information No A7.*]

Hon LJILJANNA RAVLICH: I want to know, through the committee, any agreements that Monsanto has with the government. Are there any other sorts of agreements between Monsanto and government; if you could provide the names of the agreements and an outline of what they are?

Mr Delane: Sorry, Chair, just to get clarity of the scope: we clearly cannot speak for any agreements that Monsanto—which is a large company—may have with other parts of the —

Hon LJILJANNA RAVLICH: Just with your department.

[*Supplementary Information No A8.*]

The CHAIR: Is there a statement of corporate intent for InterGrain?

Mr Delane: There is a mountain of information available on their website. I think they have a strategic plan. I do not know that they have a document called a statement of corporate intent.

The CHAIR: Would you like to take that on notice, to see if there is a statement of corporate intent?

Mr Delane: Specifically with that title?

The CHAIR: Yes; statement of corporate intent. I am also curious to know why a corporate structure is used in this particular entity?

Mr Delane: Chair, there are a range of areas of endeavour, and cooperating is one of them, where it is extremely difficult for the business activity to be operated effectively under a government department. Cereal breeding in this country, particularly wheat breeding, is now largely funded by end-point royalties—a system developed here in Western Australia where the producers pay an amount per tonne of grain at the point of delivery. They only pay if they benefit from that new variety. In the government system, that would need to be revenue coming to the department and all of the complexities, and need to admit some inefficiencies that come with trying to carry out that sort of operation from within government. The decision was made right around Australia, by organisations such as ours and governments such as ours, that this was a function which was best carried out in the private sector and where the commercial model was best retained in a safe shareholding—that is probably not the right technical term—but where it was very important that the breeding company existed, that a government or governments and Grains Research and Development Corporation, for example, have retained either simple majority shareholdings or, between them, majority shareholdings so those breeding companies could exist. They can then operate with all of the efficiency of a relatively small corporate entity and can more readily engage with private sector companies both locally, nationally and internationally. That is the basis of the corporate entity established under the WA mechanism and enables us to use the legal parameters

provided by the Parliament and government policy settings to provide output benefit to the industry sector in this case, to wheat and barley growers through an entity such as InterGrain.

The CHAIR: When Monsanto bought a 19 per cent share of InterGrain, did the intellectual property that previously existed in InterGrain get automatically shared with Monsanto? I guess what I am asking is: what did Monsanto get when they bought in? Did they get the benefit of Western Australian publicly funded research?

Mr Delane: The intellectual property, which is largely wheat genetic material, had been previously transferred into InterGrain. There are arrangements, which I think are covered by the agreements, which we have agreed to provide, which we will articulate to the committee, what rights Monsanto has in relation to any intellectual property developed by the company and what rights the company have to intellectual property provided by Monsanto, and therefore available to Western Australian and Australian grain growers.

Hon PHILIP GARDINER: A bit on the same issue: by being attached to one of the world's major genetic biotech companies, does that cause us a difficulty, from the Western Australian perspective, of excluding other gene biotech companies? No doubt innovations will be occurring in other companies of the world's major biotech companies?

[3.30 pm]

Mr Delane: Perhaps I can make some comments and then Mr Metcalfe might add to that. Our approach on this, which we do in partnership with Grain Research and Development Corporation and others, is to endeavour to have Western Australian grain growers have access to the best technology, cost effectively, available to them. Whilst we administer on behalf of government through WA shareholding in InterGrain we are also strongly fostering of the work of AGT, the other major program based in Adelaide. In fact, I think we have two staff currently co-located with the department, one in Northam and one in South Perth. Where we have public infrastructure, glass houses, research stations and the like, which can be used by private or public breeding companies for the purpose of delivering results useful to Western Australian grain growers, we will make them available on appropriate terms. The new Genes for New Environment facility at Merredin, and soon to be open in Katanning, is a clear case of that where new technology is being established to enable a wide range of companies to potentially use that infrastructure for research to potentially deliver benefits to Western Australian grain growers. We also have grain quality laboratories that do a wide range of testing and could do it for different companies. We do a wide range of agronomic research, sometimes in association with breeding companies, sometimes not. We operate in a national collaborative arrangement where we and others do a wide range of what is known as pre-breeding work on crop genetics and related testing activities, which is then used by breeders either as genetic material or approved methodology. We do a range of that work in collaboration with others and often in partnership funding with Grain Research and Development Corporation. We have a range of strategies, which are about giving Western Australian grain growers the best access to the best technology as quickly as can reasonably be achieved.

Mr Metcalfe: It has actually opened up the relationships; we are having a lot more conversations with Syngenta and Bayer and NPZ to explore the opportunities and look at the technologies they have available and how that might fit with the work we are doing. They are particularly interested in Australia in terms of the high compliance rate around end-point royalties and a way of getting a return or capturing value back in terms of any IP that goes into the system they can get a return on that through the end-point royalty system. It has made quite a difference in terms of the number of conversations and reactions we have had with the other companies as well as Monsanto.

Hon PHILIP GARDINER: I would have thought that would be the easy part. The more difficult part is whether they will give you access to new innovations to enable the breeding and InterGrain, of which Monsanto is a major shareholder, unless there are certain confidentiality arrangements that go then just to the department. Are those confidentiality arrangements in place, or are they a factor?

Mr Metcalfe: Yes; they are. By way of example, Monsanto has a share of InterGrain, as you are aware. Recently Syngenta has also entered into an agreement with InterGrain, not as an equity partner, but to share IP between InterGrain and Syngenta, even though Monsanto is a shareholder.

Hon PHILIP GARDINER: If that is frontier technology from Syngenta, how is that stopped from getting into the Monsanto world if it goes to InterGrain?

Mr Metcalfe: That is covered under confidentiality agreements.

Hon PHILIP GARDINER: Can we have an example of the confidential agreement with Syngenta as supplementary information?

Mr Delane: It is not our agreement. We could give you —

Hon PHILIP GARDINER: I presume that would be fairly general.

Mr Delane: It is an agreement between Syngenta and InterGrain.

The CHAIR: Is not InterGrain a government entity?

Hon PHILIP GARDINER: I thought it was more with the government employees of InterGrain or is it between InterGrain and Syngenta?

Mr Metcalfe: Between InterGrain and Syngenta.

Mr Delane: InterGrain is a proprietary limited company of which the Western Australian government is a majority shareholder. We could give you examples of other confidentiality agreements. This is now commonplace. There are research entities all around Australia that have a wide range of research relationships. People on the same floors and the same laboratories are doing confidential research for competing companies. That is covered by modern practice, quality control and confidentiality agreements. Our approach to this is simply that to compete in a global market place, Western Australian producers must access the best technology, not just in cereals, but department scientist working with collaborators in China, not working for major companies to develop the world's most dense genetic map for a crop species. It happens to be for lupins. It is outstanding work done very rapidly by collaborating, with I think, the Beijing Genomics Institute. There used to be people who, including some in the department, thought we could develop Western Australian solutions to Western Australian challenges and we could do it better than anyone else in the world. It is simply not the case. We need the best methodology, access to the best minds and best technology and achieve the competitive advantage by the integration of the genetics, the development of those varieties as rapidly as possible and then the producers exploiting that new technology as quickly as they can in the field and in the marketplace.

Hon PHILIP GARDINER: I am pleased to hear that.

The CHAIR: I would like to have copies of all the agreements with InterGrain, no matter who they are with.

[*Supplementary Information No A9.*]

Mr Delane: We can provide to you all the agreements that establish InterGrain that the department is involved in.

The CHAIR: Are you saying there are some that you cannot provide?

Mr Delane: I do not know, Chair. I will take advice on this. We will provide everything we can. I do not know that I can provide you, certainly readily, for example, a confidentiality agreement between Syngenta and InterGrain around barley breeding technologies and development.

The CHAIR: Is not InterGrain a government entity?

Mr Delane: InterGrain is a company of which the Western Australian government is a shareholder.

Hon LJILJANNA RAVLICH: The major shareholder.

Mr Delane: It is the majority shareholder.

The CHAIR: It has a corporate structure.

Mr Delane: It has a corporate structure.

The CHAIR: My question is: has that the corporate structure been modified to prevent parliamentary scrutiny of what is a government entity?

Mr Delane: Chair, let me be clear; I do not think any of us are aware of any modification of the corporate structure. The company was established to enable it to do what it set out to do, which is to provide the fastest rate of project genetic advance for Western Australian grain growers. The model set up is solely for that purpose. It would not be correct for anyone to assert that anything was done to put any sort of protection between the company and the Parliament.

The CHAIR: So then we will have what you have got.

Mr Delane: We will provide everything that is legally available to you. If we cannot, I will give you a clear explanation.

The CHAIR: As you are well aware, if you or any other entity wishes to claim commercial-in-confidence, that is a decision of this committee. We do not accept that automatically as a reason for being denied documentation. The committee then makes a decision whether we agree with a proposition that that is commercial-in-confidence in the same way the Auditor General and other bodies do.

My other question was in terms of management of intellectual property. What skills does the department have in terms of dealing with managing intellectual property and the legalities around that?

Mr Delane: We have several legal officers and officers with significant experience in skill development and intellectual property management, and, at various times, have sought additional advice or have worked very closely with our long-term partner Grain Research and Development Corporation in the handling of particular suites of IP. On a normal day-to-day basis, the contracts that involve intellectual property are relatively small and discreet. Clearly, there are times when additional work is required and the State Solicitor's Office advice or other advice is taken.

[3.40 pm]

Hon PHILIP GARDINER: I just have a general question on intellectual property rights. I am sure it probably comes under page 758, "A profitable, innovative and sustainable agrifood sector"—that is a pretty broad scope. The Pink Lady experience still seems to reverberate. The opportunity that we had was, in a sense, lost in terms of getting either plant breeding rights or something for it. Have we solved that problem as result of that experience; that we are not going to develop something which is so outstanding and not get revenue for it as a state?

The CHAIR: We think our lawyers are smarter than Monsanto's.

Hon PHILIP GARDINER: This is not under integrated.

Mr Delane: I will ask Mr Hill to comment further. As with many things in our sector, there are many views about how some things have been handled, and Pink Lady is one of them. It is one of the world's most successful apples, but it is successful because of a combination of great genetics developed by John Cripps in the department and then some clever handling of intellectual property and trademarking. There is revenue that flows back to the department. I will ask Mr Hill to comment further. There will always be views about whether more could have been done, but also often such comments are based around a very naive view about how marketplaces actually function. Just because you might breed something clever, just like you might invent something clever, I think if you have any experience in this area, you know that is only just the start of it. It requires considerable investment, including in market development, relationship development, commercial

structures, protection of intellectual property possibly in every country in which you are going into, to be able to achieve commercial success. I think that applies to Pink Lady as well as much other technology. Terry Hill might want to comment further.

Mr Hill: Member Gardiner, just to follow on from what Rob said, I think the question you asked was, “What have we learnt from that experience?” When the variety was going through its early stages of development and selection into market, it was very early when this country had plant—I might need to be corrected here, because they changed the name. I think we started with “plant breeders something or other”, and now it is called “plant breeder’s rights”. They actually changed the terminology, so please, I cannot remember ’84, Member Gardiner. It was very early in the process when Cripps Pink was selected. As Rob said, it was a unique variety at the time, and everyone was learning and beginning to understand plant breeder’s rights legislation; it was relatively new thing. We have learnt an enormous amount since then, because we looked after that intellectual property as we have been able to since that time. The variety is protected under different countries. Different countries have different protection for plant priorities. In Europe it is called the COV. Here it is called plant breeder’s rights. We do have protection in a number of countries and we do receive annually royalties from the sale of Cripps Pink, which is the actual variety, trees. We get annual royalties that come in from around the world—at the moment principally from European Union, but also South Africa, USA, New Zealand and a number of other places where protection was able to be. So we have learnt a lot in that process, as I think everybody in the plant breeding world has learnt since that very early stage of the legislation and the opportunity.

Hon PHILIP GARDINER: If it were to happen today, what would be different for an apple variety? How would we get the revenue? Is it on royalty —

Mr Hill: Member Gardiner and Chair, this could take quite a while.

Hon PHILIP GARDINER: Is there a document which you can let us know?

Mr Hill: We are working through a process right now, because we have some selections that are in advanced stages, and we working through it with both the Western Australian apple industry and representatives of that industry and the representatives of the Australian industry, through Apples and Pears Australia Limited, just to talk about how we might move those varieties forward. Clearly, if the intellectual property that comes out of these new selections has value, we understand how to protect it. As Rob said, we have got quite a solid group now. We have got a couple of people who are very experienced and have been doing it for a long time, so we are much better positioned to protect the intellectual property and manage that to the benefit of the Western Australian apple industry and the Australian apple industry. I guess we have got the skills and we have got a lot more knowledge now; a lot more experience.

Hon PHILIP GARDINER: Just in summary, is it similar to having a patent in each of the countries and registering a patent?

Mr Hill: The answer is: depending if it is a patent or a plant patent. In Australia we would protect the variety under plant breeder’s rights. In Europe we would protect the variety under a thing called COV, which is some French words that I cannot remember off the top of my head—I apologise. In America we would have to take a plant patent, because they have different legislation. That is a different process. We have to be very careful about what we say about advanced selections anywhere, even in our research reports, because it can trigger a timing issue between when we select and whether we can project under the patent, but we aware of those issues and we manage those. But it is quite a different process from a patent or a trademark. So in the Pink Lady case—just with your forbearance, Chair—the variety is Cripps Pink. Other parts of the world, the apple—that is, the apples that are harvested off Cripps Pink that meet a particular quality standard for colour and flavour and size—can be called and marketed under the Pink Lady trademark, and that is a different piece of intellectual property. It is what is called derived intellectual property.

Hon PHILIP GARDINER: It looks like we have really learnt anyway, and the same thing will not happen in the future.

Mr Hill: The same thing will not happen in the future.

The CHAIR: I refer to page 757, “Major Spending Changes”, and to page 766, the total income from state government. I refer also to a statement by the minister in February announcing that 55 of DAF was lazy assets, including regional research centres, will be sold to meet the financial needs of the department. In relation to each regional research centre—you might need to take this on notice, I am not sure—when will that asset be sold? Do you have that level of detail?

Mr Delane: We are happy to provide the list of those assets, although they were generously published in a full-page spread, I think, in *Farm Weekly*.

The CHAIR: Recently or—when?

Mr Delane: Four months ago or something of that order.

Mr Paust: At the request of this committee, in the annual report we actually provided you with that full list.

The CHAIR: My apologies.

Mr Paust: The *Countryman* subsequently picked up the list off your website and published them, as I understand it.

The CHAIR: I might just ask this second part and it might be in the same bit of information. Did that include the detail of how much was realised from each sale?

[*Supplementary Information No A10.*]

Mr Paust: I cannot recollect whether it did that. I would be —

The CHAIR: Can I give it to you on notice, and perhaps if you could just check.

Mr Delane: We will provide what we have, Chair. I think at best we would have an estimated asset valuation for those properties. We will not have any information on what will be realised from them—except one; I think the only site we have actually sold is a Moora site.

Mr Paust: Correct.

Mr Delane: We can tell you what we have earned from that. The others are all prospective, some of which will quite some time to sell. Quite a number of them are old depot sites, for example, so they need environmental assessments and a range of things. I think our estimate—Mr Paust might be able to update me—is quite a number of these properties will take up to four years to sell. But quite a lot of them are also very low net value.

The CHAIR: Perhaps, then, a little bit of an update—estimated value, estimated when you might sell it. That kind of information would be useful. Could we have a detail as to what the sale of those assets, what that money is then going to be used for?

Mr Delane: I think the minister has made clear public statements of his aspirations in that regard. We have put forward and I think the minister has also made statements about the sorts of priority investments, but given the long lead time on revenue, exactly what it will be spent on at the time would be difficult for us to say. That would depend on a range of things, including proposals that we may recommend to the minister, who may take it through normal government budget processes for capital investment, maintenance investment et cetera. To be honest, I think we would be guessing if we were to try to estimate what we would spend that money on, except in very general terms.

[3.50 pm]

The CHAIR: I wonder whether the minister would be able to ask the minister if he has any aspirations for what that money would be spent on? I realise you cannot answer that now.

Hon ROBYN McSWEENEY: I cannot answer that now, and the only way to do that would be for you to put it on notice and get the answer that way.

[*Supplementary Information No A11.*]

The CHAIR: I will continue on that budget reduction and ask about the voluntary resistance management program that was developed for farmers with GM crops.

Hon ROBYN McSWEENEY: You mean volunteer weeding.

The CHAIR: Is the voluntary resistance management program the correct terminology?

Mr Delane: It is not the terminology I would use, but I will ask Mr Metcalfe to respond and he will use the terminology that we would normally use.

Mr Metcalfe: It is volunteer resistance—for the ones who have volunteered.

The CHAIR: I will blame my staff for putting a Y on the end!

Mr Metcalfe: Could you repeat the question?

The CHAIR: I had not got to the question, actually. How many FTEs, if any, within the department monitoring compliance with that volunteer resistance management program will be affected by budget cuts?

Mr Metcalfe: I think we need to include that with the overall budget savings in the area that will be affected; it is easier that way and will be more comprehensive for you.

The CHAIR: In which case I hand over to Hon Philip Gardiner.

Hon PHILIP GARDINER: I refer to the fourth dot point on page 759, some of which, in my view, coming in a budget paper, is an opinion. It states, “With many Western Australian agrifood product and marketing systems now being mature ...” That strikes me as being an opinion about what marketing systems we have or used to have or whatever. What does it mean?

Hon ROBYN McSWEENEY: We had the beef industry and the commonwealth said “bang”!

Hon PHILIP GARDINER: I beg your pardon?

Hon ROBYN McSWEENEY: I was just equating to when we had a really good beef industry going to Indonesia and the Prime Minister, for whatever reason, said no more exporting. You would have called that a mature industry, so I was just using that as an example of a marketing system that was mature.

Mr Delane: I am not sure there is a technical marketing or economics definition that applies to “mature”.

Hon PHILIP GARDINER: I do not think Samuels ever mentioned it.

Mr Delane: Our agrifood sectors are largely mature. They are established. They function. They have all the normal elements of a production and marketing sector. They are not complete greenfields developments—a complete new industry in a new region, as will be occurring in some parts of Africa, for example. Hence, there are not immediately obvious giant leaps forward in development of the sector, and they are already at the stage of development at which, if you like, more micro-level efficiencies are being pursued where rationalisations are starting to take place, as opposed to what you get in a very new industry sector where, of course, you are not getting rationalisation, but are getting complete development from scratch. That being the case and there being quite new industries developed in overseas countries that, as we know, occur in probably most areas of economic endeavour in which we have seen manufacturing businesses move from western Europe to eastern Europe and then to Africa or Asia, so business moves around. What we

see is that agrifood developments move where the parameters suit business most, and the competition for our production and export sectors is even more intense than it was.

Hon PHILIP GARDINER: What is the marketing system that we are talking about? For example, earlier you described carrots to Asia. Is that a mature marketing system or an immature marketing system?

Mr Delane: I will let Mr Hill, who is an expert in carrot production and marketing, answer that question.

Hon PHILIP GARDINER: I think we all know what I am getting at. Thank you, Terry, for offering to answer. Are we saying now that wheat and milk are mature marketing systems as opposed to what they were; and if not, what is the difference?

Mr Delane: Let us address carrots and then we might make some comment more broadly.

Mr Hill: You are asking about the clarity of that point. Perhaps I will give an example. We have a lot of commodities that operate in a commodity world.

Hon PHILIP GARDINER: Can we say products?

Mr Hill: Some commodities can be moved to products and be seen as products or fast-moving consumer goods; they were commodities if that makes sense. Some things are commodified.

Hon PHILIP GARDINER: Even if they are differentiated as a product?

Mr Hill: Yes, that is right. So, with carrots, the carrot business was very commoditised and then a couple of larger producers saw an opportunity to better service the market and supply fast-moving consumer goods, if you like, and discriminate those products. There are two large producers north of Perth who have heavily branded their products, who supported that. They now have very efficient operations right through from the farm, from planting through to harvest on the same farm, and then into marketplaces. They actually brand under international supermarket brands; so they have moved carrots from being a broader commodity and have added service and branding and made carrots into a product. The department is doing some work in this area. Recently there was a significant workshop held in South Perth looking at bringing together producers who wanted to look at the opportunity to work together in marketing through new age cooperatives. So we brought the Sweeter Banana Company from Carnarvon, which is a group of banana producers who used to produce bananas but they now produce the lunch box banana under the Sweeter Banana brand; they have put quality around it and they have increased their returns. They have changed from the traditional commodity structure for bananas in which you just bought a banana to going to the supermarket and buying Sweeter Bananas in a bag. We are supporting that. We have a person full-time who works with people and groups of people who want to move their marketing in that world. We have invested in that and there are opportunities in that. I think, Rob, that is the commodity—the product move that we have been looking at. I know that we have been looking at that in other sectors as well. Does that help, member?

Hon PHILIP GARDINER: That does help. That is terrific, because one of the KPIs, I would have thought, like your bananas and your carrots, is that market differentiation is the nirvana—this is my view now, an opinion—to which we aim for with all agricultural products. I would like to know whether in a KPI—maybe you can take this as supplementary information—how many of the products we have across Western Australia that we are producing would you classify as having a market differentiation and how many would you say need a lot of work to get there?

Mr Delane: We will provide some information and observation on that. For example, some would argue that Australian food is a market differentiation. I think others have argued it is clean and green, which of course everyone argues for. We can provide an observational and factual piece on that.

[4.00 pm]

Hon PHILIP GARDINER: But you have got other products; there are products in each of the areas that you have got here. In a way, what it relates to is that service summary on page 758, transformational development, at worst and then business and supply chain development at best. They are both big sums and I would have thought that, really, for Western Australia, for all of us in the food producing area and the fibre producing area, that is what we are after. It is a very serious question about how you assess where you think we are.

Mr Delane: I accept that and agree that this is a very serious question. Given the stage of our major changes here, the discussions that we have had, and we have not taken to industry that in our view virtually all of our sectors need a major transformational change, which in some cases can really only be achieved by achieving it in the marketplace, because it is certainly not obvious that it can be achieved in the production area. We can do more than give an explanation of the sorts of things we are talking about in transformational development and some observations, particularly examples about where there is clear differentiation—wine is an obvious one, but in wheat, for example, how much differentiation is there—and perhaps where we see some of the, if you like, developing differentiation occurring.

Hon PHILIP GARDINER: That would be helpful. Just in relation to that, if I go back to Mr Chennell on wool, for example, how do you deal with the value chain aspects of wool when you have got an AWI which you are trying to relate to and talk to about what they are doing and how that works with the Western Australian value chain development?

The CHAIR: Just before you answer that, I need to give a number to that previous information. That was the market differentiation question.

[*Supplementary Information No A12.*]

Dr Chennell: We work closely with AWI. We actually wrote the national research development and extension plan for wool with AWI and the other jurisdictions, so we led the development. AWI has made a very clear decision that post-farm gate research on product development and processing occurs offshore, so Australia's focus is on sheep production and developing the appropriate sheep that can produce the appropriate wool for end markets. In terms of how we work with AWI, we have some clear programs which are related to sheep nutrition, sheep genetics and management. We have a close relationship, and all our projects are very clearly specified. So that is how we are working.

Hon PHILIP GARDINER: And not too much of a connection between whether the customer likes it or not; that is all offshore.

Dr Chennell: AWI is very closely connected to the customer and has overseas offices and so on, but the clear decision has been made by AWI to work in that way.

Hon PHILIP GARDINER: Unbelievable. Sorry. That is my opinion—unbelievable.

The CHAIR: I have a question if Hon Philip Gardiner has finished.

Hon PHILIP GARDINER: I am still recovering! We were talking about value chains and, here we are; we have a knife through the middle without a connection between the value chains from what we are doing and how we grow it to what is needed.

Mr Delane: To clarify, I assume Member Gardiner was not saying that the evidence provided by the department's officers was unbelievable!

Hon PHILIP GARDINER: No! Sorry; I beg your pardon. I accept your evidence totally, but I am so shocked.

The CHAIR: Could I take you to page 766 and the line item “Royalties for Regions Fund” under “Income from State Government”? In 2010–11 the state budget committed \$5.17 million to upgrade and extend the state barrier fence. I understand media reports suggested that \$2.5 million of this

funding was used for materials to construct an Esperance extension. In December 2010 the minister committed a further \$5 million royalties for regions funding to the upgrade of the state barrier fence. My question is: have the materials been purchased for the proposed extension of the fence? You can take it on notice.

Mr Delane: I will need to take that on notice. Our focus has been initially on two aspects: one is what is known as wire lapping—sealing the bottom of the fence for its full length; and what we refer to as the Yilgarn gap—a gap between two established sections of the fencing, so we have been focused on filling that in. There has been a significant amount of material purchased. I am not aware that we have purchased a significant amount of material for the Esperance extension, but we will take that on notice and provide details on that.

The CHAIR: If you could. What material has been purchased, who was it purchased from, the cost, where the materials are being stored and the time frame for the further expenditure on that fence as well?

Mr Delane: Hansard will record that. We will pick up the details, Chair.

The CHAIR: All right. I can provide it in hard copy if that helps.

Mr Delane: Just to get clarity on the last part, the time frame for expenditure of the allocated R&R funding?

The CHAIR: Correct, and whether that is included in this current budget.

Mr Delane: Yes. I think that is agreed.

[Supplementary Information No A13.]

The CHAIR: I think we will draw this session to a close. The committee will forward any additional questions it has to you via the minister in writing in the next couple of days, together with the transcript of the evidence, which includes questions taken on notice. Members, if you have got any further questions, please submit them to the clerk at the close of the hearing by email. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date and include in that advice specific reasons as to why the due date cannot be met. Finally, on behalf of the committee, thank you very much for your attendance this afternoon. We will close this session now.

Hearing concluded at 4.06 pm
