

Standing Committee on State Development

**European and United
Kingdom perspectives on
agriculture, genetically
modified food and rural
development**

Ordered to be printed September 2002 according to the
Resolution of the House

New South Wales Parliamentary Library cataloguing-in-publication data:

New South Wales. Parliament. Legislative Council. Standing Committee on State Development

European and United Kingdom perspectives on agriculture, genetically modified food and rural development : [report] / Standing Committee on State Development [Sydney, N.S.W.] :The Committee, 2002. – 300 p. ; 30 cm. (Parliamentary paper ; no 178)

“Ordered to be printed 27 September 2002, according to the resolution of the House”.

ISBN 0-7347-2700-3

1. Agriculture—Europe.
2. Agriculture—Great Britain.
3. Agricultural biotechnology—Europe.
4. Agricultural biotechnology—Great Britain.
5. Food—Biotechnology—Europe.
6. Food—Biotechnology—Great Britain.
7. Genetic engineering—Europe.
8. Genetic engineering—Great Britain.
9. Rural development—Europe.
10. Rural development—Great Britain.
- I. Title
- II. Series: Parliamentary paper (New South Wales. Parliament) ; no. 178

630.94 (DDC21)

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Terms of Reference

International Competitiveness of Agriculture in NSW

That the Standing Committee on State Development inquire into and report on the role of Government in facilitating the international competitiveness of agriculture in New South Wales, including:

- Innovation and diversification of the industry, including the development of new products and the application of new technology;
- Business enhancement services (for example, marketing and market intelligence, industry links/network, and leadership);
- Regulatory impediments, and inter and intra government coordination;
- Cost structures of the industry (for example, transport costs, packaging costs, state taxes and charges, and utility charges); and
- The development of sustainable management of agricultural resources.

(Reference received on 7 July 1995, amended 21 May 1998)

Inquiry Into Opportunities For Strengthening Rural Towns In New South Wales

The Hon Harry Woods MP, Minister for Regional Development, Minister for Rural Affairs and Minister for Local Government, requested that the Standing Committee on State Development inquire into and report on a number of issues in relation to rural towns, expanding upon the work undertaken through the NSW Government's Directions Statement on Regional Development, "Rebuilding Country New South Wales". To ensure that smaller regional centres maximise their economic potential, the inquiry should give particular regard to:

- Examination of economic development strategies that these centres could develop to achieve economic growth and employment. This analysis should include the use of mechanisms such as co-operatives, networks and clusters to achieve this growth. This inquiry should not only concentrate on the use of these mechanisms for the production of products and services for export out of the community, but also the utilisation of these tools to provide services and facilities for consumption within the particular community and in the purchase of inputs for the production of products and services;
- How these centres can identify economic development opportunities. What role can the Government play in assisting these communities identify and develop these opportunities;
- Impediments to economic growth in rural communities eg infrastructure, availability of finance, business advice and assistance; and
- Identify strategies for the development and promotion of economic opportunities in small towns.

(Reference received on 23 September 1999)

Inquiry Into Genetically Modified Food

The Hon Richard Amery, MP, Minister for Agriculture, and Minister for Land and Water Conservation, has requested that, to assist the ongoing debate in the area of genetically modified food, the Standing Committee on State Development inquire into and report on issues relating to genetically modified food, and in particular:

- The likely public and private benefits and costs of genetically modified food to the State of New South Wales;
- The impacts of genetically modified food technology upon the agricultural and food processing sectors; and
- The identification of any possible adverse consequences to trade, food safety and the environment from the introduction of genetically modified food technology.

(Reference received on 11 November 1999)

Committee Membership

The Hon Tony Kelly MLC	<i>Australian Labor Party</i>	Chair
The Hon Dr Brian Pezzutti RFD MLC	<i>Liberal Party</i>	Deputy Chair
The Hon Ian Cohen MLC	<i>The Greens</i>	
The Hon Michael Costa MLC¹	<i>Australian Labor Party</i>	
The Hon John Johnson MLC²	<i>Australian Labor Party</i>	
The Hon Ian Macdonald MLC³	<i>Australian Labor Party</i>	
The Hon Henry Tsang MLC⁴	<i>Australian Labor Party</i>	
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Secretariat

Mr Robert Stefanic	Director/Senior Project Officer
Mr Steven Reynolds	Acting Director (to 15 April 2002)
Mr Steven Carr	Director (to 13 July 2001)
Mr Stephen Fenn	Research Assistant
Ms Annie Marshall	Committee Officer
Ms Cathy Nunn	Committee Officer

¹ The Hon Michael Costa MLC was appointed to the committee on 19 September 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 119*, p1158. The Hon Michael Costa MLC was discharged from the committee on 13 December 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No141*, p 1394.

² The Hon John Johnson MLC was discharged from the committee on 4 September 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 119*, p 1124.

³ The Hon Ian Macdonald MLC was discharged from the committee on 27 March 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 92*, p 892.

⁴ The Hon Henry Tsang MLC was appointed to the committee on 13 December 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No141*, p 1394.

⁵ The Hon Ian West MLC was appointed to the committee on 27 March 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 92*, p 892.

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Chair's Foreword

On 3 May 2001 the Standing Committee on State Development formed a sub-committee for the purpose of meeting with a wide range of European-based government and industry representatives from areas associated with three of the Committee's current inquiries: international competitiveness of agriculture in New South Wales, opportunities for strengthening rural towns in New South Wales and genetically modified (GM) food.

The sub-committee travelled to Europe in July 2001 to broaden the Committee's understanding and perspective of issues related to these inquiries.

Along with submissions and public hearings, the knowledge, understanding, and perspective generated from this exercise is expected to be invaluable to the completion of those inquiries.

The 16 day program involved 20 meetings in five countries. The meetings explored a raft of issues and concerns surrounding genetically modified food technology, agriculture and rural and regional development.

The meetings were particularly beneficial to understanding comparative issues related to rural and regional development. Meetings with representatives from various levels of government were complemented with discussions with industries and organisations at the coalface of rural and regional development in Europe, such as the Italian tile manufacturers, Assopiastrelle, and the world-renowned Mondragón Corporación Cooperativa in Spain.

Throughout our discussions, the challenges, concerns, obstacles and opportunities facing rural and regional communities in Europe often mirrored those facing small rural NSW towns. Rural and regional areas in Europe have much in common with New South Wales when it comes to impediments to growth. Similarly, many of these communities share characteristics and natural advantages that may prove useful when pursuing economic development opportunities.

Despite these similarities and common themes, each community in every region and nation faces unique circumstances that will demand initiative and tailored approaches. The vast distances that often separate small towns in NSW from major regional centres and capital cities is not such a critical issue in the condensed geography of Europe.

The existence of a transnational body like the European Union, which undertakes its own, very substantial rural and regional development programs, provides another source of expertise and funding for European nations and particular regions to call upon when addressing issues related to rural decline. Unique cultural and historical factors also allow nations, regions and communities to adopt approaches most suitable to them.

Although New South Wales must strike its own path when it comes to these issues, the sub-committee benefited from discussing the successes, failures and ongoing challenges faced by those involved in the various aspects of GM food technology and rural and regional development.

The wealth of information collected from the meetings, as well as the broader perspective on the concepts and strategies involved with these complex issues, will prove most beneficial when the

Committee comes to compiling its reports on opportunities for strengthening rural towns in New South Wales and GM food.

Such research and information gathering exercises, especially those undertaken overseas, involve a great deal of research and planning. To this end I would like to thank the Committee Secretariat, including the previous Director, Mr Steven Carr, present Director, Rob Stefanic, Committee Officers Ms Annie Marshall and Ms Cathy Nunn and Research Officer Mr Stephen Fenn, for their research, analysis and administrative support without which the visit and the meetings could not have occurred. In particular, I express my appreciation to Ms Nunn and Mr Fenn for their efforts in compiling this report. Finally, I would like to thank the Deputy Chairman, the Hon Dr Brian Pezzutti MLC, for his invaluable input and good humour into what was a hectic schedule.

Hon Tony Kelly MLC
Chairman

Chapter 1 Official meetings - Italy

Meeting No. 1, 16 July 2001 - Food and Agricultural Organisation of the United Nations (FAO), Rome

- 1.1 On 16 July 2001 the delegation met with Mr José Esquinas-Alcazar, Secretary, Commission on Genetic Resources for Food and Agriculture, and Dr Josef Schmidhuber, Senior Economist, Global Perspective Studies Unit, Economic and Social Department, both from the FAO.
- 1.2 The FAO is the lead agency for agriculture, forestry, fisheries and rural development. It was founded in 1945 with a mandate to raise levels of nutrition and standards of living, improve agricultural productivity, and better the condition of rural populations.
- 1.3 Since its inception, the FAO has worked to alleviate poverty and hunger by promoting agricultural development, improved nutrition and the pursuit of food security.
- 1.4 The FAO encourages sustainable agriculture and rural development by creating a long-term strategy for increasing food production and food security while conserving and managing natural resources. The aim is to meet the needs of both present and future generations by promoting development that does not degrade the environment and is technically appropriate, economically viable and socially acceptable.
- 1.5 Mr Esquinas-Alcazar informed the delegation that the Commission on Genetic Resources for Food and Agriculture is developing a Code of Conduct on Biotechnology⁶. The development of the code encompasses not only scientific and technical matters, but also social, economic, environmental and ethical considerations. On completion, the code will provide guidelines to ensure that the benefits of developments in biotechnology are not overshadowed by potential risks.
- 1.6 The FAO is concerned that while advances in biotechnology could potentially benefit developing countries, these advantages would be unavailable unless better resourced governments were prepared to invest in the development of genetic modification technologies.
- 1.7 Dr Schmidhuber also discussed the Global Perspective Studies Unit, which undertakes global research into developments in food and agriculture. The unit uses this research as a basis for contributions to and coordination of the related work of the United Nations system, including the UN International Development Strategies. It has produced two key reports on likely developments in agriculture to 2010.⁷

⁶ See www.fao.org/ag/cgrfa/docs.htm (accessed 8/7/02).

⁷ *Agriculture: Towards 2015/30: Technical Interim Report*, April 2000, and *World Agriculture: Towards 2010: An FAO prospective Study on Food and Agriculture*, 1995. These reports can be viewed at www.fao.org/es/ESD/gstudies.htm (accessed 8/7/02).

- 1.8 Appendix One provides the text of the FAO's March 2000 statement on Biotechnology and Genetically Modified Organisms.

Meeting No. 2, 17 July 2001 – Assopiastrelle, Sassuolo

- 1.9 The delegation discussed cluster developments with Mr Cesare Bertini, International Promotion, Assopiastrelle, and Mr Andrea Serri, Press Office, Assopiastrelle.
- 1.10 Mr Serri provided a history of the region and of the development of its ceramic tile and related industries. The discussion centred on the role of Assopiastrelle, which is an umbrella organisation that, for over 35 years, has been representing, connecting, informing and assisting Italian companies manufacturing ceramic floor tiles and refractory materials.
- 1.11 Assopiastrelle is comprised of six different commissions, each representing a separate area of economic activity. Each commission is assigned the responsibility of determining the best way forward for the local industry as a whole, in terms of marketing, production or other issues.
- 1.12 The organisation forms links with firms in the ceramic tile industry and with other manufacturing firms whose production complements the manufacturing of ceramic tiles and refractory materials.
- 1.13 The organisation's umbrella structure covers a number of companies, varying in size and capacity, and assists these firms to market themselves internationally. Mr Bertini advised the delegation that his organisation conducts market research and attends trade fairs around the globe, while keeping abreast of trends within Italy, in order to cater for the needs of the different sized companies in the association.
- 1.14 A large number of tile companies exist in the area, competing and benefiting from the intense local competition. Assopiastrelle aims to assist local companies in technological and marketing advice. The organisation does not interfere with poor performing members but, rather, prefers that they be taken over by more efficient and profitable firms.
- 1.15 In the last 15 years the industry has been able to double total planning production, in part due to an increase of production to a 24 hour, seven day week. The deregulation of the Italian currency and subsequent depreciation of the Euro, has also contributed to the major growth in international exports.
- 1.16 Mr Bertini stated that Assopiastrelle tends to be of most benefit to medium-sized and larger firms that, in turn, influence the directions taken and strategies pursued by Assopiastrelle.

Meeting No. 3, 17 July 2001 - Associazione Imprese Commercio e Terziario (Ascom Confcommercio), Parma

- 1.17 Mr Enzo Malonca, Direttore, Ms Christina Mazza, Capo Servizio, Ufficio Affari Generali, and Ms Anna-Rita Staino, Hotel Tourism Consortium, of the Associazione Imprese Commercio e Terziario, met with the delegation to discuss their organisation's role as a representative of local industries.

- 1.18** The Ascom Confcommercio of Parma is an organisation that represents tertiary enterprises in commerce, tourism and services. It operates in the provincial territory with the objective of advancing the interests of its members and contributing to the development of the entrepreneurial community. It is a non-partisan, non-profit association, belonging to the national Confcommercio, which represents 1 million enterprises in the tertiary sector.
- 1.19** The services offered include provision of administrative support (such as, bookkeeping for many small business members), membership of a national organisation, economic, financial, telecommunications advice, and lobbying services.
- 1.20** Sixty percent of local commercial, tourist and other services are members of the association. Benefits to these largely small and medium sized businesses derive from not only the provision of the above services, but also from the exposure due to use of the internet⁸ and other marketing services, including the 'branding' of the region as a quality tourist destination.
- 1.21** The Association capitalises on the traditional industries of the area (mainly in food production), as well as on icons like the composer Verdi, to attract quality tourist markets to the region.
- 1.22** Mr Malonca explained that, because of the decline in population in recent years, immigration is being encouraged as a means to supply the growing tourism and service sectors.

Meeting No. 4, 17 July 2001 - Unione Parmense degli Industriali, Parma

- 1.23** The delegation met with Mr Cesare Azzali, Direttore, Unione Parmense degli Industriali and Ms Frederica Ravasio, Interpreter, to discuss the representation of secondary industry in Parma.
- 1.24** The Unione Parmense degli Industriali (Parma Manufacturer's Association) represents and organises manufacturers of the province. It is concerned with protecting the interests of its members, promoting their growth and supporting their development. This is achieved through the provision of legal, industrial relations, economic and administration services. A number of consultants are employed to provide research, planning and assistance in the following areas:
- building industry
 - customs and export
 - transport
 - environment
 - energy

⁸ Ascom Confcommercio website: www.ascom.pr.it.

- finance and insurance
- internet
- quality management
- security
- town planning⁹

- 1.25** The Parma region is noted for its specialised, high quality goods. The region promotes itself both culturally and gastronomically. It does this in part by protecting the ‘branding’ of the region and restricting the production of foods to traditional methods. Industry assistance, inspections and legal prosecutions are used to ensure the quality and integrity of products originating in Parma.
- 1.26** Unlike neighbouring areas, such as Bologna and Reggio Emilia, Parma does not pursue a co-operative approach to production. In Parma there is more emphasis on the individual. Despite this, the Unione Parmense degli Industriali successfully assists and promotes its member companies and the Parma region.
- 1.27** Mr Azzali informed the delegation that, despite the absence of tax breaks or other incentives, the region was open to new, clean industries, for example, information technology. The Unione Parmense degli Industriali, in providing a range of services, enables new enterprises to establish in the region.

⁹ Source: Unione Parmense degli Industriali website: www.assindustria.pr.it (accessed 10/7/02).

Chapter 2 Official Meetings – Spain

Meeting No. 5, 19 July 2001 - Mondragón Corporación Cooperativa (MCC), Mondragón

- 2.1 Mr Jesus Ma Herrasti, President, Mondragón Corporación Cooperativa, met with the delegation to provide information on the history and role of the Mondragón cooperative.
- 2.2 The Mondragón Corporación Cooperativa was formed in 1990 as an amalgam of the Mondragón Cooperative Movement.
- 2.3 The Mondragón movement began in the town of Mondragón in 1956 when a group of five young engineers were encouraged by their socialist priest, Father José Maria Arizmendiarieta, to set up a co-operative to make paraffin-fuel cooking stoves. By 1959 they had formed the Caja Laboral Popular (CLP), the Working People's Bank, which is not only the bank for the cooperatives but is run as a cooperative itself.
- 2.4 MCC has grown in its forty years of operation to include 160 employee-owned cooperatives, involving 23,000 member owners, with sales grossing US\$3 billion in 1991.
- 2.5 The main focus of the Association of the Mondragón Cooperatives is the creation of owner-employee jobs to expand the opportunities for people to participate in the economy. Statistics show the Mondragón cooperatives to be twice as profitable as the average corporation in Spain, with employee productivity surpassing any other Spanish organisation. The MCC is focused on social success, involvement of the people and industrial democracy.
- 2.6 The MCC is built on ten principles:
- the open admission to all who accept the basic principles
 - a democratic organisation, based on the basic equality of worker-members
 - the sovereignty of labour where wealth is distributed among members according to their labour, not their holding in share capital
 - the instrumental/subordinate nature of capital
 - the participatory management of workers in business management, through bodies such as the general assembly, the governing council and the social council
 - payment solidarity: for many years the difference in payment between the least qualified worker member and the top executive of the co-operative was in the proportion of 1 to 3. This principle has recently been relaxed, with the maximum salary set at market rates, less 30%, as a commitment to the principle of solidarity

- an inter-co-operation between individual co-ops, between the MCC and other Basque and Spanish co-ops, and with other co-operative movements in Europe and the rest of the world
- social transformation: a commitment to social and economic development through reinvestment of profits back into further job creation, support for community development initiatives (especially in the educational area), and the operation of a social security program based on solidarity and responsibility
- universality: MCC proclaims its solidarity with all those who work for economic democracy
- education: the cornerstone of the MCC movement, seen as the key to the development and progress of the people.¹⁰

2.7 The MCC has grown to be one of the twelve largest companies in Spain and is the biggest in the Basque County. It includes numerous community and employee-based programs, together with schemes offering health care, housing, social security, primary and post-secondary education, training, retraining and unemployment insurance. The educational system consists of over forty schools and a college. There is also a student relationship co-operative, which allows working students to cover their tuition and living expenses for their private high school and college education while having the experience of running their own co-operative.

2.8 The MCC views capital as only a means to an end. The primary goal is a happy and productive work environment. Accordingly, profits are distributed in the following pattern:

- 10 percent of the annual net profits is donated to charity,
- 40 percent is retained in the collective internal account. This collective internal account is regarded as the portion of profits that is collectively owned and managed for the common good. If the cooperative ever ceased to exist, this portion would go to charity, and
- the remaining 50 percent is open for use by the owner employees, for instance as collateral for securing a loan (at an interest rate only a point or two above the six percent it is earning). Yet at the same time this profit can still be used by the co-operative.¹¹

2.9 Another aspect of MCC is the way it deals with the establishment of new companies and the repayment of debt. The particular co-operative always begins a new enterprise with a group of associates, never with just one person. It sees the natural bonds of friendship as a building block for which successful ventures are built. The new enterprise and the MCC bank agree to stay together until the business is profitable. If the business runs into trouble the bank will loan additional capital at roughly half the initial rate. If the company is still in

¹⁰ Source: MCC website: www.mondragon.mcc.es/ingles/experiencia.html (accessed 9/7/02).

¹¹ *ibid.*

financial trouble the interest rate will be dropped to zero. If more assistance is needed the bank may donate capital to the business. Eventually, even if the company has to go through drastic changes like new managers or new product lines, the business becomes successful and is able to repay much of the loans, although the bank also uses a portion of its profits from time to time to reduce the size of the loans of all of its cooperative businesses.¹²

Organisation

- 2.10** In 1991, the Third Co-operative Congress approved MCC's new organisational structure based on two main lines of action: unified strategic management and activities organised by sectors. MCC is divided into three groups - financial, industrial, and distributive. The three groups function autonomously within the framework of a common strategy.

Finance

- 2.11** The financial group is made up of Caja Laboral, Lagun Aro and their subsidiaries—Seguros Lagun-Aro, Lagun-Aro Vida and Aroleasing.

Caja Laboral

- 2.12** In addition to offering a full range of financial services to the Corporation's co-operatives, Caja Laboral also advises and serves the financial needs of family units and offers highly specialised services to non-cooperative companies. Its solvency as an institution is well above the levels required by Spanish banking regulations and much higher than the average for the centre. The European rating agency has given Caja Laboral an A/B rating, which is the highest given to any bank and savings bank in Spain. In terms of bank capitalisation, Caja Laboral occupies the thirty-eighth position in the world ranking, according to *The Banker Magazine*.

Lagun Aro

- 2.13** Lagun Aro provides health care for worker members and covers long-term benefits like retirement, widowhood and invalidity as a complement to state benefits. Profitable fund management, ensures these benefits accrue. The subsidiaries, Seguros Lagun-Aro, Lagun-Aro Vida and Aroleasing, have grown strongly in line with the buoyancy of Caja Laboral and now lead their respective sectors in the Basque country.

Industrial

- 2.14** The industrial group is divided into different divisions based on sectors.

Automotive

- 2.15** This division supplies components and systems to manufacturers in the automobile sector. It collaborates closely with these manufacturers in new development projects and in the search for the best solutions. On the international stage the division has plants in

¹² Source: We The Peoples website <http://iisd1iisd.ca/50comm/commdb/desc/d13.htm> (accessed 17/7/02).

Argentina, Brazil, the Czech Republic and the United Kingdom and joint ventures with the multinationals Continental and Ruckers and the Basque group Gumisar. The division has a technological centre of its own, specialising in thermal plastics, the Maier Technology Centre, or MTC, and an advanced engineering company, Modutek, for the development of modules.

Components

- 2.16** This division offers a wide range of components for regulation and control, safety systems for domestic applications, gas, plastic technical parts, decorative trends and sump units for three different areas of business; white goods for cooking appliances, washing machines, refrigeration appliances and small domestic appliances; home comfort, with products for producing hot water for central heating and domestic purposes and air heating; and electronics, with semiconductors for axial assembly and SMD; and systems for receiving and distributing satellite and terrestrial television signals. This division has production plants in the Czech Republic, Mexico and Thailand.

Construction

- 2.17** This division operates in three areas: large structures and handling through Urssa, infrastructure projects, and an increasing presence in the wind power sector with Ecotecnia.

Lifting Systems

- 2.18** TDS Orona lifts and escalators, materials and building projects, including property development.

Industrial Equipment

- 2.19** This is a multi-sectorial division that covers leisure and sports goods with production plants in China and Brazil.

Coach Bodywork

- 2.20** This is an activity in which Irizar has more than a third of the market share in luxury coaches in Spain. The company exports a large part of its production and is among the leading manufacturers in Europe. It has overseas plants in China, Morocco, Brazil and Mexico. This division also produces plastic packaging machinery, medical equipment, educational equipment, transformers and copper drawing. It also does high-quality printing work.

Household Goods

- 2.21** This division covers large areas of white goods, in which Fagor is the leading brand on the Spanish market, with a growing presence in the rest of the European Union. Fagor is undergoing a process of internationalisation and has set up production plants in Argentina, Morocco and Poland, as well as a joint venture with the German company Venland for the manufacture of water heaters, bedroom, lounge and office furniture and commercial equipment, with products for restaurants and groups including cooking appliances, washing machines, dishwashers and cold storage.

Engineering and Capital Goods

- 2.22 This division includes the following activities: sheet metal-forming machinery basically for the automotive, domestic appliance and iron and steel sectors, with a high level of exports to developed countries; automation and control systems for machine tools; die making and moulds for processing metal and plastic.

Consulting, Engineering, Design and Environment and Computing

- 2.23 This division has plants in France and China.

Machine Tools

- 2.24 This division is the market leader in machine tools in Spain and is a big exporter. It has a research centre of its own, Ideko, working on the application of technological innovations in the field of mechanical, product control and production engineering. It also includes woodwork machinery with the manufacture of modern machining centres in addition to the manufacture of tooling and fixtures.

Distribution

- 2.25 The distribution group is now one of the four biggest companies operating in this sector in Spain and the only one with exclusively Spanish capital. It operates practically all over Spain and has also penetrated into the south of France. Two subgroups of this distribution group include a retailing arm and an agrifood arm:

(a) Eroski

- 2.26 The Eroski group is made up of the Eroski and Consum co-operatives and other subsidiaries. Its chain of stores consists of hypermarkets under the Eroski and Maxi logo, neighbourhood supermarkets with the Consum logo, self-service stores and small franchise outlets. The group also has a travel agency which leads the sector in the Basque country as well as a number of service stations.

- 2.27 Over the five-year period of 1995 to 1999 the group doubled its turnover, invested 160,000 million pesetas and created 12,000 jobs. Both workers and consumers are involved in the successful running of the company as they participate in the group's decision-making bodies. A lot of human and financial resources are earmarked for consumer education and information, with courses continually on offer, as well as through the work of the *Eroski* magazine.

(b) Erkop

- 2.28 The agrifood subgroup Erkop also belongs to the distribution group. This subgroup is involved in stock breeding, horticultural and food services.

Training and Education

- 2.29 In addition to these activities in the business sphere, Mondragón Corporación Cooperativa places great emphasis on training and education. Initiatives include the Mondragón

University, the Otalora skills training organisation and technological centres specialising in research and development.

Mondragón Unibertsitatea (University)

2.30 The Mondragón University is a private, non-profit university backed by the co-operatives. Its aim is to meet the needs and requirements of the Basque business world, especially those of the co-operatives.

2.31 The idea for a university emerged from the combined experience of the three centres supporting it. These centres had already established university projects of their own:

- the Mondragón Eskola Politeknikoa, specialising in engineering;
- Eteo, providing business studies; and
- Irakasle Eskola, for teacher training and people management.

Otalora

2.32 The work of Otalora is concerned with training. This centre offers post-graduate courses with the aim of recruiting skilled young people for the co-operatives. It also offers a masters degree in co-operative management, organises seminars on modern management techniques and does a lot of work in the dissemination of co-operative culture.

Research and Development

2.33 The corporation's technological research and innovation policy has been one of the pillars of its development. In addition to the work of the research and development departments in each co-operative, MCC also has three technological centres. These are Ideko, Maier Technology Centre and Ikerlan.

2.34 Ikerlan, specialising in mechatronics, has a lot of experience in carrying out contracted projects. The aim of the centre is to transfer state-of-the-art technology to industrial companies in a cost-effective way. It is a member of Iarco, together with the most select research centres in Europe.

Future Challenges

2.35 After more than 40 years of existence, Mondragón Corporación Cooperativa has to face up to the challenges of an economy going through an accelerated process of globalisation.

2.36 By the year 2004, MCC's strategy for internationalisation includes plans to establish 60 plants abroad with international sales accounting for more than 57 per cent of the total sales. MCC still maintains its aims of organising labour on the basis of democracy and solidarity, efficient management, and the creation of jobs and wealth for the community.

2.37 MCC intends to continue putting into practice the corporate values which define their business culture:

- co-operation, playing the leading role in something that is their own
- participation with a direct commitment to business management
- social responsibility to the community; with distribution of wealth based on solidarity and
- innovation by means of looking for new options in all areas.

2.38

In facing the challenges of globalisation, questions have been raised over whether the MCC is losing sight of its basic principles. An obvious example of this is MCC's new multinational supply and distribution network, where the MCC has become a traditional capitalist employer operating plants in low-wage countries like Egypt, Morocco, Mexico, Argentina, Thailand and China. Its employees in these countries are not co-op members. MCC is also developing non-co-op businesses in Spain itself, many as joint ventures with capitalist partners, as well as using an increasing number of non-member workers within their core co-operatives.

Chapter 3 Official Meetings – Belgium

Meetings No. 6 and No. 7, 23 July 2001 - European Parliament, Committee on Regional Policy and Transport and European Commission, Regional Policy Directorate General, Brussels

- 3.1 The delegation first met with Mrs Minna Ollikainen, Administrator, Committee on Regional Policy and Transport, Mr George Pfeifer, Administrator, Committee on Regional Policy, Transport and Tourism, Directorate-General for Committees and Delegations, both of the European Parliament, and Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union.
- 3.2 The representatives of the European Parliament advised the delegation that despite the fact that the European Union is one of the most prosperous economic areas in the world, disparities still exist between member states and between various regions within States. This is reflected in various GDP figures where, for example, the average per capita GDP in Greece, Portugal and Spain is only 80% of the Community average. Luxembourg exceeds this average by over 60 percentage points. The ten most dynamic regions in the Union have a GDP almost three times higher than the ten least developed regions.
- 3.3 Consequently, not all Europeans have the same advantages and chances of success when faced with the challenges of globalisation, as these are dependent on whether they live in a prosperous or a poorer region, in an area which is dynamic or in decline, in a city or in the country, on the Union's periphery or in one of its economic heartlands.
- 3.4 While access to employment, the competitiveness of firms and investments in e-economy technologies are largely the responsibility of private enterprise and national and regional authorities, the European Community is involved in development work and, where necessary, complements and shapes the initiatives undertaken by these bodies.
- 3.5 This involvement is enshrined in Article 158 of the Treaty of Amsterdam, which states:
- "... the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas."¹³
- 3.6 The European Union's regional policy is based on financial solidarity, in that member states' contributions to the Community budget go to the less prosperous regions and social groups.
- 3.7 For the 2000-2006 period, these transfers will account for one third of the Community budget, or 213 billion Euro:
- 195 billion Euro will be spent by four Structural Funds: the European Regional Development Fund, the European Social Fund, the Financial Instrument for

¹³ Treaty Establishing the European Community, *Official Journal C 340*, 10 September 1997, p.112.

Fisheries Guidance and the Guidance Section of the European Agricultural Guidance and Guarantee Fund

- 18 billion Euro will be spent by the Cohesion Fund.¹⁴

3.8 EU Structural Funds focus on three objectives:

- Objective 1 – 70% of the funding goes to regions whose development is lagging behind. They are home to 22% of the population of the Union.
- Objective 2 – 11.5% of the funding assists economic and social conversion in areas experiencing structural difficulties. 18% of the population of the Union lives in such areas.
- Objective 3 – 12.3% of the funding promotes the modernisation of training systems and the creation of employment outside the Objective 1 regions where such measures form part of the strategies for catching up.

3.9 There are also four Community Initiatives seeking common solutions to specific problems. They spend 5.35% of the funding for the Structural Funds on:

- Cross-border, transnational and interregional cooperation (**Interreg III**),
- Sustainable development of cities and declining urban areas (**Urban II**),
- Rural development through local initiatives (**Leader +**), and
- Combating inequalities and discrimination in access to the labour market (**Equal**).

3.10 There is a special allocation of funds for the adjustment of fisheries structures outside the Objective 1 regions (0.5%).

3.11 The Structural Funds finance multi-annual programs that constitute development strategies that apply throughout the Union. These are drawn up in a partnership comprising the regions, the member states and the European Commission under guidelines laid down by the Commission. They act on economic and social structures to:

- develop infrastructure, such as transport and energy
- extend telecommunications services
- help firms and provide training workers, and
- disseminate the tools and know-how of the information society.

3.12 Mr Peter Thomas invited the delegation to discuss these matters further with Mr Charles White, Principal Administrator, European Commission Regional Policy Directorate-

¹⁴ European Commission website: www.europa.eu.int/comm/dgs/regional_policy/index.htm.

General. They discussed various types of funding arrangements for community initiatives in agriculture and other rural development. Mr Thomas referred specifically to Community Structured Funds and the Cohesion Fund.

- 3.13** The Cohesion Fund provides direct finance for specific projects relating to environmental and transport infrastructure in Spain, Greece, Ireland and Portugal, as the environmental and transport infrastructure is still considered inadequate in those countries.
- 3.14** The Instrument for Structural Policies for pre-Accession provides assistance along the same lines to the ten central and eastern European countries that have applied for Union membership.
- 3.15** There have been clear improvements since the European Union started trying to reduce these disparities. For example, average per capita income in the three least prosperous countries, Greece, Portugal and Spain, increased from 68% of the Community average to 79% in 1999. Ireland's GDP is now approaching the EU average and thus EU assistance is gradually being reduced.¹⁵
- 3.16** The EU's regional policy is still required to encourage the stable development of member states. Regional Policy remains focussed on enabling all regions in the EU to benefit from the opportunities offered by the single market and contribute to the success of economic and monetary union.

Meeting No. 8, 23 July 2001 - European Commission, Agriculture Directorate General, Brussels

- 3.17** Ms Helen Williams, Representative, European Commission, Agriculture Directorate-General, and Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union met with the delegation to discuss the Agriculture Director-General's responsibilities for rural development in the European Union.
- 3.18** The future of the agricultural sector is seen as being closely linked to a balanced development of rural areas, which account for 80% of European territory. Consequently agricultural and rural policy has an important role to play in the cohesion of EU territorial, economic and social policy.
- 3.19** The reforms contained within the document, *Agenda 2000*,¹⁶ recognise the need for the implementation of market measures and the fostering of a competitive European agriculture, as well as the varied needs of rural Europe together with current social and environmental requirements and expectations.
- 3.20** The new Rural Development Policy, now forming the "second pillar" of the Common Agricultural Policy (CAP), is designed to meet these needs. The Rural Development Policy

¹⁵ European Commission website: http://europa.eu.int/comm/dgs/regional_policy/index_en.htm.

¹⁶ Report can be viewed at: <http://europa.eu.int/scadplus/leg/en/lvb/l60002.htm>.

aims to put in place a consistent and long term framework guaranteeing the future of rural areas and promoting the maintenance and creation of employment.

3.21 The principles are as follows:

- the multi-functionality of agriculture - its varied role over and above the production of foodstuffs. This implies the recognition and encouragement of the range of services provided by farmers
- a multi-sectoral and integrated approach to the rural economy in order to diversify activities, create new sources of income and employment and protect the rural heritage
- flexible aids for rural development, based on subsidiarity and promoting decentralisation, together with consultation at regional, local and partnership level
- transparency in drawing up and managing programs, based on simplified and more accessible legislation

3.22 One of the main innovations in this policy is the method used to improve integration between the different types of intervention, to help ensure smooth and balanced development in all European rural areas. The main features of this development can be defined as follows:

- strengthening the agricultural and forestry sector
- improving the competitiveness of rural areas, and
- preserving the environment and rural heritage

3.23 The European Commission's sustainable agriculture policy centres on the need for agricultural production to meet economic, social and ecological challenges, as well as the concerns of consumers.

3.24 The measures to be adopted must comply with existing environmental legislation, address the general objectives of the Community Environment Policy¹⁷, and meet the provisions of Agenda 2000. These provisions include policy on agricultural markets. Under the common rules on direct support schemes in those markets, member states must lay down environmental requirements they consider to be appropriate and may make payments dependant on compliance with those requirements (cross compliance).

3.25 In addition, the policy on rural development (the "second pillar" of the CAP alongside the markets policy)¹⁸ includes special environmental measures, known as agri-environment measures. These provide for payments for commitments going beyond good agricultural practice. They constitute an important environmental tool, being compulsory in all rural

¹⁷ See: http://europa.eu.int/comm/environment/index_en.htm.

¹⁸ See: http://europa.eu.int/comm/agriculture/rur/index_en.htm.

development programs and based on a conscious, voluntary commitment by farmers to greener agriculture.

3.26 Following on from the Leader I and II initiatives, Leader + is one of the four Community Initiatives implemented under the Structural Funds for the period 2000-2006.

3.27 Leader + is not a simple continuation of the existing Leader II Initiative but will be more ambitious, aiming to encourage and support high quality and integrated strategies for local rural development. It will also put a strong emphasis on co-operation and networking between rural areas.

3.28 Operating since 1991, the Leader initiatives have been generally successful. Challenges to rural areas, such as reforms to the CAP, environmental concerns, globalisation and the rapid spread and use of new technologies, have meant that the objectives of Leader + (which are in place until 2006), emphasise the development of relevant and tailored strategies for each particular rural area.

3.29 The aim of Leader + is to encourage and help rural communities consider the long-term potential of their area by:

- encouraging the implementation of integrated, high-quality, original strategies for sustainable development open to new ways of enhancing the natural and cultural heritage
- reinforcing an economic environment conducive to job creation and
- improving the organisational abilities of communities.

3.30 Leader + is structured around three actions:

- support for strategies of a pilot nature based on bottom-up and horizontal partnerships
- support for inter-territorial and transnational cooperation, and
- networking of all rural areas in the EC and all rural development actors.

Chapter 4 Official Meetings – England

Meeting No. 9, 24 July 2001 - British Trade International's Regional Group, London

- 4.1 The delegation met with Mr Ian Jones, Director, Regional Group, Mr Jim Law, Head of Regional Policy, both from British Trade International, and Ms Diana Morpew, Senior Manager, New South Wales Government Trade and Investment Office. In the meeting the participants discussed the role of British Trade International (BTI) in linking exporters with potential markets. The discussion focussed on rural development and genetically modified food as they relate to export and trade.
- 4.2 Mr Jones provided background on BTI. The organisation was established to improve support for exporters, raise the quality of service, generate additional exports, and enhance the business image of the UK. The following targets were in place during 1999-2000:
- encourage more businesses, especially small to medium enterprises, to take an active and professional approach to business opportunities overseas
 - assist British business to explore these opportunities effectively by producing targeted market information which results in high levels of customer satisfaction
 - increase involvement in infrastructure and energy projects overseas
 - help UK business to gain access to overseas market opportunities
 - enhance the image of Britain as a reliable and innovative supplier of goods and services.
- 4.3 New objectives for BTI, agreed to in February 2000, aim to enhance the competitiveness of Britain's companies through overseas sales and investments by:
- providing firms with high quality, timely and accessible information to help them export and invest overseas
 - helping new, inexperienced and occasional exporters develop their potential export capability and, as a result, their competitiveness
 - helping firms experienced in exporting and investing abroad successfully to exploit trade and investment opportunities overseas
 - providing more focused help in those markets and sectors, identified with private sector experts, as having particularly strong potential for British business
 - creating a cohesive operation, involving other government departments, responsive to exporters and outward investors, providing co-ordinated, cost-effective services to a consistent standard across BTI.

Regional Development Agencies

4.4 Regional Development Agencies (RDAs) were set up in nine English regions in 1999-2000. RDAs have the following statutory purposes:

- further economic development and regeneration
- promote business efficiency, investment and competitiveness
- promote employment
- enhance development and application of skill relevant to employment
- contribute to sustainable development.

4.5 Specific functions of the RDAs include:

- formulation of a regional strategy in relation to their purposes
- regional regeneration
- advance the Government's competitiveness agenda in the regions
- take the lead on regional inward investment
- develop a regional Skills Action Plan to ensure skills training
- match the needs of the labour market
- take a leading role on European funding
- issue statutory and non-statutory guidance to the RDAs on the formulation of their regional strategies.

4.6 Local authorities have a significant stake in the work of the RDA. Four of the thirteen RDA Board Members are drawn from local government, the choice reflecting a balance between type and size of authority, as well as geographical and political spread.¹⁹

4.7 RDAs are accountable to Ministers and Parliament, but there are arrangements in place to ensure that they are responsive to regional views and that they give an account of themselves to those with an interest in their work.

4.8 Each RDA consults its chamber on strategies and other key documents such as the annual report and the corporate plan. Regional Chambers are voluntary groupings of councillors from local authorities in the region and representatives of the various sectors with a stake in the region's economic, social and environmental wellbeing.

¹⁹ For details visit: www.local-regions.dtlr.gov.uk/rda/info/board.htm.

- 4.9** The delegation also discussed the *Competitiveness White Paper*,²⁰ published in December 1998, which identified clusters and networks as an important area in the UK's economic development.
- 4.10** This focus has been taken on board by RDAs that have reflected the importance of clusters in their Regional Economic Strategies.
- 4.11** Following the *Competitiveness White Paper*, Lord Sainsbury, Minister for Science, led a full examination of biotechnology clusters. The report, *Biotechnology Clusters*²¹ made a number of recommendations and set out 10 critical success factors for cluster development:
- strong science base
 - entrepreneurial culture
 - growing company base
 - ability to attract key staff
 - availability of finance
 - premises and infrastructure
 - business support services and large companies in related industries
 - skilled workforce
 - effective networks, and
 - supportive policy environment.
- 4.12** At the end of 1999, the Government altered its approach to clusters policy. Lord Sainsbury was asked to set up a high-level Clusters Policy Steering Group, supported by a Whitehall-wide group of officials. The group has a remit to identify barriers to the development and growth of clusters and to recommend appropriate new policy initiatives to Cabinet.
- 4.13** The report focuses on clusters that already have a significant regional presence. The work of both groups is centred on a map of existing cluster activity in the UK, published in February 2001, and representing the first UK-wide systematic study of existing clusters. It identifies these on the basis of employment data, supported by qualitative information.
- 4.14** The clusters map was published in tandem with the joint Department Of Transport and Industry and Department for Education and Skills White Paper – *Opportunity For All In A*

²⁰ Competitiveness White Paper: Our Competitive Future - Building the Knowledge Driven Economy (Cm 4176), December 1998, can be viewed at www.dti.gov.uk/comp/.

²¹ Lord Sainsbury, *Biotechnology Clusters*, August 1999: <http://www.dti.gov.uk/biotechclusters/>.

*Time Of Change*²². This paper recognises the key role clusters development can have on the regional economy, and encourages RDAs to develop existing and embryonic clusters in their region, building on their natural regional capabilities.

Meeting No. 10, 24 July 2002 - Department of Trade and Industry, London

- 4.15** Mr Paul Steeples, Assistant Director, Regional Policy, Department of Trade and Industry and Ms Diana Morpew, Senior Manager, New South Wales Government Trade and Investment Office, discussed rural development with the delegation.
- 4.16** The Department of Trade and Industry works with a wide range of individuals, groups and organisations, to increase UK productivity and competitiveness. The aim of the Department is to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy.
- 4.17** The Department's high-level objectives are set out in its objectives and Public Service Agreement (PSA) for 2001-2004. They are to promote enterprise, innovation and increased productivity to make the most of the UK's science, engineering and technology, and to develop strong and competitive markets within a regulatory framework that promotes fairness and sustainability.
- 4.18** The Department's PSAs are a commitment to the public on what they can expect for their money and each agreement sets out explicitly which minister is accountable for delivery of targets underpinning that commitment. There are five objectives for this period:
- Objective I: To promote enterprise, innovation and increased productivity
 - improve UK competitiveness by narrowing the productivity gap with the US, France, Germany and Japan over the economic cycle
 - help build an enterprise society in which small firms of all kinds thrive and achieve their potential, with an increase in the number of people considering going into business, an improvement in the overall productivity of small firms, and more enterprise in disadvantaged communities
 - make and keep the UK the best place in the world to trade electronically, as measured by the cost of Internet access and the extent of business to business and business to consumer transactions carried out over e-commerce networks
 - improve the economic performance of all regions measured by the trend in growth of each region's GDP per capita. Joint target with the Department of the Environment, Transport and the Regions
 - Objective II: To make the most of the UK's science, engineering and technology
 - improve the overall international ranking of the UK's science and engineering base, as measured by international measures of quality, cost-effectiveness and relevance

²² DTI and DeFF, *Opportunity For All In A Time Of Change* (Cm5052), February 2001, can be viewed at: www.dti.gov.uk/opportunityforall/pages/index.html.

- increase the level of exploitation of technological knowledge derived from the science and engineering base, as demonstrated by a significant rise in the proportion of innovating businesses citing such sources
- Objective III: To develop strong, competitive markets within a regulatory framework which promotes fairness and sustainability
 - have the most effective competition regime in the OECD, as measured by peer review, and achieve a fairer deal for consumers, as measured by the level of consumer knowledge and understanding of rights and sources of information
 - ensure competitive gas and electricity prices in the lower half of the EU/G7 basket, while achieving security of supply and social and environmental objectives
 - improve the environment and the sustainable use of natural resources, by, among other measures, reducing greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in CO2 emissions by 2010. Joint target with Department of Environment, Transport and the Regions
- Objective IV: Enhanced competitiveness of Britain's companies through overseas sales and investments; and a continuing high level of quality foreign direct investment
 - deliver a measurable improvement in the business performance of Trade Partners UK customers. Joint target with Foreign and Commonwealth Office
 - maintain the UK as the prime location in the EU for foreign direct investment. Joint target with Foreign and Commonwealth Office
- Objective V: Value for money
 - achieve value for money improvements of 2.5% a year across the Department as measured by a set of indicators²³

Meeting No. 11 and No. 12, 24 July 2001 - Lord Jenkin of Roding, Member, Select Committee on Science and Technology and Baroness Diana Maddock, Member, Sub-Committee D, European Union Committee, Parliament House and NSW Government Trade and Investment Office, London

- 4.19** The delegation met with Lord Jenkin of Roding, Member, Select Committee on Science and Technology and with Baroness Diana Maddock, Member, Sub-Committee D of the European Union Committee, House of Lords. Items discussed included Genetically Modified Food Technology, the Australian Technology Showcase, regional locations for services such as call centres and companies more interested in cities than rural areas.
- 4.20** The Select Committee on Science and Technology was established in 1979 to investigate how public policy is, or should be, informed by scientific research and technological

²³ www.dti.gov.uk/expenditureplan/expenditure2001/annex_d/section5.htm.

developments, policy towards scientific and industrial research and developments, and technological issues and innovations. The Committee drafts and submits recommendations to both the Government and to other relevant organisations, professions and industries. Areas of interest to the delegation included public attitudes to scientific and technological developments, in particular genetically modified organisms, and the impact of rapid advances in science and technology.²⁴

4.21 Baroness Maddock, as a Member of the Sub-Committee on Environment, Agriculture, Public Health and Consumer Protection, informed the delegation of how the European Union Committee examines and reports on such issues as the reform of Common Agriculture Policy (CAP) and its impact on rural development in Britain,²⁵ and on the promotion of small and medium enterprises in the EU.²⁶ The remit of the Committee is to scrutinize proposed EU legislation and policy documents in order to gauge their impacts and make recommendations to the government. The scrutiny system rests on an undertaking given by the Government that they will not, except in special circumstances, agree to any proposal in the European Council until it has been cleared by the Committee.²⁷

²⁴ See, for example, the *Report on Science and Technology*: www.parliament.the-stationery-office.co.uk/pa/ld199900/ldselect/ldsctech/38/3801.htm.

²⁵ Report: www.parliament.the-stationery-office.co.uk/pa/ld199899/ldselect/ldcom/61/6101.htm.

²⁶ Twentieth Report, 2 November 1999: www.parliament.the-stationery-office.co.uk/pa/ld199899/ldselect/ldcom/115/11501.htm.

²⁷ Source: www.parliament.the-stationery-office.co.uk (accessed 19/7/02).

Chapter 5 Official Meetings – Ireland

Meeting No. 13, 25 July 2001 - Department of Agriculture, Food and Rural Development, Dublin

- 5.1** On arrival in Dublin, the delegation met with three representatives of the Department of Agriculture, Food and Rural Development: Ms Mona Mahoney, Assistant Principal, Rural Development Division 1, Mr Evan Breen, Administrative Officer, Rural Development Division, and Mr Liam Fitzgerald, Principal, Rural Development Division II.
- 5.2** The Government Rural Development strategy was developed from a 1999 White Paper, *Ensuring the Future - A Strategy for Rural Development in Ireland - A White Paper on Rural Development*²⁸. The White Paper outlines the strategy that the Government will put in place to pursue rural development, including:
- a focus on rural development policy through appropriate institutional mechanisms, providing direction and coherence for policy. A ‘lead’ department – ‘Rural Development’ has been created, to provide this policy focus and coordinate regional operations, complemented by a National Rural Development Forum and a Rural Development Fund
 - a regional approach to development, pursued through regional planning, infrastructure investment, and the provision of essential public services
 - service and infrastructure provision, with a focus on information and communications technology, transport, housing, child and health care, and information on government services
 - sustainable economic development – focussing on the strengths of the rural economy, while simultaneously facilitating wider economic development through investment in infrastructure and service provision
 - human resources development, with a focus on education and training, as well as encouraging local rural communities to plan and contribute to the development of their own communities
 - a focus on poverty and social exclusion, through the principles contained within the National Anti-Poverty Strategy.
- 5.3** These strategies are underpinned by a respect for the heritage of rural areas and the environment, so that the implementation of strategies is undertaken in a manner that protects and promotes the national culture and pursues economic growth and other development policies within a sustainable framework.

²⁸ Department of Agriculture and Food, *Ensuring the Future - A Strategy for Rural Development in Ireland - A White Paper on Rural Development*, www.irlgov.ie/daff/Publicat/wpaper/contents.htm (accessed 8/7/02).

- 5.4** The Leader + program (discussed at 2.74 and 2.91) complements other Programs under the Irish EU Support Framework for the years 2000-2006.
- 5.5** The objectives of Leader + include encouraging and facilitating sustainable and integrated development by supporting Local Action Groups (LAGs) to implement innovative business plans which these groups themselves have drawn up for the development of their areas. This is the bottom up approach of Leader +.
- 5.6** Leader + is being implemented to complement the overall objectives of the EU Rural Development Policy (refer to point 2.91 above).
- 5.7** The 22 LAGs selected will present plans that are sustainable, of a pilot nature and centred on a strong theme typical of the identity of the area concerned. The strategies in the plans must include one of the following priority themes:
- use of new technologies to make the products and services of rural areas more competitive
 - improve the quality of life in rural areas
 - add value to local products, in particular by facilitating access to markets for small production units via collective actions
 - make the best use of natural and cultural resources including enhancing the value of sites of EU interest selected under Natura 2000.²⁹

Meeting No. 14, 25 July 2001 - Department of Enterprise, Trade and Employment, Dublin

- 5.8** The delegation met with the Assistant Secretary of the Department of Enterprise, Trade and Employment, Mr Ronald Long. The discussion centred on the mandate of the Department of Enterprise Trade and Employment to implement Government policy in the areas of:
- development of enterprise
 - employment promotion
 - trade development
 - protection of workers and
 - regulation of businesses.

²⁹ Natura 2000 is a key feature of the EU's nature conservation policy. Designated sites across the Community are maintained and monitored to ensure biodiversity is maintained or enhanced (Source: <http://europa.eu.int/comm/environment/nature/brochure-en.pdf>, accessed 1/8/02).

- 5.9** A large element of the work of the Department arises from Ireland's membership of a number of international organisations, particularly the European Union and the World Trade Organisation. The policy and operational decisions of these organisations influence virtually all of the Department's activities, especially employment, trade, industrial policy, competition, consumer affairs, employment rights, company law, insurance, occupational safety and health and industrial relations. The Department plays an active role in the development of EU and WTO policies in these areas to ensure that Ireland's interests are protected.
- 5.10** In addition, the Department is the National Authority for the European Social Fund. The fund currently provides some £119 million funding annually to programs and projects run by public, private and community bodies.
- 5.11** The Department also has policy responsibility for a number of state-sponsored bodies, including IDA Ireland and Enterprise Ireland.
- 5.12** The Department developed a Strategy Statement 2001-2003, which was formulated against the backdrop of a booming Irish economy. Relevant to the formulation of the strategy were the following factors:
- Gross National Product growth averages above 8% per annum, with growth set to remain around 6% up till 2003. This slight slowdown attributable to supply side constraints such as labour shortages
 - employment exhibits 5% growth over recent years, with unemployment dropping from 14.7% in 1994 to 3.6% in December 2000
 - Irish merchandise exports grew in the period 1994-99 at an annual real growth rate of 15.9%, more than double OECD average
 - Social Partnership: what began as a response to spiralling unemployment rates and looming public insolvency has now evolved to a point where the aim is to achieve further success by securing a balance between competitiveness, improved take-home pay, social cohesion, infrastructure development and the protection of the environment.
- 5.13** The Strategy Statement 2001-2003 encapsulates five goals:
- promote a competitive enterprise environment which will foster enterprise development and meet the emerging challenges and opportunities of an increasingly knowledge-based and globalised economy
 - promote quality employment, meet the labour supply and skill needs of the economy, foster social inclusion, protect the welfare of workers, facilitate industrial peace and promote social policy as a productive factor
 - foster the well-being of consumers by promoting competition in all sectors of the economy and by such other measures as necessary to ensure consumers derive the maximum benefit from the operation of the market

- effect a business regulatory system which is at the forefront of international standards, commands public confidence and international respect
- ensure delivery of business goals to the highest standards through enhanced organisational capability, responsiveness and quality customer care, underpinned by a program of continuous staff development.

5.14 The meeting also raised the issue of genetically modified organism (GMO) technology and other aspects of modern biotechnology. Reference was made to the 2000 Report of the Inter-Departmental Group on Modern Biotechnology, which recommended the following:

- Ireland should take a positive but precautionary approach to GM issues at EU level and in international forums which acknowledges the potential benefits of modern biotechnology, while maintaining a fundamental commitment to human safety and environmental sustainability
- trials of GM crops should continue subject to compliance with EU legislation and with the conditions laid down by the Environmental Protection Agency
- the Department of Agriculture, Food and Rural Development should, in consultation with the Environmental Protection Agency, draw up detailed protocols governing the management of GM crops in field trials
- the Department of Agriculture, Food and Rural Development should, in co-operation with other bodies, devise a program for the managed development of GM crops to provide for a phased, monitored approach to their progression to full commercial cultivation
- the State Laboratory of Ireland should be designated as the national reference laboratory for the detection of GM materials in foods and other products
- in the interests of transparency and public awareness, regulatory bodies should, as a matter of standard practice, make available the fullest possible level of information about applications for release or marketing approvals of GMOs
- a national biotechnology ethics committee should be established under the auspices of the Royal Irish Academy to consider the ethical issues raised by biotechnology in an informed and dispassionate way
- independent generic research should be conducted in this country into all aspects of GMOs, having regard to our distinctive climatic and geological conditions
- new ways of informing the public about biotechnology, its existing and potential benefits, and the possible risks to health and the environment should be devised and deployed. There should be a central Government website to provide a broad range of relevant, up-to-date information in a manner readily accessible to the public

- new means of promoting public consultation and involvement in debates about biotechnology should be developed and piloted
- the Inter-Departmental Group should be placed on a permanent footing to ensure that the Government has an integrated view of the full range of relevant issues, and the Group should be expanded to include representatives of the Environmental Protection Agency, the Food Safety Promotion Board, Teagasc (the Irish Agriculture and Food Development Authority, and the Department of Arts, Heritage, Gaeltacht and the Islands.

Meeting No. 15, 25 July 2001 - Enterprise Ireland, Dublin

- 5.15** The delegation met with Dr Michael Brougham, Manager, Strategy Department, National Informatics Directorate, Enterprise Ireland.
- 5.16** Established in July 1998, Enterprise Ireland is a developmental agency catering specifically for indigenous industry. The agency is focussed on developing tailored solutions that will assist small businesses in manufacturing and internationally traded services.
- 5.17** As part of its three year strategy 1999-2001, Enterprise Ireland aimed to simplify the number and range of its schemes and programs and rationalise its financial products. The focus of attention has switched from that of building capacity within companies to that of building capability.
- 5.18** Enterprise Ireland provides its clients with a one-stop-shop service, where support and advice is available relating directly to the key strategic functions of firms:
- strategy assessment and formulation
 - research, development and design
 - production and operations
 - marketing
 - human resources and
 - finance.
- 5.19** Its mandate is to focus on providing solutions to the development problems faced by growth-orientated firms and to deliver these supports in an integrated 'client driven' fashion, particularly to firms that are market led and export driven.

Approach to regional enterprise

- 5.20** In recognition of imbalances in economic development between various regions in Ireland, Enterprise Ireland aims to create a regional environment in which competitive capability is developed and sustained within companies, high-growth start-up businesses is encouraged, and innovation flourishes.

- 5.21** Enterprise Ireland works with regional stakeholders and with education facilities to improve the regional business climate for their clients and to influence the conditions in which growth in each region is established and sustained.
- 5.22** Enterprise Ireland's approach is based on four pillars:
- Pillar 1 – developing and sustaining existing businesses in each region
 - Pillar 2 – enhancing the environment for business in each region
 - Pillar 3 – identifying and encouraging new start-up companies with strong growth potential and
 - Pillar 4 – identifying new opportunities for economic development in the regions, including investments by expansion-minded Dublin-based companies.

Meeting No. 16, 26 July 2001 – Department of Health and Children and Food Safety Authority of Ireland, Dublin

- 5.23** The committee met with Ms Maeve O'Brian, Assistant Principal, Food Unit, Mr Sean Connell, Executive Officer, both of the Department of Health and Children, and Dr Martine Brennan, Technical Executive, Food and Safety Authority of Ireland (FSAI). The discussion centred on the regulation and control of the release of genetically modified food feed and the role of the Department of Health and Children and the FSAI within the broader scope of both the Irish government and the European Union.
- 5.24** The Food Unit of the Department of Health and Children develops and co-ordinates policy relating to food safety and related issues. In particular, the unit administers:
- food hygiene regulations
 - food law (food composition, food additives, food safety)
 - laboratory services related to food hygiene regulations and general food law
 - establishment of the Food Safety Authority of Ireland
 - Nutrition Advisory Group
 - European Union scientific co-operation on issues related to food.³⁰
- 5.25** The Department of Health and Children is involved in the development of policy relating to the sale and marketing of genetically modified food. The FSAI is responsible for the regulation of these activities.

³⁰ Source: www.doh.ie/aboutus/sections/food.html (accessed 21/6/02).

- 5.26** The FSAI is also responsible for the protection of consumer health through the regulation of the production, consumption, distribution and promotion of foods to maintain standards of food hygiene and safety.
- 5.27** Both organisations are involved in the GMO and Novel Foods³¹ Sub-Committee, which was established to advise the FSAI. Regulation of other genetically modified organisms, for example, animal feed, falls to the Department of Agriculture. These departments have close links with the Department of Enterprise, Trade and Employment, which is the key body overseeing the regulation of genetically modified food and livestock feed. At present, the European Union is revising its legislation relating to novel foods, including genetically modified foods, so that the role and functions of the agencies regulating the production, distribution and consumption of these and related products may change.

Meeting No. 17, 26 July 2001 – Enterprise Ireland, Investment and Development Agency, Industrial Park, Waterford

- 5.28** A site visit to the Waterford Industrial Park was undertaken by the delegation, guided by representatives of Enterprise Ireland, Mr Brian Quinlan, Software & International Services, and Dr Michael Brougham, Manager, Strategy Department, National Informatics Directorate.
- 5.29** Enterprise Ireland's "TTS (Internationally Traded Services) 2007" project plans to upgrade the domestic software industry so that it is not merely duplicating and localising software production, but actually originating new software.³² The function of Enterprise Ireland is to promote Irish companies both domestically and internationally, to promote the development of new enterprises and to provide grants and other assistance to companies based in the republic, and to provide a link between foreign-based companies and domestic enterprises and industries.³³
- 5.30** Development of the Waterford Industrial Park was completed in 2000. Large-scale process industry has been targeted for the site, including pharmaceuticals and information and telecommunications technology.

Meeting No. 18, 30 July 2001 - Professor Roy Green, National University of Ireland, Galway

- 5.31** The delegation met with Roy Green, Professor of Management, School of Business and Economics, National University of Ireland. Professor Green discussed the factors behind the Irish economic revival that has occurred in the last decade.

³¹ Novel foods are defined as those that had not been introduced into the European Community market prior to 1987, and include foods that have undergone genetic modification.

³² Source: www.enterprise-ireland.com/services-details.asp (accessed 15/7/02).

³³ Source: www.enterprise-ireland.com/english.asp (accessed 15/7/02).

5.32 Professor Green stated that in the mid 1980s Ireland was an ‘economic basket case’ with national debt higher than GDP, 20 % unemployment, inflation was at 17% and 45,000 people were leaving Ireland net per annum.³⁴

5.33 The following were seen by Professor Green as major factors behind Ireland’s ability to turn its economy around:

- EU structural and cohesion funding
- taxation
- social partnership
- investment in skills and education
- Irish Development Agency
- Enterprise Ireland
- financial services market

EU structural and cohesion funding

5.34 Ireland was in receipt of significant structural funding from the European Union throughout the 1990s, reaching a peak of approximately 4% in 1996. Funding is now tapering off as Ireland is no longer an Objective 1 country, that is, its national income was less than 75% of the EU average. Presently average Irish national income levels are close to the EU average. Ireland has been divided into two funding sectors: the Border, Midlands, and Western sector maintains Objective 1 status and consequently receives a larger portion of the EU funds directed towards Ireland.

Taxation

5.35 Ireland’s ability to attract businesses and investment has been enhanced by having a low tax regime. Professor Green suggests that Ireland has:

just about got away with it, but whether anyone else could do anything like that in the future is an open question.³⁵

5.36 This seems to suggest that it was a fortuitous piece of timing and circumstances on Ireland’s behalf that, firstly, no country in a similar position at the time chose to follow the low tax regime path and secondly, that it was able to get away with the low tax regime, because of its size and economic difficulties, without the censure of the European Council of Ministers.

³⁴ Transcript of meeting, 30 July 2001.

³⁵ Transcript of meeting, 30 July 2001.

Social Partnership

- 5.37 The 'Social Partnership' is an initiative that Ireland introduced which is similar to Australia's Prices and Income Accord of the 1980s. This initiative, however, involves a broader section of the community, including churches, welfare groups, and community organisations. The social partnership has been driven by business and the unions and is seen as a major factor in the ability of government to have the confidence to follow its macro-economic stability program and globalise its economy.

Investment in skills and education

- 5.38 The decision to invest in the skilling and education of the people has its roots back in the 1960s when the civil service decided to modernise the Irish education system.
- 5.39 Professor Green also sees significance in the fact that Ireland has historically been able to attract its best and brightest into the civil service which, as a result, has been able to take the lead in decisions to invest in education.
- 5.40 The focus on skills and education has continued through the National Development Plan (NDP). The NDP will, over the period 2000-2006, allocate over \$4 billion to investment in research in high-level education through its seven universities.
- 5.41 The NDP is providing tranche payments of between 300 to 400 million pounds for universities to set up centres of excellence, such as co-operative research centres and centres for innovation and structural change. Another aspect of the \$4 billion investment is Science Foundation Ireland, which aims to attract leaders and researchers in particular fields such as ICT and biotechnology to Ireland.

Irish Development Agency

- 5.42 The Irish Development Agency has been attracting foreign investment into Ireland since the 1950s. Professor Green informed the delegation that Ireland had been globalising, but doing so in the wrong areas. The low end of manufacturing was not a particular strength of the Irish. Additionally, Ireland had a very well trained graduate population in areas such as computer science and engineering who were forced to emigrate. Ireland had the skills, but was not attracting the growth and investment to retain those skills.
- 5.43 With its investment in education, the IDA in the 1980s decided to target areas such as information and communications technology (ICT), pharmaceuticals and agrifood, which they believed would experience significant global growth over the next ten to fifteen years.
- 5.44 Ireland also decided to join the Euro zone (unlike Great Britain) and was able to market itself as the only English-speaking member of the Euro zone. This helped attract large corporations, particular those from the USA, to locate to Ireland as their European base. Today, for example, 20 of the top 25 software companies in the world, and all the leading ICT electronics companies, have set up operations in Ireland.

Enterprise Ireland

- 5.45** Enterprise Ireland, as distinct from the IDA, is a leading player in Ireland's industry policy. See the briefing from Meeting 15 above for information regarding Enterprise Ireland's role and functions.

Financial services market

- 5.46** The development of a sophisticated financial market in Dublin has assisted efforts to attract the venture capital required to invest in infrastructure. Such factors have been influential in transforming the Irish economy from that of a developing economy in the 1980s to a post-modern economy 15 years later. Other issues raised during the meeting included:

Rural Ireland

- 5.47** Despite the tremendous gains made by Ireland and its economy of the last ten to fifteen years, the country is still marked by great inequality with some areas missing out completely on the 'Irish economic miracle.'
- 5.48** Professor Green states that foreign investment and economic development is focussing growth and economic activity on Dublin and regional centres like Galway, with the smaller centres missing out. The only way the Government is preventing this trend is through a large investment of time and money to ensure that some smaller centres such as Sligo get their share of economic activity.
- 5.49** One potentially positive development that may address this is the development of 'Webworks' – part of Enterprise Ireland's ITS 2007 plan. Webworks will include facilities similar to business parks, but with a much higher level of technological sophistication, broadband access, and high-level telecommunications infrastructure which will form networks with other Webworks in other rural areas.

Clusters

- 5.50** The theoretical work on clusters by Michael Porter³⁶, concentrated on the traditional concept of clusters, defined by internal domestic competition and the ability to develop an international export base home country via competition. The Irish ICT sector focuses on what it calls 'boundary-less clusters' which recognise that the technology sector is part of the global economy. ICT firms in Ireland may compete with each other but competition is not the focus. For example, Galway has become a cluster of (mainly American) medical technology companies, but also has supply chains of local manufacturers. Now Galway produces 80% of Europe's medical devices in terms of value amounts.

³⁶ See, for example, Michael Porter, *Competitive Advantage of Nations*, Macmillan, London, 1990; Porter, M, *On Competition*, Harvard Business School Press, 1998; Porter, M, "Clusters and the New Economics of Competition", *Harvard Business Review*, November-December 1998, p78.

Meeting No. 19, 31 July 2001 – Australian Embassy, Dublin

- 5.51 Members met with the Hon Bob Halverson OBE, Australian Ambassador to Ireland and the Holy See, and Mr David Hammond, First Secretary, Australian Embassy, and Mission to Ireland.
- 5.52 The Ambassador raised the following issues impacting on the development and progress of Ireland:
- the Irish economy has been slowing dramatically, for example, in the housing sector, there has been a reduction in both rentals and sales, and there have been job cuts by major employers in the information and communications industry, for example, Dell, Motorola, Intel and Gateway
 - the level of infrastructure is inadequate to meet the needs of future population growth and development, which is particularly evident in Dublin
 - Ireland has a relatively young population, where the average age is between 15 and 25.
- 5.53 The Ambassador suggested that the Government, through organisations like Enterprise Ireland, needs to reinvent strategies for encouraging both domestic and international industries to stay in Ireland and maintaining or increasing the level of employment.

Meeting No. 20, 31 July 2001 – Parliament of Ireland, Dublin

- 5.54 The delegation met with Deputy Tony Killeen, Chair, Working Group of Committee Chairmen, Deputy John Browne, Deputy Batt O’Keefe, Chair, Joint Committee on Health and Children, Patricia Doran, Committee Clerk.
- 5.55 Deputy Tony Killeen conducted a tour of the parliament for the delegation, followed by an informal meeting. In the meeting the delegation discussed various issues of interest addressed throughout the delegation’s meetings, in particular focusing on the insights from Professor Green and the visit to Waterford Industrial Park.

Appendix 1

Transcripts of Meetings

Attended by the Hon. Tony Kelly
MLC and the Hon. Dr Brian Pezzutti
RFD MLC

17 July to 30 July 2001

Meeting No. 2: Tuesday, 17 July 2001 **Assopiastrelle** Sassuolo, Italy

Also in attendance:

Mr Cesare Bertini, International Promotion, Assopiastrelle
Mr Andrea Serri, Press Office, Assopiastrelle

Mr BERTINI: So you should get some background as part of the ground and the way ahead and what do you think is the way ahead, as you see it.

Mr SERRI: I tried to get some figures about this sector and if you do not understand you stop me in each moment if my exhibition is not clear or if you have some other views or information you need. The first is this is part of the international ceramic tile industry. Last year, we had a total equal to 5.22 billions of euro, and with that increase are 7.4 per cent due to an increase both in the Italian market, the domestic market, and foreign sales. In foreign sales it is equal to 70 per cent of our product sales and this is the reason for why our foreign market is so important for the financial obligations. In terms of square metres, we have 632 billion of square metres remaining. It is of 4.2 per cent that in comparison with the demand in '99 and to have an idea what is this total production it is the equal to political road larger just a little bit, just less than 16 metres around the world.

The Hon. Dr PEZZUTTI: So, the size of the road that we just travelled on.

Mr SERRI: Yeah, and this size is wider in area in the sense that we have an increase of our quota.

The Hon. TONY KELLY: For six years.

The Hon. Dr PEZZUTTI: From the parent.

Mr SERRI: Here you have the historical series about the factory production. As you can see mainly in evidence, in 15 years the Italian ceramic tile manufacturer was able to double the total planning production. We had during the last 15 years three different moments of development. The first is in the second part of the '80s, and this increase in total production was due to a different organisation of the work. It took us from a day work, from a worker on which an hour and the rest hour were firm, work 24 hour a day, seven days a week, and each day of a year, and this enabled us to ensure a lower cost of production and useful for improving the competitiveness in the international and internal market.

The second moment, the second period, is after the devaluation of the Italian lire after 1992, and here you have, you can see, the three years on each of the Italian co-operative production. It was an increase from just more than 400 million square metres to more than 550 million square metres. And the third period is the view of the so-called aerial page on which the increase in production is real work, of course, instead of the fear of devaluation but it is still and this is for us very important because thanks to these figures we are able to confirm that the Italian ceramic tiles is a product which is sold in Italy and also abroad not only to value the presence of the devaluation of the lire but also for other important reasons, like, for example—

The Hon. Dr PEZZUTTI: That's only production in Italy itself?

Mr SERRI: Yes.

The Hon. Dr PEZZUTTI: It's not your companies elsewhere?

Mr SERRI: Yeah. This is the Italian production made by Italian ceramic tiles. Now we have—only two or three enterprises have yet still an international production. Usually this is a typical Italian, a typical traditional Italian sector in which the exporter is the main part of the prices in the international field. We have only three or four examples of the creation of joint venture or plant all over the world, and these examples are on one hand the which have plants in Spain and in Germany and in France and the United States.

The second important group is the group, which has a plant in Portugal and in Sweden, manufacturing plants, and there is a third group which is a growing group, which has only one plant in Tennessee in the United States of America.

Usually we don't have an international presence driven by manufacturing plants. Our sector now is changing in a way in the sense that we cling to many internationalisation in the sense that we create, for example, white houses all over the world in order to improve the service to the market, but the steps of the manufacture, the manufacturing steps, is now far from concrete. We have some exceptions as we will tell you about. Now is exceptions.

The increase of production is enabled thanks to an improvement of investment which is present each year. We have a percentage of investment that is each year equal to a range from 6 to 10 per cent of the total This is for us, from the manufacturers, for a large number of things on the one hand because we have the up-to-date technology in our enterprises and thanks to this factor this ensure us the lower cost of production in comparison with all over the world. Keep in mind that, for example, the ceramic tile industry now produces in more than 18 countries all over the world and, for example, in Indonesia we have an important manufacturer and, of course, the cost of labour, raw materials and energy in Indonesia—this is an example, but the Chinese example is another one—is lower than in the Italian market. So if we are not able to improve the productivity of our plant, we have no chance to win the competition.

The second important thing is that under this improvement of investment there is a clear strategy dedicated to the innovation in technology but also in the product. We have the whole, the new production during the last 40 years in from—it was growing in Europe and from Italy it grow all over the world. During the '70s we have produced the so-called single-fire manufacture and during the '90s we have great growth in the world and the importance of investment somewhere, which is now the up-to-date production in skill not only for the residence use but for so-called international funds and this is for us a new frontier of our industry. About the sales, we think the ceramic tiles sector is a typical sector dedicated to the foreign market.

Until 1992 the percentage is half in the national market and half in the foreign market. After the Italian Government's protestations the percentage of exports achieved 70 per cent of the total sales. These figures show you the percentage where we export this kind of ceramic tile. First of all, we are very, very happy that the Italian ceramic tile is a so-called world product in the sense that thanks to very little change. Possibly we are able to sell our product all over the world. Now the technology allows us to make these changes with no high cost and so we are able to change sizes, to change the superficial surfaces, the effect and different kind of—and thanks to this little changing they are sold all over the world.

Europe, of course, is our nearest and historical market, and thanks to this factor we are able to export 70 per cent of our product for export. If we show Europe, eastern and western Europe, we show that the eastern Europe is more or less the 15 per cent and the western Europe, which is more the local country, it is just more than half of the total sales product exported.

Another important area is the Americas, mainly today North America. In North America in the United States the Italian ceramic tiles industry are the market leader. We cover in the US internal consumption the percentage of 30 per cent in comparison with the American manufacturers, which percentage is equal to 26 per cent.

Then we are present in Russia, in Africa and also in Australia and Portugal. About the presence in Australia because, of course, the characteristics of the country that you are interested in, we saw that the consumption of ceramic tiles, the total consumption of ceramic tiles, is equal to 22 million square metres, of which came from the imports all over the world is 19 million square metres and of this total imported into Australia the part of the Italian ceramic tile, the Italian industry, is just 10 million square metres. More or less we have the historical sales from 1990 through to the last year and our presence rise from 7.1 million square metres from 1990 to 10 million of the last year.

The Hon. Dr PEZZUTTI: Because of the Olympics.

Mr SERRI: We have about the imports. Italy have a percentage of half, 50 per cent, and the second our competitor is Spain, which presently is equal to 20 per cent. Then we have other lower percentages of from the Far East or Turkey or other countries. So you can see that our main area is West Germany, the United States of America, France. This is our main frame where we manufacture this production.

The ceramic tile industry in Italy but also all over the world was mainly in the district here. Here in Sassuolo you see most of the world ceramic tile industry all over the world in terms of growth and value, growth of co-operatives centres, and in the district of Sassuolo. . . . in the province of Modena-Reggio is present in 80 per cent of the total Italian ceramic tiles production.

We have another important ceramic district in the middle of which is the in Firenze, one in which there is a production of 9.14 per cent and also the last part of the Italian production was made just all over the world in Tuscany and this is the cotto district in Campania where is in Italy a district and also in Milano.

The Italian ceramic tiles industry is made mainly in the district here. In fact, if you see the Spanish production you can see that it is mainly in the Castellone one, the Castellone district. If you see the Chinese production, you can see that here made in a large number of districts, for Shen-wan. In Brazil the district is the Santa Catarina-Santa district in the south of Brazil. I don't know the reason but this is the reality. The making of ceramic tiles is useful or is done in a district area.

Here we have a graph of the share from our companies and our employees. You can see that the main presence of Italian ceramic tiles is, of course, in the Sassuolo district and the characteristics of the Sassuolo district enterprise is to have the largest dimension, the largest in comparison with other Italian ceramic tile manufacturers. Then we have the rest of the , the district of and the rest of the country.

The Hon. TONY KELLY: You're more efficient here, then, are you?

Mr SERRI: Yeah.

The Hon. TONY KELLY: Because you produce 80 per cent of the tiles with 60 per cent of the employees.

Mr SERRI: Yeah. Here we have the largest enterprises, mainly characterised by the group of enterprises in which we try to specialise. The plant from different kinds of production on one hand and on the other hand to improve the relation with the distribution system all over the world. In the rest of Italy we have 100 companies with more than 5,000 employees. You have very small, little, enterprises mainly dedicated to the not craftsman product but with the production made with the use of hand-made of men and women more and more large than here in which you have a great big use of technology in order to have industrial production.

The Hon. Dr PEZZUTTI: Where do you get clay? Is that the basis why

Mr SERRI: Yeah.

The Hon. Dr PEZZUTTI: Because the clay from the area around Florence is quite different from here. It is a different product.

Mr SERRI: Historically, the clay came from here, from our hill, and thanks to this clay we made the so-called for the tiles, but now this kind of clay have some little organism inside and it is not so good as the so-called white clay. The white clay now is the larger kind of production, kind of tile, because of course most of the work is made by white clay, some kind of single-fire. They are day-to-day more resistant to and is made by white clay. And this kind of clay plants, they came from mainly—they came from a number of areas. It is not present in this area. They came from Sardinia in a very thin part but they came, for example, from France, from West Germany, from Turkey and some zirconiferous came from also in Australia. For us—

The Hon. Dr PEZZUTTI: Where is that? In what part of Australia is that?

The Hon. TONY KELLY: Queensland, isn't it?

Mr SERRI: I believe north New South Wales.

The Hon. Dr PEZZUTTI: New South Wales, yes, north, yeah. It's the zirconium stuff, isn't it?

The Hon. TONY KELLY: Oh, up Inverell way, up Cobar.

The Hon. Dr PEZZUTTI: So you're importing all your clay. There's a lot of transport costs in all of that, isn't there?

Mr SERRI: Yeah.

The Hon. Dr PEZZUTTI: Because the Turks have been making tiles for millions of years.

Mr SERRI: Of course, the body of a ceramic tiles is a mixture of different kind of clay, of course, and in some cases we have the part is changing and the uses of clay is very different from a type of ecology in comparison with the other one but the cost of transportation is very high, and for this reason I give you information that you can see in the slide. Assopiastrelle created a couple of years ago a society which is a society dedicated to logistics and transportation. This is a particular kind of society of logistics because this society is not the owner of no trucks, no ship, no aircraft, and its main target, main mission, is to improve the transportation in order to reduce the cost.

Our strategy is very clear. To explain is not very clear to you in the day-to-day production. We have the higher cost of production all over Italy and we are able to achieve and to defend the leadership there leadership only if you are able to put on the market innovation, to put on the market new product, new technology, new uses of ceramic tiles. They top-of-the-range product is a product which is very technical, chemical and the higher technical and productive basis, and thanks to this we need to use the raw materials, the best raw materials wherever these raw materials is present. So if the raw material is very interesting and it came from the United States, we are able to, or we do, import this kind of raw material from the United States. If some kind of clays came from Australia, we will try and use them or there is a different people, you know, or they do it. We are able to import this kind of clay with the lower cost but we need this kind of product.

The Hon. Dr PEZZUTTI: From Australia—from Sydney to here is about as far as you can go from Rome, isn't it? From Rome to Sydney is about as far away—

The Hon. TONY KELLY: There's nowhere else, nowhere is further.

The Hon. Dr PEZZUTTI: No, there's nothing further. No other capital city is further than away from Rome than Sydney, so to bring clay from New South Wales is about as far as you are ever going to carry clay. It's very interesting that you would bother.

Mr BERTINI: Yeah, but, you see, we don't have any other way out. I mean, in the village we have to pay to the companies whatever it cost because the heart of the system is the CSO, so here we are meant, or in Padua we are able to mix up other things and a different kind of product which is so far able to cover and pay back all the cost and to have, like, still have a margin.

The Hon. TONY KELLY: A good reinvestment opportunity.

Mr BERTINI: Yes.

The Hon. Dr PEZZUTTI: I'm surprised you just don't go where the—I mean, energy costs in Australia are vastly lower. The clay costs wouldn't be greatly different. Why wouldn't you simply be—the families here, why wouldn't they be manufacturing in other places?

The Hon. TONY KELLY: Back in Australia.

Mr BERTINI: It's a matter of ecology. This is my personal explanation, meaning no more than three manufacturers have to manufacture on sites abroad, so it's sort of like a—

The Hon. Dr PEZZUTTI: The reason that we have come here is that the comparative advantage you offer is because of the intense competition locally and the instant passage of—if there's innovation it spreads very quickly here, whereas if we have a factory in Sydney it takes a bit longer and therefore you miss the rise, the push-up.

Mr SERRI: In a large number of factories it is important to make, choosing the choice to make an internationalisational firm driven by plants. The first is the large end of the market. So if we have the market in not only the internal market but also in the area of that country, they are able to do it. For example, when we talk about the North American market, we think of the United States but we think in a better way than that. So under the level of consumption is not useful to have a plant in a country, and this is one of the important things.

A market, a domestic market, of 10 million or 20 million square metres is not a large market. The market—for example, the German market is a market of 90 million square metres. The United States of America market is a market of 200 million square metres. The French market is a market of 100 million square metres. The Portuguese market is a market of 54 million square metres. So this is the first barrier to the The second barrier about the manufacturer is about to create a plant, a factory, not a warehouse, is the character of ceramic tiles, what we saw all over the world. We also saw that the same

plant that is sold in Sassuolo is also sold in the district the same, but if you look at the outlook, the percentage of the users of the plant in the Sassuolo area is more than 90 per cent.

In the same plant, the same, is a productivity less than 50 per cent. This is the part that the cost per unit for each product is, of course, higher in the Chinese market or at the sixth level of Italy. And so this is the two main things. Of course, a larger market, to widen the market in the sense that it would create an agreement among the different governments in the north, in the area. For example, the Asian agreement is an interesting agreement because it allows to enlarge the area of consumption. Also because this is a free trade area, and thanks to this free trade area the total market is larger than that one. This is interesting or could be the interesting thing about to create a plant. So this is an important thing.

The third factor is the management area of decision. It is important to find an Italian manager who fly or linking Australia, or even the United States, or even Portugal, or in other countries in order to manage the firm's factory, and this is not so easy to find. In some cases, the general manager of—for example, the general manager of the American market, which is now the fourth manufacturer of ceramic tiles in the United States, is Mr, which is an Italian, not an Italian-American, but he is Italian, which mean that his career in and that factor there. And to become big in the organisation with a soft kind of. For example, if you to buy a house, to open an office with the assistance of, for example, architect and designer and something like this to improve the knowledge of the production and to enlarge the market, and the second step is, of course, to create the plant, but I believe that now or next year or for the year more or less I am not sure that any kind of Italian ceramic tile manufacturers are planning an opening of the activity to make plants, manufacturing plants, all over the world.

The Hon. Dr PEZZUTTI: But who made the tiles for the Sydney Opera House? They were Swedish, I think.

The Hon. TONY KELLY: Yeah, Swedish, wasn't it?

The Hon. Dr PEZZUTTI: I'm pretty sure I knew that because it's important to know who the architect is. We've got the Piano building now in Sydney and it's full of Italian tiles. They specify a design with the specification, and that's where the sales come.

The Hon. TONY KELLY: What percentage of the world market have you got? Do you know what the size of the world market is?

Mr BERTINI: Yeah, yeah, yeah. Well, it's actually 40 per cent but that is the international trade, not out of the world production because that is the data which we don't consider there. So out of the international trade we cover 40 per cent. If you think of it nationally, the percentage is lower.

Mr SERRI: Twenty.

The Hon. Dr PEZZUTTI: Twenty!

Mr BERTINI: There isn't in Chinese—

The Hon. TONY KELLY: It's too high, yeah, because China would have a huge internal production.

Mr BERTINI: Exactly.

The Hon. Dr PEZZUTTI: But they go into all sorts of products, some of which are high class, some are tremendous. We've got roof tiles down here, and that's pretty low-grade sort of technology, isn't it?

Mr BERTINI: Are you referring to the Chinese?

The Hon. Dr PEZZUTTI: No, the roof tiles here we saw.

Mr BERTINI: I'm not sure whether—

The Hon. Dr PEZZUTTI: The tiles for the roof.

Mr BERTINI: Ah, yeah, yeah.

The Hon. Dr PEZZUTTI: I mean, that's the sort of thing that you wouldn't be exporting too many of those, would you?

Mr BERTINI: No.

The Hon. Dr PEZZUTTI: It's local consumption.

Mr BERTINI: Yeah, it's pretty much locally. But China and Russia have just 6 billion square metres, but when you consider the international trade and consider China, it doesn't really export much and, in any case, the quality of Chinese exports is nothing to be compared with ours, with the Spanish, and so—

The Hon. Dr PEZZUTTI: You have to be careful, though. I mean, their clothing products were very poor originally but now they are very, very good. I mean, I was hard pressed to find a fine wool jumper, you know, a straightforward jumper and of the products in Melbourne, the high-quality products with big names, big Italian names, were all made in China. The only one I found was a Boss, which was made in Melbourne out of merino, and that was the same product as the Chinese because it has to be but at \$195 it's 195,000 lire. I mean, that was the only one and yet all of the others were high-quality Australian wool, didn't have Italian brand names, good design, good finish. Ten years ago it was all crap. Now, it's very good. So they won't take long. If they put their mind to it, they don't have to have too many of their companies do well, and then they have been making tiles in China for a long time too.

Mr BERTINI: Yeah, we know that and, in fact, we regard China as the main issue for the next decade or two.

The Hon. Dr PEZZUTTI: But, again, as China's economy develops the internal market will soak up most of that for a long, long time. In fact, you will have opportunities in China and India now that you wouldn't have had 10 years ago because in India there are now lots of wealthy people who are building wealthy houses and public buildings of some substance, whereas in China it is now—I went to China in '83 and all of the Italian tiles in the White Swan were made in Italy. They wouldn't do that now because they are building a new hotel, a major hotel, every couple of minutes, so, I mean, that's a local economic boom internally. They don't have to worry about the external market with 3 billion of them. I mean, if every house has a dunny put into it—you know, a toilet—with a tiled floor, that's a huge change from having the outhouse and the little hole in the wall. So I think the tile market in China, or they would hard pressed to match their own needs, wouldn't they?

Mr BERTINI: Yeah.

The Hon. Dr PEZZUTTI: Do they export anything? Some of their satellites.

Mr BERTINI: Yeah, in Italy now there might be very minor things coming from China which we are not—as I say, we are very low but officially there is no imports from China.

Mr SERRI: There is an interesting figure.

The Hon. Dr PEZZUTTI: Sorry, how much of your internal sales come from Spain in Italy—Spanish tiles used in Italy?

Mr SERRI: We haven't much of those.

The Hon. Dr PEZZUTTI: How many tiles do you import into Italy?

Mr SERRI: Not much in the sense that the percentage of Italian ceramic tiles sold in the Italian market is more than 93 per cent.

The Hon. Dr PEZZUTTI: So 7 per cent is imported.

The Hon. TONY KELLY: From somewhere.

Mr SERRI: And the same situation is in Spain in the sense that more than 90 per cent of Spanish consumption is made by the Spanish manufacturers. In some cases we have Italy and Spain are closed markets

The Hon. Dr PEZZUTTI: And their charts would look the same for their exports too, would they, in terms of their product into Germany and the rest of Europe?

Mr SERRI: If we show the export of the tiles in Spain all over the world we can see that, for example, Italy is very strong in the European market. For example, in Germany we export 90 million square metres and Spain not more than a few million square metres. In France the percentage is more or less.

The Hon. TONY KELLY: What's the difference? Are they lower quality or higher quality?

Mr SERRI: No.

The Hon. TONY KELLY: Just the style.

Mr SERRI: Just the relation with—

The Hon. Dr PEZZUTTI: It's all here.

Mr SERRI: Yeah. But, for example, in the United States we have 30 per cent of the United States market consumption and Spain achieve only 15 per cent of the market. The price of selling the free on board of the '90s is of \$19,000 or square metres from the Italian ceramic tiles and the Spanish one is just more than \$6 per square metres but nevertheless this difference which depends on the customs is a higher price. We improve our quotas of market and the Spanish one is lower.

The Hon. Dr PEZZUTTI: Because it's here, your main reason for choosing, you pay more for Italian. Is that reflected in the Italian, sorry, the European mix of the middle class in America and will that—

The Hon. TONY KELLY: Just the Italian.

The Hon. Dr PEZZUTTI: No, it's not just—it's European. Will that change with the huge increase in the, you know, the Spanish speaking? In New York, for example, on my last trip, for the first time I noticed it's a bilingual city. You know, you go into a shop, you don't speak English. They only speak Spanish. Will that change? As they become more and more of the middle class, will that change the thought process, and what are you doing about that?

Mr SERRI: Well, of course, the extent of the American market, you know, also the Spanish language is wider used than it was before but the same association with the Spanish factor says that when we started to operate in the US market we have . . . , which is not a brand, which is not a dimension of product, but it is for some service in the market there. This comes from Sassuolo to new from Catalonia in Spain to Munich and Obernau. In Germany it is the same but how are we 15 per cent of the market and the Spanish one less than 20 How the reason? The reason is that we are able to show our ceramic tiles. We are able to deliver our ceramic tiles in three working days.

The Hon. TONY KELLY: From here?

The Hon. Dr PEZZUTTI: That's the logistics.

Mr SERRI: From here.

The Hon. TONY KELLY: You get a new suitcase, do you?

Mr SERRI: If you think that now the sales of ceramic tiles is the just-in-time method because, for example, if your wife go to the shop and say, "Okay, this is for me it's okay and now I want to do an effort, I want to do remodelling my bath and that, so I want 24.5 square metres. Please, I want this in a couple of days." All over the world no-one have, no retailer have every one of ours. They want ours. The service is good by competitors, and if only you are able to deliver in a very short time you keep the market on your end.

The Hon. Dr PEZZUTTI: But the other reason for that, of course, is that the cost of making a tile, the least number of tiles that you make that don't sell is also a huge advantage, so if you sell what you make, then you make a profit; if you sell and you store it in a warehouse and have a sale or they get thrown away, then you have lost all of the money that went into making the tile. That's why I don't think the idea of having warehouses is going to be a great success.

Mr SERRI: For example, in the United States the use of warehouses is made by enterprises who try to—they put in their warehouses around five or six products which are tiles and only the product that you have agreed to use, and in this case they are able to improve. The presence of a warehouse for use in that market is very important to give a very short, a very fast answer to the market on an end, and on the other end to have a relation with a different channel of distribution

because, for example, you have the whole centre of the United States. It's sort of this great structure of the distribution of the product, and in that case then you buy a large number of containers for each one shop, and in this case you don't need a warehouse in that market, but if you wanted to, but if you have a shop of the granite product, a very high product, the price very high, and you use the distribution channel—for example, the small retailer—you need a warehouse in order to have a service. It is difficult to find only one way to approach the market but the solution is, of course, to have a more different approach in the same market or, of course, in different markets.

The Hon. TONY KELLY: That's pretty important too, because you probably find a lot that they order the 24.5 square metres and then find out they need 26 square metres. Say they are halfway through the bathroom or three-quarters of the way through and suddenly they want another half a square metre in the next two days or the next day.

The Hon. Dr PEZZUTTI: But that would mean that—this is all logistics, of course, but if you have a shipping time to America of one week and from Sassuolo to the west coast, how long? From Sassuolo here to landing on the

Mr SERRI: Maybe a couple of weeks.

The Hon. Dr PEZZUTTI: Two weeks. So you would need to have a warehouse with two weeks' supply that you could top up.

The Hon. TONY KELLY: Of your common tiles.

The Hon. Dr PEZZUTTI: Well, no. Even of some of the things that people want, you know, the premium product, you need two weeks supply. That really is good guesswork by the people who are marketing.

The Hon. TONY KELLY: That's what just-in-time is all about.

The Hon. Dr PEZZUTTI: Because good marketing is—but the other thing is that it's driven the colours that are used more to the middle range, hasn't it? I mean, the variety of colours changes with that production. As you become more efficient, you tell the market what it really wants to have.

Mr BERTINI: Yeah. That's sometimes is also a problem. The less, say, sophisticated market, or—well, we have them here. The of changing patterns too quickly and once we have them in production the foreign market is not—sometimes it will not try to sell everything right away whereas if they cannot guarantee logistics you might have a situation where the market is wanting something which for us is completely out of production. That is the case for Japan, for instance. But I want to go back to your question regarding your, how you say, ethnic groups and their influence on production and sales. That, of course, was the case for the Italian or Spanish production back to, say, 20 years ago, when the most important market, the markets were large communities, Spanish or Italian. Now, we think that that is not the point any longer. Of course, the issue of nationalities still matter but fortunately not as much as it was the case a couple of years ago.

The Hon. Dr PEZZUTTI: I mean, if you go to the homes of many of my Italian friends in Sydney, the old people have got the house and the whole thing is a ceramic tile from the front door to the back door.

The Hon. TONY KELLY: That's right.

The Hon. Dr PEZZUTTI: I mean, up the walls, down the corridor, in the bathroom, in the bedrooms, out on the front verandah, on the fence, ceramic tiles everywhere.

The Hon. TONY KELLY: Even in the pot plants.

The Hon. Dr PEZZUTTI: If you go to their children, and their children have got a huge variety. They might have vastly more ceramics in cost in their house because they have put some features of high-quality ceramics, but you will find carpet and wood and other products being used. So that changes with time. But I'm just wondering about—but, still, they would never dream of buying a tile that wasn't Italian because their parents would shoot them.

Mr BERTINI: Sure, sure.

The Hon. Dr PEZZUTTI: But with the Spanish, the huge changes that are happening in American ethnicity—I mean, the Spanish-speaking Americans will be 40 per cent in 2015. That's a huge change from, what—10 years ago it was 5 per cent. Forty per cent Spanish-speaking Americans. That's going to be—that's a big market, and they are all going to be new—new

Americans, if you like, or one generation. They won't have the habits of the previous, current, American market. So how do you track that sort of thing? I mean, with hundreds of families, companies, small companies, all doing their own little thing, all working hard to try and get the market to buy their tile?

Mr BERTINI: Well, we have—

The Hon. Dr PEZZUTTI: Because it's not a big—the association as an association. It is not a big conglomerate because there's a whole lot of individual companies competing fiercely to do something. How do they get the head of steam to watch big trends like that?

Mr BERTINI: Well, it's hard to give a demonstration that, in fact, the association, being an association, is not just the sample. The final outcome of all the different entrepreneurs pulling together is much, much more. For instance, when we talk about statistics, a market analysis is something which we do either directly or with the We have two employees, we have two consultants which work only for us in New York. Last week we link so frequently with the Italian Trade Commission, which has offices all over the world—in Sydney—

The Hon. Dr PEZZUTTI: A very strong office in Sydney.

Mr BERTINI: Okay. And we are very I have been visiting, well, most of them around the world, so it's by way of co-operating with the Italian commission, with the Ministry for Trade, we try to keep track of what are the main changes in the market. What we do—and then we really are very much active and promotion because we know that the small companies cannot afford by any means to do anything abroad, so what we try to do is, like, to compensate totally the small companies. Well, of course, the big groups can do their own marketing activity but we have to do it for the industry itself, you know lots of small companies. And so, for instance, we organise, like, for seminars and conferences around the world for architects. That is our major target.

Once we collect the names of the attendees who might, you know, turn into potential customers, then we will spread the database over there of our companies, so we try to provide our associated members with services and information and data as much as we can by linking with—well, as I say, they are in Rome, the Foreign Trade Ministry—with our brother associations around the world, with our embassies, okay. So it has kind of meant that it's a net that we are trying to put in place to reach people. It is clearly a question of knowledge of the main market.

The Hon. Dr PEZZUTTI: There's a funny because selling to the architects, of all of the studies in the building game, architects are the least technical, so how do you communicate the technical advantage of this tile versus that tile to an architect who is more interested in the aesthetics and usability, you know, the flow, the movement of a house or building, and the very important technical advantages you have made in terms of insulation or heat transfer or heat reflection or light reflection in terms of floors and so on? How do you transmit that stuff to, basically, a non-technical organisation of architects?

Mr SERRI: What we do also in the sense that we try to that depends on sometimes its full of design, full of the need to be a force in production, but it is also important that when you use ceramic tiles in the fabric of the floor in, for example, offices or a bank or something like this, you need that product to have some specific articles. If, for example, a man working on your floor hardly likes, for example, you have many problems, so we have to join both of them. Also they are set in their way but also the technical in the sense and in terms of the strategy of the consumer, and we sell them this way.

Mr BERTINI: Plus in the UK what you are trying to sell is now our product made in Italy, so we don't have—I mean, I personally organise seminars as I work for this, I work for last week. So a seminar is made up with the of one Italian architect, one local architect and one technician, say, the one that can provide the knowledge of the product, and then the architects have to show, say, the Italian architects to show to the local audience how Italian tiles can be used in many different ways but the kind of architectural will stay so far away from the very technical parts of it. But the bottom line is that you try to do what the fishing industry did, like, the salmon industry.

The Hon. Dr PEZZUTTI: It's all here.

Mr BERTINI: Yeah.

The Hon. Dr PEZZUTTI: We noticed on the train, didn't we, that the tiles looked shiny but they weren't in any way slippery?

The Hon. TONY KELLY: At the train station, yeah.

The Hon. Dr PEZZUTTI: At the train station in Bologna—in Rome.

The Hon. TONY KELLY: In Rome or wherever it was.

The Hon. Dr PEZZUTTI: Just the styling that the—but they looked very shiny and yet not at all slippery. Great. Fascinating.

Mr BERTINI: Well, of course, the industry itself is working very hard on the technical side. I mean, 40 years technical So we or we weren't ready to sell the We were very much confident of selling something which is like which has like a good content in it, not just good quality.

The Hon. Dr PEZZUTTI: How do you make sure behind you selling that these hundred or 200 different companies are living up to the dream? How do you make sure that you transmit what you find and, you know, what the market wants and the Indians, the companies behind you, have got the same—

Mr SERRI: Well, our is mainly to break the ice in the sense that, for example, in Italy when they first got architecture, in some cases we have these kind of professions that doesn't use ceramic tiles in large buildings because they don't know what is also this kind of possibility of use of the product and so the first step is to change this hidden demand in the consciousness that ceramic tiles is at the same level or about technical up to a level of, for example, natural marble and stone. Now we are at the beginning with architects all over the world and you say, "Okay, you have to cover this floor. What kind of material will you use? wood, hardboard, stone, natural stone?" And this is This is not now the first day, the first choice. The first is that they keep in mind. This is for us the main target. Our target is to improve the knowledge of Italian ceramic tiles, ceramic tiles and Italian, of course, because we prove the fairness of our enterprises in order to put in the mind of this architect or the of the branch of the building construction industry the fact that the ceramic tile is a useful product for their uses, and in this case we are able to enlarge the market, to enlarge the market because we saw that all over the world the marble and granite market—

The Hon. Dr PEZZUTTI: No, sorry, I was really asking the question how do you keep the competition amongst the individual companies here making their own individual products somehow under check so that you have got a central way forward for the association to present to the world? How do you present Sassuolo to the world whilst behind you you have got this big war going on? How do you do that? That's the question.

Mr BERTINI: Well, as you can imagine, politics, internal politics, takes so much of the time, so much of our activity—maybe 40 per cent regardless of my activity, executive activity, because it gives them always to balance big companies' interests with medium and small-size companies in Sassuolo. This is a big issue. We have regular meetings with entrepreneurs. As I say, we have, like, six internal commissions, each commission made by entrepreneurs, a commission for different subjects. So there is one commission dealing with the marketing and promotional activity. The idea is to have, like, a feedback from the entrepreneur. What should be the way ahead? The commissions are made—it's made of, like, roughly 30 members, picked among small, medium and large-size companies, so sort of like a of the world outside, and during these meetings we discuss—myself and my committee—we propose our marketing program and then I wait for feedback from the program so, of course, there you see some struggle, of course, because, say, big companies might be much more ready to take on new markets whereas small ones don't really want us to go to—I don't know—say, Kazakhstan, because they will never be able to sell anything there but the big companies, yes, they eventually encourage me to find ways to take on this. So for us as again internal politics takes much time.

The Hon. Dr PEZZUTTI: How many of the tile companies here belong to the association?

Mr BERTINI: Well, 99 per cent. Just one, one or two, say, just were part of the association but then they pulled out for macro—

The Hon. TONY KELLY: For politics.

Mr BERTINI: Yes.

The Hon. Dr PEZZUTTI: So, I mean, even if you look at dairy farmers, they all have an idea how you can sell more milk, and every time a dairy company has put on a marketing thing, you know, the milkman sleeping with the housewife or

whatever, half of them will resign from the association because that advertising campaign is no good, and if you want to be state of the art, you want to be out there, but you have got all these organisations behind you that you represent, size, product difference. I mean, you have got to get a message, a very simple message to the architects or to the buyer to make them want to buy Sassuolo tiles, whether they are bathroom or hallway or wall or swimming pool or

Mr BERTINI: I want to give you an example. Okay. This is the back cover of the magazine which you have and this is our information on our company.

The Hon. TONY KELLY: That's good.

Mr BERTINI: So this is not the bag; these are tiles. So the idea is to link strictly with fashion, and this concept would say, every woman should to decide.

The Hon. TONY KELLY: Over the men.

Mr BERTINI: Of course.

The Hon. Dr PEZZUTTI: Well, they choose the house. Mostly, the nurses in hospitals design the floors because if the nurses don't like the floor and the architect was in the one hospital he never ever gets into another hospital. You know, it's just one of those things. The nurses says, "We must get a tile, but not that one," you know. It's a women's world.

Mr BERTINI: Absolutely.

The Hon. Dr PEZZUTTI: The fact that all the nurses are women.

Mr BERTINI: I know that, in many cases in the world, especially in this business.

The Hon. TONY KELLY: Do you have much competition? You don't—you have only got ceramic tiles; you don't have marble tiles. One of your competitors is marble, marble tiles?

Mr SERRI: Because next to porcelain and stoneware we have the same porcelain and stoneware that is very similar to the marble. Now, we are able to make the same superficial view of the marble at the cost of, in some cases, 30 per cent less than the natural stone with a technician, with the technical characteristic of the product higher in comparison with the marble. If the lemon, if the top of the lemon is in the marble here, the marble absorb. Also in stoneware it doesn't absorb or a percentage of the absorption less than the marble, and all over the world we have The marble manufacturer is in general a small-size enterprise. In Italy the average, the size of a medium marble manufacturer is not more than 20 employees and most of them is dedicated to the production field and not—

The Hon. TONY KELLY: And not marketing.

Mr SERRI: And not in marketing or any commercial one. Ceramic tiles now have a very different solution. We have half of our employees even in the manufacturers but the second half is dedicated to the marketing, the service and the commercial one. So the Italian marble association of manufacturers is afraid of Italian ceramic tiles because the product for the commercial forces for our international strength.

The Hon. Dr PEZZUTTI: And they are sold in the same shop, aren't they?

Mr SERRI: Yeah.

The Hon. Dr PEZZUTTI: If you go to any shop, the marble's there and the tiles are there.

Mr SERRI: In North America last year there is an exhibition dedicated to marble, which name is Stone and the last year one of the Italian entrepreneurs, one of the not a member of Australia, ask to have a look to make an exhibition. They're porcelain and stoneware very similar to the marble. The second year, this year, this exhibition disallow this Italian ceramic tile to put in exhibition of their product. They were too similar.

The Hon. Dr PEZZUTTI: So all he does is he goes across the road and has it in the hotel next door. It's simple. I mean, that sort of thing is always self-defeating.

Mr SERRI: The granite and marble worldwide market is just less than one—than half-billion square metres.

The Hon. TONY KELLY: With that presentation, is there a hard copy of that? That's not in here, is it, the details?

Mr SERRI: No, but by e-mail.

The Hon. TONY KELLY: It would be good if you could e-mail it.

The Hon. Dr PEZZUTTI: Again, with the tiling, I mean, once you put granite in, you don't see too many—once you put a granite bench in, for example, you never change it, but the maintenance of it to keep it a shiny or a surface is not easy.

The Hon. TONY KELLY: I've got marble tiles in my bathroom. That's happened did it for us, but somebody dropped a bottle of champagne on it or something like this and all the gloss has gone off it and you can't get it back.

The Hon. Dr PEZZUTTI: Well, I mean, this is the problem at Parliament House. Parliament House has a very large beautiful foyer area of Australian marble, gorgeous stuff, a lovely colour, and they can't have drinks at the reception area around the fountain, which is a gorgeous place for exhibitions and for launches and all this, so you have to go from the launch, you have to go somewhere else where there's carpet—

The Hon. TONY KELLY: To have a drink.

The Hon. Dr PEZZUTTI: —to have a drink, and there's good reason because of the cost of keeping it looking nice if you drop champagne or white wine or red wine.

The Hon. TONY KELLY: Lemon, you said, as well.

The Hon. Dr PEZZUTTI: Lemon's terrible. Lemon's got too much acid in it because that's basically a base, but some of the granites are a bit better than that.

The Hon. TONY KELLY: That's interesting that you've got tiles now that are almost identical but more durable and 33 cheaper.

The Hon. Dr PEZZUTTI: And, of course, the other thing is that if you sell marble, marble is a lot thicker. The transport costs for marble are much thicker and the costs of—and, of course, the breakages, of course, too, or the wastage when you get a builder. Unless you get a good builder they are hopeless.

The Hon. TONY KELLY: Have you found—you said a lot of your exports were earned with the floating of your currency. Was the EU, the European Union, was that an advantage as well? Did that kick along or didn't it make any difference?

Mr BERTINI: Well, you know, the euro has been devaluating against the dollar ever since it was introduced. So in that sense—

The Hon. Dr PEZZUTTI: When you become part of the euro it does.

Mr BERTINI: So there was not much of a change. I mean, the lire has been devaluating ever since and the euro has been be the same.

The Hon. Dr PEZZUTTI: When the single currency comes in, though, it's going to be very difficult, isn't it?

Mr BERTINI: Yeah, but, I mean, maybe not because we already consider Europe as our domestic market.

The Hon. Dr PEZZUTTI: No, the euro. I mean, when the lire gets locked to the euro and you can't devalue.

Mr BERTINI: No, no, but that is already the case.

The Hon. TONY KELLY: It's already the case, is it?

Mr BERTINI: It stop one and a half years ago, so that is really okay. That's what I'm saying. As far as the euro itself it doesn't make any difference. It's already because we cannot do anything on that side of devaluation, the side. The euro vis-a-vis the dollar has been decreasing its value since its introduction. So, again, that was an advantage, of course.

The Hon. TONY KELLY: Yep, yep.

Mr BERTINI: Now we don't know because now the world economy is really in such a shaky situation we cannot really say.

The Hon. Dr PEZZUTTI: Because the trouble is Europe is not a single sort of country and, say, if Italy had a different base for its exports and a different base for its sales, than, say, Portugal or France or Germany.

Mr SERRI: This is the problem but more or less it's the same situation when you watch, for example, the Germany, you can see that the Bavarian area is very rich in comparison with the Hamburg area or even the Ruhr area. I believe that the Commonwealth of Europe is very useful for the Italian around Italy and the Italian enterprises from Padua but the push is to do a big change in the way of matching Europe in the sense that the end of the devaluation came, of course, at the end of the short stoppage from We have that. For example, a couple of days ago the Italian Minister of Treasury says that we have a deficit of, a huge deficit in balance. The same declaration during the lire period was very hard from the change and also from the Treasury bonds. Now doesn't happen anything, and this is very interesting because—

The Hon. TONY KELLY: That's funny.

Mr SERRI:—a good way to do the business is to have the field clear at the beginning of your budgeting or your plan, and the euro allowed you to do this. On the other hand, the euro transform 11 or 20 or 50 or a couple of, or in a few years 30 different countries in the same market, in the market in which the rule you have to play is the same.

The Hon. Dr PEZZUTTI: Of course, externally, Europe is a collective—the deficits and the overseas borrowings or whatever are then diluted across all of the currencies—isn't it?

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: In other words, it's not just Italy that bears the burden of the debt. It goes to the Germans and everywhere else but the euro's value is impacted by everybody's, but Italy has got a huge trading surplus with Australia, huge, and up until some time ago Agip owned a hell of a lot of our coal, so therefore there was a whole lot of sneaky accounting. No, it's the way in which the corporate structures work but, you know, the way in which you move money and the export value, does it go to the parent company or to the company in the country and things like that.

Mr SERRI: From the historical view the big problem in Italy Italy, not Europe, have wars or peace with the oil countries because, of course, we don't have oil and so this time we have a great problem with oil peoples, all oil countries, in comparison with a very good situation over the rest of the countries.

The Hon. Dr PEZZUTTI: But Agip is owned by Italy and it's a big part of the business. Agip itself is one of the biggest traders. But the Government keeps the money, do they?

Mr BERTINI: Well, no, I can't recall whether the Government, the shares which the Government in Agip. Agip Bennett, that's the parent company, the oil and energy.

Mr SERRI: And Agip is present on the stock markets of Milan and in the New York Stock Exchange, and the majority of the Italian state have more than 51 per cent, but they want to lower the percentage. They introduce a so-called green share—the gold share, sorry, the gold share, which is a share that is made in the state and in some strategical way the Government to say yes and agree or not agree, and the characteristic of this gold share is that the Government with the one share in some cases if somebody chooses some strategic choice can say, "Okay, I'm agreed" or "I'm not agreed."

The Hon. TONY KELLY: So they have got a power of veto even though they have only got one share.

Mr SERRI: Yes, one only share.

The Hon. TONY KELLY: So that way they can sell off 60 per cent if they like and just keep that one.

Mr BERTINI: That's still a big issue over Europe. So many of the formerly state-owned companies have this gold share.

The Hon. TONY KELLY: Gold share.

Mr BERTINI: And the European Commission is really burying its head in the sand.

Mr SERRI: So we because the European Commission is not free about it, of course. It stinks. The last events about the energy struggle in Italy reached the ADF, which is the market, the French market leader, wants to buy an Italian, wants to buy Monteriso, which is one of the largest energy supplier of Italy. It makes some reaction.

The Hon. TONY KELLY: We'd better not tell Egan about it—our Treasurer—about the gold share because he would certainly be interested in the history of it.

The Hon. Dr PEZZUTTI: Gold shares have not got much future, especially in a place like Europe. I mean, they might work in Patagonia but they won't work in Europe. At the end of the day the Government can't control something by having 1 per cent because nobody will invest. I mean, if that persists, then the external capital which you need to come in and stay will fly.

The Hon. TONY KELLY: In Australia if you've got 20 per cent of a company you've got to

The Hon. Dr PEZZUTTI: You've lost control or you have got control of it unless somebody has got 70 per cent. If you have got 20 and they have got 75, you just get voted out all the time but if you have got 20 per cent, generally 22 per cent gives you three members of the board and this gives you a controlling interest. But I still can't work out how come Sassuolo got so important.

The Hon. TONY KELLY: Yeah. How did you develop it? How did you get big?

The Hon. Dr PEZZUTTI: It just didn't happen. It hasn't been like this for a hundred years. This is a relatively recent event.

Mr BERTINI: Well, yeah, we start, like, in the '50s. The resources were here. Clay—clay mines were here.

The Hon. Dr PEZZUTTI: Part of Zamzed.

Mr BERTINI: Some kind of culture connected to pottery was here. If you have time to visit our small museums on the ground floor you will see that pottery is round the sixteenth and seventeenth century. So, as I say, no Then you can see that the developed in Italy in the '50s and that was really what prompted the big development in the industry. And the first one, the first district, the first area which benefited from this sharp development was Sassuolo because of the reason I told you, like, the clay mines were here and the culture of the pottery was here. Then, of course, I think the local mentality, which is not Italian. It's much more German, like, work, work, work 24 hours a day with all the family. Okay, the family—this is something which has to be on the line. I mean, all the businesses here started as a family-run business and it is always the case that with a family-run business all the members really put in so many efforts.

The Hon. TONY KELLY: Work hard.

Mr BERTINI: They work much harder than in any other, and that is still the case. Only two of the Italian firms went public on the stock market, and that happened, like, two years ago, the first one.

The Hon. TONY KELLY: So only two out of all of them.

Mr BERTINI: Yeah.

The Hon. Dr PEZZUTTI: That's because they have been very careful in building up their capital by retaining 10 per cent for R and D but say, for example, a new production machine arrives that's going to cost \$25 million American. That would put some of the companies at a competitive disadvantage because they wouldn't have that sort of background, but they could always share, couldn't they? That's where you have families marrying.

Mr BERTINI: This is the trend now, like, merging.

Mr SERRI: On the other hand, we have also still a very interesting cash flow. The mechanical industry have a kinetic result of 2 or 3 per cent. Our EBIT is very, very high. This is an industry that has still a good income.

The Hon. Dr PEZZUTTI: But, again, without it being a public company, gives you much more freedom to make mistakes as well as to make bold initiatives, which it can't do, and that depends very much on when the father of the family steps down and lets the kids run it and the generational change happens. It is very difficult for family companies because the old fellow still runs it when he's 90. You know, it's very difficult.

Mr SERRI: Very. We took a new step in the sense that we begin getting the entrepreneur, the entrepreneur who is the best mechanic in the factory, the best seller, the best buyer, and the entrepreneur can do anything. Then they enlarge the dimension of the enterprise—the rule of internationalisation—and they need to improve that which is inefficient in all the machines. They need the presence of an agent. In some cases this is a threat to management in the strictest sense of usually known. I work in the area of service. I pay for it and I give you the budget and I leave you free of doing anything and at the end of the year I want to know what you do and what is your results, but now we have also a mixed model in which the entrepreneur is still present. He has also some manager but in some cases this manager have a strict link with this person, so this person is still the owner and is singly the great manager of the enterprise. I believe that with the second generation of entrepreneurs on the one hand and to improve the presence all over the world we have the creation of a management class able to manage all over the world enterprises, warehouses, and to play in a group of enterprises larger than in the past.

The Hon. TONY KELLY: But they are all part of the family still, that management class that come up from the floor.

Mr SERRI: Yes.

The Hon. TONY KELLY: How did you get to the stage in your organisation and how did you get them all—you said 40 per cent of your time is spent on the internal politics. Now, how did you get over that to actually form your association to start with?

Mr BERTINI: I was not here then.

The Hon. TONY KELLY: Because that would have been very difficult.

Mr BERTINI: Yeah, and, in fact, two of the most important ones not part of this organisation because they pulled out so I will say the strength which pulled together the people then after a few years and a few decades really pulled them apart so the idea was that to—well, maybe, you have to know that in this region there is an idea which goes across every industry, every family. It's the idea of doing things together. The co-operative movement in Italy was born in this area, so they have some big companies which are really in the form of co-operatives and not companies. So that is a good way to score for everything which is made in the region. Now, when you translate this idea into business, then you see that it is better in the sense that—

The Hon. TONY KELLY: Natural.

Mr BERTINI: It's a natural—I wasn't going to say triangle. It's like—

The Hon. TONY KELLY: The next step.

The Hon. Dr PEZZUTTI: But all these places go back before Victor Emmanuel. They were all city states and they were very wedded to the local bit of dirt worse than the local Aborigines in New South Wales, and this is, you know, why of the are so different from the rest of Italy and Venice is different and they have been warring like this for centuries so there are local identities. Cesare, you are an outsider; you are not from here, are you?

Mr BERTINI: I'm from Ravenna, which is from the same region but it's on the coast, on the Adriatic coast

The Hon. Dr PEZZUTTI: So you need to bring somebody in to be the umpire.

Mr BERTINI: Yeah. Ravenna was the site of one of the two Roman fleets and the sometimes in Ravenna in a couple of cities of the Roman Empire. So the idea behind the huge development of Sassuolo, I will say lies right in the fact that the mentality was there and the idea of running these together was prevailing over the idea of doing business separately, although now you see these two different trends whereby Assopiastrelle is very much important, very much regarded as an important association by the entrepreneurs, but at the same time the competition among entrepreneurs is really very fierce.

Mr SERRI: It is in the same situation of in some ways in the sense that, for example, you know, that Italian ceramic tiles is full of different sizes, different colours, differences, so no one manufacturer, never the biggest one, are able to produce every kind of size or product or kind of products and so you can see that there is a situation which can provide it, for example, ask to him if he are able to produce this particular kind of product that my firm, my factory, are not able to produce because I am product dedicated to other friends and to produce the ceramic tile, this kind of ceramic tile that I want and to put upon the back with my imprint.

The Hon. TONY KELLY: And distribute.

Mr SERRI: And so I'm able to do it and you, for example, ask me the same things, so you have that on the production here that you have in some cases, of course, not a co-operation or better agreement in order to get co-operation, but when we look at the same two enterprises on the end by the market point of view, I or my manager, my market, in the offices struggle with outcome problems, and this is very interesting because when we are present in the market in some way we are not only, we are not 25, 250 different enterprises but we are able to have a presence there like it, Italian ceramic tiles with 250 different brands, different kind of firms but are able to have the wider supply of product because if I ask him to create for me a product, I want that this kind of product is just a little bit different from the other product that he produce, and if we—

The Hon. Dr PEZZUTTI: You design it. You don't want him to then flog it, compete with you for a product that you have invented because it's your intellectual property. But, again, how do you maintain the quality across an association? Say you are selling Sassuolo. Right? You are selling here. You have got 250 different companies, some of whom will be just fantastic in terms of their R and D, their quality, scientific; some of them will go through little patches where they are not quite so good. What will you do then?

Mr BERTINI: I will say we at this association we don't have here at all the weak group with the production.

The Hon. Dr PEZZUTTI: One bad apple in a case of 250 can give you a bad reputation.

Mr BERTINI: Yeah, but you—

The Hon. Dr PEZZUTTI: Delivery or product.

Mr BERTINI: Yes, but usually the bad apples, fortunately, we don't have much outside Sassuolo and if they perform—if somebody performs badly, what might happen is that it might be bought out by somebody else. They might perform financial problems or they might not, you know, be very well acquainted with things, so given that kind of competition so I didn't go to market right away. Now, of course, in that case some entrepreneurs who did not really perform well outside Italy and they are the on the life of the industry.

The Hon. Dr PEZZUTTI: Some of them more from the association than others.

Mr BERTINI: I will say on average although our is to promote the industry but on average who benefits the most are, like, medium-size and almost large-size companies because if I do a promotion in Sydney, which I did last November, I cannot really see where the small-size company benefited from my activity because, in any case, they will not have the strength, the capacity, the resources to penetrate.

The Hon. Dr PEZZUTTI: In Sydney. I know I got to the marketers in Sydney who sell and it depends on who their friend is. If somebody comes in, "Oh, no, the tile you want is this. This fellow here just makes it. A small company makes these beautiful things."

Mr BERTINI: Of course.

The Hon. Dr PEZZUTTI: This is where the individual association or attachment, brother's brother, brother's wife, is part of the selling process, isn't it?

Mr BERTINI: Absolutely, absolutely. Well, of course, we have very small size companies which are very much profitable. The reason is they are so much specialising. They work in a niche market, a very specific niche market. They are the leader again and the size doesn't matter, but if you are, like, a non-specialised producer, well, then, again, I personally wouldn't regard that manufacturer as nothing more than like a provider of services and goods to bigger men meaning because usually

that unspecialised provider, manufacturer, doesn't have a brand name at all and, so, he relies on poor markets, I mean, like recently developed countries or in favour of other companies which have a much better marketing and commercial structure and so on.

The Hon. TONY KELLY: The company size again of, say, 20 employees up to 500?

Mr BERTINI: No, no. Well, in terms of employees, I don't know. I mean, we can but I can tell you in terms of turnover. There we can down, say, in dollars. A million dollars would be, like, the lowest turnover and it could be \$7 or \$10 million up to \$800 million

The Hon. Dr PEZZUTTI: That would tell you about the size of the work force.

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: What about in terms of fluxes? I mean, the companies aren't huge by international standards but say you get an order for doing something, like, you know, the huge tiling business in Sydney around the Olympics. Is there a co-operation to produce? You know, one fellow is a front man or the front entrepreneur, if you like, and he gets his mates to come along and help him on a particular job? I mean, you don't want a company. If I'm building something I don't want to deal with four different tile companies; I want to deal with one. Do they subcontract out amongst themselves?

Mr BERTINI: I'm not quite sure whether I have this information.

The Hon. Dr PEZZUTTI: If you buy—say you might want to get a tile that I really like that's made by Company A here in Sassuolo—

Mr BERTINI: And usually, I mean, if you are—

The Hon. TONY KELLY: So you see that in somebody who

Mr BERTINI: It depends on the customer as well I will say to give an extent meaning just the and invested and just start it, like, a couple of years ago, so even for us before—not for us because we are in the industry but names, very well-recognised brand names are not so many. So if you come from Australia you don't know anything or not much. You just know—

The Hon. TONY KELLY: The brand is made in Italy.

Mr BERTINI: Yes, and you maybe know that product that you just mentioned.

The Hon. Dr PEZZUTTI: I've got a new tile. I'll make it.

Mr BERTINI: You just go to the main producer and he will be able to deliver whatever you want. Then if you are inside the market, inside the industry, then you know the tricks, you know the person, then, of course, you might even get a much better price by playing your cards. I mean, you might say, okay, you might go to a small producer or a medium-size producer and he would know that he could not possibly deliver whatever you want so then will, in fact, as I say, contract out part of your request. In that case maybe you can bargain the price. He would be eager to supply that. Your request would help him to fill in some capacity. But you should go to a large producer. It would be better.

So my experience tells me that if you cancel an order it might depend who the buyer is. If you don't know anything it just doesn't work and you get the work back. If you are in the building industry you might get an advantage out of knowing the local situation, local producer because one problem connected to—not a problem but the consequences connected to competition is the fact that every year there are manufacturers which go out of business and so you as a buyer might back out of there. Sometimes it happens.

The Hon. TONY KELLY: How are you funded? Is it on the 250-odd companies? Are you funded on turnover, a percentage of their turnover, your association?

The Hon. Dr PEZZUTTI: How do you get the money to operate? How do you get this place?

Mr BERTINI: The environment to get into the association?

The Hon. TONY KELLY: Yes, and how much do they pay you each year to be members.

Mr BERTINI: Oh, that depends on the turnover.

The Hon. TONY KELLY: Yeah, on the turnover.

Mr BERTINI: Absolutely. So the total number of employees but many turnover.

The Hon. TONY KELLY: So, therefore the big ones obviously—

Mr BERTINI: Pay more than the others.

The Hon. TONY KELLY: —pay more than and feel that they should get a bit more from you.

Mr BERTINI: Well, they're on more roads.

The Hon. Dr PEZZUTTI: Is there an embargo on members of the family working in the association?

Mr BERTINI: No.

Mr SERRI: No, this is an heirloom. We don't want fifty things. Of course, the largest enterprises pay more than the lower but the growth of the larger is—this is not the right relation.

The Hon. TONY KELLY: So it's watered down a little bit

Mr SERRI: Exactly. So we have a lowering of they forecast.

The Hon. TONY KELLY: They are discounted.

Mr SERRI: Yes.

The Hon. Dr PEZZUTTI: But the difficulty for the companies is that they get the side benefit of having members of the family working in the association.

Mr SERRI: And the second, we will not have any kind of family of person because, of course, we work for the world sector, not only for one in comparison so it is clear.

The Hon. Dr PEZZUTTI: So this is why you would need to bring in some people from outside on a regular basis, but that's a difficult thing because the intimate knowledge and the feeling which very much is family business, you know, sort of generations of it probably, you get that into the association when you go out there and sell on behalf of the There's a difficult—

Mr BERTINI: Yeah, I see your point, and you are right. You are right on this. But, again, it is always a matter of striking the right balance between keeping the association clear of fat—

The Hon. Dr PEZZUTTI: Yes.

Mr BERTINI: —and sometimes having, like, a managerial approach to the problems.

The Hon. TONY KELLY: Are these edible?

The Hon. Dr PEZZUTTI: I just eat them. I eat everything that's around. I've very strong teeth. I've got very good Italian teeth, and those Italian teeth eat everything.

Mr BERTINI: You are really running short of time so I

The Hon. TONY KELLY: Oh, thank you. Yes, sure.

The Hon. Dr PEZZUTTI: My grandmother had the same colour hair.

[Adjournment]

The Hon. TONY KELLY: You haven't got that sort of share structure. Do they have an internal family share structure, some of them? So they have an original founder and about 30

Mr SERRI: Usually this is a rule but, of course, there are also many exceptions. You have a financial holding, which is only the share, nothing more than the and the bond, the money in a sense, and all this financial holding is the owner of the one, two, or in some cases more than 10, different enterprises which is the manufacturer, of service or of distribution. This is usually the structure.

The Hon. Dr PEZZUTTI: That's very much the gold share business. The founder or the father has the gold share. They might have 30 shares out there but there's only one of the family left. That's our family business. That's the only way the families keep their money, and the trouble with families who are spending money is that if they want to sell off and the family can't afford to buy them out—you know, two brothers inherit a property and one wants to run it, to buy out the other brother is just debilitating.

The Hon. TONY KELLY: So there's no way they have to clear this stock, the family

Mr BERTINI: The business is so profitable that nobody is

The Hon. TONY KELLY: No-one wants to get out.

Mr BERTINI: No, nobody wants to get out. Nobody wants to go public. Those two are an exception but those companies were too big to be privately run.

The Hon. Dr PEZZUTTI: Well, that's a difficulty, isn't it? I mean, you might be good at design or you might be good at selling or you might be good at logistics but you can't be everything, so you've got to buy the product, be it the managers, and they are not cheap any more. The managers aren't fools. Managers aren't cheap any more, are they? They are very expensive. We were reading about Mondragón. We are going to Mondragón in Spain to look at what they do. They have very much got a co-operative, you know, where everybody belongs to the co-operative and the corporation is all made up of all very different. But we did notice that there used to be an embargo from the workers to the managers of three-to-one maximum salary. They had to go away from that. And now they have got market price. One is 30 per cent. So the gap between the workers and the managers is now massive. The managers virtually run the whole show.

Mr CARR: It's not three-to-one any more.

The Hon. Dr PEZZUTTI: As in government, eventually the bureaucrats run the show. Well, India is a good example where the bureaucracy owns the whole country.

Mr SERRI: For example, another group in another industry some main factories is the owner of the mine society. In some cases we have an integration, a vertical integration, of production. For example, the chairman of is an associate. He is an associate from They are owner of four mines in Sardinia and I know that two other important, two big manufacturers have some interest in all kinds of mines. They are, of course, a ceramic tile manufacturer but have a share in or are the owner of this mine.

The Hon. Dr PEZZUTTI: Squeeze your mates by not squeezing your partners.

The Hon. TONY KELLY: So, Steven, you know how to go to the next one, do you?

Mr CARR: The A1, along the A1.

The Hon. TONY KELLY: In which direction?

The Hon. Dr PEZZUTTI: You know, exactly how to get to the other one, don't you?

Mr CARR: I just follow—

The Hon. TONY KELLY: He got me lost twice

The Hon. Dr PEZZUTTI: You had better get the young person along who says they can see and have a walking stick. See, this tile is scuffed, isn't it?

Mr SERRI: Cotta tiles. This is a different kind of ceramic tile made in Tuscany, and this is called cotta.

The Hon. Dr PEZZUTTI: But it's marked

Mr BERTINI: It's like terracotta.

Mr SERRI: Like terracotta.

The Hon. TONY KELLY: Oh, terracotta.

The Hon. Dr PEZZUTTI: It's a good thing terracotta's popular, isn't it, otherwise the poor old would go broke. Some of the buildings here are just beautifully painted up. The one we saw, Tony, with that slightly pinkish terracotta wash was huge.

The Hon. TONY KELLY: A great colour.

The Hon. Dr PEZZUTTI: It's that sort of thing, you know, you find extensively. I'm telling you an Australian truth.

The Hon. TONY KELLY: Is it?

The Hon. Dr PEZZUTTI: Mmm We've got the strangler fig They are very common. They might also be here but you wouldn't see too many figs in Italy, would you? Do you have fig trees? You would have figs for eating but that's a—I'm not sure that's Australian made. Now, there's a map. See it?

The Hon. TONY KELLY: Yeah, showing which way we are going.

The Hon. Dr PEZZUTTI: So you to Italy. The IBC is making the SS9.

Mr CARR: The A1.

The Hon. Dr PEZZUTTI: The SS9.

The Hon. TONY KELLY: A bathroom? Is there a bathroom

Mr BERTINI: Just around the corner.

The Hon. Dr PEZZUTTI: You can go on the Adriatic coast.

Mr BERTINI: Will you be travelling there?

The Hon. Dr PEZZUTTI: No. I have done before. I first came to Italy in 1975 looking for a blonde-haired Italian girl—

Mr CARR: Why didn't you tell me you

The Hon. Dr PEZZUTTI: I came with my current wife.

Mr CARR: She must

The Hon. Dr PEZZUTTI: We weren't engaged then. The Australian looking for this blonde-haired Italian girl Most of the marble is Italian marble because in Sydney they are by background Italian, many of them from this area. There do lots of trade exhibitions in Sydney. Umbria markets itself best. They have an exhibition from Umbria every year. It's food, food products, and they have a captive market but it's surprising to see who goes there—the big hotel chains—you know, to get that product, and they—you know, there's 150 different varieties of everything and, of course, the Indians

come with a hundred different varieties so I have never worked out how they get the food into the country, but they do, the same day the Umbrians, which is—

The Hon. TONY KELLY: North, is it?

The Hon. Dr PEZZUTTI: No, it's south.

The Hon. TONY KELLY: Is it?

The Hon. Dr PEZZUTTI: It's south of Florence and it's really just a food basket.

The Hon. TONY KELLY: Is it?

The Hon. Dr PEZZUTTI: It has lots of agriculture, and then they add value. Do they add the value there or do they manufacture it somewhere else?

Mr BERTINI: I couldn't say

The Hon. Dr PEZZUTTI: It's just, you know, beautiful food. They have this exhibition once a year of—they have hordes there and they have heavy sales, otherwise they wouldn't do it every year, you see, but they keep their market, they keep their name and their market name there by being there every year, and it's a good market. Every man and his dog comes to the agent and everybody goes down, and they sell Frascati wines.

The Hon. TONY KELLY: That's in Australia, though, is it?

The Hon. Dr PEZZUTTI: Yeah. In Sydney, yeah.

The Hon. TONY KELLY: So do you have those sorts of exhibitions? You go to exhibitions, but do you—

Mr BERTINI: You mean in Australia?

The Hon. TONY KELLY: Yeah. Are they regular?

Mr BERTINI: No. There are two interesting exhibitions. One is an exhibition, like, for building materials and tiles which is held in Sydney and Melbourne hotels, and the other one, which is in Melbourne, this is a very big exhibition. The other one is like it's a design exhibition. I mean, there is no product on display. It's like more of a product It's in Sydney town. Sorry, sorry, Melbourne next week We have got women in the Italian Chamber of Commerce in Sydney and in Melbourne. They take our, promote the for us too, but they think like us.

The Hon. Dr PEZZUTTI: Tony, the Italian Chamber of Commerce is huge, it's everywhere, but the trade commission is in each consul-general and there's one in almost every state, so if you want to do commerce with Italy you've got this Italian government firm, government organisation, in Melbourne, Adelaide and Brisbane—Adelaide—and you deal with them direct, and they arrange all the stuff for Italian businesses to come and exhibit. It's all done through them. They set up the core space. They charge like a wounded bull also. They charge a lot of money but they do it well. I mean, they are very exclusive. But we in Sydney, Tony, we only have one representative of New South Wales in London.

The Hon. TONY KELLY: And then he's got to cover Europe as well.

The Hon. Dr PEZZUTTI: No, no, there's somebody in Paris as well.

The Hon. TONY KELLY: Is there?

The Hon. Dr PEZZUTTI: But that's it. That's the whole of Europe. But you've got Austrade. But the Queenslanders have 16 in London. It's really surprising how the different states market and what the different states use but we all try to use Austrade, which is, of course, the national body. But Austrade is not good at doing the little things on the ground, the financial arrangements and stuff. They are not good at organising for an exhibition or something like that. It's really quite interesting.

The Hon. TONY KELLY: But there's no for retired politicians to be there.

The Hon. Dr PEZZUTTI: That's Australia.

The Hon. TONY KELLY: Because you are always a member and available to visit.

The Hon. Dr PEZZUTTI: Oh, yes. They have the Agent-General in London, but Austrade—well, the ambassador to London—who was that? That was Meg Hewitt, wasn't it. Sir Edward

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: That's a break from the usual tradition of having somebody in and sending them over there. But I was surprised at the very closely settled but huge amounts of space for agriculture.

Mr BERTINI: In the area?

The Hon. Dr PEZZUTTI: In this area, yeah.

Mr BERTINI: Yeah, yeah, yeah. Because Modena modern industrial site. Maybe all Europe. Everything was capitalist

Mr SERRI: We have many

The Hon. Dr PEZZUTTI: Are there? We are visiting Parma for a purpose.

Mr CARR: Foodstuffs.

The Hon. Dr PEZZUTTI: Foodstuffs. We are going to Parma for foodstuffs.

Mr BERTINI: Parma is fantastic.

Mr SERRI: It's more interesting than here.

The Hon. Dr PEZZUTTI: No, no, it's the same concentration.

Mr BERTINI: Pasta.

The Hon. Dr PEZZUTTI: Pasta, yeah, because I try to look at how—

The Hon. TONY KELLY: That was lovely. Thank you very much for that.

The Hon. Dr PEZZUTTI:—how to make small towns grow.

Mr SERRI: I hope you enjoyed yourself.

The Hon. TONY KELLY: No, it was great.

The Hon. Dr PEZZUTTI: It was very different, very

Mr BERTINI: Okay.

Mr CARR: No, it was good.

The Hon. TONY KELLY: It was excellent.

The Hon. Dr PEZZUTTI: To make big, bigger and to make small towns bigger, not microdots, so you should have more water and sewerage and roads and hospitals.

Mr BERTINI: So the possibility is that there is not much more I can physical data.

The Hon. Dr PEZZUTTI: But how—if you've got a local advantage, how do you exploit it?

The Hon. TONY KELLY: Yeah, how do you, you know, say the way Europe is exporting and creating jobs and maintaining jobs, so when it happens to be the tiles in this particular case but in our area it could be tiles, many things, you know. It could be anything; it could be vegetables; it could be any other product. So it is the organisation we are interested in.

Mr BERTINI: The big Italians.

The Hon. Dr PEZZUTTI: So we are going to a whole lot of different organisations. At Mondragón, this is a very strict, old-fashioned, if you like, co-operative and Parma, which is a bit different, and your area.

[Adjournment]

The Hon. TONY KELLY: You have got a vicious costs problem with transport. You have overcome that with just your organisation.

The Hon. Dr PEZZUTTI: Look what happened to Lindsay Fox. That's become very common in Australia because I notice there's a called for distance. That's what they are.

The Hon. TONY KELLY: They have more logistics now, the transport companies.

The Hon. Dr PEZZUTTI: So the trend is warehousing and delivery, storage off-site because you often can't have, you know, a whole lot of people playing, I suppose, with this thing and then when you need somebody has got to store it somewhere so it's labelled

Meeting No. 3: Tuesday, 17 July 2001 Associazione Imprese Commercio e Terziario Parma, Italy

Also in attendance:

Mr Enzo Malonca, Direttore, Associazione Imprese Commercio e Terziario

Ms Christina Mazza, Capo Servizio, Ufficio Affari Generali, Associazione Imprese Commercio e Terziario

Ms Anna-Rita Staino, Hotel Tourism Consortium, Associazione Imprese Commercio e Terziario (Interpreter)

The Hon. TONY KELLY: You seem to have a lot of—in New South Wales a lot of the young people are moving to Sydney, to the city, away from the country areas. You seem to have maintained your employment in the rural area, in the country areas.

INTERPRETER: At four o'clock you will meet Mr Azzali, that is the Director of the Unione Industriali. It's the union of our industries. He will respond you all the questions that you have for the commercial part and the tourism, the tourist part, so we have only an hour.

The Hon. TONY KELLY: See, one of the problems that we have is that banks and all of those sorts of commercial businesses are closing down in country towns and moving to Sydney so that country people are losing those services. Is that happening here?

INTERPRETER: Our territory is very, very different from yours. This problem, the problem that you have, does exist. Many people go from the rural part to the city, but it's not very important. The suburbs of Parma, outside of Parma is very close, like, it's small, so it's not very big, so people don't have to come to the city to look for work because it's not far, it is very close, and so we have them all around us. Many people come to the city but they're okay. Also, in the little towns it's not very—how can I say—it's not very requested to come to the city, like.

The Hon. TONY KELLY: Eighty-five per cent—well, 150 years ago half the population would have lived in the city, in Sydney and the capital cities, and the other half of Australia would be throughout the rural areas. Now 85 per cent of people live on the coastal strip between Brisbane and Adelaide and down through Sydney. Eighty-five per cent of the country's population is all along the coastal strip, mainly in those big cities.

Mr MALONCA: Here is a very big town. We have 200,000 people in town.

The Hon. TONY KELLY: In Parma?

Mr MALONCA: In Parma. 200,000 people about in the territory of Parma.

The Hon. TONY KELLY: Oh, so there's 400,000.

Mr MALONCA: It's half after. The country, the territory of Parma, all the territory is 400,000 people about but we have an important town, little but important town, in the territory. Our little town, 10,000 people, 5,000 people, but with a good economy. Understand?

The Hon. TONY KELLY: Yep.

Mr MALONCA: So we have not so important a like you have of people that come to the town to work. They have a job, they work, in the little towns around. We have many, many, many towns. I know Australia is a very different territory. You have a big distance. Okay. The territory of Parma is about 80 kilometres.

The Hon. TONY KELLY: Square.

Mr MALONCA: No, no, 80 kilometres.

The Hon. TONY KELLY: Oh, more.

Mr MALONCA: From north to south. It is a little territory, you know. So I think that for the young people it is not so important to live in the town or to live in a little town around the city. I don't know if I have answered to your question.

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: What sort of businesses would you cover in Parma? Is it mostly tourism or is it other?

Mr MALONCA: No, no. Parma is one of the most rich parts of Italy. I think I try to speak English. If you don't understand it, ask her.

Mr CARR: You are doing very well.

Mr MALONCA: It is one of the most important economies of Italy. We have not only industry. We have a big industry for the food—Parmalat, Barilla—a big industry in the food. This is called Food Valley of Italy. Parma is called Food Valley. But overall we have an economy—

INTERPRETER: —that is very distributed, with the territory many different—

The Hon. TONY KELLY: Types of food.

INTERPRETER: Many little factories, producers, in all the territory, not just in Parma, so it is very different.

Mr MALONCA: We have big main factories for the food formation, prosciutto or ham. It is a big part of the economy of Parma, the production of ham of Parma, but there is not a big factory. There are many, many, many little factories. So is for the cheese of Parma because a large part of our economy is over the cheese, but this is an economy that is in a single part of the territory.

INTERPRETER: It is everywhere, everywhere.

The Hon. TONY KELLY: That is why we saw on the highway a big cow and a pig, a big pig—cheese and ham.

INTERPRETER: That is one of them. It's not only that one that you saw.

Mr MALONCA: This is one, but there are many, many.

INTERPRETER: There's a lot of them, not just one, because it is a big, big company.

Mr MALONCA: So we have an economy that is—

INTERPRETER: —food processing machinery also. We have big industries of food processing machinery.

The Hon. TONY KELLY: They are making the machines?

Mr MALONCA: Yes, they make the machines for food processing, especially for the making of tomato sauce. They make big machines for tomato sauce.

The Hon. TONY KELLY: Did you say Parmalat?

Mr MALONCA: Parmalat.

The Hon. TONY KELLY: Parmalat is here?

Mr MALONCA: Yes, Parmalat is here.

The Hon. TONY KELLY: They have just bought one of the big dairy companies in Australia, Parmalat.

Mr MALONCA: I know.

The Hon. Dr PEZZUTTI: Is that a public company or is it owned by a lot of different people?

The Hon. TONY KELLY: Parmalat?

Mr MALONCA: It is a public company, a public company, but it is a big—I think it is of the one family, one family, Mr Tanti—

INTERPRETER: —that started the whole thing.

Mr MALONCA: So the economy of Parma is—tourism is a new economy for Parma. Parma has this new economy opportunity that before we had never had. It has boomed in the last year because of Verdi, at the moment the Verdi Festival, I don't know.

The Hon. TONY KELLY: The dairy festival.

Mr MALONCA: No, Verdi. Giuseppe Verdi is, I am sorry—

INTERPRETER: He was born here. He had land in Parma so this is a big festival for Parma, and it lasts one year. The whole year 2001 there is this Verdi Festival where there will be operas, they will do operas in his name, like, all the operas that he did, and that is a very big festival for Parma, and there are a lot of tours that come here for this festival, so it's a big economy for Parma.

The Hon. Dr PEZZUTTI: There are obviously other parts of Italy that produce lots of food like

Mr MALONCA: Everywhere.

The Hon. Dr PEZZUTTI: But, again, you seem to have cornered the market or you seem to have made a niche for yourselves for the ham and also for the cheese. What is it that drove those industries to go past just making milk and growing pigs to the added-value product? Do you understand?

INTERPRETER: Could you just repeat?

The Hon. Dr PEZZUTTI: Okay. There are other places that grow lots of things.

INTERPETER: Yes.

The Hon. Dr PEZZUTTI: You understand? But here you have concentrated on a few and made yourselves from top to bottom, from growing the pig to selling the processed ham, as a pyramid. What happened about that? What caused that?

INTERPETER: It is a very old thing. Way back they started to do this, growing pigs, 2,000 years. Maybe it is about a hundred years that Parma produces ham and cheese and so it becomes from the history. They have been doing it for many, many years, growing pigs.

The Hon. Dr PEZZUTTI: But now you would be bringing the pigs from somewhere else to here as well. You don't grow all your own pigs in Parma, do you?

Mr MALONCA: No.

The Hon. Dr PEZZUTTI: But a hundred years ago all the pigs that you cured would have come from Parma.

Mr MALONCA: No, no. No, no, no.

INTERPETER: The pigs come from all over, but the ham and the cheese is made in—

Mr MALONCA: No, ham. Cheese is a different program.

INTERPETER: The prosciutto ham is made in only one way, that you have to follow rules to make this ham, and they do this only in Parma.

The Hon. Dr PEZZUTTI: I understand that. I understand that. A hundred years ago the pigs that you were turning into the ham would have been grown in Parma.

Mr MALONCA: Si. I think so.

The Hon. Dr PEZZUTTI: And now they come from everywhere.

INTERPRETER: People farm.

The Hon. TONY KELLY: You grow a few.

Mr MALONCA: Okay.

The Hon. Dr PEZZUTTI: So you have made yourselves a market for the world.

Mr MALONCA: Mm-mm.

The Hon. Dr PEZZUTTI: What was it that made you grow from just doing your own pigs to being so important to be where everybody sends their pigs?

INTERPRETER: It's better asking Mr Azzali. He will know it better. The producers of the ham made this product that was so very high quality product that it began to start—they started a big market because many asked for this new product.

The Hon. Dr PEZZUTTI: That's the point.

The Hon. TONY KELLY: You must have made better ham than anybody else, good quality.

INTERPRETER: Yes, it's the best.

The Hon. Dr PEZZUTTI: But then they have quality control and a brand name. How did they get all the farmers together, all the producers together, to make a certain quality? How did they do that?

Mr MALONCA: There is a consortium, a group.

The Hon. Dr PEZZUTTI: It is the structure of the consortium. What is the structure? Is it a co-operative? Is it a shared thing? Is it an association?

Mr MALONCA: An association.

The Hon. TONY KELLY: An association.

Mr MALONCA: Of many, many of these call them factories that produce.

INTERPRETER: This consortium makes all these factories—

The Hon. Dr PEZZUTTI: If they want to use the brand name they have got to do certain things. How do you enforce it? You have got a thousand producers making lots of ham but to get the Parma brand, like, name, then they have to comply with certain rules.

INTERPRETER: Yes, that's right.

The Hon. Dr PEZZUTTI: How did that happen?

Mr MALONCA: I don't know. This was more so when I was younger.

The Hon. TONY KELLY: So it has been a long time.

Mr MALONCA: Yes.

INTERPRETER: Yes, very long.

Mr MALONCA: It is not now the level of success it is.

The Hon. TONY KELLY: Parmesan cheese has been around for a long time, hasn't it?

Mr MALONCA: But I think that Mr Azzali has possibly an answer for you. I think it is better that he tell you.

The Hon. Dr PEZZUTTI: Are there any new products in the last 10 years that have been drawn together—new things, not Parma cheese, not Parma ham, but new products used in a large number of places where they come together.

Mr MALONCA: No. Traditional products.

INTERPRETER: Our products are traditional products that were developed by the high request. There is a lot of requests for these products so that is how it was developed so high in the market. How can I say? Do you understand?

The Hon. TONY KELLY: Yes. Just on the tourism side of things, you have got this festival this year, the Verdi Festival.

INTERPRETER: The Verdi Festival.

The Hon. TONY KELLY: How many tourists is that likely to bring in? How many jobs are created through tourism in Parma?

INTERPRETER: It is creating many, many jobs, many employees. We are trying to create a high-quality tourism. We are trying to create this. We are not looking for mass tourism.

The Hon. TONY KELLY: Okay, but high value, good paying tourists.

INTERPRETER: Parma is a zone where there aren't any unemployed. We all have jobs. It is a place where there aren't—

The Hon. TONY KELLY: Oh, no unemployment.

INTERPRETER: No unemployment.

Mr MALONCA: So we don't need to have a new economy for the new employees. Parma is full of employees.

INTERPRETER: We are looking for quality tourism, not a mass tourism, to make this economy better, not to—

The Hon. Dr PEZZUTTI: It begs the question of how you are going to cope with 200,000 visitors to the Verdi Festival.

INTERPRETER: How you are going to?

The Hon. Dr PEZZUTTI: How you are going to provide services for 200,000 people coming to the Verdi Festival.

INTERPRETER: For the accommodation there are no problems because Parma has a lot of hotels in different places, not just in Parma but in many different places near Parma. Near Parma there is also a spa resort, Salsomaggiore.

The Hon. TONY KELLY: A spa resort?

INTERPRETER: It has many hotels and it is based on hotels and spa.

Mr MALONCA: So we don't have a problem for the accommodation in Parma. We have no problem for the restaurant because we have an old tradition for the restoration of the restaurant in the town and around, and the touring for Verdi for the festival will not add any problem.

INTERPRETER: We were ready for this festival, this big festival.

The Hon. TONY KELLY: So what happens in other years?

INTERPRETER: When there is not—

The Hon. TONY KELLY: When there is not the Verdi Festival?

INTERPRETER: It will last for many other years, not just this year.

Mr MALONCA: This is the first year.

INTERPRETER: This is the first centenary for Verdi.

Mr MALONCA: It is the beginning. It is not finished.

The Hon. TONY KELLY: Oh, okay.

The Hon. Dr PEZZUTTI: So where are you going to get the workers for the tourism because this is a new industry?

Mr MALONCA: Yes.

The Hon. Dr PEZZUTTI: Verdi is a new industry.

INTERPRETER: Parma's population is going down.

The Hon. TONY KELLY: Oh!

The Hon. Dr PEZZUTTI: Yes, it is.

INTERPRETER: We will keep this number of population with immigration.

Mr MALONCA: We have the new immigration from the land of Europe or extra Europe, and we are growing with these people. It is not too much now but we think in Parma we have a little part of home.

INTERPRETER: We don't have many—

Mr MALONCA: Many new children. I don't know.

INTERPRETER: We do not have many born.

The Hon. Dr PEZZUTTI: 1.5.

INTERPRETER: So with the immigration we will cover these people that are not growing.

The Hon. Dr PEZZUTTI: These will be relatively low skilled jobs—tourism has relatively low skills—compared to what is basically a high skilled occupation now. I mean, they are working in the factories, for the technology of working for the ham and the cheese and so on is high technology jobs. You are now going to employ a whole lot of people who have got low technology jobs.

Mr MALONCA: This is the problem, but we have many schools for information for these people and the industry that form—

INTERPRETER: They teach how to do—many industries in tourism and everyone have courses, specific courses, that they teach the work and how to do. It depends by the industry.

The Hon. Dr PEZZUTTI: And do you have these schools now?

INTERPRETER: Yes.

The Hon. Dr PEZZUTTI: For the people working in the cheese, ham and other industries?

Mr MALONCA: Yes.

The Hon. Dr PEZZUTTI: So who funds those? Who pays for the education?

INTERPRETER: Mr Azzali knows that because it is an industrial sector.

The Hon. TONY KELLY: Industry, not government or state or the Parma Council.

INTERPRETER: Sorry?

The Hon. TONY KELLY: It is not the state running the education.

Mr MALONCA: No.

INTERPRETER: The state does, but the most of them is private, not public schools.

Mr MALONCA: But this is a big program, what you say, to find the worker that know how to work in our industries. It is very difficult finding some people for the job of low quality. An example: we have many factories in the cheese but it is a job very, very hard because of the doing of the job, the time of the job, in the morning, early in the morning.

INTERPRETER: Very early in the morning.

Mr MALONCA: Every day, every day.

The Hon. TONY KELLY: Is that like milking the cows?

INTERPRETER: Even Saturday, Sunday.

The Hon. Dr PEZZUTTI: Is that driving up the price of workers, putting the price for work up?

The Hon. TONY KELLY: Wages.

Mr CARR: Wages.

INTERPRETER: The wages of the—

The Hon. TONY KELLY: The ordinary employees.

The Hon. Dr PEZZUTTI: The ordinary workers doing the low-quality jobs, does it put pressure on to put the prices, the wages up, to attract more?

The Hon. TONY KELLY: They get paid more?

Mr MALONCA: Yes, of course, but there is not a difference between a parmesan worker.

The Hon. Dr PEZZUTTI: No, no, but it would increase the cost of production.

Mr MALONCA: Yes, but it is a different problem. Also, before, these people was—

INTERPRETER: Even before, they were high paid.

Mr MALONCA: Now with these the difficulty is that we don't find—

INTERPRETER: We can't find those who do this job, this low-quality job. They don't find many people that will do it now. Back then, yes, they found them. They don't even accept the job even if you pay them well, if you pay them high.

The Hon. TONY KELLY: So you are trying—where do you get those employees from in Europe?

Mr MALONCA: India, Tunisia, Senegal—that is Africa. From Europe we have this country, ex-Soviet Union, Albania, from everywhere. India, I don't know if I have said. Everywhere.

INTERPRETER: South America.

Mr MALONCA: Si, South America. There is a big immigration it Italy in the last year and it is not so checked as the UN. They come everywhere. They come in every time and not regular. Many are not regular.

The Hon. Dr PEZZUTTI: Then there were the drives to get them out once a year. When their work permit runs out, to get rid of them is a very costly business. It's not permanent immigration; it is only for work, isn't it, for a year?

Mr MALONCA: The immigration now is a big, big problem. We have many, many people but only a little bit of these people are regular. We have much more people that we don't know they are here. Okay?

INTERPRETER: Illegally.

Mr MALONCA: And Parma, Italy, is now having this big problem because we have accepted everyone. You understand?

The Hon. Dr PEZZUTTI: Yep.

Mr MALONCA: A program how to use these people, how to make these people work, but we need these people.

The Hon. Dr PEZZUTTI: So what about permanent immigration, because this becomes an issue for us too? I mean, we have been, the world has been accepting, Italian migration since really my grandparents, for hundreds of years, and they become permanent citizens in their new countries, but now do you have any plans for permanent migration to Europe?

Mr MALONCA: For us it is a new problem, this immigration. It's about 10 years, not more. Italy accept anyone. There's no problem. You have much more problem to accept each one. I know because when—

The Hon. Dr PEZZUTTI: But they are not permanent?

Mr MALONCA: Many, many, yes.

INTERPRETER: Some of them, yes, and some not. Who has a job are permanent.

The Hon. TONY KELLY: So Italy is happy to let them stay for the rest of their life if they have got a job?

Mr MALONCA: Si.

INTERPRETER: If they have a job and family, a job, they can be permanent for the rest of their lives.

Mr MALONCA: But this is not a problem. The problem is many people that we do not know that are here. This is a big problem.

INTERPRETER: We don't know how many are there because many are here illegally, and they come here and just come here.

The Hon. TONY KELLY: Can they get a job if they're here illegally and perhaps be paid cash or something?

Mr MALONCA: No, no. If they have a job, legally; if they don't have a job, illegally. Usually it is so.

The Hon. Dr PEZZUTTI: Well, how do they live if they have got no job?

INTERPRETER: Criminally.

The Hon. TONY KELLY: Steal.

INTERPRETER: They are criminals, yes. Criminally, yes.

Mr MALONCA: Of course. We have prostitution much more than we have had 10 years ago. We have robbery, all things that we did not know 10 years ago, and now we know.

The Hon. Dr PEZZUTTI: Is this putting a cap on your further development?

Mr MALONCA: No. Just now, no. We had 10 years ago no immigration. They begin immigration. We accept. Now, we are living with the problem now.

INTERPRETER: Now it's a new problem for us.

Mr MALONCA: But we are going to the solution.

INTERPRETER: Yes, we are trying to find the solution but it's a new problem for us and we are trying to find a solution for this problem.

The Hon. Dr PEZZUTTI: If it is not found, will that put a serious stop not just to your current industries but to the development of them?

Mr MALONCA: No.

INTERPRETER: It's a social problem.

Mr MALONCA: The problem is a social problem.

INTERPRETER: It's a social problem, like; it's not a problem for our economy. That's what he is trying to say.

The Hon. Dr PEZZUTTI: If you run out of people to do the work, to make the parmesan cheese and the ham, and the farmers, you could move your factory to Australia into a country town where there are plenty of people to do the work.

INTERPRETER: It's a particular process.

Mr MALONCA: It's not possible to produce outside of the area.

The Hon. Dr PEZZUTTI: I only ask that question because I know a man in Sydney who is head of a big family from this area—I'm trying to find his name—and he is trying to make parmesan cheese with the whole process in his business, whether it be in Sydney or Maitland, with full cream milk.

INTERPRETER: You can produce parmesan in many other areas but it's a protected—

The Hon. Dr PEZZUTTI: Product. It's a trademark.

INTERPRETER: It's a trademark, yes.

Mr MALONCA: Not only, not only.

The Hon. TONY KELLY: The process, like Kentucky Fried Chicken and the special recipe.

Mr MALONCA: The cheese, it's possible to produce the cheese, the parmesan cheese, only in a little area between Parma and Reggio and Modena. It's a little area, not in all Italy, not in other parts of the world.

INTERPRETER: If you produce parmesan, for example, in Milano it's not parmesan. You can call it parmesan, but it's not the real parmesan. It has its mark.

Mr MALONCA: There is another problem.

INTERPRETER: It is a different problem because it is not the air of Parma. They use different processes to make the cheese.

Mr MALONCA: And also for the ham.

INTERPRETER: And the same thing for the ham, the prosciutto of Parma.

The Hon. TONY KELLY: So the prosciutto that we get—

The Hon. Dr PEZZUTTI: The prosciutto is not from Parma, no. They make prosciutto all over the place but not Parma prosciutto.

INTERPRETER: You can find it all over the world but it does not have the mark.

The Hon. TONY KELLY: The brand.

INTERPRETER: Yes, the brand is not there. They do it with the fire. Like they use—how can I say?

The Hon. Dr PEZZUTTI: The brand.

INTERPRETER: Yes, the brand.

The Hon. Dr PEZZUTTI: They burn it.

INTERPRETER: Yes, they burn it. That is not how it is. It doesn't have that.

The Hon. Dr PEZZUTTI: So what does your association actually provide the services to the community? What sort of services do you provide for your members?

INTERPRETER: We provide administration services. We administer.

Mr MALONCA: The association has about 130 people, the organisation, this one, and usually administration services for tax.

The Hon. TONY KELLY: Oh, accounting.

INTERPRETER: Accounting, yes.

Mr MALONCA: Accounting.

INTERPRETER: We keep the accounting of many—

The Hon. TONY KELLY: Of a lot of little businesses.

INTERPRETER: Of a lot of little businesses, yes.

Mr MALONCA: This is the service that the association people ask for, ask us, but it's not this. We have many information we teach to the people to make the work.

INTERPRETER: We also have courses.

Mr MALONCA: We have a school inside for our service, for tailors and for jewellery.

The Hon. TONY KELLY: Right.

Mr MALONCA: Okay? For restaurants, for cooking, for bar, for make, for every kind of activity you can see over the road, our association, associated the shop, every kind of shop, little or big. This is our activities, and we have also the activity of a lobby, using the lobby.

The Hon. TONY KELLY: Oh, yes, yes.

Mr MALONCA: With the—

The Hon. TONY KELLY: The Government.

Mr MALONCA: —the Government, local government or national.

The Hon. TONY KELLY: So if you want the law changed on workers compensation.

Mr MALONCA: What is?

The Hon. TONY KELLY: Workers comp. If you want the law—insurance for your workers against injury, workers compensation. If you want the law changed, then you do the lobbying with the Government?

INTERPRETER: The Government?

The Hon. TONY KELLY: This organisation lobbies the Government to make changes—

Mr MALONCA: Yes.

The Hon. TONY KELLY: —to the law for workers compensation or taxation or anything?

Mr MALONCA: Yes, that is so. This is a national organisation. It's not just in Parma; it's all over Italy.

The Hon. Dr PEZZUTTI: So how do you get the people to join the association?

Mr MALONCA: We are about like your Chamber of Commerce. In Italy the Chamber of Commerce are public. They are not private, the Chamber of Commerce. This organisation is like your Chamber of Commerce and our associated come here, pay in a quarter, pay every year.

The Hon. TONY KELLY: A fee.

INTERPRETER: Yes, a fee.

Mr MALONCA: For to be associated. We don't make nothing particular to our associated. They come. They know the organisation. They need the organisation. They come here. In Parma it's about 6,000 associates, in commerce, in shops, and jewellery.

The Hon. Dr PEZZUTTI: How many people would not be members who should be?

INTERPRETER: How many people?

The Hon. Dr PEZZUTTI: How many people in business that should belong to the association don't belong? Well, if there's 20,000 businesses in Parma and you've got 6,000—

Mr MALONCA: Okay.

The Hon. Dr PEZZUTTI: —how many businesses are not members?

Mr MALONCA: About, I think—let's see—60 per cent.

The Hon. TONY KELLY: Sixty per cent are members?

Mr MALONCA: Are members. Forty per cent not.

The Hon. Dr PEZZUTTI: So what services do members get that non-members don't get? How do you attract the?

INTERPRETER: Those who are not members don't have our services and those who are members—

Mr MALONCA: We make service only for—

INTERPRETER: For members.

Mr MALONCA: —for members.

INTERPRETER: Those who are not members do not have the lobbying, the accounting. Like, they do not have these services.

Mr MALONCA: We have many, many services, economic service, financial service, an economic service. We have a lot of this kind of service that is only for members. I don't know if it is possible to tell you.

The Hon. Dr PEZZUTTI: The reason I asked the question is that in Australia I don't think the chambers of commerce offer services as such. They often do the lobbying, but, then, everybody does, but they do not have any hook like you for accounting services, financial services and so on to attract members, so this is probably a very good—

The Hon. TONY KELLY: The percentage is not as high I don't think in Australia. The percentage would be 20 or 30 per cent would only be members in Australia. You have a much higher percentage here.

The Hon. Dr PEZZUTTI: Because you offer these essential services.

Mr MALONCA: But I think only in Italy we have like how we are.

The Hon. Dr PEZZUTTI: Yes, yes.

Mr MALONCA: Only here. Not in France and not in Australia and in the USA. It's only in Italy. But this is a tradition. It has become the course. Before the last war we had the Fascism. You know, Fascism, no? It make them co-operate, the co-operation of the retailer, of commerce, of industry, of the artisans, of the activity, and this is our tradition.

The Hon. TONY KELLY: Of co-operation of co-operatives.

Mr MALONCA: Co-operation. We had the co-operation in 1000 and the thirteenth century. In Italy there was a corporation of commerce in the fourteenth century. It's our history that make us this big organisation. I think it is only in Italy, this; not in Japan. I don't know, but it's very part of our activities because for us it's usually a man that want to open a shop come here to know how to open, what to add the services to open and to go home.

The Hon. TONY KELLY: The business enterprise centre style.

The Hon. Dr PEZZUTTI: Well, they've got an official—there's an official Government Chamber of Commerce here, isn't there? Not in Australia but in Italy there is a Government Chamber of Commerce.

Mr MALONCA: Yes. I am a member of the Chamber of Commerce.

The Hon. Dr PEZZUTTI: And that's the one that is represented around the world, isn't it?

Mr MALONCA: Yes.

The Hon. Dr PEZZUTTI: So that gives you membership of your sister organisations government-sponsored in Sydney and in Argentina, and that gives you access to Italian business communities around the world.

Mr MALONCA: Yes, but the Chamber of Commerce in Italy is public and the people, all of business now, all the factories must be a member of a Chamber of Commerce. They pay, but they must pay because it is a life tax, a tax, but we are different because my members are voluntary. The members of the Chamber of Commerce are—

The Hon. TONY KELLY: Compulsory.

Mr MALONCA: It's very different.

The Hon. Dr PEZZUTTI: What services does that Chamber of Commerce offer you as a businessman?

Mr MALONCA: They have services that are enforced from the ground and over the whole they have—

The Hon. TONY KELLY: Registration?

INTERPRETER: Registration of all.

Mr MALONCA: Registration of all businessmen, all factories, but this is compulsory, and they pay to be here.

The Hon. Dr PEZZUTTI: Yes, but what services do you get back?

INTERPRETER: They don't have direct services.

The Hon. Dr PEZZUTTI: It is just used as a tax?

Mr MALONCA: No, no, the Chamber of Commerce in Italy meet for the contact with the other businessmen in the other countries, international businessmen, meet to all the—for the contact between the different parts of Italy, for They have a big function but it's not exactly all the single factories. I don't know.

The Hon. TONY KELLY: We might take a photo in the back room. Thank you very much for your time today. It's been very interesting. It's been really good. This is just a little memento of our trip, and for the two girls that's—

Mr CARR: What 's your name?

INTERPRETER: Anna-Rita Staino.

Mr CARR: What's your position?

INTERPRETER: I work in the Tourism Hotel Consortium. We provide services for—

Mr CARR: And you learnt your English in America?

INTERPRETER: I was born in Canada.

Mr CARR: Oh, well, that is an insult, isn't it, to call a Canadian an American?

The Hon. TONY KELLY: If you come to Australia we will still expect you to speak English.

The Hon. Dr PEZZUTTI: But in Australia we have lots and lots of everything.

The Hon. TONY KELLY: Oh, that's right. We have lots of Italians there and lots of all different, like you.

Meeting No. 4: Tuesday, 17 July 2001 Unione Parmense degli Industriali Parma, Italy

Also in attendance:

Mr Cesare Azzali, Direttore, Unione Parmense degli Industriali
Ms Federica Ravasio (Interpreter)

INTERPRETER: So all the statistics about the manufacturing industry in the Parma area is in this brochure you have been given. All the data, all the information about it you can find it on this brochure. So instead of just repeating what you will read on the brochure, which you can do by yourselves, Mr Azzali would like to point out a few things and somehow indicate how to read these figures and the data in the brochure.

The Hon. TONY KELLY: Thank you.

INTERPRETER: So the Parma area, and let me remind you that Parma is only a small sized city, covered mainly by mountains, so this area, this industrial area, is characterised mainly by the food and food processing industry. So the main feature of the production of the manufacturing of this area is the processing of produce, of food produce, into industrial products, and these products are produced for human consumption and they are basically characterised by the territorial characteristics of this area because these products have been produced like they are today for many centuries.

Just to give you an example, parmesan cheese, parmesan cheese is one of the most ancient products of this area and still today it is being produced using the same methods and techniques that were used in the past. And just to give you another example, Parma ham, this product is now produced with new technologies, but trying to safeguard as much as possible the ancient techniques in terms of preservation of the product and size of the product.

Another key element to fully understand why food is so important in this area is to understand that here food is something cultural. It's a cultural issue; it's not just a marketing issue. So whenever a product produced in this area is marketed, is introduced on the market, it is introduced as a cultural element. It's not simply something to feed people. It's not simply something to eat but it represents this area. It represents the historical element, the historical characteristics of this area, and it's this approach, considering the product as a cultural element, that enables the manufacturers of this area to promote their products in the best way possible, although this might sound a bit too much concrete and probably ambitious as well.

So, basically, the products produced here are not mass products. They are rather niche products, apart from pasta and milk products produced by Barilla, which is the world leader for pasta production, and Parmalat, which is one of the best known milk products manufacturing company and preserves manufacturing company. So based on this, the main companies working in the food industry here are small sized, medium and small sized enterprises, companies, and together with these companies devoted to the processing of milk, meat and all the other products, another range of companies has developed to manufacture the machinery necessary to process these products, and in Parma there are companies manufacturing machinery for all types of processing of produces into finished products ready for consumption.

Here in Parma the number of companies manufacturing machinery for the processing of products is 60 per cent of the food technology sold all over the world—60 per cent. Of course, in Parma there are other types of companies as well, like pharmaceutical companies, glass processing companies like Bormioli, and plastic processing companies. All the information about these companies are in the brochure, and just going back to your question, you mentioned dairy products. Mr Azzali would like to remind you that parmesan cheese, which is one of the most important dairy products of this area is still produced today like the Romans did in their times. No chemicals, additives or preservatives are used, and the cheese is produced very, very naturally, in a very natural way. Well, if you want to ask some more questions to go deeper into details in subjects you would like to hear more about.

The Hon. TONY KELLY: Parmalat is a company that is heavily into Australia dairies now.

INTERPRETER: Yes, Parmalat is mainly specialising in the processing of fresh milk.

The Hon. TONY KELLY: In Australia.

INTERPRETER: In Australia, and today Parmalat is also specialised in oven products like biscuits, cakes, plum cakes or things like that as well as tomato preserves and juices.

The Hon. Dr PEZZUTTI: The glass wine bottling company, the wine bottling machines, are they made here?

INTERPRETER: Yes, and this is due to the fact that Parma offers companies producing manufacturing machinery for the processing, for the overall processing process, I mean, from the raw material, from the raw produce to the finished product to be sold, eaten or drunk, so the bottling companies too are based here.

The Hon. Dr PEZZUTTI: One of your biggest companies is a glass manufacturer. Is this just for local produce or for other purposes?

INTERPRETER: Yes, Bormioli. You mean that, right?

The Hon. Dr PEZZUTTI: No, it says "glass manufacturers". There's one of them that has more than a thousand employees, page 9.

INTERPRETER: Page 9.

The Hon. Dr PEZZUTTI: Two companies with large numbers of people.

INTERPRETER: Yes, it's the Bormioli group.

The Hon. Dr PEZZUTTI: So that's just for use for bottles here or do you export the bottles?

INTERPRETER: It exports them also.

The Hon. TONY KELLY: When we went to Jacobs Creek in South Australia

INTERPRETER: Sorry, but it does not manufacture only bottles but glasses, and glasses for the pharmaceutical sector. It is specialised in manufacturing several different products from bottles, glasses, pharmaceutical glasses, glasses to be used at home as furnishing elements.

The Hon. Dr PEZZUTTI: How do the companies like, a company like a glass manufacturer—

INTERPRETER: Mm-mm, Bormioli.

The Hon. Dr PEZZUTTI: Why is it in Parma?

INTERPRETER: There are basically two main reasons, historical reasons and geographical reasons. Historically, just think that Parma University is probably the most ancient university in Italy and most probably in the world. It dates back to 960 after Christ whereas Bologna University, which is thought to be the most ancient university in Italy, dates back to the 1100s, and then historically-wise, Parma was a very lively city, also thanks to the Farnese family and Napoleon's wife, Marie Louise, who developed, helped develop, the city very much both culturally and economically. And then so far as its geographical position, Parma is connected to different important economic areas and it was so in the past as well. It was visited by the Spanish, it was visited by the French, so it always had contacts, business contacts, with foreign countries as well, and probably these connections, these economic and cultural connections, together with Parma citizens' willingness to work, helped the city develop its economic power, and one recent survey about the best Italian industries quotes Parma as one of the cities having the best living standards in the last 10 years, and then another element, which is very important, is luck.

The Hon. Dr PEZZUTTI: But why glass? I mean, glass uses an awful lot of energy and the local materials wouldn't be used so why glass in Parma?

INTERPRETER: Well, you see, you must think that the reasons for the development and the success of certain industries does not only depend on energy, on power.

The Hon. TONY KELLY: So the wine industry perhaps, if the wine industry is here.

INTERPRETER: The what, sir?

The Hon. TONY KELLY: Wine.

INTERPRETER: So Mr Azzali is going to explain to you why the glass industry developed here. All right? So in Parma there was a very big court with noble people who liked the French living standards and the French style. So this is why our craftsman living here in this area started manufacturing glass products, copying the products that could be found in the French court, and one of the first uses of glass in Parma was for perfume bottles because perfumes were an important product here. They needed to be transported elsewhere and so they needed to be packed somehow and so as the economy developed and as the people's needs too developed, the glass industry became bigger and bigger to meet the needs. So the problem of energy, which was a problem—you were right; it was a problem—was overcome by the ideas, the industrial ideas, that were present in the territory. One of the two companies making up the Bormioli group, which is made up of two different family-owned companies, is still specialised in artistic vases, so this is how the glass industry developed here in Parma.

The Hon. Dr PEZZUTTI: The reason I asked the question, and if we could have shorter answers it would be helpful—I am sorry but we know we have a short time—is that whilst in the old days everybody had the same energy, wood, coal, that's it, but now when energy has become so expensive, you must have to work a lot harder or a lot smarter to stay competitive.

INTERPRETER: Yes, you are right but this energy shortcut was overcome in time as—I mean, the development of this industry took a long time and went through a long time, so this industry developed ways, technological ways, to overcome this energy shortcut by qualifying, by having a higher qualification of personnel and by finding out technological systems to offset this problem.

The Hon. TONY KELLY: Is it leadership? Has leadership got something to do with why all these industries have grown up? You mentioned the family and Napoleon's wife, but has that had something to do with it traditionally, that it had some strong leaders in various industries?

INTERPRETER: Well, not really so. I mean, not for the glass industry because there were not big leading families that turned their fortunes, their assets into the industry and developed it. This happened in the food industry but not in the glass industry.

The Hon. TONY KELLY: I meant sort of over all the industries in Parma.

INTERPRETER: Well, your suggestion applies to the food industry. There were big powerful farming families that opened plants to produce, to manufacture, preserves, especially tomato preserves, but in the ham industry, the ham industry developed thanks to the help of work people—I mean, workers—no powerful people, no rich people, only workers who started their own business, started their own company.

The Hon. TONY KELLY: Was it a co-operative?

INTERPRETER: No, not in Parma. Co-operatives are what spreads in other close-by areas, like Reggio nell'Emilia, which is another city not far from here, but not here in Parma. It's a different cultural approach.

The Hon. TONY KELLY: The Italians in Australia seem to have that leadership quality too, including in Griffith the chicken people and Bortelli's, the wine people. There's one company there, chicken processors, they will employ an extra, an additional thousand people over the next 10 years. It's a huge company, and they have grown up from—they started off as just farming families and they probably immigrated to Australia without any money at all much and started out on small irrigation farms and they just get bigger and bigger and bigger and then process either the grapes or the chickens and become huge.

The Hon. Dr PEZZUTTI: The reason we are asking questions is that we are going to see a co-operative operation in Spain. We have been to Sassuolo, which is a series of very competing companies in tiles but under an umbrella of an association which helps to market them. What is it here that makes your clusters of industry successful?

INTERPRETER: Well, you see, here, the concept of working individually is more important than anything else. There's a saying in Latin that reads "Man must make his own fortune", one man, one single man, must make his own fortune. So this

is how people live and act and work here, but not far from here, I mean, in Tuscany and in Reggio nell'Emilia, the co-operative system is widespread, very much widespread.

The Hon. Dr PEZZUTTI: So we then come to the next question, which is: with your declining population how will you maintain these industries?

INTERPRETER: In two ways basically: by introducing robotised machines in the industry and by employing man force coming from the southern areas of the world, people who are not as lucky as we are, who come here looking for a job, looking for better conditions and, of course, hopefully, people will have more children in the future, will start having children again.

The Hon. Dr PEZZUTTI: The issue or the central tenet was an individual man working hard. You can't transport that, because it's a cultural thing, with people from the south.

INTERPRETER: Well, this will all depend and this all depends on the community they live in. If the community is culturally and economically old, then, of course, they will tend to sit back and relax as the community but if the community is young, it is lively, then they will have to adjust to the community itself, and if the industrialised west wants to keep on being leader, wants to hold its leadership, then it will have to be lively, not to sit back and think that other people will do the job.

The Hon. Dr PEZZUTTI: It's not just service industries. I'm talking about particularly, say, the parmesan cheese, which is very reliant upon hard work at all sorts of hours by people, not by machines. Are you thinking of robotising parmesan cheese? I think not. So how do you get the work ethic instilled in a family, in people who come new, which is what parmesan survived on?

INTERPRETER: Well, there are already black people working in the parmesan cheese industry and producing parmesan cheese today. They were taught by local people how to make it.

The Hon. Dr PEZZUTTI: The only question I have there is while you have some big companies, you have a lot of small companies, particularly in the parmesan ham. How do they keep, say, quality control across all of those people and how do they limit it to a small number of people?

INTERPRETER: Well, there's a consortium that follows the whole process of production both for parmesan cheese and Parma ham and so safeguards the quality of the finished product and of the raw materials used to make the final product.

The Hon. Dr PEZZUTTI: So, is the only, I suppose, controlling factor the ability to use the name?

INTERPRETER: Well, the name is somehow a guarantee that a certain production method, a certain production process, has been followed, a very strict production process, which is guaranteed by the name on the product and its specific position on the product.

The Hon. Dr PEZZUTTI: But what sort of power does the association have or the consortium have to only allow its name to be used upon certain products, given that it might have 50, 60, 150 manufacturers or producers?

INTERPRETER: If the production process is not followed by a company, then the company is not allowed to put the name.

The Hon. Dr PEZZUTTI: How do they police it, then?

INTERPRETER: Well, they have inspectors, people that control the different places of production.

The Hon. Dr PEZZUTTI: Yeah, but I mean, at the end of the day if somebody markets parmesan cheese as parmesan cheese, how do you stop them?

INTERPRETER: Well, see, it's the consortium inspectors that mark the product and register the mark so, I mean, the number of marks are registered and the consortium knows how many marks were applied to a certain number of products, and the tools to mark the products are in the hands of the consortium, not the manufacturers.

The Hon. Dr PEZZUTTI: Do you take people to court who use the mark?

INTERPRETER: Yes, they are sent to prison, direct to prison.

The Hon. Dr PEZZUTTI: So what action do you take against somebody in another country?

INTERPRETER: Well, it's court, so you are sent to a court, and this is what is happening with companies selling their cheese as parmesan, which is not legal, and so they are issued, they are taken to court. Well, it's the same as if someone built a car in Sydney and called it a Ferrari.

The Hon. Dr PEZZUTTI: Or if a company in Italy manufactured tetracycline and called it tetracycline when they pinched it from the Americans before the tender was up.

INTERPRETER: Yeah, the same, the same , yes.

The Hon. Dr PEZZUTTI: So if you haven't got an industry to pick here, what other industry would you put into Parma?

INTERPRETER: You mean a new industry?

The Hon. Dr PEZZUTTI: Yes. Perhaps one that's here that you want to grow, and how do you go about growing it?

The Hon. TONY KELLY: You haven't got enough staff for it.

INTERPRETER: No, if he was able to answer this question he would be an interpreter and not the director of the association of Parma manufacturers.

The Hon. Dr PEZZUTTI: I am sure the association, the director, would assist someone who came to him for assistance to grow a new industry. What steps are there? What can the association offer?

INTERPRETER: So you are asking two different questions. One is what type of industry could be introduced here and which are the steps to develop?

The Hon. Dr PEZZUTTI: That he can offer from this association.

INTERPRETER: Well, any type of non-polluting industry could be introduced in this area. The territory has a potential to support also technologically advanced companies, industries, but as the territory already has plenty of industries here, it's not really eager to have new ones, so there will be no facilitations for companies or industries to develop here, so no tax decreases, no things like that. A company willing to develop here could be a company that could have indirect benefits from the food sector, the pharmaceutical sector, the glass sector, which are the most important, strongest industries.

The Hon. TONY KELLY: They are the pluses.

INTERPRETER: Yes. Indirect benefits because the company might not experience benefits directly but, of course, the territory would give benefits deriving from the other industries.

The Hon. Dr PEZZUTTI: The best example you have I have seen is the bottling machinery, which was designed and made here and used everywhere in the world.

INTERPRETER: Well, the association is aimed at giving all types of support to new companies. Once the company has found a piece of land where to settle, then the association can help them with the bureaucratic aspects, in recruiting personnel, managing personnel and any other type of support needed by the company.

The Hon. Dr PEZZUTTI: Does the association run or assist with setting up planning programs for the workers for the new company or how is that done?

INTERPRETER: Yes, they have a training body, which was created, which was set up, to train workers, to train personnel, to train managers for the companies, and it is called Cisita. Do you want me to spell it?

The Hon. TONY KELLY: Yes, please.

INTERPRETER: C-I-S-I-T-A.

The Hon. Dr PEZZUTTI: So how does the association sort of pay for that? Do they do it on a user-pays basis—in other words, charge the company for the training of their people—or how do they do it, or does the individual pay to go to the course to get the job?

INTERPRETER: It all depends on the type of course, training course, that the individual takes. There are courses that are funded by public resources, public funding. There are courses sponsored or paid for by the company. There are courses paid for by the manufacturers themselves and courses that are paid by the individual.

The Hon. Dr PEZZUTTI: So it is the full raft. Who does the co-ordination of that process?

INTERPRETER: Well, the board of directors of this body of Cisita, which is made of some officers and manufacturers.

The Hon. Dr PEZZUTTI: So there are government people on it as well?

INTERPRETER: No.

The Hon. Dr PEZZUTTI: So how do you get the public sector institutions to respond? Does Cisita talk to them to get them to respond to a need?

INTERPRETER: Yes, Cisita talks to the public authorities because, I mean, this type of training body is private but is authorised by the state because it complies with certain requirements set by the state, so that's how they communicate.

The Hon. Dr PEZZUTTI: So the qualifications you get from the training programs are able to be used throughout every area in the world?

INTERPRETER: Well, this too all depends on the type of course that you take. There are publicly funded courses that are legally recognised.

The Hon. TONY KELLY: Trade courses.

INTERPRETER: Yes. But there are other courses that are simply upgradings for the personnel or just a way for the personnel to go deeper into their knowledge of their activity, their job or whatever interests them.

The Hon. Dr PEZZUTTI: How much do you think is spent by, say, the parmesan industry or the ham industry or the glass industry in terms of research and development?

INTERPRETER: Well, actually, not much. Not much is spent in research and development. There is basically no research and development for the parmesan industry because, I mean, the only—

The Hon. Dr PEZZUTTI: It has all been done.

The Hon. TONY KELLY: What about reinvestment in capital—6 per cent a year?

INTERPRETER: Well, this is difficult to say because these companies base their efforts in preserving the product as it is. They don't have to improve it or innovate it. There is no need for it because, I mean, the only thing they have to do is to guarantee the quality of the product, which has been such for centuries.

The Hon. Dr PEZZUTTI: As in pigs, for example, what if the pigs start feeding on genetically modified food?

INTERPRETER: This is not possible.

The Hon. Dr PEZZUTTI: Well, sorry, is it not possible because they wouldn't use them as pigs or is it not possible that the pigs would eat genetically modified food?

INTERPRETER: He said, "The only impossible thing in life is not to die", so the pigs that are used to make Parma ham are not fed with genetically—

The Hon. Dr PEZZUTTI: That's a condition, because that's one of the issues that we were talking to the FAO yesterday about.

INTERPRETER: Well, you see, in this time when it is not very clear if genetically manipulated products are good or not for the health, the Italian food industry has made one choice: not to use them.

The Hon. TONY KELLY: How are you funded? Your organisation, how is it funded?

INTERPRETER: Well, the association is basically a volunteer association of manufacturers, of interfamilies, so manufacturers decided to work as volunteers to help the industry develop thanks to the help of the association.

The Hon. TONY KELLY: So they make a contribution to the organisation?

INTERPRETER: Yes. The contribution of each company is based on the total salaries paid to the employees of the company, and it goes from a minimum of 0.98 to a maximum of 1 per cent.

The Hon. TONY KELLY: Okay. Well, thank you very much for your time today. It has been very, very good.

INTERPRETER: Thank you very much for being here.

Meeting No. 5: Thursday, 19 July 2001 Mondragón Corporación Cooperativa Mondragón, Spain

Also in attendance:

Mr Jesus M^a Herrasti, President, Mondragón Corporación Cooperativa

The Hon. Dr PEZZUTTI: There are lots of private corporations or, you know, Kerry Packer is a private corporation.

The Hon. TONY KELLY: A semi-owned corporation, yes.

The Hon. Dr PEZZUTTI: They are family owned corporations but does that mean that—does corporation have a legal sense as well that you are subject to the corporate law?

Mr HERRASTI: Yes.

The Hon. Dr PEZZUTTI: And corporate taxation?

Mr HERRASTI: Yes.

The Hon. Dr PEZZUTTI: Or do you pay taxes on a co-operative basis?

Mr HERRASTI: On a co-operative basis, yes. We are a co-operative. The most simple answer is that we are a co-operative.

The Hon. Dr PEZZUTTI: But you are more a corporation than you are a co-operative because co-operatives—

Mr HERRASTI: Yeah, but, okay.

The Hon. Dr PEZZUTTI: With all these side bits.

Mr HERRASTI: It's not easy to explain but I can explain, I think. Okay, as a corporation we don't have any special law. How I say? As a corporation, we are only in agreement between the companies.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: Okay. We have what we can call civil—I don't know in English.

The Hon. Dr PEZZUTTI: The small companies actually own the corporation rather than the other way around.

Mr HERRASTI: We are a social or civil society, you know.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: It is like an agreement. This is just to have an agreement. It is not—the corporation as a whole doesn't assist, I mean, for a business. We have different—for instance, we have a common fund.

The Hon. TONY KELLY: Oh, so you are different groups of co-operatives.

Mr HERRASTI: Yeah, we have different groups but the corporation, it's an agreement.

The Hon. TONY KELLY: All right.

Mr HERRASTI: And the only we have is like a social or civil society just to have some outlet for our principles of our agreement.

The Hon. Dr PEZZUTTI: So if one part of your organisation goes bankrupt the others don't go bankrupt with it.

Mr HERRASTI: No.

The Hon. TONY KELLY: Like you said to me, if one of those businesses had problems, you would just close it down.

Mr HERRASTI: No, no. Okay. Here we have a company, we have a co-operative and we organise in a way because there are some—it is not simple but, okay, for instance, two or three corporate co-ops makes what we call a company in Spanish aggregation group. It is second level, second degree, co-operative. We made this group with, in a way, a sectorial basis. I mean the products that are in the same sector, the same customer. I mean taking into account the customer and the technology, market generally or market umbrella the same. For instance, we have a group for automotive products, for instance. This is a second degree co-operative. We can have another second degree co-operative and so on for different products. For instance, appliances, for instance, here another second degree co-operative, and so on. These companies, the co-ops and the groups, they have their—I mean, they are registered by law as companies and so on. Other things the corporation. The corporation is a kind of agreement between the co-ops and the corporation. They are all the co-ops, not from the groups, from the co-ops.

The Hon. TONY KELLY: Okay.

Mr HERRASTI: But it is in a way like, how I say it. In a way it is a , not the physical location. Why? Because a corporation, which is the role of the corporation, the corporation's role is, okay, to share some principles, to share some policies, to share some strategic in a way. I used to compare the role of the corporation as a government.

The Hon. Dr PEZZUTTI: It gives you governance.

Mr HERRASTI: Yeah, governance. We have like a Parliament here. We have a president of the Parliament. We have like a government here, and this government could decide, or the parliament could decide, some roles, and the people usually agree with that role but it is not because it is the owner or something. It's not the owner of nothing.

The Hon. Dr PEZZUTTI: No, they own that.

Mr HERRASTI: The owners of the companies are the members of the co-operatives. The owners of the group members of these co-operatives and so on.

The Hon. Dr PEZZUTTI: But they then own that.

Mr HERRASTI: No.

The Hon. Dr PEZZUTTI: The companies own the corporation.

Mr HERRASTI: Yeah, yeah, yeah, yeah.

The Hon. TONY KELLY: Yeah, the co-operatives.

The Hon. Dr PEZZUTTI: Which is co-ops.

Mr HERRASTI: We have like a general subdepartment in a way.

The Hon. TONY KELLY: Yes, it's the opposite to us.

The Hon. Dr PEZZUTTI: It is opposite to the usual corporation. Usually a corporation owns all of these.

Mr HERRASTI: Yeah, yeah, yeah.

The Hon. TONY KELLY: This way it's the other.

The Hon. Dr PEZZUTTI: This way these own this one.

The Hon. TONY KELLY: From the bottom up.

Mr HERRASTI: There are 750 people representative from the different companies here.

The Hon. TONY KELLY: And how many in this?

Mr HERRASTI: Working here?

The Hon. TONY KELLY: No, on the Parliament or the group.

Mr HERRASTI: Seven hundred and fifty.

The Hon. TONY KELLY: Seven hundred and fifty together on that group!

Mr HERRASTI: Yeah. Once a year we meet and so on.

The Hon. Dr PEZZUTTI: This is the big Soviet.

The Hon. TONY KELLY: Yep. It's like the Labor Party.

The Hon. Dr PEZZUTTI: Like a soviet.

Mr HERRASTI: We have here—the margin we have here what we call a general council. It's like an executive to say in a way.

The Hon. TONY KELLY: Executive. How many on that?

Mr HERRASTI: It's around 17 people more or less. We have what we call a standing committee, and that is in a way a representative unit for the Parliament in a way. The standing committee has around 17 people on it.

The Hon. Dr PEZZUTTI: Seventeen or 70?

Mr HERRASTI: Seventeen, one seven people on it. And the representative from the—I mean the representative on the standing committee and the general council are more or less for the different groups of different groups or groups there because you have here divisions, but this division is not a kind of—I mean it's without a legal personality and they don't have—the division is a kind of way to divide the corporation's different activities. It has to supervise what the people are doing, you know.

The Hon. TONY KELLY: So, how, then, do things like the financial side and how you top up the pension? On the video it said you top up. Is that—

Mr HERRASTI: No, this is another question. Okay. We have another organisation.

The Hon. TONY KELLY: It's another group.

Mr HERRASTI: Almost it is like a different organisation. As you know, this is by history. It's a process.

The Hon. TONY KELLY: It's the financial group.

Mr HERRASTI: We have here, okay, a mutuality.

The Hon. TONY KELLY: A mutuality.

Mr HERRASTI: A mutuality, and this is Lagun Aro. This is the pension fund and so on, Lagun Aro. And the members of Lagun Aro are the workers of the different corporations, the workers.

The Hon. Dr PEZZUTTI: Not the company?

Mr HERRASTI: Not the company. They are the workers, and the general council in a way is representative from the workers. I mean, I am a worker. I am a member of this mutuality because I am a member of this mutuality with my family and so on.

The Hon. TONY KELLY: So you pay some money into it?

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: And you get the top-up—

Mr HERRASTI: It is another company, this mutuality with the mutual fund, I mean, the and so on.

The Hon. TONY KELLY: Yeah, that's simple.

The Hon. Dr PEZZUTTI: But each of these companies are owned by the workers too, aren't they?

Mr HERRASTI: Yeah, yeah, yeah.

The Hon. Dr PEZZUTTI: So this is a separate company so you own this company and you have got a share in this one?

Mr HERRASTI: Not a share, a

The Hon. TONY KELLY: An investment.

Mr HERRASTI: The workers of this company are members also.

The Hon. Dr PEZZUTTI: But you pay in.

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: You have to pay to enter.

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: Not just—

Mr HERRASTI: Not to enter. We are paying as a social security system. We pay in around 34 per cent of our salaries in a way.

The Hon. Dr PEZZUTTI: To?

Mr HERRASTI: To the mutuality.

The Hon. Dr PEZZUTTI: Thirty-four per cent.

Mr HERRASTI: It is like a social security system.

The Hon. Dr PEZZUTTI: Is that tax deductible?

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: And do you also have to pay to the state superannuation scheme?

Mr HERRASTI: Yeah, we have because we have our social security system.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: That means that I used to say like automobile accident but, okay, because—but we are paying for—in the states we are paying for the minimum salary. Okay, we cover our pension fund, okay, our social disability system with a minimum salary with the state, I mean, the general system.

The Hon. Dr PEZZUTTI: How much does that cost for the worker to take out of their salary?

Mr HERRASTI: The total is small.

The Hon. TONY KELLY: Thirty-four.

The Hon. Dr PEZZUTTI: Okay. Well, how much goes to the state and how much goes to this corporation?

Mr HERRASTI: Oh, more or less we have an average because it depends on the income of the people but an average I think it's more or less one-third is coming from the state, two-thirds is from our system.

The Hon. Dr PEZZUTTI: Okay, so two-thirds goes in here and one-third goes to the state. Okay. Now, does that cover health as well?

Mr HERRASTI: Yeah, all the systems.

The Hon. Dr PEZZUTTI: So that one-third—

Mr HERRASTI: Unemployment, for instance, is covered by us, not from the state.

The Hon. Dr PEZZUTTI: Because if a worker is out of work, then you keep paying them a salary.

Mr HERRASTI: Yeah. For instance, if we have—okay, we have something we have problems with a company, different situation, and so on.

The Hon. Dr PEZZUTTI: This has got enough money to carry you through that?

Mr HERRASTI: Yes, we are paying more or less—it depends but as an average 3 per cent of our salary is for unemployment.

The Hon. Dr PEZZUTTI: Right.

Mr HERRASTI: And that means that you have very special systems, you know.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: It means that we are not ready to pay anything—the first commitment we have between each other is that if their sole employment for some people in some of the co-operatives, some of the groups of the companies, then the companies are obliged to take these people and the people are ready to go to the company.

The Hon. Dr PEZZUTTI: In other words, this is where the—

Mr HERRASTI: Some conditions, okay, not very far, 50 kilometres or, some conditions, some regulations.

The Hon. Dr PEZZUTTI: So that's the benefit of these people combining solidarity-wise to form this, because if this company goes under or doesn't work then they will get work in these other ones.

Mr HERRASTI: Yes, this is one of the

The Hon. Dr PEZZUTTI: So you don't really lose your investment.

Mr HERRASTI: No.

The Hon. Dr PEZZUTTI: Because they've paid a fair bit of money to join that company, haven't they?

The Hon. TONY KELLY: And the education.

The Hon. Dr PEZZUTTI: How much do they pay to join?

Mr HERRASTI: To join, not so much, not so much. Around now the dollar is very expensive now but, okay, a bit less than \$10,000.

The Hon. Dr PEZZUTTI: So you pay \$10,000 to come to work?

Mr HERRASTI: Yes.

The Hon. Dr PEZZUTTI: Okay. How much a year do you pay in to help the company with its capital and so on?

Mr HERRASTI: How you mean how much?

The Hon. Dr PEZZUTTI: Well, how much are the workers—they pay 10,000 to come and work here in this company.

The Hon. TONY KELLY: So if you want a job here you start out—

The Hon. Dr PEZZUTTI: You have got to pay 10,000.

The Hon. TONY KELLY:—you have got to pay \$10,000 to be a member of the co-operative.

The Hon. Dr PEZZUTTI: You can pay that over time, can't you? It doesn't happen today?

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: You can borrow it from your bank?

Mr HERRASTI: No, it depends. There are different systems. Okay, if you have money you can pay it, but what the people does usually is that you have 24 months to pay it and usually people get a salary.

The Hon. Dr PEZZUTTI: So now how much do you have to pay each year out of your salary to help the company to grow or to give it capital?

Mr HERRASTI: It's not the At least 25 per cent has to pay cash at the beginning. Of this quantity, 25 per cent has to be cash.

The Hon. Dr PEZZUTTI: I understand.

Mr HERRASTI: And you have 24 months to make it. Okay, but what we do—I mean, the profit in this division in a way is very regulated by law. Okay, by law here you have profits. I mean, you have to put usually 20 per cent for ourselves.

The Hon. TONY KELLY: By law in Spain, do you?

Mr HERRASTI: In Spain.

The Hon. Dr PEZZUTTI: Of all company profits?

The Hon. TONY KELLY: Is that right? Gee, that's good.

Mr HERRASTI: Twenty per cent.

The Hon. TONY KELLY: That's good.

The Hon. Dr PEZZUTTI: Of your profits?

Mr HERRASTI: Yeah, yeah, yeah. In Spain and the Basque country. You know, here the different divisions has the possibility to make laws for government assistance,—20 per cent. Another 10 per cent you have to put for what we call social funds. It's, for instance, for the education and so on. All the education systems we have here we invest—we have got just investing this 10 per cent of our profits.

The Hon. Dr PEZZUTTI: Is it any corporation?

Mr HERRASTI: In all the corporations, the co-operatives.

The Hon. Dr PEZZUTTI: No, no, I mean, any corporation?

The Hon. TONY KELLY: Not just your companies?

The Hon. Dr PEZZUTTI: Say, for example—

Mr HERRASTI: Yeah, this is by law.

The Hon. TONY KELLY: By law.

Mr HERRASTI: In this country.

The Hon. Dr PEZZUTTI: Okay. So where does a private company put that 20 per cent?

Mr HERRASTI: Where?

The Hon. TONY KELLY: In their own research?

The Hon. Dr PEZZUTTI: No, the research one is not education. It's socialism.

Mr HERRASTI: You have education, some research, okay, if possible by law and some of it I don't know, social needs you can have in there.

The Hon. TONY KELLY: So you can educate your own staff?

Mr HERRASTI: Yes, in our cases because we have, okay—

The Hon. TONY KELLY: University.

Mr HERRASTI:—size and so on we invest in institutional initiatives in a way, you know, because okay you are a very small co-operative and you are isolated. I mean maybe the only possibility you have is just to pay for some, I don't know, for the sons or the daughters to have, I don't know, some kind of studies or, I don't know, but here we always try to create institutions, not invest in like private—I mean, for individuals investing as a whole. This is very important. When you have enough size it is very important.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: Okay. In a way, this charge us in a way our part fiscal charge, in a way.

The Hon. Dr PEZZUTTI: Yes, yes.

Mr HERRASTI: It's a type of—how I say? Some people said here cover this half sometimes social I mean benefits or fiscal benefits. It's not true. What we have, probably we have as a whole, we have more fiscal charges, but the only thing we have is that we can self-manage. For instance, this 10 per cent is for social funds. This is a charge that may be okay for education or so on. This is, in a way, pooling responsibility, but we are managing by ourselves.

The Hon. Dr PEZZUTTI: But the company itself manages it.

Mr HERRASTI: It is like creating a small community, you know.

The Hon. Dr PEZZUTTI: But can you get all of the little companies to co-operate for a big task in the corporation for that 10 per cent?

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: So this is what adds benefit to having the corporation. You can corral your friends with a vote to say, "We will have a huge effort." You have got big money.

The Hon. TONY KELLY: But big research.

Mr HERRASTI: Yes, this is a big question. Okay. After we have, okay, 70 per cent. This is for it is possible to distribute between the workers, the members.

The Hon. TONY KELLY: There's no law that says you have to put a percentage into capital, so you have got research and you have—

Mr HERRASTI: No, you have research, 10 per cent, no more. After that you can decide what you like.

The Hon. TONY KELLY: Okay, yep.

The Hon. Dr PEZZUTTI: And that then goes to all the owners, who are the workers.

Mr HERRASTI: Yeah. Usually—

The Hon. Dr PEZZUTTI: They are the owners.

Mr HERRASTI: In our history we are not—okay, we are making more than another usually as an average. This all depends on the situation in different companies. As an average we are putting another 20 per cent more or less in what we call voluntary reserves.

The Hon. TONY KELLY: Voluntary?

Mr HERRASTI: Reserves.

The Hon. TONY KELLY: Reserves, yes.

Mr HERRASTI: Because these reserves by law are not distributable.

The Hon. TONY KELLY: No, they are research and development.

Mr HERRASTI: No, not research and development, no. If the company disappears, for instance, the members cannot get this money. This is money like in a way it is for to cover the system, of the pooling system, you know. It's like—

The Hon. Dr PEZZUTTI: You can spend it on research or nothing.

Mr HERRASTI: Not on research, no, on reserves.

The Hon. TONY KELLY: Reserves.

The Hon. Dr PEZZUTTI: Oh, that's reserves. Oh, I thought it was research.

The Hon. TONY KELLY: I thought it was reserves, yeah.

The Hon. Dr PEZZUTTI: Oh, it's reserves.

The Hon. TONY KELLY: It's reserves, not research.

Mr HERRASTI: It's reserves. You are managing this money but imagine that sometimes you decide to close a company. Okay, you have some reserves. You can recover this in the company. You can take the reserve for you but not in this co-operative.

The Hon. Dr PEZZUTTI: Who gets the reserves if your company fails.

Mr HERRASTI: You have a reserve because some of these people close the company when it but okay, you have reserves. The law say that the people who has to take the reserves is the—I mean, the representatives—

The Hon. Dr PEZZUTTI: The debtors, the people you owe money to.

Mr HERRASTI: No, the representatives from the whole co-operative system, for instance, in the Basque country.

The Hon. Dr PEZZUTTI: So, some of those reserves—

Mr HERRASTI: This is the Government, you know. In a ways, again, it is fiscal, like a fiscal responsibility that you have.

The Hon. TONY KELLY: It's a tithe.

Mr HERRASTI: It is there for the services. Okay, we have to make research just to be sure because the co-operative system in a ways is a very personal system. When you die you will die and die the company. If all the members dies, the company was left and the

The Hon. Dr PEZZUTTI: But surely if things are tough—

Mr HERRASTI: —the company is going a bit farther as the people.

The Hon. TONY KELLY: If one of those people die who's paid the \$10,000 in, a co-operative member, that's not a share that's transferable to their son; it dies with them?

Mr HERRASTI: It's possible but not as a worker. In this case this is like a capitalist, you know. There's people who has like a credit or loan in the co-operative, but it is possible to do it this way.

The Hon. TONY KELLY: But only as a worker.

The Hon. Dr PEZZUTTI: So if the company itself is going through a lean time, you know, things are a bit tough, can they draw on the reserve that has been put away here for them to carry on? See, by law you have got to put 20 per cent away for reserves.

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: But you've still got that money in your bank, have you?

The Hon. Dr PEZZUTTI: Can you draw on that money?

Mr HERRASTI: Yeah, the Government or the whole co-operative system has the right to recover this money.

The Hon. Dr PEZZUTTI: No, no, no, I am not saying if you go bankrupt. If things get tough, you know, sales are down.

Mr HERRASTI: No, the company has to disappear.

The Hon. Dr PEZZUTTI: So these reserves are just going off to the Government?

Mr HERRASTI: When the company is living the reserve is for the company.

The Hon. Dr PEZZUTTI: So what does the money go to, then?

Mr HERRASTI: If the company die, okay.

The Hon. Dr PEZZUTTI: What happens to the reserves then? Where does that go?

Mr HERRASTI: What?

The Hon. Dr PEZZUTTI: How does it get spent?

The Hon. TONY KELLY: It doesn't.

The Hon. Dr PEZZUTTI: What does it do?

Mr HERRASTI: The reserves are in the investment of the company. Maybe it's in building with the machines.

The Hon. Dr PEZZUTTI: But the reserve money that you have to set aside.

The Hon. TONY KELLY: Can be capital investment.

Mr HERRASTI: No, the reserve money is invested in the company.

The Hon. Dr PEZZUTTI: So you can use it?

Mr HERRASTI: You can use it, yeah, yeah, yeah.

The Hon. Dr PEZZUTTI: But the individuals can't get it?

Mr HERRASTI: No.

The Hon. Dr PEZZUTTI: Just the company can use it?

The Hon. TONY KELLY: So that's a reinvestment.

Mr HERRASTI: Like a common, how you say money.

The Hon. TONY KELLY: Reinvestment in capital.

Mr HERRASTI: A common property for the whole.

The Hon. Dr PEZZUTTI: The co-operative movement.

Mr HERRASTI: The co-operative movement.

The Hon. Dr PEZZUTTI: So that's the question still: how do you get to use the money if the money—say, I am in Company A, right, I am the Pezzutti company, and I pay this 20 per cent into a reserve. Right? Does that mean that everybody in Spain, all the companies in Spain, the co-operatives in Spain, can get access to it but I can't?

Mr HERRASTI: No, no, no. The only way you can have access to this is when you die as the company, when the company finish.

The Hon. TONY KELLY: But it is the Mondragón —

Mr HERRASTI: Imagine, that when the company is living the reserve is for the company.

The Hon. Dr PEZZUTTI: So that I can keep using that money for what purpose?

The Hon. TONY KELLY: To build a building.

Mr HERRASTI: If you want to, yes, for following the company till the company dies.

Mr CARR: Capital.

The Hon. Dr PEZZUTTI: Yeah, okay.

Mr HERRASTI: No more, the capital.

The Hon. Dr PEZZUTTI: So you just use it. So that 20 per cent is just for the company?

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: But you can't distribute it to the people?

Mr HERRASTI: No, it's not for the co-operative.

The Hon. TONY KELLY: It's not cash reserves.

Mr HERRASTI: It's not for—that's for the co-operative system, in a way.

The Hon. TONY KELLY: It's reinvestment in capital.

The Hon. Dr PEZZUTTI: It's every year you put it aside. Say it was \$1 million every year and you put it in the bank or into property.

Mr HERRASTI: You invest it in different things now.

The Hon. TONY KELLY: Different buildings.

The Hon. Dr PEZZUTTI: If things get tough you can draw it back to use in the company?

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: I understand. It's just straight reserves.

The Hon. TONY KELLY: It's straight reserves.

Mr HERRASTI: Yeah, it's reserves, but the only thing is that you don't have the right to recover it.

The Hon. TONY KELLY: Okay. So you've got 20 per cent reserves, 10 per cent education, social fund, and then you put 20 per cent on average—

Mr HERRASTI: Yes, but this is because we decide.

The Hon. TONY KELLY: You decide to do.

Mr HERRASTI: But we have not the obligation, I mean, and after we make—

The Hon. TONY KELLY: And what do you put that into?

Mr HERRASTI: Then we have 50 per cent more or less for the workers.

The Hon. TONY KELLY: Okay.

The Hon. Dr PEZZUTTI: That comes out to—but this is for a voluntary reserve, isn't it?

The Hon. TONY KELLY: Yeah, okay.

The Hon. Dr PEZZUTTI: So if things are going tough you could take that one out?

The Hon. TONY KELLY: That's right, yeah, yeah.

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: In other words, there would be no profits?

Mr HERRASTI: If you have losses, for instance, you can also take from the reserves, these reserves, also.

The Hon. TONY KELLY: So that's why you have done so well because you have basically got 40 per cent of—

The Hon. Dr PEZZUTTI: Capital.

The Hon. TONY KELLY: —of reinvestment in the company all the time.

Mr HERRASTI: But, for instance, when you have, okay, quite a good year, an average year, with this 50 per cent people get between 15 to 25 per cent extra salary as a return.

The Hon. TONY KELLY: Fifteen to 25 extra salary back.

Mr HERRASTI: We used to always to reinvest.

The Hon. TONY KELLY: Yep.

The Hon. Dr PEZZUTTI: Yes.

Mr HERRASTI: We are capitalists. What the people have is like a sharing account, you know. You have, okay, \$10,000 at the beginning and after you have, for instance, all the different profits you capitalise every year, and also we give, okay—it's a bit complicated again—we pay for this capital some interest.

The Hon. TONY KELLY: Yes.

The Hon. Dr PEZZUTTI: Yes, 8 per cent, 7½.

Mr HERRASTI: Now it is 7½ per cent and also we pay more or less now 70 per cent of the—I'm not sure what it is in English—the cost of living.

The Hon. TONY KELLY: Oh, increase.

Mr HERRASTI: The increase, the cost of living index, you know, 70 per cent as a way to in a way to—

The Hon. Dr PEZZUTTI: Encourage them to leave their money in.

Mr HERRASTI: Not to encourage, to raise the value of the money, you know.

The Hon. TONY KELLY: Oh, okay.

Mr HERRASTI: Because you add on for inflation maybe.

The Hon. TONY KELLY: Yes.

Mr HERRASTI: Okay, you have money, you are losing the value of the money.

The Hon. TONY KELLY: So you put 70 per cent—

Mr HERRASTI: Because we don't have any kind of stock exchange so that we can evaluate what we have.

The Hon. TONY KELLY: So you give them 7½ per cent plus 70 per cent of the cost of living.

Mr HERRASTI: Yes.

The Hon. TONY KELLY: You have to be careful.

Mr CARR: A maximum up to 11 per cent or something.

The Hon. Dr PEZZUTTI: A maximum of 11 per cent.

Mr CARR: A maximum of 11 per cent.

Mr HERRASTI: A maximum, yeah, but this one is capitalised. This one we pay cash.

The Hon. TONY KELLY: Yep.

Mr HERRASTI: And this one is capitalised.

The Hon. TONY KELLY: Okay.

Mr HERRASTI: And then you have at the end of your working life you have, okay, the minimum capital, the capital you put in at the beginning, the different profits you have capitalised gain and the different, in a way, interest for what we call actualisation.

The Hon. Dr PEZZUTTI: So the voluntary ones actually add to this, do they?

Mr HERRASTI: Not the voluntary. When you finish you don't have assets for the voluntary.

The Hon. Dr PEZZUTTI: So that that \$10,000 you can't get that back?

Mr HERRASTI: Yeah. Not only the 10,000. All the profits you are capitalising again.

The Hon. TONY KELLY: You get it back.

Mr HERRASTI: Every year you have, imagine, between 15 to 20 per cent of your salary as a profit return. This profit we are capitalising again.

The Hon. Dr PEZZUTTI: So do they get it to put into this one or do they give it to you to spend?

Mr HERRASTI: No, imagine, every year in general or something we would say, "Okay, we have so many profits. We've got 20 per cent of these profits", or I mean, not profits. From this 50 per cent of the profits means that this is equal to, I don't know, 20 per cent of our salary.

The Hon. Dr PEZZUTTI: So if your salary is 20,000 a year—

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: —then you would get—

The Hon. TONY KELLY: Four thousand.

Mr HERRASTI: Four thousand.

The Hon. Dr PEZZUTTI: Four thousand. Now, where does that 4,000 go?

Mr HERRASTI: We are capitalising again.

The Hon. Dr PEZZUTTI: You give it to the person.

Mr HERRASTI: To the capital.

The Hon. TONY KELLY: You put it all in the 10,000.

Mr HERRASTI: Yeah. It is like a sharing account.

The Hon. Dr PEZZUTTI: So can you draw down on that at all at any time?

Mr HERRASTI: The only way you can draw is when you leave the company.

The Hon. TONY KELLY: Okay.

The Hon. Dr PEZZUTTI: So the first year it goes to 14,000.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: Then 16,000 and 20,000.

Mr HERRASTI: Yeah, yeah, yeah. It's increasing like that.

The Hon. Dr PEZZUTTI: But you can't draw against that for borrowing a house?

Mr HERRASTI: You can sometimes. It depends. With some permission from the board you can use this as a, I mean, guarantee or something like that.

The Hon. Dr PEZZUTTI: A guarantee.

The Hon. TONY KELLY: So that's your original 10,000 that they put in to be a co-operative member.

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: And then when they retire at the end of their life they get all of that back.

Mr HERRASTI: Yeah, usually now, usually people who—you know, it depends again because if you are very lucky and you are working at a very profitable company or maybe not so much but, okay, an average. People who are working around 25 years, imagine, as in he gets around, I don't know, maybe 150,000.

The Hon. Dr PEZZUTTI: So to that 4 per cent you are also adding that percentage plus that.

Mr HERRASTI: No, only this one.

The Hon. Dr PEZZUTTI: Only that one, not that one?

Mr HERRASTI: Because this is cash.

The Hon. TONY KELLY: They get the cash. They get it in cash.

The Hon. Dr PEZZUTTI: Oh, they get cash each year. So each year you get your 7½ per cent of the 10,000?

Mr HERRASTI: Like a carrot. You are given money like that.

The Hon. Dr PEZZUTTI: That's very good. That's very good interest to pay.

The Hon. TONY KELLY: It is. It's excellent.

Mr HERRASTI: Today, yes, but the questions that we have, you know, a kind of history.

The Hon. Dr PEZZUTTI: But very few personal banks—

Mr HERRASTI: It hasn't changed in the history.

The Hon. TONY KELLY: Oh, okay. So when interest rates were higher it was still the same figure.

Mr HERRASTI: We live or maybe you live also with interest rates of 25 per cent, for instance.

The Hon. Dr PEZZUTTI: Yes, but very few personal banks would pay 7½ per cent.

Mr HERRASTI: Not today. Today is very interesting, but maybe 10 years before not.

The Hon. Dr PEZZUTTI: So you really have built on the shoulders of a long time.

Mr HERRASTI: But as an average it is not so bad.

The Hon. TONY KELLY: Now, most of your—well, they are not really, are they? I was going to say most of your workers are in the Basque region, most of your co-op workers are in the Basque region but some are outside now.

Mr HERRASTI: Yeah, it depends because—yeah, yeah.

The Hon. TONY KELLY: Of the 50,000.

Mr HERRASTI: Most of them are in the Basque region.

The Hon. TONY KELLY: Forty thousand might be in the—

Mr HERRASTI: But, you know, when, for instance, you hope that you have more or less fifty—

The Hon. TONY KELLY: In China and Thailand.

Mr HERRASTI: Fifty thousand people. Many of the companies we have—I mean, most of the companies we have in Spain, for instance, are for the consumer. I mean, this division is for markets. These people are not co-operatives. These companies are not co-operative companies.

The Hon. Dr PEZZUTTI: They are ordinary companies.

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: Yep.

Mr HERRASTI: And their workers is okay. They have some shares in the company but they are not co-operative people.

The Hon. TONY KELLY: Okay.

Mr HERRASTI: Co-operative people are more or less—

The Hon. TONY KELLY: Eighteen thousand.

Mr HERRASTI: And most of these people are in the Basque country here.

The Hon. TONY KELLY: Yep.

The Hon. Dr PEZZUTTI: Now, is this set-up, is that transportable to other countries?

The Hon. TONY KELLY: Could you see it working somewhere else?

The Hon. Dr PEZZUTTI: As a legal—

Mr HERRASTI: No, you don't know. I think by principle I used to say yes, but we don't have any experience because I like to explain this thing very well because sometimes, you know, we feel very proud that we have all these kind of things and so on and some people say, okay, we are very unique, but I don't like to say that because if we are very unique it's like, how I say, like saying that sometimes we have to finish. I think that we are not so strange, but the question is how we can develop these kind of things. It's a question of people. See, not difficult. I mean, there is no, how you say, some people here we used to talk about modest and so on. It's not a question of modest. This is a kind of people who realise in some moment that they have to do something different, and they begin and they were solving the problems.

The Hon. TONY KELLY: Their own way.

Mr HERRASTI: Yeah, their own way, and they are very logical ways to solve the problems.

The Hon. Dr PEZZUTTI: And some of them weren't successful; some of them were.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: All we see now are the successful ones.

Mr HERRASTI: Yeah. But I don't know. I think there was many, many, many times where we used to make a lot of mistakes just thinking modest, you know. We found people committing to this other thing.

The Hon. TONY KELLY: So with the unemployment—when you started off, what was the impetus to do it? Was it unemployment, big unemployment?

Mr HERRASTI: At the beginning, no.

The Hon. TONY KELLY: At the beginning?

Mr HERRASTI: No, because we have to go to the '60s or '70s. I am a typical product from this system. I was starting with the priest and so on.

The Hon. TONY KELLY: Yep.

Mr HERRASTI: And, okay, at that time the problem was not unemployment; the problem was that maybe there were some young people who likes to do something different, you know? Why? Because in a way the society was a bit, how I say, a bit—not a bit, very conservative, you know.

The Hon. TONY KELLY: Yeah.

Mr HERRASTI: The possibilities for the young people to develop something new was difficult, or you have the old families, you know, in the Franco times there were many, many things.

The Hon. TONY KELLY: And they went off to university.

Mr HERRASTI: And the people at that stage had the possibility to develop. They cannot, you know.

The Hon. Dr PEZZUTTI: They couldn't go to university.

Mr HERRASTI: I—how you say? I am very grateful for this system because my father was a very, in a way to say in a way, a very simple man. It's the only possibility we have, and people realise that and, you know, the people like to develop something new.

The Hon. Dr PEZZUTTI: But there was also internal—you had to get a licence for internal migration in Spain. It was difficult.

The Hon. TONY KELLY: Did you?

Mr HERRASTI: But immigration here was not—

The Hon. Dr PEZZUTTI: Internal movement.

Mr HERRASTI: Not so much here. Not at the beginning, you know. At the beginning the immigration was not very important because it was in a ways after the civil war, you know, the people has to do something and I hear—okay, you can have another motivation, like a political motivation or a civil war and people divided and people need something new. This was a very strong motivation probably for these young people to do something new. But the big immigration coming here was come here after, I mean, the '60s. Also we provoke big immigration for a lot of people coming here because we had created all the jobs.

The Hon. TONY KELLY: Yes, created all the jobs.

Mr HERRASTI: Yes, we need people to work here. And in a way I think we have quite good success in integration of the people and so on because, you know, fortunately, we are working in an area with not very big cities, you know. I think, for instance, that a system like this is very difficult—but this is my opinion—to develop in the big cities.

The Hon. TONY KELLY: Yes. Well, we are interested. Our interest—

Mr HERRASTI: You have to have some kind of trust between the people, you know.

The Hon. TONY KELLY: Well, that's our interest.

Mr HERRASTI: You have to have good relations, you know.

The Hon. TONY KELLY: That's our interest because one of the things that we are investigating is—

Mr HERRASTI: It's not the You have to have the people.

The Hon. TONY KELLY: In country New South Wales there's a lot of people are leaving country New South Wales because there's no jobs so we are looking for something that might work in country towns in New South Wales, not in the city. We are not worried about them; you know, we are not worried about Sydney. We are worried about the smaller country towns where they have got communities, how they can create jobs there and keep people employed there, so that's why we are really interested in your system.

Mr HERRASTI: Yeah, yeah, yeah, yeah. You have to have some kind of in the people.

The Hon. TONY KELLY: Yeah.

Mr HERRASTI: And here in this valley the differences, the social differences, were not very high. It's very difficult to develop when you have very high differences.

The Hon. Dr PEZZUTTI: Well we have—Australia is a fairly egalitarian society but the thing that's valuable about this model is that it gives you access to capital.

The Hon. TONY KELLY: Yeah, doesn't it ever.

The Hon. Dr PEZZUTTI: So if you have a small town with a company so they become company towns almost but the ability to grow and to stay there depends upon access to capital which you can invest over time and pay back which, of course, is what this model does.

The Hon. TONY KELLY: Well, there's two forms of capital, isn't there? There's the financial capital, which this system looks after, and the people is the other capital, and it looks after them as well.

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: Because they work together.

Mr HERRASTI: At that time maybe we were quite fortunate because, you know, the profits of the companies at the moment here, maybe because the economy was quite protective and so on, were very important. We had the opportunity to capitalise in a short time very strong.

The Hon. Dr PEZZUTTI: And yet the lady who met us said the first few years were very tough. There were many

Mr HERRASTI: The first 10 years we have strong development. Okay, at that time maybe people could decide just to get profits but they decide to create employment. I mean, that was the main, how shall I say, driving force, just to create employment. The desire was to create employment.

The Hon. Dr PEZZUTTI: So now that you have become mature—we have just been to Italy, to Parma and to Modena and so on, and the big concern there is that their population—

The Hon. TONY KELLY: Is declining.

The Hon. Dr PEZZUTTI: —is changing in its population. There's fewer young people being born, for a start, and maintaining people to work in the various co-operatives there, making the cheese or the ham or whatever, they are now having to import workers.

The Hon. TONY KELLY: From Africa and—

The Hon. Dr PEZZUTTI: Africa and all over the place.

The Hon. TONY KELLY: Algeria.

The Hon. Dr PEZZUTTI: Now, are you facing that problem here? With the children of the co-operative members, are they happy to go into the co-operative?

Mr HERRASTI: No, no. I think the difference we have is quite strong. For instance, first of all, the kind of business we have.

The Hon. Dr PEZZUTTI: So technological.

Mr HERRASTI: The kind of business that we have for small, for good of We have a very growing business in technology because we have grown so fast because we are developing industrial businesses, you know, high investment, high added value and so on.

The Hon. TONY KELLY: High technology.

Mr HERRASTI: High technology in a way like they are speaking but this is a challenge for us now because, okay, we have to develop our companies all over the world but at the moment these companies have not got this because you cannot find co-operative people like flowers, you know.

The Hon. Dr PEZZUTTI: No.

The Hon. TONY KELLY: So how do you start a new one off now? How do you decide—say if you have—

Mr HERRASTI: Quite easy because we have to do it. No problem because you have the customer and the customer say, "Okay, you are like the" You have to be there.

The Hon. TONY KELLY: So do you start a new co-operative perhaps for that or do you just get one of current co-operatives to start producing that.

Mr HERRASTI: Yeah, because, you know, this is different because, for instance, we in a way—you take, for instance, the co-operative system in Italy. You have a lot of social co-operative for, you know, there's kind of a service co-operative and so on, and this is in a way, these co-operatives are locally oriented co-operatives, but we have in a way big internationally oriented co-operatives, you know, and this is a big challenge.

The Hon. Dr PEZZUTTI: For them a very big challenge.

Mr HERRASTI: And for us also.

The Hon. TONY KELLY: Oh, but you are likely to survive.

Mr HERRASTI: I hope so.

The Hon. Dr PEZZUTTI: But how do you start—say, for example, you have got a company here that makes the brake parts, the brake discs, and you decide to set up another company in Argentina to make brake discs. Is the new company in Argentina set up with the same basis of a co-operative or not?

Mr HERRASTI: No.

The Hon. Dr PEZZUTTI: It is set up as a company?

Mr HERRASTI: It is a company because—

The Hon. Dr PEZZUTTI: And all the shares are owned by—

Mr HERRASTI: The majority are for the co-operative, yes. The co-operative buys the shares, the has the shares, the majority of the shares.

The Hon. Dr PEZZUTTI: But who else would have the shares? Another bank you have to borrow money from or what?

Mr HERRASTI: Oh, no, sometimes we invest it, actually.

The Hon. Dr PEZZUTTI: But the ownership of the new company in Argentina—

Mr HERRASTI: Is for the co-operative.

The Hon. TONY KELLY: Is back here in Spain?

Mr HERRASTI: Yeah, yeah.

The Hon. TONY KELLY: It's owned back here in Spain.

The Hon. Dr PEZZUTTI: Is it?

The Hon. TONY KELLY: Yep, and not the Argentinians.

The Hon. Dr PEZZUTTI: So, do you do any joint ventures?

Mr HERRASTI: We have some joint ventures.

The Hon. Dr PEZZUTTI: Some joint ventures.

The Hon. TONY KELLY: I saw they had some joint ventures in Germany and so on.

The Hon. Dr PEZZUTTI: But to get the capital to set up a whole new factory in Argentina, would you draw that from the central bank here, this bank here now in Mondragón?

Mr HERRASTI: No, no, they are waiting for our money we have because the people is quite capitalist here.

The Hon. Dr PEZZUTTI: But is that money kept by the companies or do they put it into the bank, the Laboral—what's it called?

Mr CARR: Caja Laboral.

The Hon. Dr PEZZUTTI: Is that where you put all your money?

Mr HERRASTI: Not all. Okay, as a credit. I mean, the Caja Laboral never invests as capital, always as a loan.

The Hon. Dr PEZZUTTI: Of course, of course, but you put your money in there, do you?

Mr HERRASTI: Yeah, but the money in the Caja Laboral is dependant on what the company has.

The Hon. Dr PEZZUTTI: Of course.

Mr HERRASTI: If the company has money, okay, they can do maybe more. If you have money you can get much more.

The Hon. Dr PEZZUTTI: But if you have got a profitable company here making disc brakes and you want to make another factory in Argentina because there's a big market there, that they want your disc brakes, will the Caja lend you money?

Mr HERRASTI: No. We do integrate. The Caja okay but it's not the assets of the company; it's the assets of the co-operative, not the company. Okay, for instance, if you were thinking of investing in some places, okay, if the co-operative has enough money, maybe they can decide to invest their own money no more. We like to have majority in the bank because if it is strategic or not as a business, but usually majority shares. But also we have—as a corporation we have

some funds with a fund. This fund is coming from the 10 per cent of the profits of the companies and 20 per cent from the bank. It's a common problem we have here. Out of this fund, we can use this fund just to complement in a way the investment of the companies, of the co-operatives, and also to give some kind of guarantees, for instance, to the bank if some of the companies is not—how shall I say? If it is a bit risky to give some loans and so on, we can give as a guarantee from this fund, from this common fund, for the company. This is the way we do it. And imagine that the company is investing a hundred in a place, in a country—I don't know. This fund could give still 40 per cent as a capital risk.

The Hon. Dr PEZZUTTI: But they may not ask for any. They might just spend it all themselves.

Mr HERRASTI: Yeah, it depends. There are different possibilities. Okay, you can give as a loan, you can give as a capital risk, you can give as a measure. These are the different agreements we can have with the co-operatives.

The Hon. Dr PEZZUTTI: And there's no problem with—the new company is then set up as a local corporation which is owned by the people back here in Mondragón?

Mr HERRASTI: Yeah, yeah. You mean a co-operative, if some of these companies are co-operative or not?

The Hon. Dr PEZZUTTI: If the co-operative wants to set up a new company in Argentina, it's not a co-operative in Argentina, is it?

Mr HERRASTI: Usually, no.

The Hon. TONY KELLY: It's just an ordinary company.

Mr HERRASTI: Why? Because—

The Hon. Dr PEZZUTTI: Because it takes too long to get the people who want to be

Mr HERRASTI: Yeah. And not only that. Imagine that many—okay, we have to be international not because we like probably but because we have to do, you know. Because we like probably. We were more, I don't know, more comfortable here, but we have to do because the customer, the market, is asking us.

The Hon. TONY KELLY: The world is global.

Mr HERRASTI: Okay, and you have to do. Okay. Sometimes you can do alone or you can do, or you have to do with others because maybe there are some markets over there, some, I don't know, machines, some facilities and so on and you would like to buy these facilities or shares. This is a kind of joint venture you can have. Usually, joint ventures—the only companies you can have in the world are not co-operative but common companies.

The Hon. Dr PEZZUTTI: So this makes it, and this might sound like a bit of a provocative question, but here we have an organisation built up on solidarity—

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: —and co-operation—

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: —then becoming now an employer—

Mr HERRASTI: Yeah, this is—

The Hon. Dr PEZZUTTI: —of workers, who are paid.

Mr HERRASTI: Good questions. This is a kind of challenge. We are now thinking about that because we have some experiences—not too much but we have some of them here in Spain when, for instance, some kind of the process of structuration of some sectors, for instance, where we were, in a way, obliged to buy a company because otherwise these

companies disappear and so on. We buy a company. We bought the company. And after that we have some cases that maybe after four or five years maybe making some kind of adjustment and so on the people agrees to be a co-operative.

The Hon. TONY KELLY: Oh, okay.

Mr HERRASTI: But in other cases not, and it's impossible to make co-operative people because you like to.

The Hon. Dr PEZZUTTI: Do you try to offer the people in the companies that you own, do you try to offer them the same benefits?

Mr HERRASTI: You mean in other countries?

The Hon. Dr PEZZUTTI: In another way, make it much more equivalent?

Mr HERRASTI: I think that we have but, frankly speaking, at the moment we don't have too much experience on that. I mean, at the moment we have on average, like, two or three or five years' experience in different places but we think that in the next one or two years we have to define clear growth out of that. If you want me to have a guess, trying to give answers to what the customer is asking us but not making in a way, in a co-operative way, I mean, what our principles are.

The Hon. Dr PEZZUTTI: Yes, there's the ethical considerations which have to go to the central corporation. That's something that I've been reading.

Mr HERRASTI: In a way we agree that this is the principle. We agree that in a way we have to work to do as much as close with us, with the principle we have, but it depends.

The Hon. TONY KELLY: Like, the retirement fund, some of those other employees that are in a company, not in a co-operative, they wouldn't be part of that retirement fund, would they?

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: They would, the 34 per cent that you pay in salary?

Mr HERRASTI: But you have different—when people retire you have different. One is your retirement fund you have. This is coming from—

The Hon. TONY KELLY: The state.

Mr HERRASTI: Not the state only. You have, okay, the state. You have also the mutuality.

The Hon. TONY KELLY: Yeah.

Mr HERRASTI: And maybe the individual plants he has maybe. This is one way.

The Hon. TONY KELLY: And that's available.

Mr HERRASTI: Also you have the capital from the co-operative.

The Hon. TONY KELLY: But one ever these companies that you have bought that's not part of a co-operative, can they still get all of that?

Mr HERRASTI: No.

The Hon. TONY KELLY: They can only get—

Mr HERRASTI: Because to be a member of the mutuality he has to be a member of the co-operative and, again, you have more problems because, you know, you have a mutuality here in Spain but how you can have—

The Hon. TONY KELLY: You can't do it in Argentina.

Mr HERRASTI: —in other nationalities in other states. You know, there is no—you can have more or less there are some common growth, common loss for the—I mean, capital companies are shareholders companies but the companies are so different. You don't have—I used to say that—

The Hon. Dr PEZZUTTI: Different countries have different laws.

Mr HERRASTI: —we tended to have an international co-operative. You know, is impossible today to have an international co-operative.

The Hon. Dr PEZZUTTI: That's right.

The Hon. TONY KELLY: Yeah, it is.

Mr HERRASTI: It's impossible. How you can combine different citizens from different companies

The Hon. Dr PEZZUTTI: I mean, for example, you couldn't have the system if one of your friendly companies lost some employees to have them have advantage for employment. It would not be possible in Australia.

Mr HERRASTI: No. Okay, I think it's impossible to have it all over the world but, okay, developing—

The Hon. Dr PEZZUTTI: But a lot of the things are possible, though. I mean, a lot of these structural problems are—the detail may not be possible but it's the ethic of the detail that makes the whole thing work, isn't it?

Mr HERRASTI: Yeah, yeah, yeah.

The Hon. Dr PEZZUTTI: And it's the basic ability to stand together and to share is the principle that makes this whole thing work, and if you get rid of those then you really don't have—

Mr HERRASTI: But when you put the question that it is possible in other places I like to be positive. For instance, we don't have too much experience but because we need to. See, my opinion is I think we have success probably in the year 2010. We have almost 40 per cent of our industrial people in foreign countries.

The Hon. Dr PEZZUTTI: That's right.

The Hon. TONY KELLY: Yep, because of globalisation.

Mr HERRASTI: And how we can manage this 40 per cent with different systems, you know.

The Hon. Dr PEZZUTTI: And fairly.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: Because once the fairness goes out, the whole thing—

Mr HERRASTI: Okay. The better thing is going everything is profitable, no problem, but we get some problems, sure, in the big companies.

The Hon. TONY KELLY: What about trade unions?

Mr HERRASTI: This is a very important question, you know.

The Hon. TONY KELLY: What about trade unions? Do you have trade unions?

Mr HERRASTI: No.

The Hon. TONY KELLY: You wouldn't have any?

Mr HERRASTI: Okay, we have some people who is a member of trade unions, but—

The Hon. TONY KELLY: But you are really a trade union yourself, so hardly.

Mr HERRASTI: It's an interesting question but I, you know, think that the real thinking for a trade union is not very easy to adapt to the co-operative system.

The Hon. Dr PEZZUTTI: It's not very good for the corporate world, either.

Mr HERRASTI: Because, you know, trade unions—I mean, usually trade unions has like a—you have some people in front just to bargain or to discuss or to—

The Hon. TONY KELLY: But these people are working for themselves, really. In a co-operative you work for yourself, whereas a trade union is there to help the workers who are working for somebody else.

Mr HERRASTI: Yeah, this is the problem.

The Hon. Dr PEZZUTTI: There is a difference politically. See, Tony's Labor, the Labor Party.

The Hon. TONY KELLY: Socialist, Labor.

The Hon. Dr PEZZUTTI: No, no. If only they were socialist, but they're not, and I'm Liberal.

Mr HERRASTI: You are not Labor.

The Hon. TONY KELLY: No, no, no, no. Their party is called Liberal but they are conservatives.

The Hon. Dr PEZZUTTI: So they are not liberal.

The Hon. TONY KELLY: In Australia—

Mr HERRASTI: I used to say—talking about politics, I used to say that if we have a co-operative system the good feel for a co-operative system is a liberal system.

The Hon. Dr PEZZUTTI: That's right. Absolutely right.

Mr HERRASTI: Because in a way I think it's a kind of combination you can have of people because, okay, you are more.

The Hon. Dr PEZZUTTI: Everybody depends on everybody working hard.

Mr HERRASTI: But the question really depends on individualities, as you know. People are okay because you are very lucky, you are the big owner or you are a big successful people and you don't have any social trust. Okay, but co-operatives you have this kind of trust with your kin, your people, I mean, your community.

The Hon. Dr PEZZUTTI: But also you have an investment, not so much an investment—

Mr HERRASTI: But we entrepreneurs in other ways.

The Hon. Dr PEZZUTTI: There is a choice. It's not something you are forced to do. You get a choice.

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI: And you have got to make a statement and take up a position and then keep at it.

The Hon. TONY KELLY: In Australia the Liberal Party is not small-L Liberal. It's not. They are conservatives. We are the liberal party, called the Labor Party.

The Hon. Dr PEZZUTTI: That is not But it's interesting, though, to see because so many people these days in politics are very concerned about internationalisation or globalisation and the control of, more and more like the '40s

control of where the money—money control. You know, the gnomes of Zurich are, you know, running Australia or, you know, all of the money that we make in Australia goes to America or the banks are owned—

Mr HERRASTI: You know, in the world, as you say, this is a big question.

The Hon. Dr PEZZUTTI: Yeah, I know. But still—

Mr HERRASTI: And think of the world because, for instance, okay, all this capitalist system—I am not talking about the ecology but, you know, you have a lot of money. That money is coming from the, I mean, common workers. The money is coming from pension funds.

The Hon. Dr PEZZUTTI: That's right.

Mr HERRASTI: Which kind of controls have the pension funds—the money or the workers?

The Hon. TONY KELLY: In Australia—

Mr HERRASTI: What the world is doing with this money?

The Hon. TONY KELLY: In Australia, all our pension funds—

Mr HERRASTI: It's very strange.

The Hon. TONY KELLY: —the banks have got that, not the workers.

Mr HERRASTI: Yeah, yeah, but it's here exactly the same.

The Hon. TONY KELLY: If the workers had it, it would be good.

Mr HERRASTI: For instance, talking about co-operatives in the States—

The Hon. Dr PEZZUTTI: There's a reason why that happened, a good reason why that happened.

Mr HERRASTI: Talking about other co-operatives, you know—I mean, also the financial system has to talk with the co-operatives is a bit suspicious because, okay, the financial system there used to work with the people. I mean, you have to have, like a chief, and this is the owner. You can talk with these people and these people say, yes, okay, everything is clear and so on but the co-operative is not so clear, you know. You have to have a kind of agreement between the people. It is a bit impersonal. You know, politics, politicians are not very—how I say—they like to have control with very few people.

The Hon. Dr PEZZUTTI: It's easier.

Mr HERRASTI: Easier, you know. The co-operative is in a way democracy, and maybe you can get some suppressors, you know, and it's a bit, how I say, uncomfortable but with politics I don't know whether very well in the Basque country, also here with the Government or the Spanish, okay, co-operatives, we are suspicious because you cannot control it. The only control you have is what the people decides. Okay, but this is the people.

The Hon. Dr PEZZUTTI: People can be right; people can be wrong.

Mr HERRASTI: Okay. But they decide.

The Hon. Dr PEZZUTTI: But they own the problem. They think they own the solution and it's their right to do it.

Mr HERRASTI: But in a way it is the only solution you have because what if people decides and people is able to solve the problems, okay, you have to be happy. You don't have to worry about that. But sometimes, you know, we are—it's the same—it sometimes happens the same for me. Okay, this co-operative is doing by themselves doing very well. Okay. Why these people are not talking with me, you know? In a way it's the kind of position you can have. It's not very comfortable.

The Hon. Dr PEZZUTTI: But from a country that went through a very long period of benign dictatorship or sometimes not benign—

Mr HERRASTI: Yeah, yeah.

The Hon. Dr PEZZUTTI:—for that country, for the people in that country to show and take responsibility and to move on themselves is a very big step from where Spain was in the '40s.

Mr HERRASTI: Yeah, yeah, yeah, yeah, yeah, yeah.

The Hon. Dr PEZZUTTI: So this is a different culture.

Mr HERRASTI: Yeah, this is taking the responsibility. I just did a kind of, I mean, joke. If people are alone on an island and just the first thing I have to have is to get my leader, you know It's this kind of thinking.

The Hon. Dr PEZZUTTI: That's right. So they look around for leadership but, in fact, the leadership is within them and this is what develops it, but they can make mistakes, and they can make—their solutions may not be good solutions, but it's their own, which is the important thing.

Mr HERRASTI: The thing we have is that in our corporation we develop the kind of systems you can have. Okay, you have your freedom. You can decide and so on, but, okay, we have some kind of solidarity system, closed solidarity system, to just cover some mistakes, I mean, cover mistakes because also in thinking about solidarity maybe I don't know now I am Liberal or Right sometimes but thinking solidarity I believe very much in little closed solidarities but they are very big. I cannot believe in solidarities all over the world.

The Hon. TONY KELLY: Of everybody, yep.

Mr HERRASTI: To say in a way.

The Hon. Dr PEZZUTTI: Solidarity of the world.

The Hon. TONY KELLY: Except in regional, like in regional solidarity.

Mr HERRASTI: Or different levels. Maybe you can have close to 50 per cent or maybe you can have 5 per cent of solidarities or whatever. I don't know. But you have to have, like, different levels because otherwise it is not, you know—when you have solidarity with the people, you have to see the people face-to-face.

The Hon. TONY KELLY: Yep.

The Hon. Dr PEZZUTTI: When companies get too big they are not possible.

Mr HERRASTI: But then you can have different levels.

The Hon. TONY KELLY: Is there regional government?

Mr HERRASTI: You can have a federation. You can have different levels in an organisation. You can have levels of responsibility.

The Hon. TONY KELLY: Have you got regional government in the Basque region?

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: There's a regional government?

Mr HERRASTI: Yeah.

The Hon. TONY KELLY: Like our State Government?

Mr HERRASTI: That is quite strong here.

The Hon. Dr PEZZUTTI: No, no, it's not that easy. Is it independent of Spain?

The Hon. TONY KELLY: No, not independent of Spain.

Mr HERRASTI: Exactly.

The Hon. Dr PEZZUTTI: No, I know that, but how independent is it? Is it a territory or is it self-governing?

Mr HERRASTI: Self-governing

The Hon. TONY KELLY: A self-governing territory, yep.

Mr HERRASTI: However, for instance, this is in a way this is very special cases. The taxes. We pay taxes to the Basque Government, not to the Spanish.

The Hon. TONY KELLY: Oh!

The Hon. Dr PEZZUTTI: So who provides the army for Basque?

Mr HERRASTI: Armeno.

The Hon. TONY KELLY: But the police you provide.

Mr HERRASTI: But, I mean, we pay our taxes to the Basque Government and the Basque Government pays to Spain some, like, common services, for instance, army or the kingdom or the king and so on, you know, this kind of state of affairs and all these kind of things. I think the Basque country pays around, like, from this from this because, for instance, education is just 100 per cent from—

The Hon. TONY KELLY: From Basque.

Mr HERRASTI: From the Basque country.

The Hon. Dr PEZZUTTI: Does the Spanish Government give the Basque Government any money for education?

Mr HERRASTI: No. The money is coming in reverse. I mean, the Basque Government get the money and pays to the state for some services, the state services, something less. It's not what the state gives to the Basque Government and not in other communities.

The Hon. TONY KELLY: So are there other regions like that?

Mr HERRASTI: In Spain you have only two communities with this right—Navarra in Spain and the Basque country.

The Hon. TONY KELLY: Oh, so—what was the other one?

The Hon. Dr PEZZUTTI: Navarra.

Mr HERRASTI: Navarra.

The Hon. TONY KELLY: Navarra.

Mr HERRASTI: For some people again it is in this country but, you know, this is a whole other question again. This is beginning from the history, you know, because when some places of Spain, you know, in a way was united through the kingdom, you know, the kind of rights you pay to the kingdom for the services.

The Hon. TONY KELLY: So you are still a separate kingdom to some degree.

The Hon. Dr PEZZUTTI: It's like the Isle of Wight and those little islands off the coast of England, the Isle of Jersey. They have got their own parliaments, even.

The Hon. TONY KELLY: So the Basque Separatist Movement—

Mr HERRASTI: The Basque Separatist Movements are working.

The Hon. TONY KELLY: Oh, that's a different thing, is it? That would completely separate, but you are sort of half separate anyway.

Mr HERRASTI: I am not sure but you have the same gates. You have different gates. I can see you. I belong to the National Party, me. I used to be mayor of the town or something but, you know, never

The Hon. Dr PEZZUTTI: But if there are laws of Spain, traffic laws are not local laws; they are Spanish laws, aren't they? I mean, there are some laws that unite Spain and include the Basque country.

Mr HERRASTI: Some, yeah. This is in the coastal region and so on. You have some laws that have to be for the whole states but also there are some laws that the Basque region could decide. For instance, co-operative law. Co-operative law they could decide by themselves.

The Hon. Dr PEZZUTTI: So, say, you could have three different company laws in Spain.

The Hon. TONY KELLY: Yes.

Mr HERRASTI: More For companies there are quite a lot because they are—

The Hon. Dr PEZZUTTI: Yeah, but I mean three different whole codes of company law.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: For Spain, here and applying and then for Navarra and also for Basque.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: Well, we are moving in the other direction in Australia. Hopefully, we are going to have one set of corporate law for the whole of Australia because it's simpler.

The Hon. TONY KELLY: Who's the Government?

Mr HERRASTI: It depends if it is simple or not. The question is not whether it's complex or simple. It's good or not.

The Hon. TONY KELLY: That's right.

The Hon. Dr PEZZUTTI: Oh, yeah, I accept that but, again—

Mr HERRASTI: You have got to say in a way—

The Hon. Dr PEZZUTTI: —you're going to Europe.

Mr HERRASTI: I can say that probably if, for instance, the state in Madrid in this case has given the possibility to make laws in co-operative maybe it's not because it was important, you know. If they think that that would be very important maybe, they don't decide that. This is the question. Okay. But, again, maybe you can have some bases because, okay, co-operative, not probably the kind of co-operative we have but a co-operative, in a way, is quite close to the community. Maybe you need to have some kind of adjustment, I mean, because it depends. You have many industrial co-operatives or many agriculture or maybe you can have some kind of, I don't know, specific roles in your community or so on, but in that it is interesting in a way.

The Hon. Dr PEZZUTTI: I mean, the EEC, the whole European Community is moving to have common company laws and company governance laws because it's just too difficult.

Mr HERRASTI: Yeah, but they are not—the differences are not very big, you know. It's quite close and it's a kind of also—how you say it—when you have the laws, making laws, you know, you can compare with other people how. It's kind of—it's possible.

The Hon. TONY KELLY: It's like traffic laws in your country.

The Hon. Dr PEZZUTTI: But the good thing is—I mean, there's an old saying that, you know, capitalism is all bad, but capital has nowhere to go at the end of the day than where the people are because you can't make money if there's no people to make money from or make money with, so the whole reason that—you are a bit insulated from all of that because if the people with the money, say, Swiss or English or whatever had the money and they got a bit annoyed with Spain—they didn't like what Spain was doing, or Spain put up the tax—and pull their money out, well, you've got your money stuck.

The Hon. TONY KELLY: That's right. You control the money.

The Hon. Dr PEZZUTTI: You are much more able to—it's riskier but you are much more able to be in control of your own destiny.

Mr HERRASTI: Yeah.

The Hon. Dr PEZZUTTI: It has taken 10 years of hard work by an awful lot of people to get here.

Mr HERRASTI: Yeah, the only question is, okay, we have the capital we have, you know, the capability we have to get this capital. It's a limitation. It's a limitation for fast growing, but fast growing, you can have limitations for many other things, not capital also. People is the most important in many things.

The Hon. TONY KELLY: Yep.

The Hon. Dr PEZZUTTI: That's why I asked the question about getting the people to come and work.

Mr HERRASTI: And maybe we cannot be the kind of company who is rushing very fast, you know, because in a way we have—you know, it's not only money.

The Hon. Dr PEZZUTTI: No, it's people.

Mr HERRASTI: Then we had to watch many other things before to do something.

The Hon. Dr PEZZUTTI: It might be the next—

Mr HERRASTI: But maybe in the future.

The Hon. Dr PEZZUTTI: It might be the next Moor migration into Spain.

Mr HERRASTI: I don't know. But, imagine, I sometimes used to say—for instance, I was with some Mexican people, for instance, talking about education and so on, you know, and they like to invest and they are investing quite a lot of money in education and university but the question is: for what? I mean, okay, you are preparing people, good people, but who is the people who takes all the benefits for what you are doing? Is Mexico? A multinational?

The Hon. Dr PEZZUTTI: That's the question.

Mr HERRASTI: Because, okay, multinational comes with the capital. You put the company. Okay, you give some employment but when they say to finish, finish.

The Hon. TONY KELLY: We are going to Ireland.

Mr HERRASTI: There is a lot of, I mean, investment for the I mean, to say in a way for the people but these multinationals are not paying.

The Hon. Dr PEZZUTTI: That's right. They are not paying for the education. They are coming there for the workers because the workers are educated by the country.

Mr HERRASTI: Even what we have now is that we have roots, you know. The this system is you have, okay, you are working for the community. You are working for the community for some people.

The Hon. Dr PEZZUTTI: But not everybody in Mondragón is part of the co-operative.

Mr HERRASTI: No, but some—

The Hon. TONY KELLY: A lot are.

Mr HERRASTI: It's not important. In my opinion it's good. Also you have the possibility to go bad. In my opinion it's good. I don't like to have, you know, the whole—I mean, the same system. Some kind of competition, you know, in a way is good always but to have roots is quite important. We have—okay, all the companies have no profits but we are a lot of people living from the profits in a way.

The Hon. TONY KELLY: See, what they've done, they have invested in the education and they get to keep the profits from that education. In Ireland, where they have invested in the education, it's the multinationals who are getting the profits.

The Hon. Dr PEZZUTTI: Well, that's what we are going to find out.

The Hon. TONY KELLY: Yeah, that's the big comparison, I think, too.

The Hon. Dr PEZZUTTI: Because I think the difference is that a lot of those companies, their companies, are providing contract work for big companies like Microsoft. If they get the contracts themselves, they make good profits themselves.

The Hon. TONY KELLY: Oh, yeah, but the overall profits—we'd better let this guy go. I wonder if we can get a copy of the video.

The Hon. Dr PEZZUTTI: Because the buzz goes with the big—I mean, it's probably the only answer to One Nation, isn't it? It is the only answer to One Nation.

The Hon. TONY KELLY: We were just saying, we are going to go to Ireland after this because of the Irish miracle of the employment and so forth there, and that's to some degree based on—I know there's two reasons. There's one because of the EU money going in, but they have invested heavily in education in the past and they now say that they are getting the benefit from it because they have got all the jobs from it but the difference between you and them is that you invested heavily in education but you are getting the jobs from it but you are also getting the profits from those jobs. It's not going off to America or somewhere. In Ireland, what they have done is they have invested in education, they have got the jobs, but it's Microsoft who have got the company.

Mr HERRASTI: What's happening within the operations, no.

The Hon. TONY KELLY: So the money is going—the ultimate profit is going somewhere else.

Mr HERRASTI: They have fantastic universities, okay, but—

The Hon. Dr PEZZUTTI: They always have had.

Mr HERRASTI: When I was visiting, for instance, I don't know IBD or International InterAmerican Bank or I don't know, World Bank in Washington, for instance, you can have a lot of Latin-American people with very good, I mean, education. I can't work in the Americas. They have got their own people.

The Hon. Dr PEZZUTTI: Don't worry. In two thousand and—is it 2020, 40 per cent of the population in America will be Spanish-speaking.

The Hon. TONY KELLY: Forty per cent?

The Hon. Dr PEZZUTTI: Forty per cent. It will be the biggest single group. Well, if you can call everybody who speaks Spanish the same group, but they are not.

The Hon. TONY KELLY: Thank you very much for your time today. We are going to have to let you go.

Mr HERRASTI: Yeah, but I don't know, we weren't talking about the many—

The Hon. TONY KELLY: No, no, no, no, but you have been very helpful to us for our understanding.

The Hon. Dr PEZZUTTI: It was very important.

Mr HERRASTI: But you do like sometimes just to—okay, maybe to study a bit more, I will be very helpful too.

The Hon. TONY KELLY: Oh, we are very pleased that you have—

The Hon. Dr PEZZUTTI: See this is not inimical to most societies, this sort of co-operative. We have had these societies for a long time with small ones, which then haven't developed, like meat co-operatives and they have never had the capital to vertically integrate, to own from the bottom to the top.

Mr HERRASTI: Yes, this is the big difference.

The Hon. TONY KELLY: We have got a rice growers co-op in New South Wales which in a limited way is like yours. There are farmers growing rice and they vertically integrate. They own their own rice plants and everything and that does well because of their own finance.

Mr HERRASTI: For us, one big difference in our co-operatives is that, okay, there was as you mentioned before, the main consumer, but the question is that in all our co-operatives the workers are members.

The Hon. Dr PEZZUTTI: Not just the farmers.

Mr HERRASTI: Not just the workers.

The Hon. Dr PEZZUTTI: Not just the farmer but all the workers.

Mr HERRASTI: All the workers.

The Hon. TONY KELLY: A good system. I like it.

Mr HERRASTI: For instance, in our bank the members have a co-operative in the workers of the bank. In our consumer, the members have consumers and the workers, and the workers have—I mean, this is the fixed assets you have because the workers, they play with some life.

The Hon. Dr PEZZUTTI: That's right. I accept that. What about—

The Hon. TONY KELLY: It's excellent.

The Hon. Dr PEZZUTTI: It is a sensible idea. It's capital, as Tony said, but it's getting people to choose to do it and to look at what they are doing today as something for the future. It's not just for now. And we are a bit of a "now" generation at the moment.

The Hon. TONY KELLY: We are. It takes a few years.

Mr HERRASTI: Imagine, again, for instance, we have a lot of co-operatives here in the Basque country, quite a lot, education co-operative, you know, school co-operatives in a way, but here, for instance, you can have co-operatives of teachers, a co-operative of, I mean, pupils or, I don't know, students. But here usually we have the co-operatives—the co-operatives are always with three kind of members—students, one-third, no? The students, teachers or people who are working, you know, and usually the companies, the companies who are supporting in a way the school and so on.

The Hon. TONY KELLY: That forms the co-operative.

Mr HERRASTI: In all—I mean, imagine the board or so on, one-third, one-third, one-third. It's good because you have a kind of balance, you know, between the—

The Hon. TONY KELLY: Do the Teachers Federation like that?

Mr HERRASTI: Okay, why you have only a teachers co-operative or a student co-operative, okay?

The Hon. Dr PEZZUTTI: This is right.

Mr HERRASTI: Why you don't vote in the same ratio all the stakeholders?

The Hon. Dr PEZZUTTI: That's the problem with the union movement. It's them and us. What you have got here is it's all "we", not them and us.

The Hon. TONY KELLY: Do you mind if we keep your notes? Could we have those?

Mr HERRASTI: Yeah, you can have this stuff.

The Hon. TONY KELLY: Yes, excellent. Thank you very much for that.

Mr HERRASTI: I have my copyright.

The Hon. Dr PEZZUTTI: We are writing a book, and we are not going to—we will keep the money.

The Hon. TONY KELLY: We have a book, Race Matthews.

Mr HERRASTI: Yeah, yeah, I know him. I know him.

The Hon. TONY KELLY: Yeah, we've got that book. It's on Mondragón.

Mr HERRASTI: Okay. I know him. I met him I have never been in Australia but maybe next time.

The Hon. TONY KELLY: Well, when you do—you have got our card—come to our Parliament.

The Hon. Dr PEZZUTTI: Absolutely.

Mr HERRASTI: I give you a call.

The Hon. TONY KELLY: Yes.

The Hon. Dr PEZZUTTI: We would be absolutely thrilled to see you because the rest of our Committee and even the members of our Parliament—

Mr HERRASTI: This is your information package you have here. This is fantastic because, you know, when I am travelling, you know, to have a lot of things like this is not so common but you have here a copy of what you have seen and the different products and so on.

The Hon. Dr PEZZUTTI: I have read that one.

Mr HERRASTI: This is a little history.

The Hon. TONY KELLY: Oh, excellent.

The Hon. Dr PEZZUTTI: That's good.

The Hon. TONY KELLY: Excellent.

Mr HERRASTI: And this is—sometimes I used to say that it's like a Red Book.

The Hon. TONY KELLY: Good on you.

Mr HERRASTI: But it's not the Red Book. This is a kind of—I mean, from the different writers, the writings.

The Hon. Dr PEZZUTTI: Meditations.

Mr HERRASTI: No. It's a reflection but it's not—I think it's too much, a reflection. It's just to take some sentences from the different writings depending on the kind of matters they—for instance, please carry this one, but, you know, you have more. I don't know.

The Hon. TONY KELLY: Is the Basque region—

Mr HERRASTI: This is a human issue work, for instance, different like that.

The Hon. TONY KELLY: Is the Basque region mainly Catholic?

Mr HERRASTI: It used to be. I'm Catholic but—well, the people here used to be Catholic but today for most people it's quite, in my opinion, unfortunately, it's a bit agnostic, I mean.

The Hon. TONY KELLY: We are different political parties but we are both Catholics.

The Hon. Dr PEZZUTTI: But the difficulty—

Mr HERRASTI: They are agnostic and I think all the, you know, here in Europe—I don't know how much in Australia but here in Europe it's—

The Hon. TONY KELLY: It's the same.

Mr HERRASTI: In the '60s and '70s, you know, the young people change, drop.

The Hon. TONY KELLY: The same.

Mr HERRASTI: I have problems in my family just to go and visit my son, you know. It's changing. It used to be very Catholic.

The Hon. Dr PEZZUTTI: But, again, how—I mean, I am just concerned for the companies in Europe and the companies here and the co-operatives whether or not you would be sustainable because of the same work ethic, the same commitment to communities.

Mr HERRASTI: But the ethical commitment I think, in my opinion, at the very beginning I remember the first always against the Catholic principles.

The Hon. TONY KELLY: That's right, exactly.

Mr HERRASTI: Now this is very clear but people now doesn't, okay, like to give this kind of you know.

The Hon. Dr PEZZUTTI: That's right.

Mr HERRASTI: But the values are there.

The Hon. TONY KELLY: Yeah.

Mr HERRASTI: The values are there, quite clear. I think the people are agnostic in a way but we share the principles.

The Hon. TONY KELLY: You have still got that co-operative community spirit.

Mr HERRASTI: We have the principles, yeah.

**Meeting No. 6: Monday, 23 July 2001 European Parliament - Committee on Regional Policy and Transport
Brussels, Belgium**

Also in attendance:

Mrs Minna Ollikainen, Administrator, Committee on Regional Policy and Transport, European Parliament

Mr George Pfeifer, Administrator, Committee on Regional Policy, Transport and Tourism, Directorate General for Committees and Delegations, European Parliament

Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union

Mrs OLLIKAININ: If you simplify it a little bit.

Mr PFEIFER: Yeah. It's basically let's say, the very obvious expressions but, sorry, it means basically that, like, I would see it it was a kind of parallel development to the establishment of an internal market anyway whereby you allow for the application and implementation of the rules of the internal markets, the four freedoms and so on, which was a little bit—let's say, for those regions being disadvantaged was a little bit of a kind of—they feared that they would lose out in this process of economic European integration and, basically, with almost every step in further going into the establishment of this internal market this policy was done parallel also by investing more into eliminating regional disparities, which are you have to say so far are seen mainly as—it's hard to put it but it's statistically in disparities anyway. I mean, the whole European regional policy is quite mechanic in its approach if you would see it like this. It merely—the classification of regions which are supposed to be disadvantaged the statistical criteria mark of, yes, being below a certain threshold of the average GDP, but for objectivity too we have some other criteria but, nevertheless, it is—

Mrs OLLIKAININ: Yeah, and then there are some, yeah.

Mr THOMAS: It is essentially based on the average income of the region so that if the income falls below the average of the European Community, one question that's worth asking is what will happen with enlargement because with enlargement the European Union will bring in a whole lot of very low income countries, and that's something that is certainly generating a lot of debate within Europe.

Mr PFEIFER: That's actually the point you can see, I mean, how mechanistic actually this approach is because, like, just by the mere fact that some 10 to 12 countries would enter the union in the coming years, the average GDP of the union will decrease by, will drop by, I think it's up to 14 per cent.

The Hon. TONY KELLY: So, therefore, some of these ones in red and blue might drop off

Mr PFEIFER: Would drop off just for statistical effects.

The Hon. TONY KELLY: Not because they have come up but because the average has come down.

Mrs OLLIKAININ: And, for example, in the case of Spain I think now there are some 17 regions, we guess, objective, one aid, which we call the red colour, and then there would be some six left out of the 17 so they are quite worried. Of course, there are transitional measures and all that, but I think—

The Hon. TONY KELLY: So they are not happy about it.

Mrs OLLIKAININ: Yes, we need to strike a compromise somewhere.

The Hon. TONY KELLY: So Madrid there is about the only one in Spain that is not in the red mark.

Mrs OLLIKAININ: Yeah, and then Catalonia in the corner there.

The Hon. Dr PEZZUTTI: So originally the map we have here without the new ones coming in was a levelling up process and now with the 10 more coming in there will be a levelling down process because the average drops. Fascinating. That's

why the solidarity thing—is that like putting a ring around a whole series of countries saying, "This is our internal market. Buy within it. Please show friendship to buy Spanish/ Don't buy South American"? Is this what solidarity is all about?

Mrs OLLIKAININ: I—

The Hon. Dr PEZZUTTI: I mean a country's a socialist thing to try to make everybody the same.

Mrs OLLIKAININ: —wouldn't go quite so far. Maybe from your point of view it's that way, but I think for us solidarity is less about trade policy.

The Hon. Dr PEZZUTTI: But the whole theme for the EEC is trade policy.

Mrs OLLIKAININ: Not from our point of view it is not because, like—

The Hon. Dr PEZZUTTI: What's the value?

Mrs OLLIKAININ: For example, we both come from countries which weren't in the European Union a couple of years ago but now we are in, and even before it was 80 per cent of our trade it was within the union.

The Hon. Dr PEZZUTTI: But it was more difficult.

Mrs OLLIKAININ: Yeah. To some extent, yeah.

The Hon. Dr PEZZUTTI: Different taxes, different rules, cross-borders.

Mrs OLLIKAININ: Yeah.

The Hon. TONY KELLY: So what's the benefit for you to be in the EU?

Mrs OLLIKAININ: I come from Finland. Our benefit is it's—well, the most cited one is security policy.

The Hon. TONY KELLY: Security policy.

Mrs OLLIKAININ: Yeah.

The Hon. Dr PEZZUTTI: Called Russia.

Mrs OLLIKAININ: Called Russia, with a thousand kilometres of common border.

Mr PFEIFER: And I would say, I mean, of course, I'm from Austria also, a newcomer.

The Hon. TONY KELLY: Austria. What was your benefit?

Mr PFEIFER: Our benefit politically and economically, I would say, but, I mean, you have to see Europe, the benefit doesn't always look like, I would say, mainly as a political project. It all started as a political project on the basis of integrating certain industries, which was in the very beginning coal and steel, but having always in mind that, like, in order to allow for a political integration of the Continent and to definitely reach co-operation, which would then avoid having conflicts which have been so numerous on this continent, that by economically integrating you would in a few generations or whatever probably come to Euro businesses are not sure where they want to go but basically the idea always was a political idea, not as merely a trade or economic issue.

Mrs OLLIKAININ: And it's—

Mr THOMAS: Can I comment please on the trade issue? There are certainly trade distortions in the way that Europe organises its policy, but I think that you would find few people who would argue against a proposition that the creation of Europe has increased overall trade because the formation of the customs union, the formation of the European Union, has led to higher growth rates. Particularly you will see that in Ireland.

The Hon. Dr PEZZUTTI: It would cover a lot of inefficiencies within the part.

Mr THOMAS: It has. It has got rid of a lot of inefficiencies. It has led to a higher growth rate, and I think overall there has been an increase even in external trade, but certainly for some countries who would specialise in agricultural commodities there would be an argument that the liberalisation hasn't happened quickly enough, but the way that the WTO rules work it hasn't got any worse. It's difficult to prove something that didn't happen or to prove what would have happened in different circumstances, but WTO rules allow for when you have this sort of expansion you negotiate to preserve whatever benefits you have.

We received increases in quota for trade into the European Union after the last session because we had an existing trade with the countries that joined the European Union, so in terms of trade the theory is that the people are no worse off and the practice is generally they are better off in the longer term because you have a higher growth rate, so we have a problem with the trade policy as it stands but that I would put to one side. I mean, if we want to do that we can talk to the trade policy people but the benefit I think we have here is regional policy and—

The Hon. Dr PEZZUTTI: Oh, absolutely. So we have got the big picture.

Mr PFEIFER: It might be that probably Europe from the outside is very often seen as a mere economic issue, which it is not, definitely not, and I wouldn't see it like that even if, of course, you have got all the benefits of an integrated market, and there have been an awful lot of developments recently just due to this influence of the single European act, the single market and so on.

The Hon. Dr PEZZUTTI: But 80 per cent of the land mass is occupied by about 20 per cent of the population, which is the issue that we are coming to, and they are spread out all over the place. How do you maintain—without reading all these documents it seems that the agricultural product is just aimed at maintaining the look of the scenery, you know, what you see rather than what you get, so how do you increase the services and maintain the people in the regions in those spread-out areas is what we are really interested in, isn't it? How do you maintain people living in the countryside who have a different income level than people who work in secondary industry and, you know, administrators in the EU?

The Hon. TONY KELLY: The service industry.

Mrs OLLIKAININ: If you look at the map again, the northernmost bits in red, with one exception, they wouldn't actually otherwise be in red unless it was a regional policy decision because all these regions they have such a low population density that they were considered having as much problems as the regions less than 75 per cent of the average GDP.

The Hon. Dr PEZZUTTI: Well, because although they might have a high income they pay so much for services?

Mrs OLLIKAININ: Yeah, exactly.

The Hon. TONY KELLY: So what countries are they?

Mrs OLLIKAININ: That's Sweden and Finland.

The Hon. TONY KELLY: Sweden and Finland. So what are they doing to help those countries?

Mrs OLLIKAININ: Well, there are quite a lot of programs, national programs, so what we have to keep in mind what's European is always additional, so these countries have their own regional policies which try to—well, for example, in Finland and Sweden, try to keep people in the countryside, and they are not very successful.

The Hon. TONY KELLY: They are not very successful?

Mrs OLLIKAININ: No, no. There's lots of, yeah, the villages up north, they are just empty, with a few exceptions. Here in the corner of, like, the border between Finland and Sweden, like, 2,500 kilometres from here, which is in European terms quite far away, there is a place called Oulu, which is a town of some, or was a town of some 30,000 inhabitants 10 years ago. I think they are now up to, I think, 50,000 and it's high-tech primarily. They have Nokia there; they have other high-tech companies. Even though with the high-tech boom going less well at the moment, I think it's one of the real success stories of the northernmost parts of Europe but, of course, I can't say that it is purely a regional policy thing, but partly it is. There's a university because it was decided to have a university tech there so they have lots of educated people to provide the companies with—there are lots of companies that have been located there because of—they do not have kind of a tax

regime, for example, you can find in Ireland but they have other benefits where they try to make the easier for the people to move there and keep there. But then again it's a problem. It's a growth centre around it. Problems, lots of problems.

The Hon. TONY KELLY: What about towns under 10,000, smaller? Are they losing population?

Mrs OLLIKAININ: Yeah.

The Hon. TONY KELLY: See 30,000 is probably a reasonable base to build on. There would be lots of towns and villages under that. They would be going backwards, though, wouldn't they?

Mr PFEIFER: It varies a lot. It's really depending on the European regions you are looking at. For a northern country you are more into that. You know, a little bit how it works basically. Let's say that the regional development assists you in there. So what you have got actually is a kind of what they call a Blue Banana, which reaches from the metropolitan area of London via Benelux, the western part of Germany to northern Italy plus also the Parisian area, which, as you said, is economically the motor of the union, and then, and that's also if you look at it what in European terms is always called the peripheral regions, which are the most remote regions in a way, and it's particularly the peripheral regions who have problems with depopulation.

The Hon. Dr PEZZUTTI: What's this red one here?

Mr PFEIFER: That is former eastern Germany. So the fact that they have such a low GDP has to do with the communist past of 40 years almost, 45 years.

Mr THOMAS: Would it be worth—well, two questions that are perhaps worth asking. How are the regions identified? Who determines what is a region? The whole of Ireland looks as if it is defined as a region.

The Hon. TONY KELLY: Except one dot up north, one little dot in the north.

Mr PFEIFER: This was basically—those were gentlemen's agreements between actually the statistically, national statistical institutes, and the European statistical institute, which is Eurostat. It's just right now in Parliament a proposal to formalise it in a piece of legislation. It's not classification you call it; it's a French word nomenclature that is Unité Territoriale Statistique, which provides for actually three plus another level for local communities but three regional levels which are then serving as a basis for a lot of things but among which there is also the question of eligibility for the structural funds.

The Hon. Dr PEZZUTTI: Well, the structural funds are more related, as I read—it might be not true—for transport, water.

Mr PFEIFER: Yes, in a way. I mean, what you probably read is what the cohesion fund is doing where you have a 50 per cent share for transport projects and a 50 per cent share for environment.

The Hon. Dr PEZZUTTI: They mostly relate to the cities rather than the regions.

Mr PFEIFER: Each now has a parallel.

The Hon. Dr PEZZUTTI: I mean most of that cohesive fund benefits the cities.

Mr PFEIFER: That depends a little bit from the national—but, yes, it is very often accused.

The Hon. Dr PEZZUTTI: Wastewater, waste product, solid waste, water supplies are all city things.

Mrs OLLIKAININ: Yeah, but—

The Hon. Dr PEZZUTTI: But transport doesn't go near the small towns.

Mrs OLLIKAININ: But keep in mind that's 18 billion euros out of 213, so it is less than 10 per cent.

The Hon. Dr PEZZUTTI: Okay. For us it's 213.

Mrs OLLIKAININ: So it's less than 10 per cent.

Mr PFEIFER: Then, like, for the mainstream structural funds—I mean, the cohesion fund is not even a structural fund. The structural funds are actually the development fund.

Mrs OLLIKAININ: Actually, just maybe one word on the cohesion fund. It was something that was created less than 10 years ago to compensate for the four least prosperous countries in order to prepare them for the single currency, so that was kind of an exception to the norm, like mainstream structural funds.

Mr PFEIFER: It's another example, for integration also means, like, financial compensation for those who feared that they would lose out in the structural process actually, but it's in financial terms definitely not the most important.

The Hon. TONY KELLY: The majority of the money, the 200-odd billion goes to, what—transport?

Mr PFEIFER: No, no.

The Hon. Dr PEZZUTTI: It's this stuff here, Tony, "Supporting small and medium size enterprise, productive investment, improving infrastructure and furthering local development", but the "furthering local development" gets a relatively small part of that, doesn't it?

Mr PFEIFER: Yep. I mean, it's local development. I mean, a lot of measures and principles are concerned in local development. It depends on what you understand of local development.

The Hon. Dr PEZZUTTI: Well, how do they do it? If you pick a region where there is high unemployment, low income, how do you improve their income and give them employment?

Mr PFEIFER: What they do and then probably, we, yes.

The Hon. Dr PEZZUTTI: One example.

Mr PFEIFER: I will just start with two sentences before coming to that. You can do with structural funds money an incredible lot. It's a little bit like you have got a huge list of things and measures, projects you can do with it. It covers really an awful lot of activities, especially since the last reform. It has been even enlarged even for cultural electives and so on and so forth, so what you then do after once the eligibility has been decided on, it's actually under subsidiarity that it's decentralised and effected like in the sense that like every region then develops a program which is a mid to long-term program—in this case now it's seven years—which contains a regional development strategy on the basis of an assessment of strengths and weaknesses of the region.

It's this SWOT analysis—strengths and weaknesses, opportunities and so on—and on the basis of this thorough assessment of strengths and weaknesses they, as I said, develop a regional strategy which translates then into particular measures and into a financial plan which defines what is going to be done with the money they receive from the structural funds, which is then always backed also by the regional and very often also the national funds, and then, well, it depends a little bit from region to region but some regions tend to integrate the structural funds money they get into the existing, what you say, fostering programs or, like, which exist already. They're just backed up with European money. Others, which is a little bit probably in the more difficult approach start from scratch and create new programs or—

The Hon. Dr PEZZUTTI: Can we have just a simple concrete example explained, one example of one region?

Mrs OLLIKAININ: I would say we take northern Finland with these little towns with problems. They have decided to concentrate mainly on backing up small and medium-size enterprises especially from the point of view of a high-tech information society, that kind of projects.

The Hon. TONY KELLY: So what would they actually do for them? They would give them a grant of 50 per cent towards bringing technology into a factory, into a company?

Mrs OLLIKAININ: Yeah, it can be—there are, of course, as many things as there are but, for example, it might be that they get co-financing for being able to—for example, if it's a small company with some growth potential, they might get a subsidised work force, a couple of extra persons working there for a certain amount of time from a project, which they wouldn't otherwise probably be able to do, so they get more people in, and it has happened in a couple of—for example, if they get these people, five people for two months—

The Hon. Dr PEZZUTTI: That's very small. When you are talking big dollars you have got to have, for a town of say 10,000 in a region, there might be three towns of 10,000 in a region, low income, low employment, no youth work, no nothing. Give me an example like that of how you move and how much money.

Mrs OLLIKAININ: I can't give you one example because it's these kind of small problems. It's tens of them. This is the way that the system works. It's up to the region. You can't say that there's a money machine. They won't finance—I think in most cases at least what I see as the most successful ones are the small ones.

Mr THOMAS: One of the key regulations that—the commission, community, will have, I assume, regulations that set out the criteria under which the grants are allocated. What are those key regulations? Give us the regulation numbers.

Mrs OLLIKAININ: Yeah, I can give you the book.

Mr THOMAS: Terrific. That would be great.

Mrs OLLIKAININ: Yeah, no problem. I would say that there are certain basic rules. One rule is additionality. Basically, all this additionality. They have to be additional to your existing national regime. The other thing they have to be co-financed, so that it's not like grant money coming in which you can use in whatever way.

Mr PFEIFER: I mean, probably just to add to these examples, I mean, this map here with these beautiful colours also actually is paralleled by a map of regional aid platforms.

The Hon. Dr PEZZUTTI: Platforms?

Mr PFEIFER: Platform ceilings, which means that, like, normally Objective 1 regions tend to have—it varies, but on an average let's say possibilities of giving state aid to small to medium larger companies up to 30-35 per cent for investments, either investment to, what do you say, settle there, for investments to, like, enlarge the production side, so investing into a certain new product or these kind of things. Objective 2 regions, it's less than that. It's normally up to between 10 and 20 per cent of—it's called in English net subsidy equivalent.

Mr THOMAS: Net subsidy equivalent, yep.

Mr PFEIFER: So this has an effect. Just to give you an example, a recent decision, and probably you heard about it, that BMW was looking for a new—they had the intention or have the intention to establish a new plant for making, I don't know, 3 series or whatever of their cars, so there were like an awful lot of—I think 50 or, no, even more than that, quite a lot of cities being interested to host, give, yeah, host this new plant. In the end of the day after a long procedure looking for a lot of things like accessibility and so on and so forth, they decided to have this new plant building in eastern Germany, which is an Objective 1 region, and what they claimed in accessibility was satisfying apparently but what they also claimed one reason for them to build this new plant there was the fact that for the investment made there one-third actually will be state aid subsidies from EU, national and then regional authorities together.

The Hon. TONY KELLY: A third of the cost?

Mr PFEIFER: A third of the cost. That's an awful lot.

The Hon. Dr PEZZUTTI: This is where you can talk about interesting subsidiary and impact on trade. That makes a big difference, doesn't it, if a big public company like BMW suddenly hit the public breast and milk out 30 per cent of producing their new factory?

Mr PFEIFER: It's a huge investment there. It will create up to 10,000 jobs. So you see, I mean, in the end of the day establishing different ceilings of possibilities to subsidise investments influences decisions.

The Hon. Dr PEZZUTTI: How long does this process take? Say, for example, I got a very bright idea in my region—in my region we have this very bright idea and we work away and we tick all the boxes. How long before we get the money?

Mr PFEIFER: I mean, I would say, let's say you are an investor and you want to, like, invest in—

The Hon. Dr PEZZUTTI: No, I am a regional—

The Hon. TONY KELLY: Council.

The Hon. Dr PEZZUTTI: A council, you know, whatever you would call them here, a local government body, and we work up this wonderful plan of how we're going to improve employment of young people and education and stuff, and we get this wonderful plan together having done the analysis and we have got everybody in it. Everybody is agreed this is a wonderful thing to do and we have got 30 per cent of the money or 35 per cent of the money. How do we get the other 75 per cent and how long does it take?

Mrs OLLIKAININ: I think it depends. If it's already—if we are, like, we are in the middle of a—we call them programming periods, and your project fits into the overall strategy, then I think it takes six months maximum to get the money, but if we are now thinking ahead that the project is starting in 2005 and we have to change the program, it's so exotic and innovative, it's not in the program, then it takes time to really, you know, get negotiated, then I think you need two or three years.

Mr THOMAS: And that I think comes to the heart of—that's why I asked for this guide. You may find this a useful book to look at. It sets out the process. Something we didn't touch on when you mentioned additionality and co-financing as the critical points, the other thing that is essential for the community is subsidiarity. Subsidiarity, it took me 12 months to learn what the word meant—

The Hon. Dr PEZZUTTI: That's another question. It's like solidarity and subsidiarity. You will go right through these but they are never explained.

Mr THOMAS: They are never defined, no. They are part of—

The Hon. TONY KELLY: The culture.

The Hon. Dr PEZZUTTI: Le je ne sais quoi.

Mr THOMAS: Yep. Subsidiarity means that the decisions are made as close as possible to the people that it has an effect on. It's decisions are made at a regional level if they can be made at a regional level. The commission does not want to make decisions unless that is the sensible level at which the decision should be made. Now, in developing these regional policies, there's quite a long process of the regions developing a plan, developing a regional plan. That plan then works through a process. It comes up. It's approved by the commission. Does the Parliament have a role in the approval of the plan?

Mrs OLLIKAININ: No.

Mr THOMAS: The commission approves a plan, the overall plan, and then within that plan individual projects are then nominated. This and the regulations in here all set out the criteria that the strategic plan must be designed against. It will set out the process.

The Hon. Dr PEZZUTTI: So do they distort the plans?

Mr THOMAS: The criteria?

The Hon. Dr PEZZUTTI: Mmm.

Mr THOMAS: Distort is a pejorative word.

The Hon. Dr PEZZUTTI: I don't mean distort. Okay, they shape.

Mr THOMAS: They shape the plans. You have got to follow the criteria if it is going to be approved but there's a negotiation on what the criteria should be.

The Hon. Dr PEZZUTTI: If everybody has got together and we all thought that, you know, to employ our youth this council there and we all agreed and everybody came together in the village square or in the town—

Mr THOMAS: And if it didn't fit the criteria.

The Hon. Dr PEZZUTTI: Yeah, and it didn't fit the criteria.

Mr THOMAS: You have got two to three years.

The Hon. TONY KELLY: Yeah, you have got to go through the long period.

Mr THOMAS: If it does fit the criteria—

The Hon. TONY KELLY: It is three to six months.

Mr THOMAS:—and there's money there and it fits the plan that you have submitted for your region so the criteria sits above the plan that you have submitted and that has been agreed and if it fits within all of that, then it comes down to a period of months, so it is a process that—

The Hon. Dr PEZZUTTI: Okay, so I get this plan and we say, "Well, if we go this way we are going to wait five years but if we go this way, then"—this is why I say distort.

The Hon. TONY KELLY: Yes, it does distort.

The Hon. Dr PEZZUTTI: Yes, distort. It is not a pejorative word. Distort is distort. It takes us from going in this direction to going in that direction.

Mr THOMAS: Yep.

The Hon. Dr PEZZUTTI: And these people want to go in that direction but the only way to get the money is to go in that direction.

The Hon. TONY KELLY: Or you might have to go—to get that direction you might have to go—

Mrs OLLIKAININ: No, but it's not like that. It's not like that.

The Hon. Dr PEZZUTTI: That probably fits in with a whole lot of other plans.

Mrs OLLIKAININ: No, because it's very general and you can choose from a range of things and it's not imposed on you by Brussels, so you are free to choose. It might be, of course, that your—I don't know, there is an election and the views within the region change and that's why you are in a difficult position but it's up to you to decide and choose from a range of whether you want to concentrate on education or whether you want to work more on, like, employing unemployed, which is not necessarily the same if you want to educate young people or you want to retrain older people, so it is a choice of your own, but you make it for several years. Maybe this is an extreme. If you put education as one of your bases you could do both but, you know, if you choose I don't know—

The Hon. Dr PEZZUTTI: Say we decided we were going to have a pottery, make pottery things. Well, of course, if every village decides to do that, then you all go broke so there has to be some—the criteria takes you from going in this wonderful direction that everybody sees is the great way forward but somebody has to have some co-ordinating factor so that everybody doesn't start to do—"Well, they make good vases in Spain. We could do that in Italy," or Austria. "Let's have an Austrian copy of what the Spanish do." I mean, it would be a bit of a nonsense but you have to have some co-ordination. So who does the co-ordinating of this?

Mrs OLLIKAININ: Basically the commission can do that kind of work because they are involved in the negotiations and they can say that, "From our point of view your region shouldn't be emphasising so much these factors because we think your strengths are here."

The Hon. Dr PEZZUTTI: So there is an external judge on the SWOT process itself.

Mrs OLLIKAININ: Yeah.

The Hon. Dr PEZZUTTI: There's somebody who brings a bit of reality, a reality check for my very enthusiastic council people and my very enthusiastic local population.

Mrs OLLIKAININ: And plus there is also your national government who is involved as well who might then have a view on—

The Hon. Dr PEZZUTTI: I was worried about the reality check stuff because—

Mr THOMAS: But the reality check is there and it's a distortion. Yes, it is a distortion, but the purpose of the distortion is that somewhere at the beginning you have got to have some vision of your strategy where you are headed, and if you get this radical idea that pops off out the edge, there's the reality check. There is a fit here. If it doesn't fit here, then, "Hey, we've got to see where your strategy needs to be changed," and that's going to take a longer time.

The Hon. Dr PEZZUTTI: Or it may be that the kick from the side is a good one.

Mr THOMAS: Yes.

The Hon. Dr PEZZUTTI: Okay, so—

Mr THOMAS: We will be talking to the commission people later this afternoon also.

The Hon. Dr PEZZUTTI: Okay.

Mrs OLLIKAININ: And I already because you said about these examples. I have here four books for your flight back which you can have a look at. These are all commission publications on examples they think were good for the region. They wouldn't suit another region as such but, you know, anyway.

The Hon. Dr PEZZUTTI: A story tells a thousand things. I mean, an individual story of how an individual council went ahead and had an individual project tells an awful lot more about it than reading all the rules, reading that book.

Mrs OLLIKAININ: Yeah.

The Hon. Dr PEZZUTTI: But how do you, I mean, in terms of—our problem in country New South Wales is really, like this stuff we got off the net tells us, there is the depopulation, particularly women leaving small sections of the place and in some places the men and in some places the women. I mean, they are leaving because—I will get off it—work opportunities. That's one thing. Different types of work opportunities. I mean, it's all very well to be a woman with a job in a small village if you are an outworker making Nike shoes or something but how do you deliver the services that keep them there—I mean, health services, administrative services, banking services, all this, the banks, to go to a bank?

Mrs OLLIKAININ: I can tell you what happens in Finland.

The Hon. Dr PEZZUTTI: That's fine. Give an example. That's good.

Mrs OLLIKAININ: The basic service is they come, the government and the municipalities, they pay us and the central government gives subsidies to the smaller municipalities to be able to provide health services, schools, things like that. Then the other services you use, all sorts of Internet banking, you have a little post office in your next-door grocery shop. You know, it goes down, but the services are there. You just have to be more innovative than before.

The Hon. TONY KELLY: So are the banks closing in Finland?

Mrs OLLIKAININ: Yes.

The Hon. TONY KELLY: And they are being replaced by Internet banking.

Mrs OLLIKAININ: Yeah, or telephone banking or whatever.

The Hon. Dr PEZZUTTI: That's in this. But, again, are you prepared to pay more for health care for somebody in a remote area than you are in the city?

Mrs OLLIKAININ: Well, no. Well, in a country like mine everybody pays the same and then the people in the south actually pay subsidies to the other regions.

The Hon. Dr PEZZUTTI: I don't know mean how much you pay. I mean, how much—obviously for government to provide a health service in the middle of Brussels is relatively cheap because there's lots of people.

Mrs OLLIKAININ: Yep.

The Hon. Dr PEZZUTTI: But if you go to a small village of 10,000 people or a smaller village of 5,000 or a village of 1,000—

Mrs OLLIKAININ: Yeah, of course, it is more expensive.

The Hon. Dr PEZZUTTI:—to give the same level of access to services costs lots more.

Mrs OLLIKAININ: Yeah, it's a decision—

The Hon. TONY KELLY: The Government subsidises it.

Mrs OLLIKAININ:—if you want to keep the countryside, but that's—

The Hon. Dr PEZZUTTI: Does that come from the local, the country, the national government doing that or is there support for that service from the commission in subsidiarity?

Mrs OLLIKAININ: No, the commission doesn't. No, this kind of basic service is the—

The Hon. TONY KELLY: Regional.

Mrs OLLIKAININ: Yeah. It's a national thing completely.

Mr THOMAS: How is the assistance provided? Is the assistance provided to the individual to travel to get health service or is the assistance provided by locating the health service providers in the regions of Finland? How accessible is this?

Mrs OLLIKAININ: Of course, the distances are longer up north and in the countryside, so basically the subsidies are paid by the Government to the municipalities, who then provide the health services, and if you happen to live, like, I think the most extreme cases up north in Lapland you have to travel 300 kilometres to give childbirth, for example. In Australia I think it's common but for us that's the extreme case.

The Hon. Dr PEZZUTTI: But not through snow and blizzard.

Mrs OLLIKAININ: Yeah, you don't have snow.

The Hon. TONY KELLY: Three hundred kilometres through snow and blizzard, you would want to start out before you conceived.

Mrs OLLIKAININ: But then the municipality pays for a taxi service, so you will be picked up, but, of course, you have to go to the hospital probably a couple of days in advance to be on the safe side.

The Hon. Dr PEZZUTTI: So the European—in terms of the development of the regions, these are all very important things for keeping people in small towns. I mean, if a woman is going to have a baby she doesn't want to have a baby if she is not going to have access to service, and so they make decisions well before they have the baby to move into the city because they are going to have the family there. Unless you provide those services as part of this process how do you ever pull the regions up without depopulating the countryside?

The Hon. TONY KELLY: So you don't help that at all.

The Hon. Dr PEZZUTTI: This is primary.

The Hon. TONY KELLY: Yeah, me too, because there is a situation, for example, public servants who are going out to work in those regional areas, they won't go. If they are a young public servant and their wife, they are about to have a family, they will not go. The administration won't go out there unless they are sure they can have their family safely out there without having to come back to the city, so there's no support for those sorts of services.

The Hon. Dr PEZZUTTI: Schooling.

Mrs OLLIKAININ: I don't see that kind of problem in Finland. If there are jobs, there are people.

The Hon. Dr PEZZUTTI: If we gave you a job at your income level, the same challenging job using the computer with your husband, who may not get a job, to go to one of these villages up near Lapland 1,000 kilometres from the major town, a school of two or three kids, would you go?

Mrs OLLIKAININ: I might be tempted because I like hill walking and things like that.

The Hon. Dr PEZZUTTI: But I mean this is the sort of issue. You get people who have got good jobs, interesting jobs which they want and they can do the same job with a computer and the telephone and all that and, sure, the food costs more but the rent is cheaper but you have got this little school, you know, and when the kids go to high school they have got to go 50 miles every day to go to the high school because they can't do a high school in a little village, and then they have got to travel for immunisation, travel for operations. How do you keep that interest?

Mrs OLLIKAININ: I would say that both—well, in Finland and in Sweden if you have jobs the people will stay where there are or they will even move back after their university studies, but the problem is that you don't have enough jobs and that's the reason for people moving south.

The Hon. TONY KELLY: Well, in Australia it's worse than that. Say, doctors, for example. It is very, very hard to get doctors. They go to university and then they will stay in the city. They don't want to move back to the country for the reason we just said, that there are no services there for them and for their families and for their kids. It's really hard to get them. So you don't have that problem?

Mrs OLLIKAININ: Well, we have to some extent but then they have, they pay a little bit extra if you want to work in the countryside.

The Hon. Dr PEZZUTTI: Oh, they get paid more if they work in the countryside in Australia.

The Hon. TONY KELLY: Double.

The Hon. Dr PEZZUTTI: They get much more money.

The Hon. TONY KELLY: You get twice as much money.

The Hon. Dr PEZZUTTI: But it's not the money.

Mr PFEIFER: And still they are not—

The Hon. Dr PEZZUTTI: It's not the money. Money doesn't drive personal decisions.

The Hon. TONY KELLY: If you are on a good salary, if you are on a lot of money, then twice a lot of money doesn't help if you have got no quality of life. See, they work round the clock.

Mr THOMAS: Brussels generically is facing exactly the same problem in that there have been a number of decisions recently to move institutions outside Brussels. The most recent one was to move the food and veterinary office, which was part of DG Sanko, but they have located near Dublin, not in Dublin but near Dublin, and they are having considerable difficulty finding staff who are adequately qualified to put in that town, and it's quite well located to Dublin but even when the thought was they would move them to Dublin city—

The Hon. Dr PEZZUTTI: Existing staff?

Mr THOMAS: Existing staff to Dublin industry.

The Hon. TONY KELLY: From here?

Mr THOMAS: From here, yep, but they are even having difficulty recruiting people to take them to Dublin.

The Hon. Dr PEZZUTTI: This is the issue because, you see, it's not—I mean, the food is good, you know, access to the city is only, what, 50 miles away but for the kids to travel every day on a bus to school, 50 kilometres or, you know, to go to a picture theatre, to go to see a concert, you know, travel 300 kilometres to see a concert.

Mrs OLLIKAININ: I think it's a—because I have just read it's just a newspaper article about this town called Oulu where they have all sorts of high-tech and there have been actually people who have been living all over the world moving to this place because, you know, the housing is cheap, there is no congestion, there is no pollution. It's like a kind of haven. So it depends. It's always a choice. Some people like to have their children to be brought up in a school with a couple of kids because, you know, basically there are no drugs, there is no violence, there are no child molesters. I don't know.

The Hon. Dr PEZZUTTI: That's very fine but anybody who looks at that says, "That's terrific for year one, two, three, four." After one, two, three, four, you absolutely cut down on any chance of a choice in education. The breadth of whether you do dress design or whether you do mathematics or whether you do geography or history. You can't do that in a little school. It's not possible.

Mrs OLLIKAININ: To be quite honest, I actually think that it's all good with this regional policy and it's good to have regional centres like this place called Oulu, but in reality I don't think it's possible to force people to live in places where they don't want to, so it is, by definition, to some extent artificial to try to create measures. You have to have a growth centre of a certain size to be able to keep people.

The Hon. Dr PEZZUTTI: That's true. And we've done that.

Mrs OLLIKAININ: And then the job is to find how to create those.

The Hon. TONY KELLY: So what do you think is that certain size? Like, I thought that 30,000 was big enough to be able to survive by itself.

Mrs OLLIKAININ: Yeah.

The Hon. TONY KELLY: But where do you reckon that cut-off is to be self-sufficient in country areas, in the area that you come from? Is it 5,000 people? Is it 10,000? Is it 20,000?

Mrs OLLIKAININ: I can't. It depends.

The Hon. Dr PEZZUTTI: It even goes to how many people want to stay on farms and keep farming because if they are within 30 miles or 40 miles, 50 kilometres, of a place, that might be okay. Right? But further away how do you keep the farms going?

The Hon. TONY KELLY: In the middle of the Pyrenees, for example?

Mrs OLLIKAININ: Yeah, I think it depends, the size depends, how diversified it is because if you only have one big company and the whole city dependent on that it is very difficult to create services but if there are several companies, then it becomes livelier.

The Hon. TONY KELLY: Those yellow ones, they are the 10 new ones coming in?

Mrs OLLIKAININ: Mmm.

The Hon. TONY KELLY: When do they come in? When Spain and Ireland agree?

Mrs OLLIKAININ: Yeah.

Mr PFEIFER: When they are coming in?

The Hon. Dr PEZZUTTI: When Ireland and Spain get the little book.

Mr PFEIFER: But I think it will be quite soon now.

Mr THOMAS: France also has a bid.

Mr PFEIFER: I would say like quite some of the countries will already participate for the 2004 elections here in Parliament so it will be quite soon. I mean, there are some problems still ahead, like agriculture, Poland and direct subsidies. The question of Cyprus is still an open one which might cause problems, but principally it's well on track, the negotiations.

Mr THOMAS: Many of these questions you have been asking I think are very good questions to ask in Ireland.

The Hon. TONY KELLY: Yeah.

Mr THOMAS: The Irish experience has been debated.

Mrs OLLIKAININ: They are very interesting places to invest because they have the highest educated people available, English speakers. They have very many factors which have been beneficial and which we cannot reproduce the same results elsewhere.

The Hon. TONY KELLY: Somewhere else, yeah. They made a huge investment in education 20-odd years ago, 20 or 30 years ago.

The Hon. Dr PEZZUTTI: And this is where that pay-off in education—I mean I was stunned in Spain. We were there, what, for four days. We hardly found anybody who could speak English. Just speaking English is not necessarily a great judge of education, obviously, but to not find anybody in the large number of shops, restaurants, who could speak any English at all means that they are not looking at their markets. They can't be. I mean, half the people that go to Spain speak English, don't they? The second largest tourism—

The Hon. TONY KELLY: That's what they told us. They said it's their largest tourism is English—

The Hon. Dr PEZZUTTI: Is English-speaking people.

The Hon. TONY KELLY: —people from Great Britain.

The Hon. Dr PEZZUTTI: And there's no-one who could speak English. I mean, it's just staggering. So an education into Spain of speaking some English would make a huge difference to the compatibility.

The Hon. TONY KELLY: What was the tax? You said there there're taxation advantages or tax subsidies that they give in Ireland.

Mrs OLLIKAININ: Yeah.

The Hon. TONY KELLY: What are they?

Mrs OLLIKAININ: They are, for example, for companies which decide to relocate their businesses there. They actually don't pay any company taxes.

Mr PFEIFER: Pay any company taxes for the first two years.

The Hon. TONY KELLY: So, what is it? They don't pay taxes for the first two years?

Mr PFEIFER: Company taxes for the first two years.

The Hon. TONY KELLY: No company tax.

Mr THOMAS: What is its level of income tax? It does vary considerably across the European Union. The level of income tax in Finland is 65.

Mrs OLLIKAININ: Oh, it's—

The Hon. TONY KELLY: Is it high?

Mr THOMAS: Sixty-five?

Mrs OLLIKAININ: Yeah, extremely high.

The Hon. TONY KELLY: But everything is free though, isn't it?

Mrs OLLIKAININ: Yeah. That's why we have the health services, of course.

Mr THOMAS: And in Ireland I think you will find your level of income tax is down around, well, maybe not half of that—it's more than half of that but it is still much more modest. The level of service is certainly related to what you pay for through tax. If you look across the northern European countries, if you get into the Swede, Finn, if you get into those northern—

The Hon. Dr PEZZUTTI: Supertaxes.

Mr THOMAS:—Denmark, they are a very high level of taxation. Some of them, particularly Denmark—I am not sure of Sweden's and Finland's circumstance—in some of them, if you look at the structure of the population and pension levels, there's a catastrophe in the making.

The Hon. Dr PEZZUTTI: Oh, absolutely.

Mr THOMAS: But, I mean, that is a much broader problem.

The Hon. Dr PEZZUTTI: Well, they are all part of the EU and, you know, the advantage and disadvantage is worked out on GDP. You know, countries like Sweden where they have a very high taxation level drags down their GDP dramatically but the quality of living—I mean, you might only get paid 20,000 a year but the benefits which you can't see might be worth 10,000.

Mr THOMAS: But you have got to fund those benefits.

The Hon. Dr PEZZUTTI: But are they included in how they do the estimates of GDP?

Mr THOMAS: Well, yes, they would be but they are funded by a high level of taxation so it's a question of how you pay for this high level of service, whether you pay for it directly by hitting the consumer of the service or whether you pay for it indirectly and people then have the service whether or not they want it and that's a choice that is made by society.

The Hon. Dr PEZZUTTI: That's right, that is made by Sweden particularly. But what I was interested in was when you look at advantaged regions and disadvantaged regions, some people where you have an income of, say, 20,000 whatever they are, euros, or 40,000, and your rent is very cheap. In other words, do they do an estimate of disposable income? After you have paid for your health and after you have paid for your dentist and after you have paid for your house and look at the cost of food, disposable income is what really matters, isn't it, in terms of your standard of living?

Mr PFEIFER: Actually we do not really have a look at disposable income.

The Hon. TONY KELLY: You don't. So it's GDP?

The Hon. Dr PEZZUTTI: So it's just pure—so if we work out average wages.

Mr PFEIFER: Yep.

The Hon. Dr PEZZUTTI: I mean, wages in Spain have always been considered—

Mr PFEIFER: I mean, it would make things quite complicated.

Mrs OLLIKAININ: The only thing is that we have—the GDP is calculated by purchasing power parity standards so you take into account to some extent.

Mr THOMAS: Price levels.

Mr PFEIFER: Yeah, price levels, but not, let's say, whether you have your own property or whether you have to rent, whether you have to rent for a high price or a low price. These things are not—

The Hon. Dr PEZZUTTI: It has no impact on capital investment either. So there has been no plan to look at a European health service, for example?

Mr PFEIFER: No, and it won't be the case.

Mrs OLLIKAININ: Because that's subsidiarity.

Mr PFEIFER: That's under national.

The Hon. Dr PEZZUTTI: Subsidiarity doesn't mean subsidy. That means some local level?

Mr PFEIFER: National level, not European level. It wouldn't make sense to intervene into a health business, a health system from a European level.

The Hon. Dr PEZZUTTI: But there would be private companies who would be operating health services right throughout Europe.

Mr PFEIFER: Yes, that's the point. I mean, very often Europe when, for example, there would be a way for privatisation and liberalisation of health services, for example, in Europe and then when, for example, I don't know, you will have distortions of competition between certain countries at a level or, yep, then probably Europe would have to react like they did in other sectors when problems were arising due to liberalisation, for example, but, I mean, for long years and years transport was not really a European issue. It was only in the '80s basically that it got the European issue when actions have been taken in order to liberalise it and make it—

The Hon. Dr PEZZUTTI: I mean transport is probably the thing that helps both ends of the market, doesn't it, the downstream and the upstream? Both the seller and the buyer get huge benefits in both directions as long as the regions are getting some assistance with building themselves up as well when they face the new competition.

Mr PFEIFER: I mean, they do get—

The Hon. Dr PEZZUTTI: But we were staggered. I mean, you go from—we went from San Sebastian to Biarritz, two different currencies. I know the currency thing has come in but the French money, it's very unpleasant, the whole thing, you know, wasn't it?

The Hon. TONY KELLY: It was almost black.

The Hon. Dr PEZZUTTI: It was just awful. But we had some—

The Hon. TONY KELLY: Wrong currency.

The Hon. Dr PEZZUTTI: We had the wrong currency. We had plenty of pesetas.

The Hon. TONY KELLY: Spanish money.

The Hon. Dr PEZZUTTI: But none of their francs, right? So they were going to put on a big turn and shoot us and throw us into the sea, you know, all for holding on to and walk a hundred yards themselves to change it over with their mate. You know, I mean—

Mrs OLLIKAININ: Especially now when it's actually—

The Hon. Dr PEZZUTTI: The commitment to service is poor.

The Hon. TONY KELLY: Some of it was good. It was just that one particular one in France. It was good the other way, going the other way.

The Hon. Dr PEZZUTTI: But you can't shoot them because you go to France, can you?

The Hon. TONY KELLY: What other advantages—oh, what I was going to say was the National Competition Policy—in other words, in Australia one of the problems that has affected the country areas and the smaller towns is this drive for more competition and deregulation. Now, that might be good for the economy as a whole—it probably is—but in the smaller areas that can't compete so much it has been detrimental to them. There has been no subsidy or no support back to those areas in Australia to compensate for the losses that they have suffered because of competition or deregulation. Have you got a similar problem here or not?

Mr PFEIFER: Yeah, you have these problems. Actually, I wanted to say already before, like there is in Europe also a wave of liberalisation and deregulation in other sectors, which poses quite some problems as well and there is also now another move into parallelling liberalisation also with the establishment of what they call universal service—

The Hon. Dr PEZZUTTI: Obligations.

Mr PFEIFER: —provision or obligations.

The Hon. TONY KELLY: So to compensate them for the losses.

Mr PFEIFER: Apart from let's say what I have tried to explain already that, like, you have derogations to competition rules in order to allow for appropriate regional development having different ceilings according to the needs, you also have now—in principle, the universal service obligation is also a kind of derogation in a way to competition rules why you then would provide for—a good example, we have been talking about it before, the question I mean how do you keep a post office in rural areas? Principally, probably the market will tell you it is not feasible because it's not profitable, so we close it down. What you have there, for example, is a universal service obligation which defines on a European level a certain minimum standard for—

The Hon. Dr PEZZUTTI: Each person.

Mr PFEIFER: —service provision, which is then applied to international law but on the basis of this minimum standard. Every member state can provide for, I don't know, a post office for every community having more than 500 inhabitants or some member states define it in such a way to say that nobody should have a post office being farther away than, I don't know—I think in Germany they did it 10 kilometres or something. So we have different ways of—well, in Australia clearly it would be probably difficult.

The Hon. TONY KELLY: Five hundred kilometres. So how do you—who compensates then for that? Is it the regional government or is it the EU?

Mr PFEIFER: So far there are different approaches in this universal service provision. Like, in the postal services area what they do is that they continue to reserve a share of the market to the universal service providers, which should provide them with profits in order to finance this universal service provision.

The Hon. Dr PEZZUTTI: So you don't allow competition at the top end for, say, computer traffic except for the universal providers, and the computer traffic subsidises the post office. Yeah, we have gone beyond that one.

Mr PFEIFER: Yeah, it's kind of a cross-subsidisation.

The Hon. Dr PEZZUTTI: An enforced subsidy.

The Hon. TONY KELLY: Yes, you enforce a cross-subsidy internally.

Mr PFEIFER: Mmm.

The Hon. TONY KELLY: Okay. We have probably been—

Mr PFEIFER: But there are other ways. You could also think of compensation parts, for example, where those who are not, those who do not have the universal service obligation pay into a compensation fund—

The Hon. TONY KELLY: Right.

Mr PFEIFER:—in order to finance the service. There are different ways of ensuring these things.

The Hon. Dr PEZZUTTI: With all the money—I mean, you are talking of only 213 billion. It's not a huge amount of money spread across Europe, is it?

The Hon. TONY KELLY: No.

The Hon. Dr PEZZUTTI: For the fund. It's not as big as I thought because it's a big—

The Hon. TONY KELLY: It seemed like a lot of money to start with.

The Hon. Dr PEZZUTTI: It did. It did indeed.

Mr PFEIFER: It is nevertheless—

Mr THOMAS: Two hundred and thirteen billion.

The Hon. Dr PEZZUTTI: Yeah, euros.

Mr THOMAS: Over how many years?

The Hon. Dr PEZZUTTI: Six years.

Mr THOMAS: They spend. Okay, how does that compare to the Commonwealth?

Mr PFEIFER: It is actually seven years.

Mrs OLLIKAININ: Yeah, the budget is 50 per cent common agricultural policy and a little bit over a third regional policy so it is slightly smaller.

Mr THOMAS: So half of their budget goes to subsidies on agriculture and a third to subsidies in the regions.

The Hon. Dr PEZZUTTI: What if you find a region that just wants to be left alone, that doesn't want to be in this game, you know?

Mrs OLLIKAININ: We have one.

The Hon. Dr PEZZUTTI: They don't want the Europeans coming in. They don't want to change what we do: "We've just been living like this for 300 years and we really like it."

The Hon. TONY KELLY: Too late for the Basque region.

Mrs OLLIKAININ: But we have one. The islands between Finland and Sweden called the Åland Islands, they are actually out of, for example, the tax regime because they are an autonomous region so they have decided to stay out but they are a blue region so they do get regional aid.

Mr PFEIFER: You have some special cases, but there is also a case of part of a member state who left the union like Greenland.

The Hon. TONY KELLY: Oh, they have left?

Mrs OLLIKAININ: Yeah.

Mr PFEIFER: They left, yeah.

The Hon. TONY KELLY: Did they get something before they left?

The Hon. Dr PEZZUTTI: No, they were a bonus state, weren't they, Greenland?

Mr PFEIFER: No, they are part of—when was it? In the '80s?

Mrs OLLIKAININ: Yeah, I think '82.

Mr PFEIFER: They are a part of Denmark but they have quite considerable regional autonomy now. I think it was for reasons of fisheries, not for—

Mrs OLLIKAININ: If you want—

The Hon. Dr PEZZUTTI: It was probably whaling.

Mrs OLLIKAININ:—you can take a couple of copies. That's the second report on cohesion. I think it's a very good one overall. There is also a statistical one. There are four copies.

The Hon. Dr PEZZUTTI: Co-operation between the national countries. If you say this is a political union, what about migration?

Mrs OLLIKAININ: And then there are some general brochures.

The Hon. Dr PEZZUTTI: I am an Italian and I want to come and live in Belgium.

Mr PFEIFER: You can see there is a problem or there is an advantage. However, probably for developing a real internal market, if you look at the economic consequences of the idea of having an internal market you would probably end up in the situation like in the United States where human resources will be supposed also to be quite flexible and mobile over the whole Common Market, which in the end of the day I think is, due to the cultural and linguistic background of Europe, quite improbable.

The Hon. Dr PEZZUTTI: Well, in Parma we found places that couldn't find workers, employing huge numbers of Africans and South Americans to work.

The Hon. TONY KELLY: Angolans.

The Hon. Dr PEZZUTTI: Angolans, yeah, and I mean, I understand that, you know, you still have passports and you can move around to work. I mean, you don't need a work permit if you are from Italy to come and work in Belgium, do you? If I am an Italian living in Italy and I think, "I will go and work in Belgium for a few years"—

Mr PFEIFER: That's no problem.

The Hon. Dr PEZZUTTI:—it is not a problem?

The Hon. TONY KELLY: There is no work permit needed?

Mr PFEIFER: No.

The Hon. Dr PEZZUTTI: You just come and get a job if you can get a job.

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: Okay. But if I am from Angola I need a work permit to get into Europe.

Mr THOMAS: Correct.

The Hon. Dr PEZZUTTI: Now, how well is that illegal immigration—in Italy they said the illegal immigration is a huge problem for them but at the same time they are not replacing their young—you know, 1.5 children per family and not every man and woman are marrying, not every man and woman are having any children; it's 1.5 average; it's not enough to replace their existing work force. Where is that work force going to come from? From Turkey, Estonia?

Mr THOMAS: There's a huge debate about that. It's affecting particularly Germany—

The Hon. Dr PEZZUTTI: Italy.

Mr THOMAS:—and some of the central European states, and it really goes to the question we were talking about before, ageing populations, high pension rates and—

The Hon. Dr PEZZUTTI: Who's going to do the work, let alone pay for it, but who's going to do the work? So in terms of youth, if you have lots of youths in Spain, do you say to them, "Well, really"—

The Hon. TONY KELLY: "There's a job over there in Italy if you want to go there."

The Hon. Dr PEZZUTTI:—"Why don't you go to Italy?" or do you say, "We will get the company in Italy"? See the other thing is that at the end of the day capital has to follow humans. People talk about the capital asking people to be mobile in America but at the end of the day capital has to go to where it is going to make money and where it is going to have the resources to make money with it, and that's the human resources, so to tell the people in Parma they should go to Spain and make their cheese, oof, the air, oof, you know. I mean, this is the problem you get. Something like Parma can't get workers, you know.

Mrs OLLIKAININ: Yes, I think it is very interesting with the enlargement because when they joined the European work force—

The Hon. TONY KELLY: Was there unemployment there?

Mrs OLLIKAININ: Yeah, or higher pay.

Mr PFEIFER: I think there was mass migration.

The Hon. Dr PEZZUTTI: But, again, you are just asking those people not to stay locally and develop but to shift, and that's going to create huge problems in Italy. I just know that moving a whole lot of eastern Europeans into northern Italy, they don't even like the southern Italians living there. I mean, they are not racist but they are very—

The Hon. TONY KELLY: Thank you very much for that. That's been really good.

Mr PFEIFER: Thanks a lot. Have a nice stay. You are going to Ireland now?

The Hon. Dr PEZZUTTI: No, London.

Meeting No. 7: Monday, 23 July 2001 European Commission - Regional Policy Directorate-General Brussels, Belgium

Also in attendance:

Mr Charles White, Principal Administrator, European Commission Regional Policy Directorate-General
Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union

Mr THOMAS: Secretariat for Regional Policy, Transport and Tourism Secretariat. From here we are going to be talking to Rob Peters, who I've known for some time and had a meeting in D-G Agri about Fischler's pillar 2 policies. One of the things certainly that would interest me—I've got quite a bit of material available on the pillar 2 stuff that I can provide, but how you see regional policy development in the longer term because—

Mr WHITE: Yeah, the longer term is the most interesting question.

Mr THOMAS: Because what Fischler is doing is potentially going to increase the funding available for regional activities, how the two are going to fit together.

Mr WHITE: What I normally do for senior officials—we get quite a lot from the candidate countries who want to see how regional policy works, because they are going to have to apply it in a couple of years, as well as for more general groups is a history of why we are doing it and how it has worked, what we have achieved so far, and then a quick run through of what we're doing. That can take quite a long time so you will have to sort of stop me if it's boring, because this will never apply to you but it will apply to candidate countries, but the basic story is we have got a policy here which has been the most successful of the community policies bar none over the last 10 years, to which many other community policies contribute, and it is successful because we have been able to try out and test all the mechanisms that we employ, and we have got a particular method of doing it, and the fact that we have employed that method has encouraged the other member states to employ the same method when they're doing it, and so there's a kind of influence that we have had and so the two strands, the mechanisms and the method, have come together to make a very successful activity, which is the cohesion policy as we currently know it, which we got finance for even with the new member states right up till 2006 but after that we don't know what we've got finance for because we haven't got a package. But I can discuss the financial package until 2004 but there's all kind of questions that arise when you have got a Europe at 27 compared with having a Europe at 15, so that's basically what I'm going to do.

The Hon. Dr PEZZUTTI: You have 15 now?

Mr WHITE: Fifteen.

Mr THOMAS: We are scheduled to see Rob Peters at 4.00. I'm sure that Rob wouldn't mind if we put that back 15 minutes or so.

Mr WHITE: Okay. Well, I will run through it.

Mr THOMAS: You can sort of work through it.

Mr WHITE: I'll try to get everything done in about 45 minutes and then have some questions and if you have got any other questions I'll show you—we have got a website so you can either ask the website and the question comes from here, the answer comes from here, or they transfer it to me or you have got my e-mail on the existing cover so you can just ask any more questions. So your interest is in sort of regional policy as it might apply in New South Wales.

The Hon. Dr PEZZUTTI: Well, yeah. I mean, we have got the same problem. You know, 80 per cent of the population is—

Mr WHITE: In a very small coastal band.

The Hon. Dr PEZZUTTI: Yeah. No, well, you have got 80 per cent of the land mass with about 20 per cent of the population. It's the same as here except it's probably worse. It's probably 95 and 10, isn't it?

Mr WHITE: It's—yeah, but, you know, one of the successes of the agricultural policy which I am going to talk about is that it has kept more of the population on the land than you see in other parts of the world. We haven't quite had the same rush to—you have had a rush to the cities, which was a bit earlier on, but the land is still more or less populated. It's desertion of the land.

The Hon. Dr PEZZUTTI: But it's ageing like ours is.

Mr WHITE: That's so. We have got a whole problem with our population ageing.

The Hon. Dr PEZZUTTI: Your farming population ageing too.

Mr WHITE: Yeah, but if you look at the demographics, even in countries where they have pursued sort of eugenics—I don't know, they have just encouraged bigger families in the candidate countries, they stopped doing that when the Berlin Wall came down. That was considered part of the communist legacy and now it's only the Irish sort of keeping their end up and—sorry, that's the wrong way to put it. Up till recently they have kept ahead in terms of population growth. It's 0.4 per cent of the population. They can't be responsible—

The Hon. Dr PEZZUTTI: They have just unbanned abortion in Ireland.

Mr WHITE: Old habits die hard but it's funny how quickly it goes. The Italians—

The Hon. Dr PEZZUTTI: That's right.

Mr WHITE:—have one of the lowest, smallest family sizes now—

The Hon. Dr PEZZUTTI: 0.4.

Mr WHITE:—in the whole of Europe, yeah. So it's fewer and fewer people to fund my retirement.

Mr THOMAS: It's a worry.

Mr WHITE: Well, let's just jump into the history because we—I'm going to cut some of the lights. This is the '93 map of gross domestic product per head compared with the average, which is 100, and I show you this because it was one of the factors which was responsible for doubling, or more than doubling, our budget, which is the biggest any community policy has ever had at any time, and we increased it because we had so many disparities between the regions. We had six elements of disparity. But do the same map for the States, the United States, between the states, and there's only two elements of disparity when you get 75 to 99 and 100 to 124. That's it.

Everything is—there are possibly bigger disparities in the cities, for example, as there would be in Europe's cities, but we take what we call the NUTS II regional definition, which is—you don't have to worry what NUTS means. It's the nomenclature for something or other. NUTS I is the country; NUTS II is the next regional division, which means that Ireland doesn't have a NUTS II division because it hasn't got any regional administration at this time, and the UK have aggregated the counties so it's not actually the county division, so the county level is not NUTS II. You haven't got all the possible divisions and you haven't got the that the lands are divided into, subdivisions and so on, so at NUTS II the equivalent in the United States is the states, the individual states, and in the United States you have only got two levels of disparity. In Europe at this time you had six levels and somewhere it's below 50 per cent of the average and in some areas over 150 per cent. If you are wondering what this grey area around Turkey is, it's where my secretary spilt some coffee.

The Hon. Dr PEZZUTTI: What's all the dark green or khaki colour?

Mr WHITE: That's outside Europe. That's all it is. We haven't got the figures for that.

The Hon. Dr PEZZUTTI: What's the bit in the middle, then?

Mr WHITE: That's Switzerland.

The Hon. Dr PEZZUTTI: Ah, Switzerland.

Mr WHITE: Yeah, which is also not part of the picture, nor is Norway, so it is just the 15 member states, and the poorest regions—northern Greece here, Ipiros, and either side of Lisbon, and the richest zone at present is here, reaching down into northern Italy. There's a huge range of disparities. And the big problem which the member states saw was that we just decided to bring in the euro, the single European currency, and you can't have a single European currency when the economic policy that you need to apply to correct the problems in the different areas would be so different. You'd need different interest rates; you'd need all sorts of things. You wouldn't be able to run a single European currency with so many disparities, so we were given the order to reduce the disparities, which is a bit of a tall order because it has never actually happened. Because of the way Europe has grown up with this central rich zone and peripheral areas, it has always been a bit centrifugal. In fact, the disparities have always tended to increase, so we were going against historical trends, so we needed quite a lot of money to do it, and we were given—we had a budget—take '95 prices of 69 billion up until this point and after this point we had 157 billion, which at today's prices is getting on to 200, but you can see the difference in scale between 69 and 157. That's comparable.

Mr THOMAS: And that's a six-year budget.

Mr WHITE: That was a six-year budget, yeah. We also have a responsibility to reduce unemployment, which is stubbornly fixed up until this year at about 10.2 per cent overall but with big differences. Again, you have got the richer centre with quite low unemployment and high unemployment around the edges, particularly here and in southern Italy. And if it looks a bit better in Greece, one reason for that is that the statistics are done differently so anybody who is unemployed for more than a year is taken off the register. It's quite a good way to go. It loses you.

The Hon. TONY KELLY: Would you have 50 per cent a year employed.

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: Well, that would be helping it.

Mr WHITE: The Portuguese, it also looks good but of all the countries in Europe the Portuguese travel. They move to where the work is. They don't sit around waiting for unemployment benefit, which isn't very good anyway, so they get in their cars and go to work in Paris, Luxembourg, Brussels, wherever, so — Over the years our policy has been quite successful. Already here in '96—this is the GDP—we have lost the lowest and the highest. In other words, convergence is happening, and the report that this comes from demonstrated that for the first time since the Industrial Revolution we have got convergence of the economies. We are losing the extremes. We used to have below 50 per cent but above 150 per cent.

The Hon. TONY KELLY: So that was over three years.

Mr WHITE: That was over three years altogether, yeah. That was part of a trend that was already beginning to happen.

The Hon. Dr PEZZUTTI: It was just over a period of major growth, but the convergence increased the growth but it was a period in the world when there was growth generally.

Mr WHITE: There was growth, and there was growth throughout Europe. The important point is that the poorer areas are growing faster than the rest, so they are catching up, so it is not at the expense of anybody but they are really moving fast. I want to show you the sort of mechanisms we brought in to encourage that.

The Hon. Dr PEZZUTTI: Where's Rwanda?

Mr WHITE: It's not in—that's a Belgian former colony.

The Hon. Dr PEZZUTTI: It is too. You are quite right.

Mr WHITE: So it's not part of the—and a lot of the African ones are not included. These are ones that have opted to stay as Département d'Outremer dominant, so they are part of France but they are non-metropolitan France. But, we have to, too. But things are moving faster and improving, and spectacularly so in the case of Ireland, for example, which has gone from having 58 per cent of average GDP in 1973 when they joined—poorer than Greece. It's 122 per cent today because they are really one of the richer zones already, and there is the same sort of effect happening here around Lisbon that come above the 75 per cent level, which is the light rate. The 75 per cent level is very important because that's where we automatically intervene. In the areas below 75 per cent under the current policy, called the cohesion policy, we intervene with the highest level of assistance because they are seen as the areas which need to be brought up.

Now, I said there were two strands in the success. One is mechanism, and that will explain like this. It's a dreadful term that has been coined to explain what happens when you have experimental, or even hypothetical, activities, and that's the 1 per cent, and then you have got community initiatives with the green, the 9 per cent. That's testing at a community scale things that have been shown to work in specific areas. Now we see if they work generally. And that's the community initiative. And then there's the mainstream, which is the blue, 90 per cent of the money—even higher these days—which is where these tried and tested mechanisms are employed, and the whole process is called mainstreaming, which is actually a French term because the French take English words and turn them into verbs when they weren't expecting to be. Mainstream was not a verb up until a couple of years ago. The French turned it into one. So we had to adopt the term mainstream. It's also the same in German, Portuguese, Lithuanian and Polish. It's the power of the European Community to overcome language problems.

And we have really quite experimental things in the 1 per cent pilot project and in a previous period we had really unorthodox employment schemes of trying to get people who were chronically unemployed back into society, back into the employed society, so we had schemes for drug addicts in Vienna, the Vienna A scheme, for drug addicts in Vienna renovating washing machines. It has been really quite successful. Another scheme for the wives of, how shall I say, marginalised people. It's a euphemism for bandits and separatists in Corsica, who—the wives themselves were really quite hard—well, obviously, the women were hard working.

The Hon. Dr PEZZUTTI: Mainstream.

Mr WHITE: But they couldn't get into the city to get work and they weren't in a good position with papers and things, so it's an unorthodox workshop to bring back into circulation old clothes. So old clothes are gathered up all over France and sort of dropped in this place and they size them, sort of them, clean them, repair them where necessary, and it's now where Bestia goes to buy its jeans, for example, it's not Calvin Klein. They are about one-tenth of the price of what they would normally be. But it has become part of the economy for people who were outside the economy. They both work and use—it's a sort of income. It's a sort of expenditure. So we have 80 of those, and that's just one element of the experiment.

We had experiments in the information society, sort of bringing different—particularly different groups of people responsible for developing employment who up till recently have never had much to do with each other. All these different agencies operating on their own, and using information technology we have been able to bring them a little bit more together and match what they are doing with what's needed and therefore making employment promotion activity much more successful, and that's what we call the regional information society initiative, which continues as an experiment because different things work in different—

The Hon. Dr PEZZUTTI: As soon as they get a contract amount of money to do that. They get money from the EC to do that.

Mr WHITE: Yeah. In the pilot projects they get money, say 50 per cent of the total project costs. Most European programs pay up to 50 per cent. There is one exception, which I will come to in a moment, which pays a lot more because the problem is more urgent. So these are experimental, the 1 per cent. The community initiatives are a wide range of activities which we are testing at a community level. In the past, we had environment, we had research. Lately we had, for example, interregional programs, cross-border and interregional programs, developing the relationships people have with each other over the border, which is often stronger than the relationship with their own capital.

In fact, let's have a look at the current position. We used to own about 13 of these and we thought that was a bit much. We can't test everything. So we are concentrating on just four, just 5 per cent of the budget now, and the Interreg has been widened to include, well, the cross-border, which always had, transnational on a more formal basis, and interregional not cross-border but all over the place, so you are getting Portuguese working with Greeks or Danes; you are getting Brits working with Germans and Spanish, so wide-ranging co-operation, and that's one of the things which works best in terms of enthusiasm. It's getting people on a common problem. We've got languages, different educational backgrounds, different ways of doing things. If you can bring them together, the range of experience to be applied to a particular problem is that much wider. You get a solution quicker. So it tends to be rather—it's enormous fun for these people and it's quite cost effective if you have got a group of Danes working with a group of Greeks.

The Hon. Dr PEZZUTTI: To do what?

Mr WHITE: Well, there's a whole range of things they could do. The Danish-Greek example I am thinking of—actually it's not really a regional policy; it's in science. I was the contract officer. They were working on a problem in the field of

catalysis, chemical catalysis. The difference between the two groups was that the Danes had all the experimental machinery—

The Hon. Dr PEZZUTTI: That's right.

Mr WHITE:—and they produced loads of results and had to keep stopping the machinery and analyse the results, and that was the boring bit for them because they were very much practical experimental chemists. But the Greek group didn't have any machines. They had never been able to afford them so they were very much theoretical. That was their skill. Just put them together and quite literally what was happening was that instead of spending three weeks analysing the results they would fly down and over lunch in the outdoor canteen at Petras Department of Chemical Engineering the Greeks would work out the trappings and say, "Well, look, it's obvious. Can't you see from the figures?" The Danes would say, "No, we can't see anything from the figures." We had to sit there with a calculating machine. The Greeks could see it. They could read the figures and then they could come back occasionally and use the Danes' machines. So the Danes had the sunshine—

The Hon. Dr PEZZUTTI: Absolutely not.

Mr WHITE: And the Greeks had the—no, the Greeks were carrying—

The Hon. Dr PEZZUTTI: The Greeks have got the sunshine. They are still alive.

Mr WHITE: Yeah, but when they came to Denmark you wondered what was in it for them. I realised that they were only buying one-way tickets. So I did ask them one day, "Well, how do you get home?" They said, "Ah, just a" The tax on cars in Greece is 800 per cent, as it is in Denmark, but if you buy a car in Denmark you don't pay the tax on it so you have got the lowest basic price in the whole of Europe and they just drive it back to Greece, and by the time they got there it was a secondhand car. They paid the tax on a secondhand car with about 2,000 miles on the clock. So that's what they were doing. Right, that's an extreme example.

In Interreg we've got industrial projects; we have got archaeological heritage; we've cultural projects, the sort of things that municipalities tend to be interested in and they can work together on. We have got an urban scheme, which is quite small, because we had a lot of different initiatives in the past and urban now is incorporated in the mainstream, as I will show you, for the most part and that's regeneration of inner city areas particularly because you have 80 per cent of the population living in cities and I think it's 88 in Europe—a very high proportion living in the cities. About the same proportion of the GDP is generated in cities but it's where you get the biggest contrast, the biggest disparities. We are just trying to even out the disparities a little bit.

But outside the mainstream, which is defined geographically, you have got areas where it's eligible and areas which aren't eligible. You have got cities everywhere. So it's urban regeneration outside the mainstream. Leader rural development is because we are seeing changes in the common agricultural policy which is turning from spending on subsidising part of it. It's turning from that to rural development. It's finding them alternatives to their agricultural activity if they can no longer afford to continue it.

The Hon. TONY KELLY: Is it looking at more efficient farming as well?

Mr WHITE: More efficient farming—

The Hon. TONY KELLY: Rather than subsidy?

Mr WHITE: To some extent efficient farming, yeah. Efficient farming has got a little bit of a bad name because it tends to be equated with industrial or factory farming and the ills that that has produced, so more than that it is possibly looking at niche farming or ecological or bio. The European consumers have started moving a little bit towards the organic.

The Hon. TONY KELLY: Organic farming?

Mr WHITE: The organic side, which you have got lower inputs, to some extent higher costs, but you can get a premium on the price.

The Hon. TONY KELLY: Much of a premium?

Mr WHITE: It depends. People will, for example, travel not to supermarkets but to what we call farm shops. I tell you in the UK it is certainly true, and they will pay a premium if they know that what they are picking up was brought in. First of all, it's non-contaminated; second, it was picked a couple of hours ago. And they will actually wait there by the shop. I've seen them do it waiting for the broad beans to come in and they fall upon them, and they will pay extra because they are fresh and tasty, and that's still, I suppose, quite a small part of the population because most people still go to supermarkets but they don't know where the hell the beans came from. They could have travelled for miles and they have certainly lost all their taste but they don't know what the taste was. So Leader is—

The Hon. Dr PEZZUTTI: The Leader also pays farmers to do other things, doesn't it?

Mr WHITE: Yes.

The Hon. Dr PEZZUTTI: Not just farm?

Mr WHITE: Exactly. It's, as we will see with the Objective 2, we develop small-scale industrial estates where we tend to be the leaders. We know how to do industrial development, but it will be microprojects. We take a corner of a farm and make an incubator unit for little organisations up to five or 10 people, often in high-tech. We find that farm workers adapt rather well to biotechnology but also information technology. It's one of the things they found in Ireland. What was considered a rural population has switched almost without any protest from a pre-industrial to a post-industrial society.

So there's various ways of developing the rural economy. Equal is ways of combating discrimination, which is social policy and has nothing much to do with us but it is part of the three main objectives in the mainstream, and one of them is social policy, and part of social policy is combating discrimination against women but also against disadvantaged peoples. It's a wonderful thing to say but how do you do it? Everyone is in favour of equal opportunities till you have actually got to integrate your gypsies or your—what is it in the UK—the bogus asylum seekers or whatever—people we actually need but people don't really want much to do with.

The Hon. TONY KELLY: What do they call it—NIMBY—not in my backyard?

The Hon. Dr PEZZUTTI: No, no, but does that mean that if, say, for example, you have got a farm project it has to have elements of all of the other things in it?

The Hon. TONY KELLY: With those small—when you were talking about the farms that would have these in line with the circumstances they have changed quite dramatically to encompass the new type of work, is that widespread right across the country or is it just in pockets?

Mr WHITE: I'll show you. It's in all the areas which we count as Objective 5B. I will give you a map with all the eligible zones on it. It's actually quite a wide range. Now, it's what we used to call 5B. It's now incorporated into Objective 2, and it's pockets throughout Europe, and it really does cover every country, unless a country is completely Objective 1, which I will explain in a minute. This is Objective 1. It's the biggest chunk of funding—69 per cent—and it's for—69 per cent of the funding, 22 per cent of the population, and it's in the areas which I showed you below of 75 per cent. It's a pity I can't—yes, the machine's gone.

The Hon. Dr PEZZUTTI: The lamp.

Mr WHITE: So what we do in Objective 1 are the things which we brought in from the experiments and the testing, so we've got environmental projects. It started off as being particularly concentrated on what happens to the coastal environment when you are chucking out a lot of waste water and the disbenefits of development on the coast and it has expanded to cover solid and water waste throughout Europe.

The Hon. TONY KELLY: So you were banning coastal development, were you?

Mr WHITE: Mmm?

The Hon. TONY KELLY: Are you banning coastal development?

Mr WHITE: We are not banning it, but we are trying to make sure that it's done in conditions whereby, unlike the case in the United Kingdom up until five years ago all the waste water was just thrown out to sea. The Brits did it.

The Hon. Dr PEZZUTTI: But this is money you would be spending in cities.

Mr WHITE: No, no, no. This is Objective 1. This is all over Europe.

The Hon. Dr PEZZUTTI: Yeah, but it's—

Mr WHITE: It's a very small part of the cities.

The Hon. Dr PEZZUTTI: But waste water and waste management is usually a city problem.

Mr WHITE: Not necessarily, not exclusively.

The Hon. TONY KELLY: It could be a town of 10,000.

Mr WHITE: It is not exclusively a city problem, and the impacts are felt in non-city areas. We are also looking at water supply, which is an increasing issue in Europe, particularly in the south, because if you look at remote sensing data over the past 20 years you sort of see the desert area moving forward or the very dry, the arid area here. I suppose it's part of the global warming and round here, as you saw this morning, it's getting wetter. It was a sort of tropical rainstorm.

The Hon. TONY KELLY: At 6.00 a.m. it was.

The Hon. Dr PEZZUTTI: One summer doesn't make a swallow or one swallow doesn't make a summer.

Mr WHITE: Yes, but why are all the summers like this? It has been like this for the last 10 years, believe it or not. That little hum. But why does it do that?

The Hon. TONY KELLY: Is that a siesta? It must be 3.30, is it?

Mr WHITE: This is what you were saying. The door gets hot.

The Hon. TONY KELLY: Yeah.

Mr WHITE: All right. That he means we can look at what we actually do. So there's the environment, there's the water supply—surface and groundwater—and, you know, dams become a very politically charged issue.

The Hon. TONY KELLY: Mmm, tell us.

Mr WHITE: And six out of seven Portuguese rivers rise in Spain, and Spaniards are damming all of them, so the Portuguese feel they are not in control of their water as they used to be, so it's causing conflict.

The Hon. TONY KELLY: Much as up in Queensland.

The Hon. Dr PEZZUTTI: There hasn't been a major dam built in New South Wales for 15 years, and there hasn't been a major dam built in the United States for at least that long.

Mr WHITE: Yeah, because of the environmental impacts.

The Hon. Dr PEZZUTTI: They have taken a little bit longer to catch up.

Mr WHITE: Well, the Portuguese are still building dams and they are deliberately destroying ancient artefacts and valuable agricultural land but they reckon they need it as a—

The Hon. Dr PEZZUTTI: I have seen this table before. Why is the environment the last dot point?

Mr WHITE: It's not the last in terms of priority.

The Hon. Dr PEZZUTTI: No, it's the whole aim of the whole thing is that but it's just the last dot point.

Mr WHITE: Because it was the latest to come in; it was the latest to be mainstreamed.

The Hon. TONY KELLY: This is what we were talking about on the way over. They should reorder it.

The Hon. Dr PEZZUTTI: They should be just reordered because the whole aim of this whole Objective 1 is that.

Mr WHITE: No, the aim of Objective 1 is economic development. It's not primarily—

The Hon. Dr PEZZUTTI: Sustainable.

Mr WHITE: —conserving the environment, no.

The Hon. Dr PEZZUTTI: Sustainable, isn't it?

Mr WHITE: It's got to be sustainable.

The Hon. Dr PEZZUTTI: That's right, sustainable.

Mr WHITE: It should be up there with the communications. We say this is not in any particular order but it's chronological; it came in at the end, the same as research and development was brought in a bit before on the grounds that economic development is stronger where there is a link with R and D, good-quality R and D, and on the peripheries of Europe you haven't got the R and D, so there's this positive correlation between the location of research laboratories and competitiveness.

The Hon. Dr PEZZUTTI: But in terms of what you spend it on, which is biosolids, water, et cetera, which is what many of these poorer countries had a problem with—

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: —it's all about the environment, as they say, which is why the environment should be number one, because all their funding goes to that.

Mr WHITE: No, it doesn't.

The Hon. Dr PEZZUTTI: What, to water and biosolids?

Mr WHITE: Ten per cent. No, 10 per cent of the total goes on environmental activities.

The Hon. Dr PEZZUTTI: All right.

Mr WHITE: A large part of Objective 1 is economic development, employment creation and infrastructure for transport and industry. I haven't got that table in this set of slides, unfortunately, but you saw what we were doing. Take Objective 2, which is the other one we deal with. It's a much smaller part of the budget, and it's more limited in terms of the areas affected by socioeconomic, but that means high unemployment, and its high unemployment in traditional industrial areas, in rural areas and in urban areas, and the sort of activities we are pursuing here are the same whatever the type of area is. It's trying to fix jobs, it is trying to create jobs. We have brought in experience from some of the experimental activities, the unorthodox job creation methods. It's a catch.

The Hon. TONY KELLY: Tourism is Belgium's national holiday.

Mr WHITE: After that I'm independent. And a lot of what we do is aimed at small and medium enterprises, and what we do for small and medium enterprises is what they can't often do for themselves, which is sophisticated management methods; it's export, contacts, technology transfer, quality control packaging, marketing at a European or world level so they can grow. By far the biggest industrial sector is the small and medium enterprise or is covered by small and medium enterprise, so whatever little you do has a big effect. If you help them grow, the big companies look after themselves to some extent, but the small and medium enterprises need this sort of business service assistance.

We also include the research and development, particularly looking at the links. It's easy to say you should have a link with high-quality research but how it works is a very different thing, so we have analysed to some extent how you can incorporate new technology, how you can get these links between research and development, and often it boils down to golf

clubs and lunch clubs. Oddly—well, it's not odd really, is it? But that's what brings people together. That's how ideas are exchanged. There's no real formal mechanism. Then the one at the top is environmental but again about 10 per cent of the total expenditure.

If the business services encourage the intellectual environment for growth, you need a good-quality environment for, for example, inward investment. The Japanese companies are not going to build where other people have already built. They are not going to spend money improving a derelict site; they want the nice clean site, preferably a greenfields site, with a golf course within a short driving distance. That's a travesty, probably, but it's something like that which I create in these old industrial areas, these coalfield areas, these steelworking areas, these former shipyards, textile works, so there are several strands. There's the inward investment which you are trying to encourage; there's the growth technology driven through the R and D; and then there's the business services which will help small and medium companies to make that leap into competitiveness at a larger scale. This has been quite successful.

The Hon. TONY KELLY: What's the employment in our SMEs? Is it 60 or 70?

The Hon. Dr PEZZUTTI: It's very high.

Mr WHITE: It's even higher.

The Hon. TONY KELLY: I think it might be 85 per cent.

Mr WHITE: It's getting on that way, and about 90 per cent of the industrial productivity is in industrial production, is from small and medium employment. It's massive.

The Hon. Dr PEZZUTTI: The median is up to 100, isn't it?

Mr WHITE: Mmm?

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: The median is up to 100?

The Hon. TONY KELLY: Yeah. Employment, yeah. Twenty to a hundred, isn't it, the figure?

The Hon. Dr PEZZUTTI: Yeah.

The Hon. TONY KELLY: In SMEs.

Mr WHITE: Okay. I will just jump into the—

The Hon. TONY KELLY: I like your comment about the Japanese and the golf courses. It's exactly what they want.

Mr WHITE: But the guy who took over from me when I left my job in Derbyshire County Council, he made his name for bringing in Toyota to build a car plant. He had to make sure it was a very nice green field that they came to. He knows all about it. And that swayed it, and as a bonus he got golf courses all round. They loved it.

The Hon. TONY KELLY: Well, we give our sister city in Japan, we just give them an honorary membership of the golf club.

Mr WHITE: Yep.

The Hon. TONY KELLY: And it's just that you pay for it. They will never ever play a game of golf there, you know. It's the payment. But it's worth tens of thousands of dollars to you.

Mr WHITE: Well done. Objective 3 isn't part of regional policy. This is the employment and training activity. We have, you know, phrases like active labour market policies. Well, that's really looking at unorthodox ways of bringing people back into the economy. They just pay the money.

The Hon. Dr PEZZUTTI: This is over and above the national effort?

Mr WHITE: Yeah. Often it's not over and above but its complementary to it. We would never say we were over and above.

The Hon. Dr PEZZUTTI: No, no, no. Of course not.

Mr WHITE: But its complementary.

The Hon. Dr PEZZUTTI: It's subsidiary. No, not quote.

The Hon. TONY KELLY: Too much work flow, Steven.

The Hon. Dr PEZZUTTI: Yeah, you don't see it.

The Hon. TONY KELLY: Take a break.

The Hon. Dr PEZZUTTI: It's the national holiday. It's okay.

The Hon. TONY KELLY: I mean, urgent

Mr WHITE: I didn't think I was on line actually. I am not working from a CD-ROM. I don't know quite know this machine. So, all right, that's not us, but it's the social inclusion.

The Hon. Dr PEZZUTTI: But does that mean that Objective 3 encouraging neighbour states to adopt these as part of their mainstream processes?

Mr WHITE: Yep, because it's working in partnership with the member states—

The Hon. Dr PEZZUTTI: Okay.

Mr WHITE: —and getting them to build these in, and that brings us on to what I'm saying about the method because a lot of what we prescribe when it's taken up by the member states improves the way they work. I will just flash through that quickly. It's the community that you have seen.

The Hon. Dr PEZZUTTI: Yes.

Mr WHITE: These are the eligible areas but only Objective 1. It's a pity—

The Hon. TONY KELLY: We've got a copy of that.

Mr WHITE: You have got that one?

The Hon. TONY KELLY: Yep.

Mr WHITE: Has it got the blue on it?

The Hon. TONY KELLY: Yes, it has got the blue.

Mr WHITE: The blue is Objective 2, and that's all the rest.

The Hon. TONY KELLY: Yes.

Mr WHITE: But you see already we are—

The Hon. TONY KELLY: And it's got the yellow for the new ones coming in.

Mr WHITE: Two points to make. You notice that Ireland has now divided itself up into regions because most of Ireland is out at 122 overall. That's in the rich sort of "L" down here but the borders, midlands and west has turned itself into a separate region, especially for the new period, in order to benefit from being below 75 per cent overall of the GDP.

The Hon. TONY KELLY: We are going to the university over there at Galway and talk to them.

Mr WHITE: Yeah. Something else which, you know, the Brits followed the same principle. They disaggregated their counties so that instead of being together Devon and Cornwall are now considered separate, and that's two entities.

The Hon. TONY KELLY: Cornwall is?

Mr WHITE: Cornwall is below 75 per cent. Well, it's very poor.

The Hon. TONY KELLY: I thought it was supposed to be a wealthy area.

Mr WHITE: No. The farming—it's rather bleak and barren compared with Devon. They had tourism but the infrastructure can't really absorb a great deal. It's a hell of a way from anywhere.

The Hon. TONY KELLY: And Wales, by the look of it.

Mr WHITE: Wales, yeah, that's coming.

The Hon. TONY KELLY: Just up by north Wales, is it?

Mr WHITE: No, no, just the west, and there southern Yorkshire.

The Hon. TONY KELLY: And the top end the Scotland still.

Mr WHITE: The top end of Scotland is pink. Now, that's another point to make. That's phasing out. In other words, it's no longer eligible because, like the rest of Ireland, it has come up from the 75 per cent level, but we don't drop it overnight.

The Hon. TONY KELLY: Six years.

Mr WHITE: Six years, yeah, which overcomes the problem we used to have with UK regional policy where you were having eligible areas named and unnamed kind of overnight. A company like, was it BSR Records, that was the classic example. I think it moved location 16 times in 22 years.

The Hon. TONY KELLY: Just to keep in a—

Mr WHITE: To keep in an eligible area, to benefit from investment. Actually, it was a form of fraud, but every time they did it 500 or 600 people lost their jobs, so there is a great desire on our part to avoid this instability, so a six-year phasing out period was considered time enough for people to really get implanted and not want to move on.

The Hon. TONY KELLY: What about a comment we have heard this morning that these new areas will lower the average GDP?

Mr WHITE: I will come to that in just a moment.

The Hon. TONY KELLY: Okay.

Mr WHITE: They certainly will, by 18 per cent overall. Where have we got to go? Method. Let's go down one. Part of the method is partnership. It's, you know, defining what the commission does and what the member states do. The member states have program management authorities, which select the projects, and monetary committees, which run the project. The commission doesn't have anything to do with projects. We are there in partnership with the member states to make sure that the priorities and the programming is strategic and follows the lines that we feel are important which our own evaluation and testing have shown to be effective. But we don't touch projects.

There are 400,000 projects. We calculate. You know, what we really could have done. We don't have island projects in the member states. The member states divide the activity between two parts. We also tell them that they, the member states, have to observe partnership. The spirit of subsidiarity means that things really should be done at the most appropriate local level, so in terms of economic and governmental activity, the central governments have to involve the regions, local authorities and other competent authorities.

The Hon. Dr PEZZUTTI: How, if you have got 400,000 projects going at once, do you keep any idea on whether any of them work and if they do work and what bits of them work so you can include it back in through the system?

Mr WHITE: It's difficult, but we tell—

The Hon. Dr PEZZUTTI: Probably an army of bureaucrats or is it a whole battalion of computers?

Mr WHITE: Well, either. We don't—as I say we don't touch the projects. We don't monitor them either. We need to be assured by the member states that the programs that they have installed are going in the right direction. It is the member states who monitor the individual project. We give them criteria, evaluation criteria, and we insist that those are applied.

The Hon. Dr PEZZUTTI: But you don't get the results?

Mr WHITE: We don't get the results directly. We get them via the monitoring committees, and we build them into our annual report, which is always about three or four years.

The Hon. Dr PEZZUTTI: So that means you are spending all this dough—

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI:—and you are funding a whole lot of projects with people who have sweated their little bloods out to develop.

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: Then a real time assessment of how valuable they have been could give of the other 399,000 a huge benefit.

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: But they've got to wait for three years to get some sort of process which you have got no control over to give you an output.

Mr WHITE: Well, you say we have got no control over it. We tell the member states how it should be done.

The Hon. Dr PEZZUTTI: You tell them how to do the assessment.

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: But you don't then monitor that they have done this.

The Hon. TONY KELLY: Yeah, they have got a monitoring committee.

Mr WHITE: We do but at a strategic level. See, we get reports from the managing authority.

The Hon. Dr PEZZUTTI: We've done it.

Mr WHITE: They make a report every year.

The Hon. TONY KELLY: So you have got an audit, like an audit.

Mr WHITE: It's an audit. We have a random facility to go in and look, and we do this all the time, but we don't have an army of bureaucrats of the size of—I don't know if it means anything—of the size of a London borough council, precisely the size of Lambeth Borough Council, which has a population of slightly over two million. That's the size of the European Commission. And the Regional Policy Directorate is only about 600 people, so it's very, very small. So we have to have a very decentralised chain of command.

The Hon. Dr PEZZUTTI: If you are on a good thing how do you know you can stick to it?

Mr WHITE: Because of our experimental and testing facilities. We do an awful lot of this testing, more hands-on, for a very small percentage of the budget so before we put them into the mainstream we know they are mechanisms which work, so we are fairly confident that if we promote the decentralisation of R and D it will have a particular effect. We know it does. If we promote road development, railway-integrated transport, we know that it works because we've tested it ourselves.

The Hon. TONY KELLY: So your audit just makes sure they are sticking to the strategy.

Mr WHITE: Sticking to what they have said they will do, and we have representatives on the monitoring committee, so we hear.

The Hon. TONY KELLY: By exception.

Mr WHITE: We keep our ears to the ground, but we haven't got that many ears.

The Hon. Dr PEZZUTTI: You can't have your ear to the ground for 400,000 projects.

Mr WHITE: We don't.

The Hon. Dr PEZZUTTI: You simply can't.

Mr WHITE: But we can monitor them in every region.

The Hon. Dr PEZZUTTI: One of those—if they all do the same project for you, one of them is going to do it just a tiny bit different, which is going to make a huge difference in outcome—

Mr WHITE: It could do.

The Hon. Dr PEZZUTTI: —and you have got to find out about that to get the value out of it.

Mr WHITE: Well, we expect them to report to us.

The Hon. Dr PEZZUTTI: Oh, I see.

Mr WHITE: And we have—again it's part of the method—we have a lot of what we call exchange of experience seminars, and we get project managers in here to Brussels. We have a big meeting. We just sit back and listen.

The Hon. TONY KELLY: So you get exception reporting.

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: Exceptional reporting.

The Hon. TONY KELLY: Exception reporting.

Mr WHITE: Yeah.

The Hon. TONY KELLY: So if it's not working as well as according to plan, then you would be told—

Mr WHITE: Yeah.

The Hon. TONY KELLY: —but if it works 10 times better, then somebody would say, "Hey, we did it better than you."

Mr WHITE: Yeah, and why we call it a plan is because we know roughly how it's going to work. This is why we don't put experimental things straight into the program because we know it will work in one situation but we need to go and put it through the community initiatives.

The Hon. TONY KELLY: So, that's the 1 per cent, 9 per cent, 9 per cent funding area.

Mr WHITE: Yeah. Quite. Yes, it's 1 per cent, 5 per cent because we have reduced the number of community initiatives. So there's this wide definition of partners. So the regional authorities should be the partners of the national authorities. They ought to include economic and social partners—that's trade unions and projects on the books.

The Hon. TONY KELLY: It's starting to run out, I think, the time.

Mr WHITE: Trade unions and employers organisations and NGOs—well, it's a bit of a dirty word after this weekend, isn't it?

The Hon. Dr PEZZUTTI: It should be.

Mr WHITE: But pressure groups, interest groups, wildlife preservation, environmental pressure groups.

The Hon. Dr PEZZUTTI: If they stick to their knitting, they're fine, but they don't.

Mr WHITE: Okay. In programming—well, let's not go through the whole thing, but we are confined to this level, really. We issue guidelines which contain our experience in testing, and then the member states develop plans, and we look at the plans at a member state level—we deal with the 15—and we adopt the plans and we can modify them halfway through but only on the basis of targets, priorities and—

The Hon. Dr PEZZUTTI: So they steer them a bit in different directions.

Mr WHITE: Yeah. But we do have a mid-term possibility to change direction if it seems to be needed. So—well, there's various aspects of the method. Let's jump through. Cost-effectiveness: again, we decentralise responsibility for financial management, financial control. We don't tell them how they should do it, but we tell them what we want from their financial management and financial control, and we do have a sanction if we don't like the way things are going. We never used to have much real power. We could withhold money for a year or two but in the end over a five-year program the member state hasn't had their whole allocation so we just delayed it maybe a little bit but we couldn't withhold it saying, "No, no, you haven't done it right." Now we can, up to 4 per cent of a particular program. Normally, we will keep it in the member state but we will issue another program, so we will be slapping the program managers over the hand, but if it seems endemic, then we keep it and give it to another member state. So far we haven't done so. We haven't really been going long enough. Now, let's jump out and look at the future, which is here in the second cohesion report.

The Hon. TONY KELLY: So is this going to give us a projection of what's going to happen to the lowering of the average GDP?

Mr WHITE: Exactly, and everything that follows on from that.

The Hon. TONY KELLY: So all the existing ones will end up out of it? Is that what's going to happen, or close?

Mr WHITE: Let's have a look. So instead of convergence, which you have had over the last 10 years, we are going to have divergence. The surface area goes up 34 per cent, population 28 per cent, which the same has actually happened between East Germany and West Germany. That was effective with the unification of Germany. They handled it. GDP not up by very much—5 per cent—so the average goes down overall.

The Hon. TONY KELLY: So it's the total GDP that goes up by 5 per cent.

Mr WHITE: Yeah.

The Hon. TONY KELLY: And the average goes down.

Mr WHITE: And the average goes down. Look at these. At the moment 10 per cent of the richest regions have 161 per cent overall and in 10 per cent of the least profitable regions it's 61. That's now. In the future, the Europe of 27, 10 per cent of the richest regions are going to have 177 per cent. What is 10 per cent? Thirty-one.

The Hon. TONY KELLY: So they will diverge again.

Mr WHITE: And that takes them over to low. This is the famous map.

The Hon. TONY KELLY: The new one.

Mr WHITE: This is where we have redrawn the averages based on an enlargement to 20—

The Hon. TONY KELLY: So you are back to six.

Mr WHITE: Twenty-seven member states but we've only got details—we haven't got details from Malta, but since Malta is more or less exactly average it doesn't make much difference to the total.

The Hon. TONY KELLY: So there's a couple of little bits of Italy left and three spots in Spain.

Mr WHITE: Yes, which means everything which is red would be eligible for Objective 1 but we haven't got any red at all in Portugal. That's a country which has traditionally received a lot. Nothing in Ireland.

The Hon. TONY KELLY: Nothing in Ireland.

Mr WHITE: Only these bits of Spain. Hardly any of Italy, strangely enough. None of the islands.

The Hon. TONY KELLY: Nothing in France?

Mr WHITE: Well, yes, we only had—most of the Objective 1 areas in France are in the doldrums now. That lot, the Canaries come out, but the Département d'Outremer, they keep it. In mainland France, the UK, Ireland, nothing. A bit of Germany, and then you have all the new member states, going down to the poorish region, which I think is that one, south-west Bulgaria.

The Hon. Dr PEZZUTTI: That's not going to be fixed in three years.

Mr WHITE: You reckon two generations.

The Hon. Dr PEZZUTTI: Mmm. Well, that's realistic.

Mr WHITE: Yeah. Let's jump to—no, I have shown you how the disparities have been reduced. There is still a long way to go in the 15. That's what countries like Portugal and Greece say. They actually haven't finished the job. We have got enough money to continue doing the job in the way we've done it with all these mechanisms using this method right up to 2006. The budget was put in, 40 billion euro, to pursue cohesion in the candidates who will join by 2006. It could only be Portugal, Hungary, Slovenia and maybe the Czech Republic and maybe Estonia. We don't reckon any more than that. But however many it is, we can afford to do it properly up until that time.

The Hon. Dr PEZZUTTI: They have still got five years to go, for God's sake, under the current program before they work out whether it's going to work or not in Portugal and Spain.

Mr WHITE: Yeah, but they have received money for 10 years. They're moving but they haven't gone—they have still got high unemployment in Andalusia, 20 per cent. What are you going to do about that?

The Hon. Dr PEZZUTTI: But you can whip them again. You can't make them walk.

Mr WHITE: Yeah, but they have the veto in the council.

The Hon. Dr PEZZUTTI: I know, yeah.

Mr WHITE: Long-term unemployment, 46 per cent. Youth unemployment has gone down. Women unemployed has gone down, but its precarious forms of work. Look at the poverty rate. In the 15 we have still got 18 per cent below the income threshold, which is 60 per cent of the median in each member state, so theoretically 18 per cent of the 15 are living in poverty.

The Hon. Dr PEZZUTTI: They might choose to be subsistence farmers.

Mr WHITE: In some cases, yes, subsistence farmers, but getting more than subsistence income because of the which is going to change. This map is quite constructive. It shows that the economic heavyweight is in the centre and it's all very feeble around the periphery. You haven't got that sort of structure in the United States with the same sort of population. You've got four poles of development. You have four areas as powerful and as productive as this in the States. That evens out.

The Hon. TONY KELLY: Are they coastal or—

The Hon. Dr PEZZUTTI: No, they're not.

Mr WHITE: Um, not specifically.

The Hon. Dr PEZZUTTI: Chicago is one of them, and it's not coastal.

Mr WHITE: This is territorial balance. I'm jumping here because we get to certain questions. Demographic changes: there's an absolute natural decline in 2008, so the working work force is declining and the retirement work force is getting bigger.

The Hon. Dr PEZZUTTI: How many Muslims do you have in any of these countries?

Mr WHITE: Muslims?

The Hon. Dr PEZZUTTI: Mmm.

Mr WHITE: It has got to be more than a small percentage.

The Hon. Dr PEZZUTTI: Yeah, well, of course, that's what happened in Uzbekistan, wasn't it, and they just outgrew them—they outgrew the population. In other words, if you want to increase your population put a Muslim state in. That's how you increase your population. It's the only way to do it.

Mr WHITE: Get Turkey as part of it.

The Hon. Dr PEZZUTTI: But Turkey doesn't work that way.

Mr WHITE: No, Turkey is not a traditional Muslim society.

The Hon. Dr PEZZUTTI: No, it's not, but all of—

Mr WHITE: Which is probably why it has been incorporated relatively easily. We have analysed what our policies contribute. Common agricultural policy will contribute as it moves towards rural development. It hasn't contributed with its existing policy of subsidy because the subsidies are angled towards countries like Ireland, which has done well, and not countries like Portugal and Spain with a Mediterranean agriculture.

The Hon. Dr PEZZUTTI: But that's difficult from subsidiarity, isn't it?

Mr WHITE: Yeah, it is different. It's not really related.

The Hon. Dr PEZZUTTI: No. It's interesting that it's much the same word, isn't it—subsidiarity and subsidy? So they say that they do it by subsidiarity, but subsidies.

Mr WHITE: They are creating whole subsidies.

Mr THOMAS: Yeah, a completely different meaning, though.

The Hon. Dr PEZZUTTI: Isn't it?

Mr THOMAS: Subsidiarity is subsidiaries.

The Hon. Dr PEZZUTTI: Yeah, I know, at least at the local level but they say they deliver it that way, too.

Mr THOMAS: Not the cap.

The Hon. Dr PEZZUTTI: Not the cap, no.

Mr THOMAS: No, the cap is dealt with quite differently in all this.

Mr WHITE: Yeah, yeah.

Mr THOMAS: It's part of the Common Market and there are rules that apply commonly across the whole of Europe.

Mr WHITE: But we are going to have to change it, and we slowly are.

The Hon. Dr PEZZUTTI: Why is that?

Mr WHITE: Well, I don't think we could apply the common agricultural policy as it currently stands to Poland, with the rural population getting on for 40 per cent. Very different. That's going to be—

Mr THOMAS: Financially responsible. The structural impact, the impact it would have on the incentive structure in the economy, would be a catastrophe.

Mr WHITE: Absolutely. So it has got to change.

The Hon. Dr PEZZUTTI: Sorry, does it make any difference, though, to the total number percentage of people in rural areas for the whole of the enlarged population? Just because it's 40 per cent of Poland—Poland might only have, what, 40 million people—40 per cent of 40 million—but, I mean, it might be a big percentage of a sizable place.

Mr WHITE: It's quite a big percentage in, that sort of percentage, in all the countries.

The Hon. Dr PEZZUTTI: Oh, is it? Right. Okay.

Mr WHITE: It's much higher, and it's down to 3 or 4 per cent in the 15. It will make a difference to the balance. It will push up the rural populations by about 15 per cent overall.

The Hon. Dr PEZZUTTI: What is it now?

Mr WHITE: Five—well, four, 4 per cent.

The Hon. Dr PEZZUTTI: Is it only 4 per cent for the EEC, rural people?

Mr WHITE: Yep.

The Hon. TONY KELLY: Is that employed?

Mr WHITE: Employed in the rural—

The Hon. Dr PEZZUTTI: Oh, employed in the rural sector. I am sorry. Okay, okay, I understand, I understand.

Mr WHITE: You have got a lot of policies that contribute to cohesion, including environment, transport policy. Research policy doesn't yet contribute very much. It's still a bit elitist, but the best framework for cohesion is the stability brought by the economic and monetary union, getting the internal market. That's been behind the growth of the last few years. You will see how we manage with the rocky waters which lie ahead.

Structural policy: well, we make very big contributions. We are putting 0.46 per cent of community GDP into structural policy road maps, regional policy/social policy, and that was that big increase I told you about from 69 to 157. That was from 0.7 per cent of GDP to 0.46, and that's quite a key figure. The Marshall Plan had the Americans putting in, in all altruism, 1 per cent of GDP in 1946. We have increased GDP by 9 per cent in Greece, 8 per cent in Portugal, 3 per cent in Ireland, 3.1 per cent in Spain. We have reduced the unemployment gap. We've produced 300,000 jobs net. We've incorporated RTD, environment, training, education, so we have had quite a big impact in terms of what we do. The way we

do it is important—cross-border co-operation, which is the partnership I told you about, programming, evaluation. We are very strong in evaluation and criteria for monitoring because the member states often set aside.

The Hon. Dr PEZZUTTI: On the structural funds.

Mr WHITE: On the structural funds, yes because we don't have a project orientation. We have to have strategic orientation and if you have got strategic orientation, you give the position to evaluation which it ought to have, but you have been in organisations which have been interested in developing projects, and that's where the brains go. It's much more fun to get things moving, to get things on the ground, and the evaluation tends to be given a back seat, and we don't give it that back seat, because we have a non-project orientation, and that's very important, and what we contribute in an evaluation is methodology. We are always updating ways of evaluating, ways for defining your strategic criteria, how you judge the success of a project. So method is a very important part of are success.

Now, look at the challenge. Disparities are doubling. Sorry, the difference between the richest area and the poorest area right now is about five to one. In the City of London the GDP per head is an GDP per head. It's about five to one. In the new Europe, the new 27, it's going to go from—

The Hon. Dr PEZZUTTI: On income versus quality of life and disposable.

Mr WHITE: Precisely.

The Hon. Dr PEZZUTTI: It is so different.

Mr WHITE: Yeah, but it's the—

The Hon. Dr PEZZUTTI: That's why I can't work out why you did this structural stuff, why you broke them into regions, because it's not livability in those regions, is it.

Mr WHITE: No, because we can't measure livability like that. We only measure, and it may be wrong, but it's all we've got, the income per head.

The Hon. Dr PEZZUTTI: But what is the aim. Would the aim be to have a fairly good livability for the people of the expanded Europe, you know, with a job and with satisfying something to do but livability in terms of the environment, in terms of whether they can eat or drink, whether they have got somewhere over their head and so on?

Mr WHITE: Yeah.

The Hon. Dr PEZZUTTI: That's what we're dealing with.

Mr WHITE: But with that comes competitiveness, and we tend to be a bit oriented towards industrial competitiveness in the economy. The mechanism—

The Hon. Dr PEZZUTTI: So it's not going to be a socialist paradise.

Mr WHITE: Certainly not.

Mr THOMAS: But how do you measure competitiveness?

The Hon. Dr PEZZUTTI: Exactly.

Mr THOMAS: We have got the same problems—

The Hon. Dr PEZZUTTI: Exactly.

Mr THOMAS: —on North Coast New South Wales.

The Hon. Dr PEZZUTTI: That's right, exactly.

Mr WHITE: Well, all it got is GDP per head.

The Hon. Dr PEZZUTTI: What's going to keep them working?

Mr WHITE: And, you know, we try and level the playing field in terms of infrastructure and the competitiveness of industry so that if you have got a job—the people in East Germany had a job but it wasn't a real job. They weren't selling anything. These days if you have got a job in East Germany, you are working for a lean company, which is marketing throughout the world, so it's a real job; you are contributing. Now, in terms of livability, I think discontent has increased in Germany. They liked it the way it was before but it was unreal. It wasn't viable.

Mr THOMAS: It was just an unsustainable system.

Mr WHITE: Yeah, it wasn't sustainable economically and it ought to be sustainable economically and environmentally.

The Hon. Dr PEZZUTTI: Well, East Germany wasn't sustainable environmentally.

Mr WHITE: Neither.

The Hon. Dr PEZZUTTI: No.

Mr WHITE: Because they were discharging huge quantities. You have got the same sort of problem throughout the candidate countries. A country like Poland has picked up on the issues and really made a very early effort, and the large threat here was right at the beginning, and now they have organised themselves so that they can join. I reckon it will be far less of an upheaval to incorporate Poland.

The Hon. TONY KELLY: So are they going to come in in stages or are they—

Mr WHITE: No, when they come in; they join.

The Hon. TONY KELLY: Oh, okay. So Poland could come in first and the others five years away.

Mr WHITE: Oh, I see. It's stages—no, they are not all going to come in, all 27. They come in when they are ready to sign, and at the moment the Poles are holding out on some of the—they are negotiating. They are good negotiators. The Czechs give you not everything. The Poles—

The Hon. Dr PEZZUTTI: What's the deal? What are the conditions of entry? What is it that they have got to give up?

Mr WHITE: They haven't got to give up anything but they have got to satisfy us on a whole range of different chapters, what we call the *Acquis Communauté*, the English for which is *Acquis Communauté*.

Mr THOMAS: They have got to be willing to

Mr WHITE: They have got to have—their environmental regulations have got to be the same as ours; their ways of working on it have to be the same.

The Hon. Dr PEZZUTTI: And policed.

Mr WHITE: They have got to have a proper market economy; they have got to have, you know, proper tendering.

The Hon. TONY KELLY: So the negotiation might be to stage the implementation.

Mr WHITE: Human rights, legality, regional organisation. It's a whole range of things. They have got to come up to the standards that we are working to, which we don't always respect. This is the—the Poles are very observant. They say, "Well, the Brits and the French are flouting it more often than they are observing it, and we have got to observe it before we come in the club." Well, that's the way that all clubs are made.

The Hon. Dr PEZZUTTI: It is.

Mr WHITE: It is, but they will come in—

The Hon. Dr PEZZUTTI: "If you want in, you do what we say." Yeah, I know.

Mr WHITE: But they are absolutely determined. But the point is to bring them in and to continue financing a full cohesion policy. Even if it was only for the environment and for infrastructure it would cost double what we spend today.

The Hon. Dr PEZZUTTI: Yeah, but, I mean, we need a cohesive policy within New South Wales, within a state—seven million people, a huge population. We need a cohesive policy there to spread the benefits of what has happened in New South Wales.

Mr WHITE: That's exactly it.

The Hon. Dr PEZZUTTI: And growth and so on.

Mr WHITE: So what we are trying to do is spread the benefits of the internal market.

The Hon. Dr PEZZUTTI: And these mechanisms you have, though, I think they are very long lead time and they just seem to be—

The Hon. TONY KELLY: We will get Steve to start packing up because it takes him about five minutes.

The Hon. Dr PEZZUTTI: The lead time and just the huge energy that goes into developing the criteria and stuff, is it really worth having such strong commitment to almost a table of dos and a table of don'ts.

Mr WHITE: I think we have proved it. Yes. Now, if you had asked the question at the beginning of '93, we would be a little bit more—we wouldn't have been able to demonstrate that it was actually working. Now, we can if you look at the cohesion report. On a whole range of things it's working overall but we are getting convergence. The poorer areas are moving up. You've only got to go round Spain and Portugal if you've been around as long as I have. I remember bouncing round on my motor bike in 1971 in Spain wondering when they were going to fix the roads. Well, they have fixed the roads better than most parts of Europe now.

The Hon. Dr PEZZUTTI: They are very good.

Mr WHITE: They are very good, and the Spanish economy has come up beyond all recognition. From a weak and protected Francoist sort of post-Fascist, it had become a non-economy, and they had certain areas of strength. But now the whole Spanish economy is growing and it's competitive because they have determined that's how it's going to be. The Poles are also determined that's how it's going to be.

The Hon. Dr PEZZUTTI: Well, how do you keep that determination going, though, five years or 10 years or 20 years down the track when things are sort of bouncing along?

Mr WHITE: If they do at the moment—

The Hon. Dr PEZZUTTI: Paying that population? There are no young people coming along and, (b) what is the motivation for the young people?

Mr WHITE: It tends to be economic.

Mr THOMAS: Charles, how much of this is due to the structural policies, the regional policies, and how much is due to . . .

Mr WHITE: We reckon that of the convergence that we've seen between the member states, one-third of that is directly due—

Mr THOMAS: To the structural funds.

Mr WHITE: —to the regional funds, social funds and, to some extent, agricultural development.

The Hon. Dr PEZZUTTI: And how much is due to general improvement?

Mr WHITE: General growth all the rest.

The Hon. Dr PEZZUTTI: No, but, I mean, general improvement in the world economy?

Mr WHITE: I don't know about the world economy but the growth in Europe—see, a large part—you would say one-third of the structural funds, maybe one-third is because of the single European market which really has speeded things up between all the member states, so that's a general context.

The Hon. Dr PEZZUTTI: You've got rid of a lot of the inefficiencies.

Mr WHITE: Yeah, and then one-third probably world growth. A significant part is the structural funds themselves, to be helped.

Meeting No. 8: Monday, 23 July 2001 European Commission - Agriculture Directorate-General Brussels, Belgium

Also in attendance:

Ms Helen Williams, Representative, European Commission, Agriculture Directorate-General

Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union

Ms WILLIAMS: . . . being the Objective 1 area and the other Objective 2 areas and Objective 3 and that we have three or four European Agricultural Guidance and Guarantee Fund, which since our Agenda 2000 reforms have respectively being split into two pillars. We have a first pillar, which is the common agricultural policy, as well known I'm sure in Australia too, and the second pillar, which is the growing part of our policy, is the rural development pillar, so it's financed under our European Agricultural Guidance and Guarantee Fund and it's really like a bridge between the common agricultural policy on one side, because to a certain extent it accompanies and complements our agricultural markets policy, and another part of it is also structural policy and very closely linked in with the work of Charles White in D-G Regional Policy here. So I shall try and explain a bit the type of actions that we support and how it operates and then, as I say, I am happy to take any questions.

The Hon. Dr PEZZUTTI: We are especially interested in the GM food thing, you know, technology and biotechnology and its application, if that's your bag. If it's not, don't—

Ms WILLIAMS: I'm afraid it's not, no.

The Hon. Dr PEZZUTTI: Okay. Don't worry. Okay.

Ms WILLIAMS: No, I'm so sorry I can't help on that one I'm afraid.

The Hon. Dr PEZZUTTI: It's okay.

Ms WILLIAMS: So, I mean, we have a rural development regulation that allows us to intervene for rural development throughout the EU, so whereas D-G Rego's policy is very targeted on specific areas and they have a lot of emphasis on concentration of resources in specific geographical areas, our policy in principle can apply in any rural area of the EU, and the key factor that changes is the source of financing is different if it is in a structural funds region as designated by D-G Rego or if it's outside, but that's perhaps a technicality. And we have a regulation that offers a menu of different measures that the member states can choose, and there's also subsidiarity. The member states draw up rural development programs and they select from the menu. Do you see there? Yes, you have it. This is one of the papers I was going to suggest that I might copy for you. They can suggest from a range of measures. There's 22 measures. Perhaps we will use this. This is a basic.

The Hon. Dr PEZZUTTI: It's actually a very good paper, this one. It's excellent.

Ms WILLIAMS: Yeah, I mean—and they design their programs according to their identification of the priority needs in their regions. There's only one measure that is compulsory in all rural development programs, and that's the agrienvironment measures, which is where we support farming methods that are more environmentally friendly. We group our measures a bit according to financing source. We have what we call the four accompanying measures, which are perhaps the measures that are closest to farming and are most directly related to the progression of the cap reforms, and those are the agrienvironment measures, the support for less favoured areas, which are areas with structural difficulty—for example, farming in mountainous areas—and that measure has a strong socioeconomic feel. I mean, it's really about maintaining the countryside and maintaining farming in areas where it's very difficult to farm and where there are very few alternative development prospects.

Mr THOMAS: In those areas landscape values presumably would be one of the major benefits.

Ms WILLIAMS: Yes. I mean, that, you know, would be, say, in mountainous areas where the public wants people to be there, the farming is difficult, is going to be difficult to be viable, but the alternative if the people leave those areas is probably desertification—

The Hon. TONY KELLY: Is it?

Ms WILLIAMS:—which I imagine is the type of problem that you perhaps face in Australia too.

The Hon. Dr PEZZUTTI: Not really quite desertification but deep rural depopulation.

Ms WILLIAMS: Yeah.

The Hon. Dr PEZZUTTI: It hardly turns into desert.

Ms WILLIAMS: Yeah, well, I mean—

The Hon. TONY KELLY: Deserted.

Ms WILLIAMS: Yes, deserted but, I mean, for us as well there would be a change in landscape character as well is our problem that a lot of the beauty that the public wants from those areas is directly linked to the management of that land by farming systems.

The Hon. TONY KELLY: Sure, yep.

Ms WILLIAMS: And if the farmer leaves, I mean, aside from the loss of the rural community there's also what will happen to that land.

The Hon. Dr PEZZUTTI: This comes under the services provided by farmers.

Mr THOMAS: But that also then ties back into the concept of environment. The concept of environment here has, in this discussion has very much to do again with landscape values, with aesthetic values.

Ms WILLIAMS: Yep.

Mr THOMAS: And that is something that's given much greater weight here in Europe.

The Hon. Dr PEZZUTTI: And isn't it interesting, because in Australia the environment is seen to be pristine, untouched, and natural, rather than the built environment, which is what you are valuing.

Mr THOMAS: It's very much the built environment.

The Hon. Dr PEZZUTTI: Whereas we value the unspoilt.

The Hon. TONY KELLY: Well, I actually—I understand this.

The Hon. Dr PEZZUTTI: So do I.

The Hon. TONY KELLY: Because I, you know, I spend a lot of my life in Sydney but I actually live five hours away in the country.

Ms WILLIAMS: Right.

The Hon. TONY KELLY: And for me to get quality of life is actually to go back to the farm and spend some time on the farm, and it's not because it's pristine. It's pristine to pigs.

The Hon. Dr PEZZUTTI: No, but it's interesting because our Greens are more interested in wilderness and pristine values than they are in whether farming—they think farming is terrible, any sort of farming.

The Hon. TONY KELLY: So that's important, is it? When you say your population aren't interested in preserving farmlands as farmlands, rather than our pristine environment, which group of people are saying it? Are they the Green movement or are they the population generally?

Ms WILLIAMS: I think we would say it's the population generally, and there's an increasing interest from our urban population, really, given that we are a very densely populated part.

The Hon. TONY KELLY: To duck out and look at the vineyards or the farms or the haymaking or whatever it might be, or the wheatfields.

Ms WILLIAMS: Yeah, well, I mean, I think they—well, they want to see perhaps a certain type of farming.

The Hon. TONY KELLY: Yeah.

Ms WILLIAMS: I mean, they might not want to see—

The Hon. TONY KELLY: To see cattle graze or sheep or whatever.

Ms WILLIAMS: Yes, mixed.

The Hon. TONY KELLY: What about the Green movement, then? Have they got along what Brian was suggesting, just a pristine unfarmed area?

The Hon. Dr PEZZUTTI: There aren't too many bits of that left in Europe.

Ms WILLIAMS: I would just say I think that's perhaps the big difference between us, that if people think back to, you know, what they want to see of the past countryside, that countryside was already farmed and perhaps that is a difference between us that I don't think there's anyone here with much living memory—

The Hon. Dr PEZZUTTI: They would be frightened of the jungle.

Mr THOMAS: That's not as humorous as it is. There's a lot of truth in that. There's a lot of opposition to forestry, which is one of the elements of regional development here because it's wild, because it's something that changes the landscape and is wild. The environmental movement here that we have a fair bit of contact with, the environmental movement here is accepting of the fact that this is farmland, and the issue for the environmental movement is how as farmland is it best looked after.

Ms WILLIAMS: Yeah, how it's farmed.

Mr THOMAS: How it's farmed.

The Hon. TONY KELLY: So it's more like conservation farming issues, is it?

Mr THOMAS: Biodiversity is a very interesting concept here, but—

Ms WILLIAMS: Yeah well, I mean, I think that for our more environmental groups it's more about the look between intensification and extensive farming systems with an interest in more extensive farming systems, I think a lot of interest with smaller scale farming systems, where perhaps there's some confusion between maintaining biodiversity and whether that always has to be on a small farm. I mean, I think we would say that some of the larger farmers can equally well offer a high-quality environment and biodiversity and sometimes if they have got a viable business they are perhaps better placed to do that than a small farmer who's struggling. You know, his priority is to keep his business going.

The Hon. TONY KELLY: A comment I like to make often is that it's hard to be green if you are in the red, if your bank account is in the red.

The Hon. Dr PEZZUTTI: Yes, it's very hard for Greens. I would like to see a Green do some farming, like I like to see Greenies go out and stop bushfires. It's really quite interesting. But part of this process—are you going to stick close to this?

Ms WILLIAMS: No, no, no.

The Hon. Dr PEZZUTTI: Well, part of this process is this fascinating process which we have started in Australia, which is retirement of older farmers and the bringing in of newer farmers, particularly not even necessarily from a farming background.

Ms WILLIAMS: Right.

The Hon. Dr PEZZUTTI: Now, that's something that we're doing but I noticed that the earliest you can start, you can start anywhere up to age 40 and get the sort of subsidy for set up, which are quite generous depending on the area where you do it.

Ms WILLIAMS: Yes, I mean, for us that would a young farmer given the age structure that most of, that a lot of European agriculture faces.

The Hon. Dr PEZZUTTI: It is now, yeah, but unless you get them in, then they are just going to die, aren't they?

Mr THOMAS: The average age of a farmer here in Europe is one year older than the average age of a farmer in Australia.

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: Well, it's not much different.

The Hon. TONY KELLY: They are pretty old in Australia.

The Hon. Dr PEZZUTTI: It's the same problem.

Mr THOMAS: Fifty-five in Australia; I think it's 56 here.

The Hon. Dr PEZZUTTI: The same difference, the same problem. So are many people taking up this under 40?

Ms WILLIAMS: Well, I think the first thing to highlight is that because of the nature of our programs, because member states choose which measures they take up in their programs, it's not a pointer at Europe. I mean, in my own country, the UK, the UK doesn't have the early entrants measure in its programs at all, and that's been a choice of the UK authorities, so the measure doesn't apply everywhere, and in some member states that have got regionalised rural development programs they may offer the measure in one region and they may not offer it in another.

The Hon. Dr PEZZUTTI: Sure.

Ms WILLIAMS: So a bit—so, you know, it's very—

The Hon. Dr PEZZUTTI: Your farms in Britain are essentially larger than the European average, aren't they?

Ms WILLIAMS: Yes, substantially larger.

Mr THOMAS: Could I, again—sorry to interrupt.

Ms WILLIAMS: Yeah.

Mr THOMAS: This comes back to the concept of having a strategy—

The Hon. Dr PEZZUTTI: Yes.

Mr THOMAS:—for regional development and the fact that the commission is operating both in the D-G Regional plans at a strategic level so that you are getting again this principle of subsidiarity, that the people on the ground are making the decisions.

The Hon. TONY KELLY: Make up a strategy first.

The Hon. Dr PEZZUTTI: You have no problem keeping farmers here. We don't want to waste our money keeping farmers here because we've got our mechanism. The market's just working well.

Mr THOMAS: Yeah, I'm trying to translate.

Ms WILLIAMS: Yeah. No, no, no, that's fine, and I think the other point to underline is that we give a financial element, a financial envelope for our rural development programs when they are financed by the guarantee part, so a member state faced with that element, that fixed envelope, has to make choices between the measures, and it has to make choices between what are its priorities, so it may want to have the early, the young farmers measure, but it may want to have agrienvironment a lot more, so it's a budgetary choice as well.

The Hon. Dr PEZZUTTI: So it is important to notice that these are applied—they are all discretionary.

Mr THOMAS: It's a menu.

Ms WILLIAMS: So, it's a menu.

Mr THOMAS: And the only compulsory element is agrienvironment.

Ms WILLIAMS: Exactly.

The Hon. Dr PEZZUTTI: Okay.

Ms WILLIAMS: But, I mean, we have seen—I mean, we are just doing the first sort of look at what we've actually financed for the 2000-2006 programming period, and we are seeing that there's two measures that have attracted by far the most money, and that's the agrienvironment measure and the less favoured areas.

The Hon. Dr PEZZUTTI: This is the bit under compensatory payment, is it?

Ms WILLIAMS: Yeah, the compensatory payment.

The Hon. Dr PEZZUTTI: So in other words if you don't farm too intensively or you spend a lot more money fixing up your farm so you don't get soil run-off—

Ms WILLIAMS: That's the agrienvironment part, yes.

The Hon. Dr PEZZUTTI: That's the agrienvironment part.

Ms WILLIAMS: That's the agrienvironmental part.

The Hon. Dr PEZZUTTI: So that's where you get the compensatory what you would lose.

Ms WILLIAMS: For your income forgone, yes.

The Hon. Dr PEZZUTTI: This has got to be the key. What sort of money is allowed for that?

Ms WILLIAMS: Well, I mean, we set ceilings in our regulation. I will show you where we set ceilings.

The Hon. TONY KELLY: This is relatively new, isn't it, like the humidity problem?

Ms WILLIAMS: This was introduced in the 1992 reform SAAP, so here's our agrienvironment measure, so this is the maximum amount of aid per hectare, and it's according to crop type.

The Hon. Dr PEZZUTTI: Okay. In other words, if you have corn in and you took off two or three acres, then, say, from two acres generally you could get a maximum of 1,200 euros compensation—is that right?

Ms WILLIAMS: So 600, 600 per hectare.

The Hon. Dr PEZZUTTI: Per hectare?

Ms WILLIAMS: Yes.

The Hon. Dr PEZZUTTI: It's not very much, is it?

Ms WILLIAMS: And also I'd say that in any case these are the absolute maximum and our regulation requires—

The Hon. TONY KELLY: Per annum, per year, per annum?

Ms WILLIAMS: Per annum, yeah.

The Hon. TONY KELLY: How much? 600 euros, 1,200 bucks per hectare?

The Hon. Dr PEZZUTTI: Per hectare.

Mr THOMAS: Per year.

The Hon. Dr PEZZUTTI: Per year.

Ms WILLIAMS: Sorry, can I just—I ought to sort of add to that that the regulation requires that you base the amount of pay according to the income forgone, so the farmer will have lost some income by not growing more cereals so he might have some extra costs by doing a more environmental friendly system, and that the maximum incentive you can offer is 20 per cent.

The Hon. Dr PEZZUTTI: Of what?

Ms WILLIAMS: Of the aid. So, say, after you have done the income forgone calculation it came to a hundred, the most you could pay the farmer would be 120.

The Hon. Dr PEZZUTTI: Oh, sure, sure, but the maximum you could get would be 600 euros.

Ms WILLIAMS: That's the absolute maximum but that would have to be based on a costing calculation.

The Hon. Dr PEZZUTTI: Of course, of course.

Ms WILLIAMS: Because, I mean, the concern is that this shouldn't be just a subsidy to the farmer.

The Hon. Dr PEZZUTTI: To do nothing.

Ms WILLIAMS: To do nothing.

The Hon. Dr PEZZUTTI: I understand that. In other words, just leave your farm fallow. But you'd have to have a plan. The plan would have to include the loss of this farming area for a subsequent period of time. "Last year I made this much money on it; ergo, if I plan the same way this year I might have made the same, and it adds up to 450. Give you the money."

Ms WILLIAMS: Well, I mean, it's done in a contractual relationship with the farmer but the style of the agrienvironment measures are very, very different from one member state and one region to another. I mean, it can be that the agrienvironment measure is financing something like retaining certain types of farm walls, retaining hedges. It can be for land management features as well.

The Hon. Dr PEZZUTTI: Oh, I see.

Ms WILLIAMS: So, it's things like, you know, maintaining wetlands or landscape features that have a high value so it can be much more targeted and in some cases the agreements cover whole farms so the farmer is sort of entering into a contract to—

The Hon. Dr PEZZUTTI: You know, if I do this I can't plough my paddock. Therefore, I can't have that crop because I will be spending my time doing this."

Ms WILLIAMS: Exactly.

The Hon. Dr PEZZUTTI: Okay.

Ms WILLIAMS: In other cases the contract is just for a specific feature and his agreement isn't covering his whole farm.

The Hon. Dr PEZZUTTI: But they negotiate that on a dollar term as well as what the actual thing is going to be. They know what they are in for before they start.

Ms WILLIAMS: They sign a contract for a minimum five years.

The Hon. Dr PEZZUTTI: Okay. But if the local people decide this year, "We really want to get our hedges fixed up," or "We want three more hedges put across that paddock, please," and you lose that amount of farming dirt.

Ms WILLIAMS: I think the measure isn't quite like that. The measure is more that the local authorities would say, "Okay, in this area, what are the environmental problems for our agricultural sector?" and if they said, "Oh, it was the ripping out of hedgerows," for example, then in their plan they would have a specific agrienvironment measure for restoring traditional hedgerows, for example, and an individual farmer who had that hedgerow on his farm would then enter a contract and say, "Okay, I'm prepared to keep this."

The Hon. Dr PEZZUTTI: "I'll keep it, but I want you to pay me 200 euros per hectare of hedgerow per year."

Ms WILLIAMS: Exactly that type of thing.

The Hon. Dr PEZZUTTI: Okay. Thanks, I understand it. So in other words you are paying somebody compensation for not just doing something but for not doing something.

The Hon. TONY KELLY: For the loss of the area.

Ms WILLIAMS: Yeah. And for offering a positive environmental outcome.

The Hon. Dr PEZZUTTI: How much money is in all of that?

The Hon. TONY KELLY: So the afforestation there is fire.

Ms WILLIAMS: Yeah, I want—

The Hon. Dr PEZZUTTI: It doesn't have to be dead accurate—100 million, 200 million, 40 million?

Ms WILLIAMS: Well, we're—as I say, we're just doing our first overview of the figures. I don't think we can yet give you the concrete answer for that. It's the measure that—

The Hon. TONY KELLY: How much did you have in the past?

Ms WILLIAMS: I'm sorry, I can't answer that off the top of my head. I can provide you the data for the past period afterwards, if you want. I mean, I can give you this, if you want, afterwards. This is our total rural development for these figures.

The Hon. Dr PEZZUTTI: Oh, right.

Ms WILLIAMS: And we've started to look at some—

The Hon. TONY KELLY: Fifteen billion euros a year.

Ms WILLIAMS: And we've started to look at—

The Hon. Dr PEZZUTTI: 1,505.

The Hon. TONY KELLY: 1,505.

The Hon. Dr PEZZUTTI: Fifteen billion euros.

Ms WILLIAMS: Okay, yeah.

The Hon. Dr PEZZUTTI: BIO.

Ms WILLIAMS: Yeah, that's billion euros per year but that's including some national financing and that's the full range of measures.

The Hon. Dr PEZZUTTI: Okay.

Ms WILLIAMS: And then we have started to look at split by measure.

The Hon. Dr PEZZUTTI: But this is the essential one that all of the people have to take up, the agri—

Ms WILLIAMS: Not all. No, it's optional for the individual farmer but all the programs.

The Hon. Dr PEZZUTTI: But all the programs have to take it. They can try these other things from a menu but this one here is an essential feature.

Ms WILLIAMS: Yeah, yeah.

Mr THOMAS: In the strategic plan of the member state, so it's then how the member state implements that could have individual farmers doing nothing on the agrienvironment side.

The Hon. TONY KELLY: And they might be doing something else.

Ms WILLIAMS: Yes, it's voluntary for the individual farmer but the measure is compulsory in the program.

The Hon. Dr PEZZUTTI: So if they spend money they have got to spend a certain percentage of it on agrifarming?

Ms WILLIAMS: Yeah.

The Hon. TONY KELLY: That could be the same.

The Hon. Dr PEZZUTTI: Agrienvironmental. So some farmers won't get any money at all because they are not going to be part of any program that the state wants to offer that year.

Ms WILLIAMS: Yeah. I mean, they may choose not to take it up. What we also find in some member states with agrienvironment is that the measure is oversubscribed. There's more farmers want to get into it than there is money available.

The Hon. TONY KELLY: So the 725 euros there for afforestation example is per hectare, so that's what they get if they turn rather than just not produce a crop but they actually then—

Ms WILLIAMS: That's for afforestation and agricultural land, yeah. That's another measure, but, yeah.

The Hon. Dr PEZZUTTI: Could it be, "Look, we are having too much spraying of crops this year. We want you to forgo two sprays. I know you might drop your crop return that way. We will pay you compensation for loss of crop if you don't spray."

Ms WILLIAMS: We've had—we do have some agrienvironment prescriptions that include reducing pesticide use, reducing herbicide use. I have to say that we have—I mean, they are very difficult to control. They are very difficult to know whether you really get the added value from that because you don't know whether the farmer would have done it anyway for other reasons, and also it's very hard to prove subsequently if he really did what you have paid him to do.

The Hon. TONY KELLY: Yeah, as opposed planting a paddock or not planting a paddock. That's easy to see.

Ms WILLIAMS: Yeah, I mean, and, you know, retaining a hedge or ripping out a hedge. It's there or it's not and we're trying to pay for positive land management.

The Hon. TONY KELLY: Whereas if you come along a month later you don't know whether he has sprayed for heliothis moth or not.

The Hon. Dr PEZZUTTI: Well, you might be able to measure it in the product from his food. See, you might be concerned about dropping the level of something like chlordane in the water or chlordane in the crop or chlordane in the cattle that feed from that crop. You might want to get a crop that has got no chlordane in it to feed your cattle so that you can sell your cattle to Europe, so you might want to get a certain type of crop to feed cattle and you mightn't worry what it looks like a bit but you want to get corn that cattle can eat and don't get chlordane in them. I mean, it's pretty—

Ms WILLIAMS: Yeah, well, I mean, think linked to that a core element in our agrienvironment measures is that we do encourage conversion to organic farming, and that's an area that has had a big uptake.

The Hon. TONY KELLY: Has it?

Ms WILLIAMS: And is a growing area.

The Hon. Dr PEZZUTTI: So how much compensation do you pay for that?

Ms WILLIAMS: It's compensation—I mean, it's in the measure, so it's applied to the same—the same ceilings that we just looked at here apply, but those are very broad ceilings and, as I say, they are interpreted by member states in their programs and they are always limited to this maximum 20 per cent incentive based on an actual costing calculation.

The Hon. TONY KELLY: So a specific example. If I have a 10-hectare farm and I agree to make it organic, what would I end up with if I did the whole lot, 10 hectares?

Ms WILLIAMS: I can't answer that question because the calculation would be the level of an individual farm. It would depend on the type of crops that he's producing.

The Hon. TONY KELLY: So it's not just a straight compensation per hectare?

Ms WILLIAMS: No, no, no. I mean, the agrienvironment measure is underpinned by really, really detailed income forgone calculations so, I mean, it would change from one farm to another.

The Hon. Dr PEZZUTTI: How long would it take me to get—say I decided I was going to think about it. If I was Tony Kelly and I said, "I will think about it." Could I walk into some sort of centre today and say, "I'm thinking of doing organic on me top 30 acres." Could you give me a thumbnail sketch of the incomes and outcomes of that or do you have to wait three months and put in five proposals and what?

Ms WILLIAMS: I think it would vary from one member state to another because you wouldn't be applying to the commission; you would apply to the regional office.

The Hon. Dr PEZZUTTI: Sure. In Britain, then?

Ms WILLIAMS: In Britain I think it would be a relatively lengthy application process.

The Hon. Dr PEZZUTTI: Yeah, I think so too.

Ms WILLIAMS: And I think it would risk to be oversubscribed, which is the other problem.

The Hon. TONY KELLY: Oh, okay. So you've got limits on that. You don't want them all to be organic farmers.

Ms WILLIAMS: Well, I mean, from our perspective we would approve—I brought the program to show you. I mean, that's England rural development program. In it there's an agrienvironment measure. We have approved a certain amount of money for that measure overall. Within it there's an organic farming scheme. The English authorities have a lot of discretion to move money between, say, the organic farming scheme and another part of their agrienvironment measure but they manage that measure now. I mean, we approve a framework and they go ahead and manage it now. A farmer in England who wants to apply for it applies to the Ministry of Agriculture in England. They treat his application for—

The Hon. Dr PEZZUTTI: But if I'm next door to him and he's going to go organic, he would want me to stop spraying close to his crops. I want some compensation because he's going organic.

Ms WILLIAMS: To my knowledge nothing like that—

The Hon. Dr PEZZUTTI: Well, I'd spray and he wouldn't be organic.

Ms WILLIAMS: No, because we are paying for individual farmers to convert to organic production.

The Hon. TONY KELLY: So the way you would actually pay is I would get a subsidy per hectare or whatever?

Ms WILLIAMS: Yeah, you get compensation.

The Hon. TONY KELLY: I get some compensation because certainly for a year or two I'd get less production until
For how many years would that be?

Ms WILLIAMS: Again that varies from—

The Hon. TONY KELLY: It could be three or four years until my production comes up to a level where with the additional premium that I'm going to get paid for organic I get income similar or better than I used to get before.

Ms WILLIAMS: Well, as I say, it varies from one program to another. Some member states opt to pay for the conversion; others carry on paying. I mean, taking the example of England again, I mean, their view, the UK authorities' view would be that the market then kicks in and—

The Hon. TONY KELLY: After three or four years you look after yourself.

Ms WILLIAMS: After three or four years, yes.

The Hon. Dr PEZZUTTI: And if it doesn't kick in, what happens then?

Ms WILLIAMS: Well, that's why I think—

The Hon. Dr PEZZUTTI: Well, if every time, every crop you put in, the whole thing gets taken over by pests, as happens, or all your tomatoes have got those little black spots on them and nobody wants to buy them, even though they are totally organic.

The Hon. TONY KELLY: No, no, no, no, that's science. This is organic. It has got black spots on it.

The Hon. Dr PEZZUTTI: Yeah, I know that.

The Hon. TONY KELLY: It's only the stuff that hasn't got black spots.

The Hon. Dr PEZZUTTI: They're so crappy that nobody will buy them, even though they're perfectly healthy, perfectly organic, and nobody buys them, so I've got 10 acres of lost crop for three years in a row.

Ms WILLIAMS:, I mean, we—you know, that's not something that we would compensate for.

The Hon. Dr PEZZUTTI: That's being a farmer.

Ms WILLIAMS: I mean, that's a market risk.

Mr THOMAS: Could I make a couple of comments? In terms of the quickness of application, one of the things with the common agricultural policy generally, and I would be very surprised if it wasn't happening here, is that you will find that there are consultants that very quickly become familiar with the rules and act as a consultant to the farmer.

The Hon. Dr PEZZUTTI: Yes, and they charge you big money.

Mr THOMAS: The second observation that is worth making is to again emphasise that the principle of subsidiarity means that many of the questions that you are asking Helen simply aren't fair.

The Hon. Dr PEZZUTTI: Oh, sure. I understand that.

Mr THOMAS: Because they're dealt with by the member states.

The Hon. TONY KELLY: Back in the British Department of Ag.

Mr THOMAS: And there is a chronological reason for that, particularly in a place like the European Community, where there are such cultural and attitudinal differences between the Finns, the Brits, the Germans and the Greeks that you are going to have four completely different programs, that this question is a composite.

The Hon. TONY KELLY: Well, this question might be one that should be asked to the British Department of Ag, but I would have thought it might be valuable here as well or you should have a view on it. What is the current percentage of organic farming, as opposed to ordinary farming in the EU and what is the target that the EU is trying to achieve by having this policy?

The Hon. Dr PEZZUTTI: You know, you have got to have a target. If you have a strategy, you've got to have a target.

Ms WILLIAMS: To my knowledge the EU doesn't have a target.

The Hon. TONY KELLY: They just want to make more organic farming.

Mr THOMAS: The Germans have set themselves a target of 20 per cent. That's state specific.

Ms WILLIAMS: Yes, that's as a member state. To my knowledge, the commission doesn't have a target for it.

Mr THOMAS: The commission doesn't have a target. The Brits have said they won't have a target. The current effort in Germany I think is around about 2 per cent of production now.

The Hon. TONY KELLY: They've got 2 per cent. Now, they want to go to 20.

Mr THOMAS: Two. They want to go to 20. And there's no-one bar the Minister who is saying that it's possible.

The Hon. Dr PEZZUTTI: Well, that's all right. That's fine.

The Hon. TONY KELLY: It's a target. It doesn't matter. If they fall short by 15 per cent they have still done well.

The Hon. Dr PEZZUTTI: In your strategy you have got to test that your strategy is being complied with by getting down into the weeds sometimes. I mean, the important thing—my job in the army is to be strategic. I am not allowed to think about application, you know, but you have got to test to go down to the weeds and just check whether the strategy that you want to go in place is being truly represented by the plans that are put in place by the commanders, and even then when the plan is put in place, when the actual happens, that what you strategically want to happen happens because there's a lot of chains of brain, you know.

Ms WILLIAMS: I mean, one of the things I am sure Charles White mentioned as well, I mean, under our programming system it's underpinned by evaluations at mid-term and ex-post, which are designed exactly to do that. I mean, we prepare, you know, the member states prepare these programming documents. We approve them. That's a long process. They include an ex-ante evaluation to look at whether the strategy fits with the reality and then we update it at the mid-term evaluation to see, well, you know, are the programs on track, do they need retargeting, are some of the things that we are aiming for unrealistic.

The Hon. Dr PEZZUTTI: Well, that's the point. If you have got a strategic thing you want to achieve, that's got to have some sort of measure in it, otherwise how do you know whether you have achieved there halfway through or whether you've got to make an adjustment? So there must be something you're aiming for with a number or something on it and, you know, produce more organic food, for example.

Ms WILLIAMS: Yes, but there I think we come back to the subsidiarity point. I mean, our programs are underpinned by very strong monitoring indicators and we are doing a big exercise to pull in information but the targets are set more by the member states in the regions appropriate to their diverse rural circumstances and we are not here in the commission trying to impose a single model of rural development—

The Hon. Dr PEZZUTTI: No.

Ms WILLIAMS:—throughout the EU.

The Hon. Dr PEZZUTTI: But the strategy might be to produce—but the plan might be to produce enough food to meet a market in organic food in potatoes. That is a measurable strategy and how the plans—say, your strategy is to produce enough organically grown potatoes to meet the market in Europe. Right? Because that's a strategy. You can measure that.

Ms WILLIAMS: Yep.

The Hon. Dr PEZZUTTI: But, you know, you have got to have some sort of end points.

Ms WILLIAMS: But I think our strategy—at more European level, our strategy is more about promoting and sustaining active and viable rural areas. I mean, it's a much broader aim than the type of aim and structure that you are talking about.

The Hon. Dr PEZZUTTI: I see. So the test for that would be that you haven't lost farming land, that the farming—

Ms WILLIAMS: You'd look at the viability.

The Hon. Dr PEZZUTTI: The scenery looks better and the rivers are improving.

Ms WILLIAMS: That's much more the right line to take at our level.

The Hon. Dr PEZZUTTI: Okay, bench level improvement.

The Hon. TONY KELLY: They are your benchmarks.

The Hon. Dr PEZZUTTI: Or no loss.

The Hon. TONY KELLY: Could you tell me whether this—it seems to me contradictory. You talk about a policy here to get young farmers in or people on the farm under 40 yet there's also one here that says early retirement you will give 150,000 euros for somebody to close down their farm. Is that—am I not reading it right?

Ms WILLIAMS: Well, the early retirement is people over 55, so this is trying to get out the people who are—

The Hon. TONY KELLY: But the farm can still be used as a farm?

Ms WILLIAMS: The farm can be transferred to a young farmer.

The Hon. TONY KELLY: Under 40?

Ms WILLIAMS: Yeah.

The Hon. TONY KELLY: Okay. So it's not contradictory.

The Hon. Dr PEZZUTTI: So when you do the intergenerational shift both father and son benefit, or father and daughter.

The Hon. TONY KELLY: So my young bloke can come and take over the farm and you will give me 300,000?

The Hon. Dr PEZZUTTI: There's some really—

Ms WILLIAMS: Yeah, but equally as—again, I mean, the measures are optional for member states. It may be that one member state applies early retirement and doesn't apply the—

The Hon. TONY KELLY: Yes, yes, yeah, and that depends on the make-up of the—

Ms WILLIAMS: Exactly.

The Hon. Dr PEZZUTTI: The language of the EU is particularly sexist too. Have you noticed?

Ms WILLIAMS: Yeah.

The Hon. Dr PEZZUTTI: Because a lot of it is. Truly it is, isn't it?

Ms WILLIAMS: So I will have to advise that all our measures are equally open to women as men.

The Hon. Dr PEZZUTTI: Oh, I know that, but they talk to the farmer and "he himself" will make a decision.

The Hon. TONY KELLY: She hesitates a split second before she answers.

The Hon. Dr PEZZUTTI: It's the "himself" stuff. It's full of that, isn't it? It's just amazing. It's the most amazingly sexist. It talks about "he". Farmers are only "he"s.

Mr THOMAS: This is a very traditional society.

The Hon. Dr PEZZUTTI: Is it? Oh!

Mr THOMAS: Working in the farming area, it's far more conservative and far more traditional than anything you will come across at home.

The Hon. Dr PEZZUTTI: Yeah, okay.

Mr THOMAS: I think Helen could agree with that.

The Hon. Dr PEZZUTTI: Okay. Now, can you tell me a bit about financial engineering?

Ms WILLIAMS: Yes, I mean, that's one of our measures that we offer under what we call article 33, which is a wide—that's a wide range of measures to do with economic adaption and development and diversification in rural areas so, I mean, it's really trying to develop tools other than straight grants to promote economic development. It's a measure that we've offered. I have little feedback on it.

The Hon. TONY KELLY: So it's like a refinancing, trying to help them be better financed, more appropriately financed.

Ms WILLIAMS: Well, I mean, I think it might encourage use of, say, loans or other systems than simply paying a straight public grant as a way of leveraging in more economic development.

The Hon. Dr PEZZUTTI: Bigger buck for your dollar.

Ms WILLIAMS: Yep.

The Hon. TONY KELLY: It could be a low-interest loan over a long period of time or something.

Ms WILLIAMS: Yes, or systems that recycle funds.

The Hon. Dr PEZZUTTI: It's curious. Article 33—you are quite right, as I thought you would be—"The basic services for rural economies and populations, renovation and development of villages." Now, sort of, how much dough do you put into that and do you have fairly specific views and plans on that or is it just simply a direction, a strategic direction, under article 33?

Ms WILLIAMS: I can't answer your question about how much money we put in because for the 2000-2006 people—

The Hon. Dr PEZZUTTI: I thought those areas—

Ms WILLIAMS: No, no, no, it's just that we are in the current process of pulling together what we've just approved and we don't have the split within the article 33 measures. I think this is a measure that links very closely with what D-G Rego are doing, so in, say, in an Objective 1 area it may very well be that they are financing, say, if there was basic infrastructure needed, but you just have the England plan as an example.

Mr THOMAS: That's the structural.

Ms WILLIAMS: As an example, yes, of what they are doing.

The Hon. Dr PEZZUTTI: Oh, right.

Mr THOMAS: But each of the member states will put this together. This is the plan. What happened on the ground, given that the member states have got flexibility—you've asked Helen what is the outcome. Well, the outcome split of the numbers is still happening.

The Hon. Dr PEZZUTTI: Because these numbers, if they don't get any take-up on this one, they might—

The Hon. TONY KELLY: Spend the money on something else.

Ms WILLIAMS: Yeah, they might move it, yeah.

The Hon. Dr PEZZUTTI: State aid top-ups so they stand alone. They show nothing but they might spend all of it. I see.

Mr THOMAS: So, really, these operational questions are questions that can be—

The Hon. Dr PEZZUTTI: Only at the national level and only—

Ms WILLIAMS: But, I mean, what we're doing—

The Hon. Dr PEZZUTTI: And only in retrospect.

Mr THOMAS: Only in retrospect, but this is what was proposed by the UK at the outset.

The Hon. Dr PEZZUTTI: And this would have been signed off as being consistent with your strategy.

Ms WILLIAMS: Yeah. I mean—well, I mean, it's not our strategy; it's their strategy.

The Hon. Dr PEZZUTTI: No, no, sorry. I am sorry.

Ms WILLIAMS: I think that's the key distinction there.

Mr THOMAS: And that's—

The Hon. Dr PEZZUTTI: Yeah, yeah, they all own the strategy.

Mr THOMAS: Yeah, a point to be made. That's the way that Landcare works in Australia. That is not—that belongs to the individual Landcare groups.

The Hon. Dr PEZZUTTI: That's right.

The Hon. TONY KELLY: Mmm, yep.

Mr THOMAS: And that's at a level—I don't know if you're familiar with Landcare.

Ms WILLIAMS: No.

Mr THOMAS: But that is at the community level.

The Hon. TONY KELLY: Or it's very much like the agrienvironment policy, isn't it, really? It's very much Landcare.

The Hon. Dr PEZZUTTI: It's their plan, but to be consistent with the strategy which has been agreed.

Ms WILLIAMS: With the commission. I mean, it has some of our money in it; it has their money in it as well.

The Hon. Dr PEZZUTTI: Yes, their money. So they have put money in, you have put money in but this is the agreed. Otherwise you have got different country states going off on completely strategic directions, which would be crazy.

Ms WILLIAMS: No. I mean, I think to a certain extent we have some of that. We've created a broad framework with our rural development regulation and it may be pertinent for some regions to have different strategies. We've got areas in the south of Spain where maybe the major challenge is depopulation of rural areas. We've got rural development plans that cover, say, Holland, or England again, where one of the major issues is population inflow into rural areas and the pressure that that causes, so they need different strategies, and our policy is trying to achieve viable rural areas but take account of the different needs they have.

The Hon. Dr PEZZUTTI: But that's the same thing. It's maintenance of your productive rural agricultural land. I mean, people in England who want to move from the country are putting houses on agricultural land, which is exactly what you don't want to happen, so it's the same strategy. The strategy is maintaining your productive agricultural land.

Ms WILLIAMS: But I think the focus may be different in very densely populated areas. There may be a much greater interest in maintenance of the rural environment and countryside and landscape issues because there's a high value on landscape when you don't have much rural area, whereas in southern Spain, you are right, it may be more about agricultural viability.

Mr THOMAS: The German Minister for Farming—she's health, consumer affairs and everything. They have just had a new Minister—gave a speech in the UK last week that had people in D-G Agri falling about with horror and people in Germany, farmers in Germany, aghast. She outlined her vision for German farming in the future and she talked about prettily painted animal houses; she talked about the farmer greeting her as she walked through the front gate and inviting her into the farm cafe that was selling produce made in the area. Now, the German Minister for Farming is very green, is very new, and is about to run up against the farming constituency, but that's the whole other problem.

The Hon. Dr PEZZUTTI: She's yet to hit the wall.

Mr THOMAS: But what she has articulating is a lot of urban sentiment about—

The Hon. TONY KELLY: A view of what a farm should be.

Mr THOMAS: Sentiment should be like, and—

The Hon. TONY KELLY: Which could be driving policy in the future.

Mr THOMAS: Well, yes, it could be driving policy but, again, you have got such pressure on the land here that perhaps that's the way to go. Now, the common agricultural policy has come from food shortages after the Second World War that led to a policy that was, "We need to produce more food," and the debate that is now evolving is, "Well, do we really need to produce more food? We're feeding ourselves. Should we now be looking towards worrying about the quality of production, worrying more about landscape?" And that's really Fischler's pillar 2 concept, the whole of this rural development approach to policy, has come from. Look, I am sorry—

Ms WILLIAMS: No, no, no, I mean, that's fine. I think—

Mr THOMAS: As an Australian, I—

Ms WILLIAMS: No, no, no, that's fine.

The Hon. Dr PEZZUTTI: Can you give us an example of this one here "Level of aid to co-financing for rural development measures"? It's on page 7. Can you give us an example of what that's all about, particularly in regard to sub little thing in (i) says "Increase by 55 per cent of all investments for young farmers". What does that lot mean?

Ms WILLIAMS: I mean, basically here we're talking about how much community support goes into a measure, so in the Objective 1 regions, which you discussed with Charles White, typically the community co-finances measures at 75 per cent and the member state adds 25 per cent. Outside Objective 1 the co-financing rate is typically 50 per cent of our money and 50 per cent of their money. What we're saying is that for investments in farm we set certain ceilings but the level of public support can be higher when it's a young farmer.

The Hon. Dr PEZZUTTI: Okay.

Ms WILLIAMS: So it's just targeting the aid rate per cent.

The Hon. Dr PEZZUTTI: If I were a young farmer wanting to buy a farm of 100 acres in England and farm it, what sort of level of support could I get for that?

Ms WILLIAMS: I mean, as we come back to the subsidiarity question this is going to differ from one program to another.

The Hon. Dr PEZZUTTI: Then in Spain?

The Hon. TONY KELLY: No, no, she doesn't know again. It's local.

Ms WILLIAMS: I mean, it's not that I don't know. I mean, it's not going to be a figure.

The Hon. Dr PEZZUTTI: You can't know.

Ms WILLIAMS: We have got 69 programs and the aid rates will be—

The Hon. TONY KELLY: I don't think we are seeing the Department of Ag in England but we are in Ireland, so we will be able to ask some of those questions there.

Ms WILLIAMS: Yeah, I mean, ask them those type of questions for their specific program.

The Hon. TONY KELLY: Which will be different in Ireland to England.

Ms WILLIAMS: Exactly.

The Hon. TONY KELLY: But at least we will get some indication of the sorts of things.

The Hon. Dr PEZZUTTI: No, the only indication of a stick in this document that I could find—I didn't want to know some others—is, "If actual expenditure by state is less than 75 per cent of its forecasts, the expenditure allocated to the following exercise will be reduced by one-third of the difference between the threshold 75 per cent and the actual expenditure." Now, are there any other sticks that you've got?

Ms WILLIAMS: Well, I don't think—for the starting point I don't think we think our rural development policy should be based as a stick. I mean, it's meant to be a positive incentive policy, but what you have just mentioned about is a tool to encourage good forecasts by our member states that when they say, "Okay, we are going to spend this much," is that they don't just, you know, put in any old figure and ask for the maximum amount. We're asking them to give us realistic forecasts so that we can manage our budgets as well, so that's what that stick's about.

The Hon. Dr PEZZUTTI: So if they say that they're going to—but is that by line item or is it just—

The Hon. TONY KELLY: The program overall.

Ms WILLIAMS: No, it's overall programming, at program level.

The Hon. Dr PEZZUTTI: So if Britain, say, in England, if they didn't come up with an appropriate amount of money in their budgets, their annual budgets for agriculture to put into this plan, you could say, "Gee!" . . .

It would be pretty easy to do. I mean, if you get the annual budget brought down by Parliament that's got, you know, \$17.5 million for this program, and you added it up and you said, "Hang on! They told us they were going to spend 38 million on that program. That's interesting. We should revisit those people," and if they forecast it three years out, because they got the forecast right up to 2006 and they don't stick to it, you come back to them and say, "Right. Well, you haven't gone to 75 per cent of the forecast and we will therefore take the rest."

Ms WILLIAMS: No, because here we are talking about the forecast uptake of the measures, so that would be like under their agrienvironment measure they have put in 100 and they don't achieve anything like that, and that is a possibility. They could give try to give us good forecasts and then you get something like foot and mouth disease in the UK, which has meant

lots of farms have closed, which has meant it's very difficult for them in the last few months to sign new contracts. I mean, those are, you know, force majeure.

The Hon. Dr PEZZUTTI: I understand.

Ms WILLIAMS: But what we are encouraging is good forecasting, good financial procedures by the member states so that they can manage their money correctly and we can manage ours.

The Hon. Dr PEZZUTTI: As a matter of interest, has the European Community or the common agricultural policy contributed to the foot and mouth disease problem in Britain?

The Hon. TONY KELLY: You mean supported it financially, not contributed to it?

The Hon. Dr PEZZUTTI: Yeah, contributed to the—or to what has been the measures that have been put in place.

Ms WILLIAMS: I have to say I don't know as regards the actual livestock destruction part. As regards rural recovery schemes, I think one of the aspects or—well, first off, the UK hasn't to my knowledge yet come forward to ask what they want to do but what they could do, they could use part of their program here, their rural development program, and retarget it to their rural recovery plan.

The Hon. TONY KELLY: So if they were allocated \$1 billion to get young farmers in the program but because of foot and mouth disease no-one wants to go on the farms, so they have half a billion of it left over this year, and they could actually apply—they could say, "Listen, we want to use that for some of the measures that have been put in for recovery."

The Hon. Dr PEZZUTTI: They could do grants or some loans or refinancing.

Ms WILLIAMS: Or they could change their program more fundamentally. They could say, "We set up this program that you approved on this basis. We've had"—

The Hon. TONY KELLY: The roof fell in.

Ms WILLIAMS: Yes, "Something so fundamental has happened we now want to completely change it," and we would discuss that with them, though I have to say our financial envelope would be limited, so it would be—

The Hon. TONY KELLY: But if it's within their original budget, then it would be easy for you to accommodate it.

Ms WILLIAMS: We would discuss it, yeah.

The Hon. TONY KELLY: Particularly if it was something like that, foot and mouth disease, and they now need recovery money.

Ms WILLIAMS: Oh they might need to look at more emphasis on, say, economic diversification for some of the farmers who are already at the limit of viability, you know, or early retirement schemes for farmers who are already quite old and, you know, is it worthwhile them restocking.

The Hon. TONY KELLY: That's right. So suddenly you will have a lot more pressure on one particular part rather than on another.

Ms WILLIAMS: Yeah.

The Hon. Dr PEZZUTTI: I mean, did you see this article—it's written on the EU-US Conference on the Role of Agriculture and Rural Development?

Ms WILLIAMS: No, I haven't seen that.

The Hon. Dr PEZZUTTI: I am just interested that everyone is trying to push for smaller farms but we only fed the world because we had bigger farms. I mean, it is interesting to see the EU—I mean, the price of food doesn't matter to Europeans, because it's not an issue, but it does matter to the world.

Ms WILLIAMS: Well—and I don't think we are pushing for small farms. I think there's a debate here—I think there's two debates. There's a debate about intensification and extensification as a farming system, but that's not necessarily the same debate as small farm versus large farm. I mean, you can have a large extensive farm, as you know very well I am sure in Australia, and there tends to be some confusion about that.

Mr THOMAS: There's much concern about animal welfare and the animal welfare implications of intensive farming. People look at piggeries to feedlot operations, and there's a very strong reaction within Europe, particularly in the UK, about the animal welfare implications.

The Hon. Dr PEZZUTTI: Yes, we've had her out in Australia recently about the kangaroos.

The Hon. TONY KELLY: She's out there now. What's her name? Gellately.

The Hon. Dr PEZZUTTI: Gellately. She's out—

The Hon. TONY KELLY: Trying to tell us that we can't shoot kangaroos.

The Hon. Dr PEZZUTTI: Yeah, I mean, there's soon, or there will—Richard Jones is an animal liberationist who's now in our House and has been a strong animal liberationist activist for many, many years.

The Hon. TONY KELLY: We might just start to pack this up, because it takes us five or 10 minutes to do that, if you don't mind.

The Hon. Dr PEZZUTTI: And he—I mean, how do you farm animals? You don't farm animals just because they look pretty.

Mr THOMAS: I will only be nervous if we haven't walked out of here in 15 minutes' time.

Ms WILLIAMS: I was going to say, what I wanted to ask you, I mean, is there any further documentation you would like from our side? I see you have that, which was going to be the thing I suggested.

The Hon. Dr PEZZUTTI: Yes, it's very good. It's first class.

The Hon. TONY KELLY: Has she got more copies of that?

Ms WILLIAMS: I can send them on to you.

Mr THOMAS: I have more copies of that at home.

The Hon. Dr PEZZUTTI: Who wrote it? It's very good.

Ms WILLIAMS: It was written in here. We have some outside contractors that that help us with our publications.

Meeting No. 9: Tuesday, 24 July 2001 British Trade International - Regional Group London, England

Also in attendance:

Mr Ian Jones, Director, Regional Group, British Trade International

Mr Jim Law, Head of Regional Policy, British Trade International

Ms Diana Morphew, Senior Manager, New South Wales Government Trade and Investment Office

The Hon. TONY KELLY: You would know in Australia how in rural areas the drift towards the city rural life smaller country towns finding it—whilst there are some bigger ones lively and actually growing, smaller country towns are losing the services of banks and all sorts of things. We are looking at looking to try to find innovative ways of creating jobs for keeping people in country areas.

Mr JONES: Right.

The Hon. TONY KELLY: But we are also looking at the inquiry into GM foods.

Mr JONES: It seems to be heading that way.

Mr LAW: I am.

The Hon. TONY KELLY: And so the GM foods one is more an issue of we are at the crossroads in Australia and the Yanks have gone for that 85-90 per cent GM and our first impressions are that Europe and we have got to make up our minds as to whether it's best for our farmers to get some innovation or to keep trade, or is it that simple.

Mr JONES: Right.

The Hon. TONY KELLY: So that's the broad spectrum of what we are doing here.

Mr JONES: Okay.

The Hon. TONY KELLY: And we are also looking at, sort of, you know, just what the EU means as far as trade is concerned with Australia and particularly interested in the last few days in some of the discussions we have had about the enlargement and what that all means for existing.

Mr JONES: Well, look, I don't know what the time of your next appointment is. I might just give you—

The Hon. TONY KELLY: About half an hour away, isn't it?

Mr JONES:—give you an idea of what we look after and we can see whether that has a connection with what you are looking at. Let's just see where that leads us. If it leads somewhere, fine; if it doesn't, well, we will claw it back, as you please.

What we look after is essentially the, let's say, our regional operations in an organisation whose function is that of promoting or helping businesses get into international trade. We are not particularly interested in exports as such. We are not actually terribly interested in the absolute level of exporting as we tend to regard that as sort of a macroeconomic feature, but what we do see is that particularly for smaller businesses they need to be able to play on an international field if they are going to be competitive. For a lot of UK-based companies their domestic market is, in effect, the European market and if they aren't capable of competing at that sort of level, then there's probably something that is problematic in that company unless they turn out to be the local fish and chip shop or the local plumber or something, in which case, you know, that might make sense for them, but if they are actually making anything or providing a service on any scale, then they will need to survive internationally, so that is the sort of driver in that area.

What's our sort of approach on that and our sort of strap line is promoting British business success overseas, so that's the kind of thing that we are looking at. What I have out in the UK regions is a set-up where at the lowest level, most locally, there are people who exist to provide advice to small businesses that are interested in international trade and very much

coming at it from the end of saying, "What is this business actually does it look like? Does it have a product or a service that would trade internationally? If it is going to do that successfully what needs to happen to that business in order to get it there?" And for us over the last sort of couple of years that has been quite a shift within the organisation as a totality because we were perhaps—if you had come to this organisation three or four years ago you would have found it very heavily in the business of saying, "Here's a brochure about exporting to Australia, and if you don't like that brochure here's one about exporting to Morocco and things like that. Have one for exporting to Brazil," and what we would do was send out vast amounts of this stuff saying, "Hey, Morocco's the place for you." The next day another brochure arrives saying, "No, it isn't. Turkey is."

The Hon. TONY KELLY: I have seen that one before.

Mr JONES: A vast amount of pumping that kind stuff out to businesses, and we still do a lot of that, although less, and there is quite a substantial shift towards the end of saying, "Let's take a look at this business. Is it potentially in an international marketplace? If it is, what does it need to do to its product/service? What does it need to do to its management, to its finance and so on? Does it know how to trade on the Internet?" An awful lot of companies, you would find, sort of ignore that bit that said worldwide about the web. Put up a website and they are astonished when they find themselves getting inquiries from countries overseas that they have never traded with, and the natural response of businesses tends to be to say yes if somebody says, "Can I buy some of your product?" And then you discover that you have got this problem of getting it to Argentina or wherever it might be. You haven't really thought about how you are going to get your product to Argentina and how you are going to get paid and what were the terms and so on. So a whole raft of things like that that are driven by economics. I don't say this so much in public in quite these terms because it tends to get misrepresented but it's not actually exports that are driving that.

The Hon. Dr PEZZUTTI: We will delete those little bits off the tape.

Mr JONES: Yeah, you will if, you know—

The Hon. Dr PEZZUTTI: We will. We will. No, we will, seriously.

Mr JONES: It's not such a smart thing to say in public in terms of this organisation but I am just trying to make the point about what the real drivers are. It's the economics and the business side of things. As to the sort of rural side of things—

The Hon. Dr PEZZUTTI: So the physical how do you do that?

Mr JONES: The physical how do you do that? I don't know how familiar you are—

The Hon. Dr PEZZUTTI: I am making teacups and somebody from Spain wants to buy them—

Mr JONES: Yeah, okay.

The Hon. Dr PEZZUTTI: What do you do to—how do you help my company?

Mr JONES: The company is sitting there and it says, "Well, you know, we have had this random inquiry from Spain. What do we do?" I don't know how much you are familiar with the sort of network of business support in the UK.

The Hon. TONY KELLY: No, we are not. We have got a similar thing—well, I think we have got a similar thing in Australia called business enterprise centres.

Mr JONES: Yeah.

The Hon. TONY KELLY: And I know I have got them in my questions. Is it similar to that? Do you have offices or—

Mr JONES: That's the sort of stuff.

The Hon. TONY KELLY: —stuff right throughout Britain?

Mr JONES: That's the sort of stuff. Two structures you need to know about looking at this, the Small Business Service—are you visiting the Small Business Service at all in your—

Ms MORPHEW: They really haven't got time, Ian. It's a day, and that's it.

Mr JONES: Right.

The Hon. Dr PEZZUTTI: We have done that substantially in Parliament.

Mr JONES: Right. Okay.

Mr LAW: I will send them some stuff on SBS.

Mr JONES: Yes, the Small Business Service, and they must have websites up, those micro ones and stuff. Okay, the Small Business Service, a national organisation, but what it has locally is a set of organisations called business links.

The Hon. TONY KELLY: A similar thing.

Mr JONES: Their sort of name is always the same sort of stuff.

The Hon. TONY KELLY: And what sort of size would they cover, what sort of geographical or populations?

Mr JONES: There are, what, 45 of them now.

The Hon. Dr PEZZUTTI: In England?

Mr JONES: Yeah, in England, that's right. Yeah, we are primarily talking England here, so you are talking about county level.

The Hon. TONY KELLY: A million or a couple of million in each to cover.

Mr JONES: I should think it was about a million actually on average—45—the population of England must be about 45 million.

Mr LAW: Yorkshire and Humber has got four business links.

Mr JONES: Yeah, but actually it varies quite widely because—I will get the detail of it. There is one in London.

The Hon. Dr PEZZUTTI: So how are they funded?

Mr JONES: The business links have a series of contracts. They are basically local organisations that have a contract with the Small Business Service so they have a franchise with the Small Business Service to provide support to small businesses. Okay? Similarly, we have negotiated contracts with the business links to provide international trade support and so if you went to a business link you would find in that organisation some people who were providing straightforward small business support, some people who were providing internationally focused support. Funnily enough, you would also find something called the Learning of Skills Council, and that's essentially for training-related stuff, which is preferred in the contracts that the business links have to have.

The Hon. TONY KELLY: So do they tender for that work?

Mr JONES: They did.

The Hon. TONY KELLY: And get a contract for three years or something?

Mr JONES: We had a commitment in the first place that we would go out and use the business links because there is a substantial government commitment to supporting the business links, so it wasn't a free tender.

The Hon. TONY KELLY: We are just exactly at that stage now where the tenders have been called but the commitment is basically to sow the existing business links equivalent for a three-year contract.

Mr LAW: Well, quite an interesting thing. The business links sit there and they are very much focused on the tiny.

The Hon. TONY KELLY: Loftus, your boss, is organising them that way.

Ms MORPHEW: Yes, yeah. Well, sort of apropos your comments about business links, at our office in London we actually do quite a bit with business links, as you would understand. I mean, if suddenly someone walks in and says, "I'm interested in the Australasian market," they will tell them to give us a bell sort of thing.

Mr JONES: Yeah, yeah.

Ms MORPHEW: When the mission was over, for instance, we just did a multibroadcast to business link offices saying, "This is coming. If there's any one of these six companies of interest to any of your contacts, members or whatever, let us know." And we didn't get a rash of stuff in but we got two people who were chasing a piece of technology and they turned out to have quite fruitful discussions.

The Hon. TONY KELLY: But those sort of things could have a long lead time. You might have inquiries back on that in six months' time.

Ms MORPHEW: Exactly.

Mr JONES: You do have a long lead time. Also they have just been through—it depends when your inquiry was—they have just been through absolute upheaval because over the course of the last year, basically, the Small Business Service has refranchised its complete operation, so a year ago there were 82 business links, now there are 45. London has gone from nine to one; you know, Lancashire has gone from 17 to seven; and so on and so forth. In some areas the same organisation has inherited it, but they did go out to tender, and one or two organisations that were not predecessor resources won the contract. We have taken the view, okay, our sort of retailer of choice is going to be the business links because that's where government has made its commitment and that's where we are going.

At just about that level, I have in each of the nine English regions one person who is my so-called international trade director, who is basically the regional boss, and he is the guy who has negotiated the contracts between our organisation and the business link chief executive. Okay? So they do that. I say I have one person. They typically have a staff of about four or five in addition to that guy. The interesting thing there, a year ago we went out, recruited these people, and we advertised it very widely, right outside the civil service.

We actually advertised, I think, internationally for these people and we recruited a very wide range of people. Some of them have come direct from the private sector. Some of them, a couple of them, were civil servants, one guy from the Foreign Office, one guy from our own organisation, but they have got a mixture of backgrounds, some private sector, some public sector, and some have been in and out. They take, interestingly, a look at the business link operation and tend to be saying to me, "Are you really convinced that this is the right operation to be delivering the kinds businesses that we want into the international side, because if we were doing this as a business, these are not necessarily the people we would choose to go with?" to which I reply at the moment, "This is politics, chaps. We have taken a commitment, given a commitment to go down this road. This is the first year of the refranchising. There is a lot of public commitment into this area. That is the road we are going for the time being, but I hear what you say and it doesn't preclude us working with other people as well."

So I would not be at all surprised to see them pressing to use other interlocutors locally and very much sort of a test year as far as the business link is concerned to see whether in practice the Small Business Service contract is the one that overwhelms their interest and really takes their interest and they don't bother much with us because we are rather smaller or do they actually deliver in this area. So they are part of it. Just a few random—how long have we got? What time do you want to go?

Ms MORPHEW: We are back down at 1 Victoria at 10.15-10.20, so we have got a good 15 minutes.

Mr JONES: I just want to keep an eye on where I'm talking. And who are you see in 1 Vic Street?

Ms MORPHEW: Paul Steeples, Paul Steeples.

The Hon. Dr PEZZUTTI: Regional Policy.

Ms MORPHEW: Regional Policy.

Mr JONES: Right. Well, that's good. No, it's all right. I am just trying to know where you are going.

Ms MORPHEW: He's standing in for someone whose place has not been filled. Paul Steeples is Assistant Director, Regional Policy.

The Hon. TONY KELLY: Perhaps you could go with the regional, rural, Jim, side of things.

Mr LAW: Do you want me to say something about the rural stuff?

Mr JONES: Yes. Just give me 30 seconds and I would be glad if you would do that. International trade directors, then, are appointed—quite a big decision to appoint some more senior people out in the regions to get some profile out there on what we are doing on the international trade side and a variety of other motivations we have, but it is sufficient for you to say private sector experience and they are asking questions of us and that's exactly how you are operating in this area. So that was quite a significant driver as to where their motivation is and where their instincts are.

We have located them—in putting them out there, we have actually put them physically or by now in six out of nine cases with the Regional Development Agency. Now, again, you may not be that much up-to-date with where UK sort of regional government is going but the current government invented things called regional development agencies, whose name as it suggests is concerned with the economic development of the regions. They are partly seen as precursors to elected regional assemblies. If the current Government goes the way it says it is going, it will go down the road of having referenda in various regions saying, "Do you want a regional local set-up?"

The Hon. TONY KELLY: A regional local government.

Mr JONES: Okay? And the Regional Development Agency has the economic brief locally, so there is our guy at regional level sat in the Regional Development Agency, not answering to them but just physically co-located with them, as, indeed, they already have the investment responsibility, so a lot of the economic focus sits there, and then you have, like, chaps working with business link operations locally. I will perhaps come back—you had a rural focus particularly—just to say a little word about the foot and mouth and what the consequences were from that in just a moment but, Jim, talk a bit about the rural side and stuff like that.

Mr LAW: Yes, I mean, the rural situation is similar to that in Australia. There is progressively migration into rural areas and, as Ian sort of alluded, it accelerated with foot and mouth and BSE and so forth. I mean, today Prince Charles is making some initiative about bringing business into rural areas to help support rural economies.

The Hon. Dr PEZZUTTI: The supermarkets are making the same statement.

Mr LAW: So, I mean, for the last 20 years, I mean, there has been concern about—it's now around the geographic exclusion rather than social exclusion, the fact that, you know, post offices, as you were saying, and communities are feeling isolated so there is this major commitment as part of the inclusion agenda that we do more in rural areas, which traditionally was handled by a body called the Council for Small Industries in Rural Areas. Now it's primarily through the Small Business Service and the Regional Development Agencies. Each Regional Development Agency has produced a regional economic strategy, and within those strategies, particularly areas like the south-west, into Devon and Cornwall, Yorkshire and Humberside, the north-west, which have got large rural areas, it's quite an important component of the RDA structure. I mean, what they are looking for primarily is diversification of businesses in rural areas, particularly the agri-related businesses, so getting people to move into major markets, and that's where we fit in because of the international trade potential, and one example that comes to mind is a cheese sort of specialist firm who has now started exporting from Yorkshire and the rural areas but it's basically sort of looking for opportunities where they can actually diversify from the international trade dimension.

The Hon. TONY KELLY: Into organic farming at all? Is that a—

Mr LAW: Organic farming, yeah. I mean, that is increasing in terms of supermarkets and supermarket lines. It's certainly increasing in terms of range of product that is available, and consumer choice seems to be moving in favour of organic food, and certainly the attitude to GM food here is—the Government would say it's hysterical but there is quite a vociferous—

The Hon. TONY KELLY: Perception is reality.

Mr LAW: Yep, quite a vociferous opposition to it. Rural communities—I mean, if you look through the data and you look at regional economic strategies, I mean, there are some service businesses based in sort of rural areas. A lot you find sort of tend to be one or two-man sort of operations, architects, who can work sort of from the right area through sort of electronic links. I mean, that's another major drive through the UK online to actually get outlying areas Internet access.

The Hon. Dr PEZZUTTI: A whole lot of public servants, though, civil servants, haven't rushed off to live in the country, though, have they?

Mr LAW: No.

Mr JONES: I suspect, actually, that—I suspect that the Internet has not meant that the day of the city is over. People still like to meet each other.

The Hon. Dr PEZZUTTI: That's right.

Mr JONES: And that's how you develop relationships. You don't develop relationships very easily down a wire.

The Hon. Dr PEZZUTTI: No, you don't.

Mr LAW: You don't, but, I mean, is it going to be important in terms of overcoming the sort of exclusion sort of idea that they do actually have access to the Internet?

Mr JONES: Absolutely. But, again, coming to issues that exist for us you sort of tend to assume that if you have got access to a wire then you have got access to a complete telecommunications service and you discover, actually, well, digital hasn't reached this exchange yet, you know, the ball park is such and such.

The Hon. TONY KELLY: It's slow.

Mr JONES: So, I mean, I was talking to a guy down in south Wales a while ago who said, "It's all very interesting but, you know, I deal with an international media-based product. I'm having terrible trouble at a place called Ross-on-Wye. You know, it's a very nice place to go for a holiday but it's not the centre of the world, but if I move 20 miles that way into Gloucester," which is quite a reasonably large city, "then I've got full access to modern digital telecommunications. So I like being in Ross-on-Wye. That's part of the reason I came and lived down here, but my business, which involves sending large, you know, multicoloured files around the world, is struggling with the telecoms here." So, we, like yourselves, would no doubt regard ourselves as sort of wired up but actually you begin to discover that some of the aspects of it are not wired up.

The Hon. TONY KELLY: Not all linked.

Mr JONES: So I think it's a particularly interesting area as one talks cheerfully about, you know, you really can go and live in the sticks and work from rural places—

The Hon. Dr PEZZUTTI: But they can't go to the cinema and they can't go to a restaurant and they can't go—

Ms MORPHEW: They can't go to a bank often.

The Hon. Dr PEZZUTTI: —to a decent school for their kids and they can't shop and buy the things that they need.

Mr JONES: I mean, there's a balance of those sorts of things. I think the telecoms thing is quite serious because when you look at what we use the telecom side for, the amount of paper that comes into our office, into the desk, is relatively light these days. I take a laptop home at night, not a briefcase.

The Hon. Dr PEZZUTTI: I have to get all my e-mails printed out because it's easier to handle them. Print them out, read them and throw them away. It's just so much easier.

Mr JONES: Well, chacun à son gout, as they say.

The Hon. Dr PEZZUTTI: I know, I know, I know.

Mr JONES: But there are some issues around it.

The Hon. TONY KELLY: They are very similar issues I think. Has the Government got a relocation policy—you touched on it a second ago—about relocating government departments or parts thereof to country areas?

Mr JONES: It hasn't. I mean, 20-odd years ago, 20 to 30 years ago there was a big, you know, positive we-are-relocating-out-of-London operation and a lot of things did move out of town at the time. I think there is much more these days a drive by Treasury to say, "You need to understand what the costs are of operating where you are. Then we will squeeze costs. Then you will take decisions about where it's right for you to operate."

The Hon. TONY KELLY: So forcing it that way. Yeah, we are actually doing it for the same reasons, for cost, because a lot of them are in the centre, CBD, or whatever of Sydney but again a similar time—it would have been 20 years ago that Ian Armstrong moved the Department of Ag, moved 500 out to a place called Orange. It was very successful for Orange. I think about 40 per cent of the public servants actually shifted and then different people shifted from different areas but, you know, it's 500 people, and it went quiet for a while but there's now another push on but it's more—it's not of those quantities. It's to much smaller towns and they are in twenties and eights and fifties or perhaps the cities might get a hundred.

Mr JONES: You will still see a lot of these sort of going on but, I mean, if you look at the UK's distribution of certain things, the Patents Office is in south Wales. Companies House is in south Wales. They were moved there. Partly social policy I suspect, partly just wanted it out of town because these were clerical factories and they didn't need to be in London. I used to run an agency that deals with the employment tribunals. I used to see numbers of your colleagues on the Labour Court side who would come across. I had a whopping great office in the centre of London. The lease expires in five years, you know, it ain't going to be in London any more; it's going to be on the fringes of London because that's a much cheaper place to be. I don't need or want to run a clerical factory in London. It's a nightmare. So it's not so much social-policy driven.

The Hon. Dr PEZZUTTI: No.

The Hon. TONY KELLY: It's economics driven.

Mr JONES: It's an interesting one.

Mr LAW: The private sector have also started to come—

The Hon. TONY KELLY: Have they.

Mr LAW: Lloyds TSB are now headquartered in Bristol. There are several others, of course.

The Hon. TONY KELLY: That really hasn't happened in Australia.

Mr JONES: Well, Bournemouth. If you go down to Bournemouth you find any number of financial institutions in Bournemouth because they have taken all the back office function out of town. They will keep a lot of the front office function—

The Hon. TONY KELLY: Well, that really hasn't happened in Australia.

Mr JONES: But the back office function you take out of town.

The Hon. Dr PEZZUTTI: What was our place? What was the place we had to go to? Cheshire?

Ms MORPHEW: Wherever, yeah.

The Hon. Dr PEZZUTTI: Remember Cheshire?

Ms MORPHEW: Yes, we did, yes, and they moved into North Sydney.

The Hon. Dr PEZZUTTI: Yes, New South Wales—no Parramatta.

Ms MORPHEW: Parramatta, it was, yeah.

The Hon. Dr PEZZUTTI: A banking operation which was entirely a phone banking centre.

Ms MORPHEW: A call centre basically.

The Hon. Dr PEZZUTTI: And they have just moved to—they operated—they had strangely set up things next to the railway station at Cheshire because they have grown up there but their first trip into the world was to set up 450 jobs in Sydney. Just they went boom.

Mr JONES: So you moved the jobs into town.

The Hon. Dr PEZZUTTI: No, no, no, no, they have moved from—

Ms MORPHEW: To Parramatta. They moved from Chester.

The Hon. Dr PEZZUTTI:—from Cheshire, they just opened a whole brand new office on the other side of the world, a brand new market. There's 450, like—and we couldn't believe this tiny little company—well, it wasn't really that small, was it?

Ms MORPHEW: Well, eventually, I think the Royal Bank of Scotland took them over so they became a little bit larger than tiny.

Mr JONES: I mean, the places where—it depends what they are doing but, I mean, India is the place where a lot of this stuff is going, we say, as the call centres you are getting routed through to India.

Ms MORPHEW: With Lloyds, I mean, this call centre in Bristol, all calls, all customers or queries for Lloyds go into that call centre and it doesn't matter where in England or Wales or wherever your branch is, it is dealt with by the call centre in Bristol, and it's not always good. It's not always a satisfactory arrangement. Having said that, you know that you can go back to the call centre and start jumping up and down.

The Hon. Dr PEZZUTTI: Try that with American Express doing it in India.

Mr JONES: I have to say I ring my bank because I can't be bothered doing it over the net and it always goes through to—it must be somewhere in Scotland because it's always Scots people. It is not a problem for me, I can tell you. I don't bother going to the bank.

The Hon. TONY KELLY: As long as you get the result.

Mr JONES: I just want to get the result I want. If that is saying it is cheaper to put it in Scotland, well, good for them. I think one of the interesting issues is the Met Office here is trying to move its operation down to, a lot of its operation down to Exeter.

The Hon. TONY KELLY: Who are they?

Mr JONES: The Meteorological Office.

The Hon. TONY KELLY: Oh, okay.

Mr JONES: Who are quite big business. Commercially it's big business. They are currently based in Brecknall, which is just sort of a little commuter belt, high-tech land, a very expensive place to be, a lot of fancy computer companies although just at the moment it is a bit cheaper than it was but it will come again. They wanted to go down there, but you are going to get issues for people saying, "So what's going to happen to my career if I go to Exeter?" You know, what happens to, as you were saying all the sort of options that I have? Now, this is my observation and not in any sense the department's observation, but I look at places like Companies House and the Patents Office down in south Wales and I think that's very interesting but who goes down there to head those organisations up? Either people who haven't got any children and don't care where they go, people who have decided they are going to make their career out of town and will stay in south Wales forever or they just grow their own people internally.

Now, some people would differ from that but, you know, where you have got the career people who are moving around things and actually they are sort of refreshing the organisation. I mean, there's no way. If it is suggested to me I might be interested in a chief executive's job in south Wales. I mean, you would have to be joking. My wife works in town here, or she did at the time. My children are at school down here. If you think I'm moving to Wales for four years, and then, what, I will come back to London. No way. So I think it can be a stultifying thing. Does that lead you to the conclusion that you don't move any of these things? I think not. But you have to think around what the consequences of all that kind of thing are. I mean, they are very powerful economically if you take things out there but you wouldn't run an argument for keeping—

The Hon. Dr PEZZUTTI: Yeah, but the quality of the service that they offer is limited by the quality of the human resources which are applied to it and if what you say is true, if there is a difference between you and somebody who might be single and would be happy to take that job or make their living in the country, if you could demonstrate a difference in the quality of the human resources in terms of turnover and stuff, then there is a detriment to the service.

Mr JONES: I'd just say if you limit your pool that you are choosing from—

The Hon. Dr PEZZUTTI: That's right.

Mr JONES:—then you have an impact on what service you are going to provide longer term.

The Hon. Dr PEZZUTTI: That's true.

Mr JONES: I don't think that's the totality of the argument but I think it's an interesting issue as I observe what happens. They have got a pay a king's ransom to get people to go there, ironically.

The Hon. Dr PEZZUTTI: It's cheaper to live there.

Mr JONES: But you may just be talking—yeah, you may just be talking about the senior management in that area because, of course, the more junior staff you will be much more successful in getting them there.

The Hon. TONY KELLY: Yep.

Mr JONES: And again in the tribunals—

The Hon. Dr PEZZUTTI: You get them operating. If it's north Wales your pool up until fairly recently of educated people to employ in the civil service was limited as well.

Mr JONES: In north Wales you would be right. In south Wales—

The Hon. Dr PEZZUTTI: No, it was north Wales I was talking about.

Mr JONES: It depends where you go. I mean, things like the national insurance operations are up in Newcastle. They have been pretty successful operations because you can get people and so you have got a balance between the people who are doing the sort of clerical stuff, if you like, and where you get the sort of senior managers.

The Hon. Dr PEZZUTTI: This doesn't give us services to regional New South Wales, to country towns who need a post office, a bank. They need to get access to not a lot but they need to get access to a pharmacist, they need to get access to a doctor.

Mr JONES: I think one of the things there. You took up the post office and at the time, and this has all gone completely awry I may say, there was a big project there designed to get telecommunications into all of the little rural post offices on the back of a judgment that said once you have done that they can start selling services: they can sell insurance in the post office; they can sell all manner of things as well as not the traditional.

The Hon. Dr PEZZUTTI: Registration for your car.

Mr JONES: Yeah, all that sort of stuff. You can just do it electronically.

The Hon. Dr PEZZUTTI: Yes, a one-stop shop.

Mr JONES: Of course, you are crucially hung on the telecommunications and the ability to get that kind of thing in there, and it's actually a battle.

The Hon. Dr PEZZUTTI: is going to put them all in pubs now.

Mr JONES: Well, indeed. You know, it will all be in pubs now. It will be super. But that has to be part of the way forward for the rural communities. There is no law that says there must be a shop, a pub.

The Hon. Dr PEZZUTTI: No, but if you want people to have access to a service and continue to live in regional and rural England, Scotland and Wales and you want to make the farms look nice instead of looking ratty, then they have got to have young people go and work there and live there and if they are going to work there and live there, they are not different really from civil servants, they want a quality of life, they want education for their kids, they want health services which are reasonable, and they want access to basic services, and they want money.

Mr JONES: Yeah, and they do want money and for them when you look at things like the pubs, and people bemoan the passing of the sort of traditional pub, well, what they partly meant was that the people who lived upstairs and lived on a pittance because they derived no real income from the pub and were, you know, at the time, willing to do that, well, that's a very nice idea that you go in and you are the only person who is in the pub. Well, fine, but it is not actually a business for somebody else.

The Hon. Dr PEZZUTTI: No.

Mr JONES: So there's got to be an acceptance in a finer way of—

The Hon. TONY KELLY: Making more use of them.

Mr JONES: —making more money. We are a little wide of our original target.

The Hon. TONY KELLY: No, it was all good stuff.

Mr JONES: It was all very interesting, prejudices about this and that, but I am conscious that you have got to get down the road.

The Hon. TONY KELLY: Perhaps, Steve, you had better start to pack up your—

Mr JONES: When we came to a discussion on some of the foot and mouth consequences, I mean, as Jim was saying earlier on, diversification and having a bit of balance in your business didn't mean that you were just solely and 100 per cent dependent on the agricultural side of that business. I don't know that there was a terribly smart instant answer that said, "Wow, great news for all these people who, you know, want to immediately start setting up just exactly here to do this," but it was a component part of saying, "Actually, we can help you get some of these products into more of an international side." I don't think it came as the answer to a maiden's prayer with the problem solved.

The Hon. Dr PEZZUTTI: No. Mind you, if they had set up and they had started to make computers in the foot and mouth area they would be absolutely ruined because they wouldn't be able to get a single computer out of there the whole time it was quarantined. So, I mean, it's not—if farmers are farming, and they are going to keep farming and Britain wants them to keep farming there and BSE hits or foot and mouth hits, then there has got to be a national response to that.

The Hon. TONY KELLY: Mmm. You have got to get over the problem because—

The Hon. Dr PEZZUTTI: But the one thing that they didn't do, I don't think, is the concern I have is how do you then support—people who have been farming with these animals—they don't have a lot; they might have a hundred head, that's it. They probably know them all by name. They lost the whole lot, got them slaughtered. Who was there to pick up the pieces as they were just desolate, you know? The impact on psyche—I don't see it where it talks about the money. The impact on psyche is much more important in them continuing to want to live there or for somebody from the city who wants to then take up that quality of life or that job. So where's the psyche support?

Mr LAW: The suicide rates were rising

The Hon. Dr PEZZUTTI: All that happened was that the people stopped buying meat. Terrific! You know, the British people don't buy meat, then. So how does that help the farmer? And then when they get out of this hole they still won't buy meat because they are all frightened. So where's the support, you know, emotionally as well as financially to support these people if you are trying to get them to develop because it's not just—because their kids are going to be the ones who work in the twee industries. They are more likely to stay in the town because they are born in the area than somebody who was bought up in Brixton.

Mr LAW: There's no long-term sort of support in terms of psychological help. They set up a couple of help lines, didn't they, for farmers, a sort of knee-jerk reaction.

Mr JONES: And lately lay stuff.

The Hon. TONY KELLY: So there is nothing permanent in the Department of Ag that looks after that?

Mr LAW: It's the DETRA they now call it. It's the Department of Environment, Tourism and Rural Affairs.

The Hon. Dr PEZZUTTI: That's right, tourism is part of it because most of the reason for the farms is the tourism. It's bizarre. I mean, agri—we saw the same thing in Spain, didn't we, Tony, agri-environmental stuff? I mean, the Greens are only interested really in preserving the twee look of the place.

Mr JONES: Hedgerows and, yeah.

The Hon. Dr PEZZUTTI: Hedgerows and stuff. I mean, in Australia they are all terribly concerned about wilderness and survival of tiny species.

The Hon. TONY KELLY: Two or three little frogs.

The Hon. Dr PEZZUTTI: You know, old growth forests. Here you grow a forest and they don't like it. It's really odd. Seriously. This is the—

The Hon. TONY KELLY: The difference in the Greens.

The Hon. Dr PEZZUTTI: It is completely different. We think the Greens are Greens are Greens. They are not. The European Green is very different, and the impact that they then have on keeping—

Meeting No. 10: Tuesday, 24 July 2001 Department of Trade and Industry London, England

Also in attendance:

Mr Paul Steeples, Assistant Director, Regional Policy, Department of Trade and Industry
Ms Diana Morphew, Senior Manager, New South Wales Government Trade and Investment Office
The Hon. Tony Kelly, MLC (Chair)
The Hon. Dr Brian Pezzutti, RFD, MLC (Deputy Chair)
Mr Steven Carr (Director)

The Hon. Dr PEZZUTTI: The Chinese walls within the zone here.

Mr STEEPLES: Yes. I mean, that's the gap in your argument that sometimes there are conflicting interests. I will stop for a second while you set this up.

The Hon. Dr PEZZUTTI: That's all right. No, keep going.

The Hon. TONY KELLY: You seem to have, though—I'm just looking at the TV screen. You seem to have—it said that DTI moved through a team.

Mr STEEPLES: Yes.

The Hon. TONY KELLY: So you seem to have a handful of Ministers—

Mr STEEPLES: That's right.

The Hon. TONY KELLY: —or parliamentary secretaries or secretary of state for various things.

Mr STEEPLES: Yes.

The Hon. TONY KELLY: So they seem to look after a segment each.

Mr STEEPLES: That's right. I mean, the Secretary of State, Patricia, here—unlike a lot of other countries the Secretary of State is the head of the department rather than a junior person, and that confuses our European colleagues no end, but she is obviously responsible for the whole work range of the department, but, yes, there's Ministers who are dealing with—

The Hon. TONY KELLY: One issue.

Mr STEEPLES: Yes, one issue particularly for sort of industry and and then there's another one who will deal with regions, et cetera,.

The Hon. TONY KELLY: Also e-commerce.

Mr STEEPLES: Yes, so some of it's a major structure in the sense that obviously you can get things which affect two different Ministers, so if you have got a crisis in a particular company in a particular region, it can be looked at both regionally and sectorally, so you need to keep them all in the loop. As far as the rural side goes, the big statement on that, which I can give you a summary on bits of, was a white paper which we put out in last November, "Our Countryside of the Future", which looked at the whole question of rural affairs. I can give you a copy. That's the summary. It also has—it's available on the web, and the document itself is quite expensive, so I can't give you a full version of it, but it has got the website address at the bottom of the page.

The Hon. TONY KELLY: It's actually lighter for us to carry home the website than the paper.

Mr STEEPLES: Yeah. That's why I'm only giving you the summary from that.

The Hon. Dr PEZZUTTI: Have we got that, Steven, already?

Mr CARR: Yes.

The Hon. Dr PEZZUTTI: I even have a feeling I have seen it.

Mr STEEPLES: But, like I say, that gives you the site but the full text is available on that site, so I'm just giving you the summary, as you say, to lighten your burden. The main chapter we are dealing with—I mean, the government strategy on all this is trying to focus on market towns, which are the sort of medium-size towns within largely rural areas.

The Hon. TONY KELLY: What do you call a medium-size town?

Mr STEEPLES: It's—I wonder if it gives a number? I don't think I have ever looked at a definition of a market town. Let me—

The Hon. Dr PEZZUTTI: Name a town.

Mr STEEPLES: Yes, it's a town with a population of between 2,000 and 20,000.

The Hon. TONY KELLY: Yeah, okay.

Mr STEEPLES: So it's like—I'm just trying to think of one.

Ms MORPHEW: In Hampshire.

Mr STEEPLES: Yes, in Hampshire there's quite a few.

The Hon. Dr PEZZUTTI: York.

Mr STEEPLES: Yeah, Alton or Alresford in Hampshire.

The Hon. TONY KELLY: Well, they're our problem sites.

Mr STEEPLES: York's bigger than that.

The Hon. TONY KELLY: Is it?

Ms MORPHEW: Yes, it's a city.

Mr STEEPLES: Yeah. But, as I say, there are over a thousand of these things in England so there's quite a lot of them and now—

The Hon. TONY KELLY: Called market towns.

Mr STEEPLES: Yeah, yeah. So it's—I mean, essentially they are the ones that have suffered from a lot of business moving to the cities. They are the ones that have suffered from the establishment of big out-of-town shopping centres, so their traditional shops are dying but, conversely, they are what are seen as what will drive the growth in the rural areas, if anything is going to drive it. You can't—I mean, there's obviously this deep rural area. It's very difficult to start off new industries or diversification when you are right out in the countryside, so we have tended to focus on these market towns.

The means for doing that? Just to give you a bit of structure, I'm solely dealing with England here because as, you know, we have a degree of devolution with Wales and Scotland, which have their own arrangements. We have established nine rural regional development agencies within England. Each has a region of the country. London is one in itself but there are another eight in the various areas of England. Their first task was to establish a regional economic strategy looking at what the region's potential was, what the position was at the time, what its strengths and weaknesses are, and obviously with each region that varies or the involvement of rural aspects vary depending on the sort of region it is, so the south-west of England has a huge amount of rural territory. So does the east of England, whereas the north-west or the west of England doesn't have much.

The Hon. Dr PEZZUTTI: Do they conform with the European Union's regions.

Mr STEEPLES: They don't. The European Union regions are much larger. I mean, these, as you say, having eight of them in England they are significantly larger. The European Union tends to think in terms of whole territories, I mean, so England and Wales and Scotland and Northern Ireland are regions for them.

The Hon. Dr PEZZUTTI: No, no, no, no. They are broken down to a whole lot of subregions. They have separated bits of Wales out from other bits of Wales.

Mr STEEPLES: Yes, it depends for which purpose. I mean, we have these maps on the wall but they are not the same, for example, as the regions for structural funds or the regions, the assisted areas regions, because they are not—I mean, they are just little parts of a region. You couldn't arrange it like that because it simply wouldn't make sense. Within England, for example, the assisted areas tend to be what we refer to as wards, which is the areas where a single councillor will look after in a local council, so you couldn't put together a coherent package based around that, so each of the overall regional development agencies has several assisted areas within—has areas which have structural funds available and areas in which structural funds aren't.

The Hon. TONY KELLY: So these regional development agencies are putting together a plan.

Mr STEEPLES: They put together a regional economic strategy and we are giving them increased levels of resource and responsibility to carry that strategy through. So, for example, all of them next year will have a total budget of £1.2 billion. That will rise to £1.7 billion in 1994-95, which is the end of the current financial planning side.

The Hon. TONY KELLY: An average of £200 million each.

Mr STEEPLES: It varies a lot. I can give you the figures separately but they vary hugely both because they have taken over a lot of traditional programs. They have taken over a lot of the local government's land and property portfolio, so that is huge in somewhere like the north-east, where traditionally the Government has owned a lot of land, and it's quite small in somewhere like the south-west, where the Government traditionally hasn't. What we are trying to do is to move the allocations on to a more rational basis in two ways. One is by giving them essentially a single budget. Instead of having budgets from a wide range of government departments with different sets of rules and different sets of purposes, what we are saying to them is that all the departments will put their money into a single pot and the regional development agencies will set up a series of targets and we will agree a business plan with them which they will be obliged to deliver but they will be able to use their money in the way they see most sensible to reach that, and that's quite new for the way government works in the UK simply because we are used to having lots of different schemes with lots of different rules, and that's what we get criticised for.

Equally, we are trying to allocate the money to them rather again than on a piecemeal basis, to allocate it according to a formula, a complex formula based on GDP per head, based on a whole series of factors, on employment, the index of deprivation, a whole series of things which allow us to generate a formula which will allocate it more on the basis of the perceived need in the region and also the perceived potential within the region because obviously we are not simply trying to prop up the ineffective regions; we are trying to encourage the effective ones as well.

So that's rather a long way of getting round to saying within the RDAs part of their responsibility is to look after the rural areas of their regions as well as the urban ones. They will have a greater or lesser degree of involvement in it. I mean, clearly, London has hardly any rural at all whereas the south-west is 90-odd per cent rural and, therefore, they will use their money in different ways and different approaches, but essentially what we are looking for, as I said, is to focus on market towns, to focus on rolling out information and communication technology to rural areas, to focus on development of clusters in rural areas and to focus on advice to small businesses in rural areas, including agricultural businesses as well as what people think of more traditionally as businesses. So I can go into all of those if you would find it helpful.

The Hon. TONY KELLY: Is that on the website?

Mr STEEPLES: That's on the website. I've got a copy again if you would like a copy. This is the actual chapter that deals with market towns.

The Hon. TONY KELLY: Yeah, I wouldn't mind one copy of that.

The Hon. Dr PEZZUTTI: Because that's close do what we are talking about.

Mr STEEPLES: Yes.

The Hon. TONY KELLY: Clusters and—

Mr STEEPLES: Yes, this summarises roughly everything I'm going to tell you, but you would find it useful to take back with you.

The Hon. TONY KELLY: To read on the plane.

Mr STEEPLES: Yes. And it has some examples on page 10 of things the RDAs are doing to help rural areas.

The Hon. Dr PEZZUTTI: Because an example is much more telling. That's one thing you will find in Europe. There's no examples.

Mr CARR: Page 10.

Mr STEEPLES: The top corner says 10 of 23. You should find the number.

The Hon. TONY KELLY: Training, mobility and recruitment.

Mr STEEPLES: Yeah, and you have a whole series of—

The Hon. TONY KELLY: That goes on from there.

Mr STEEPLES: Yeah. I mean, there are case studies dotted throughout it.

The Hon. TONY KELLY: So these agencies, regional development agencies, have obviously got heaps of towns and cities above 20,000 in their geographical area.

Mr STEEPLES: Yeah.

The Hon. TONY KELLY: But do they concentrate on them at all or just for this program they don't concentrate on them?

Mr STEEPLES: They will in producing their economic strategy, that's then put to Ministers, and all the Ministers of all the different departments will assess whether they agree with the strategy, so what we are looking at is a strategy which tries to deal with the region as a whole so, you know, we are looking for something which will boost the cities or whatever but we are also looking at something which will—

The Hon. TONY KELLY: But you particularly target those market towns.

Mr STEEPLES:—cover the rural areas and the market towns.

The Hon. TONY KELLY: See, it's a bit different approach to us. We look at the region as a whole. If it happens to be the city well and good or if it happens to be a small area, well and good, and it's usually the city, so it doesn't—you know, you have actually focused on what you call a market town, which I think is a good approach.

Mr STEEPLES: Yeah. I mean, for example—

The Hon. TONY KELLY: It gives them some emphasis.

Mr STEEPLES: Up till now we were happy to deal with the past where they were separate funds. My department provided 35 million of what was called the Innovative Clusters Fund, which was an initial attempt to develop clusters. That has been followed up by the Rural Innovation Fund, which is 50 million.

The Hon. TONY KELLY: Are there some examples here of clusters?

Mr STEEPLES: There will be, yes. I provided them.

The Hon. TONY KELLY: Don't bother going through. As long as we have got those.

Mr STEEPLES: There are some examples. To go on regional strength and to look at the regional diversity, so we would expect far more rural clusters to be in areas like the east of England or the south-west. We certainly weren't saying to—

The Hon. Dr PEZZUTTI: Hang on. The clusters were sort of being a rural advantage plus rural diversity.

Mr STEEPLES: Yeah.

The Hon. Dr PEZZUTTI: When they are mutually almost exclusive. If you are concentrating on your rural advantages but encouraging diversity, that's almost what clusters don't do.

Mr STEEPLES: Yeah. Perhaps I explained it slightly badly. I mean, the first stage with the RDAs was to identify regional strengths and weaknesses.

The Hon. Dr PEZZUTTI: Yes.

Mr STEEPLES: It was to look at what the potential was.

The Hon. Dr PEZZUTTI: Yes.

Mr STEEPLES: So, for example, if you have got the south-west, which is rural areas, the potential for food technology, they have got reasonably good universities and that stuff, so they have got a fairly established farming industry. So what we were looking at was a range of proposals which built on that, so what we weren't saying to all the reasons was, "You've got to have a rural cluster," because for some reasons that wouldn't be appropriate. It simply wouldn't either because they don't have significant rural areas or because there aren't significant strengths they could build on. What we were saying was, "Use this to identify them," and in many cases there were rural clusters which appeared to us to be viable, so it's encouraging diversity in the sense of using the different strengths of the different regions but it's encouraging them to identify viable clusters within that. I mean, it's particularly as being within the food science and food technology.

The Hon. TONY KELLY: What strength do you put on leadership in these areas as being a catalyst to kicking off job regeneration?

Mr STEEPLES: The RDAs are led by—well, they have a chairman who is appointed by Ministers, who has business experience in each case and have a business background. There's also a supporting board which is from now on—my department has just taken over sponsorship of these and from now on we have said that the board will be more than 50 per cent people who have business experience either currently or previously. Until now the boards have been somewhat of a rag-bag of people from local government, people from unions, people—

The Hon. TONY KELLY: There's nothing wrong with that.

The Hon. Dr PEZZUTTI: Yes, there is.

The Hon. TONY KELLY: As long as they have got business experience.

The Hon. Dr PEZZUTTI: They tend to be far too parochial.

Mr STEEPLES: They would still be—

The Hon. TONY KELLY: Local government.

Mr STEEPLES: Yeah. They will still be chosen from the range of people so we are not excluding local government or unions entirely. What we are looking for is the right people rather than representatives of a particular group.

The Hon. TONY KELLY: My question actually didn't go to that, to the structure of the board, but rather to are you trying to encourage development of leadership in these towns—

Mr STEEPLES: Right.

The Hon. TONY KELLY:—for them to be able to lead themselves out of the wilderness?

Mr STEEPLES: Fine. I see. Yeah. Again, I was trying to get to the leadership role through the structure but, yes, I mean, it's tricky.

The Hon. TONY KELLY: It's a difficult area.

Mr STEEPLES: Yeah. I mean, it is tricky. It's one of those things that local government in the UK has become run down and not got a good reputation. Finding alternative leadership people is actually quite difficult. I mean, the RDAs themselves are an attempt to set up a separate structure which will provide leadership at regional level. We are looking at them through the people on the—the chairmen and the boards either to lead different aspects of their work themselves or to identify people who can do. We are not going directly to the market towns and saying, you know, "Find a leader for this town." What we are doing with the RDAs is saying, "Take responsibility for economic development in your area and provide the leadership you think is necessary to do that."

So, for example, in the south-west they have Jonathan Porritt, who was formerly a Green activist sort of environmentalist, but he has sort of converted into someone who promotes economic development as part of sustainable development, and he is actually quite useful at persuading networks of people to come together around those sort of issues because he doesn't seem a hostile person. He is quite good at getting people to look at the issues rather more thoroughly than they otherwise would have done.

The Hon. TONY KELLY: I was actually sort of going a little bit further. In Italy we found that the towns that have regenerated themselves and have built up were ones that had—you had got a particular family or particular person in a family who had a small business and became a great leader and brought it forward and then brought with them sort of similar businesses, developed a cluster around that.

Mr STEEPLES: Yeah.

The Hon. TONY KELLY: So from the business world actually rather than from the administrative side of things.

Mr STEEPLES: I mean, those things happen and I think—

The Hon. TONY KELLY: But you don't try to—

Mr STEEPLES: We promote it. We don't at the moment have a structure for doing that.

The Hon. TONY KELLY: Yeah. You haven't been able to—

Mr STEEPLES: Yeah.

The Hon. TONY KELLY: Well, that's the clue I think—

Mr STEEPLES: I think it is.

The Hon. TONY KELLY:—to somebody developing a strategy.

Mr STEEPLES: Yeah. I mean, it's something that happens and gets celebrated when it does happen.

The Hon. TONY KELLY: Yeah.

Mr STEEPLES: I must say one of the tricks we have probably missed is trying to pick that up systematically.

The Hon. Dr PEZZUTTI: I mean, these people will never stand for local government.

The Hon. TONY KELLY: No, they are too busy making money.

The Hon. Dr PEZZUTTI: No, no, no, no, no, it's not that. They would never bother going through the process of agreeing with everybody to get elected.

The Hon. TONY KELLY: Anyway, Brian, the point I'm trying to make, is there any way—you haven't been able to identify a structure to be able to get these people to develop them?

Mr STEEPLES: Not really, no. I mean, they emerge through some routes.

The Hon. TONY KELLY: Osmosis, yeah.

Mr STEEPLES: Yeah. I mean, they will sometimes emerge because they do have a sense of corporate responsibility.

The Hon. Dr PEZZUTTI: But do you provide them with leadership training? If you identify one of them in a market town that you think has got a bit of talent, have you got a training program for leadership?

Mr STEEPLES: The closest we've got is through the Small Business Services a sort of mentoring program for mentoring other small business through business links, yes, so that's a form of leadership but I think not what you're really thinking about.

The Hon. TONY KELLY: A mentoring program—oh, yeah, that's—

Mr STEEPLES: It is but, I mean, it is not for leading the town into regeneration; it's more for providing an example to small businesses and potential small businesses, but I think it's valid.

The Hon. Dr PEZZUTTI: Usually what your office does is throw a few stumbling blocks in front of people like this, successful people—jump over this hurdle, and they jump over that one.

Mr STEEPLES: No, I don't think we will get rid of that entirely. I mean, the single pot of funding was an attempt to get rid of a whole load of those funding rules was just to the RDAs, "Here's your money. You decide what you are going to do. Agree it with us and then go and do it." You know, that's very strange for people in this department. I mean, they are used to having schemes and here's the book of rules. It's 70 pages long, and you have got to fulfil them all. And people are finding it very difficult to come to terms with that, and part of my job is to go to them and say, "Well, look, you know, we are putting in place these corporate plans but the corporate plans won't be your scheme rules by the backdoor." You know, you've got to say those have gone. They are getting the money and you have got to—if they say, for example, they are going to provide broadband access in rural areas, you've got to trust them to do it. We are going to measure them to see whether they have done it but if they say they are going to, it's a deal between them and us that we give them the money and the resources to deliver and then they deliver, which is a very sort of odd way for bureaucrats to work.

The Hon. Dr PEZZUTTI: Yes.

Mr STEEPLES: So I think some things are easing up. They are easy gradings, we will call it.

The Hon. Dr PEZZUTTI: The Europeans call it subsidiarity.

Mr STEEPLES: Yeah. I mean, we try and avoid that word partly because it got the reputation Europe has or England's view of Europe but partly because it just seems an overly complicated way of referring to just getting them out of the way.

The Hon. Dr PEZZUTTI: The local people do it. The local development, the local processes, yeah.

Mr STEEPLES: Yeah.

The Hon. TONY KELLY: Is that information about your mentoring program on the web as well?

Mr STEEPLES: There is an annex to this white paper which deals with all the things the Small Business Service does. I mean, the Small Business Service, its presence locally is through the business links, which are intended to provide a one-stop service for small companies. They used to not look at the very smallest companies but now they are looking at everything. Essentially, they are not there to provide a whole full consultancy service, but they are supposed to provide initial advice and pointers to other people who can help so, you know, it is not intended to take the business away from traditional providers.

The Hon. Dr PEZZUTTI: The reason Tony is asking about leadership is that the civil service or the public service has enormous skills and knowledge about process. The trouble with leaders who are coming up from the community, they know almost—it's a black hole.

Mr STEEPLES: Yeah.

The Hon. Dr PEZZUTTI: And what they desperately need is somebody like yourself who has got leadership in the bureaucracy to teach them a bit about this and to stop them from being hurt every time they try to get something done.

Mr STEEPLES: Yes.

The Hon. Dr PEZZUTTI: And this is where we find in Australia exactly the same problem. It's just—it bedevils us.

Mr STEEPLES: I think it is something—we've come across that problem with the Regional Development Agency. For example, one of the business people on one of the boards has just resigned simply because he felt that it couldn't do what he wanted it to, and I think he was wrong. I mean, it probably could but it needed him to understand a little bit more about—

The Hon. TONY KELLY: The process.

Mr STEEPLES:—the process.

The Hon. Dr PEZZUTTI: He needed somebody to come and say to him—

Mr STEEPLES: Exactly, yes.

The Hon. Dr PEZZUTTI: "Stan, please don't go away cranky. Just come in here and talk about it."

Mr STEEPLES: That's precisely—I wasn't trying to say he was an idiot or anything.

The Hon. TONY KELLY: Come in this door, not that one.

Mr STEEPLES: Yeah, yeah.

The Hon. TONY KELLY: Okay, we—

Ms MORPHEW: We're due round the House of Lords, yes.

The Hon. TONY KELLY: Yeah, we'll have to go. Look, that has been really good. It has been very targeted information you have given us—

The Hon. Dr PEZZUTTI: Yes, much more.

The Hon. TONY KELLY:—in a short space of time and also some addresses and access where to go to get other information.

Mr STEEPLES: That's just one other thing, the Countryside Agency, which is another thing involved and think of rural-proofing, which is looking at how we make all our policies as effective in rural areas as in

The Hon. TONY KELLY: Oh, okay. This is a bit like, what do we call them that the Government—what's those things that the Government is supposed to do?

The Hon. Dr PEZZUTTI: "We're here from the Government. We're here to help you."

The Hon. TONY KELLY: No—

Ms MORPHEW: Oh, that's an old one, Brian.

Meeting No. 14: Wednesday, 25 July 2001 Department of Enterprise, Trade and Employment Dublin, Ireland

Also in attendance:

Mr Ronald Long, Assistant Secretary, Department of Enterprise, Trade and Employment

The Hon. TONY KELLY: . . . in rural areas into the cities, so we are looking at ways of trying to retain that. Now, Ireland has a much bigger proportion of its population in the rural areas and also this, as you start to talk about the Irish miracle, and we have sort of been given I think perhaps two different versions of—and I think you were just about to get to this—two different versions of the reasons for their success. I was at a function last year when Bernie Ahearn came to Australia, and I am a member of the Lansdowne Club, which is for business people in Australia of Irish descent, and he said there that at that stage they were advertising for 225,000—200,000 Irish people to return to Ireland because they had 225,000 jobs with no people. We've been given a couple of reasons for that. Some people say it's just purely—

Mr LONG: We did the figures of 168,000, and it was mentioned to one politician who grossed it up to 200,000 and someone else got it up to 225.

The Hon. TONY KELLY: Twenty-five. So it's 168,000?

Mr LONG: You, being politicians, will have to take my comments very generously. Politics is given to overestimation.

The Hon. TONY KELLY: Well, that's a worldwide trait.

The Hon. Dr PEZZUTTI: But even given that, I mean, Ireland has been an exporter of education for centuries.

Mr LONG: Well, in fact, that's sort of taking the historical view of where we have come from.

The Hon. Dr PEZZUTTI: Yes.

Mr LONG: If you went back to the end of the eighteenth century beginning of the nineteenth century, Ireland was behind, indeed, because there was very little wealth here. The Act of Union in 1801 moved all decision making out of Dublin over to London, so there was no point in the people who wanted to influence decisions to be in Dublin at all; they had to go to London to do that. So the wealthy left Ireland and the great regret at the time was that the rents which, of course, land was one of the factors of production then in the sense that it produced value for landlords who just rented it out to the producers—the rents went abroad. They went to London, to people in London, and there was no reinvestment into Ireland at all. So we lost out completely.

People with the means to invest weren't here and weren't interested in investing. We lost out completely on what was happening elsewhere in the world and, yet, round about that time, if you had had figures for GDP per head for the various European countries, they probably would not have been very much different. They wouldn't have been much lower in Ireland compared to Denmark or Sweden or France, because the reality was that the sort of the limits for income production were the limits, very broadly, the limits of productivity in agriculture, and since there were no means of increasing the productivity substantially other than having better hand tools—

The Hon. Dr PEZZUTTI: That's right.

Mr LONG: —and more animals, or something like that, therefore the productive capability of an economy, of any economy, was roughly the same as that of another economy. Some economies got ahead in the capital accumulation and applying capital to produce and other things. They started round about that time and we steadily fell far behind because we didn't have a capitalist class at all, and their sympathies became more and more—I mean, Dublin of the 1780s, 1790s and thereabouts was a very sophisticated place, not an awful lot—I can't remember the figures—not an awful lot smaller than London. You know, it could have been quite an important centre.

The Hon. TONY KELLY: Yeah?

Mr LONG: Well, London was brilliant. But there wasn't such a great difference. And what happened round about that time just lightened Ireland's chance of having new investment, so the investment didn't happen and it turned out that—

The Hon. Dr PEZZUTTI: Because people only invest what they can see.

Mr LONG: Yeah, I think so. They have to be here to manage their investments so you get a problem over that. So it turned out that where investments were made—I mean, if you looked at the industries of the nineteenth century right up into the twentieth century, because there was slow development over the whole period, you find that there were lots of industries related to farming, both inputs to farming, like making farm equipment and things like that, and industries related to the outputs of farming, like milling—and food production was, of course, a big industry—and clothing and then some household goods like pottery and things like that. So that sort of industry developed but we had no engineering except in Belfast, the shipbuilding around Belfast. We had no engineering.

The Hon. TONY KELLY: The *Titanic*.

Mr LONG: We had no—and that would be one of the roots of the division when it happened in Ireland between north and south that the people of the north, particularly the Protestant people—I'm afraid it's religious in some irreligious respects—the Protestant people of the north saw that they had a sophisticated engineering industry based around Belfast and they didn't want to share that, which was advanced technology of the day with a largely rural industry based on rural life and so forth.

The Hon. TONY KELLY: Jim Anderson worked in the Belfast—

Mr LONG: Did he?

The Hon. TONY KELLY:—factories. He is one of our local, one of our members of Parliament.

Mr LONG: Good, good. So the development of trade was very confined, the development of industry and investment was very confined in Ireland and agriculture remained for longer than all other European countries a dominant economic activity in the country. Right up until recent times, recent memory, a couple of generations ago, agriculture has been like that. I can remember when I started working in the mid-60s that agriculture at that stage accounted for, you know, over half a million people. That would have been out of at the time a total at work of something about 1.2 million people, so it was enormous in Dublin.

The Hon. Dr PEZZUTTI: That as a percentage of GDP still would have been quite low.

Mr LONG: The percentage wouldn't have been high because the productivity was low.

The Hon. Dr PEZZUTTI: That's right.

Mr LONG: And there was—I mean, while it accounted for heads, there was massive underemployment and, indeed, that was—just one other factor that you have to bear in mind coming from history is that there was another reason why we didn't develop trades because when we did develop them, if there had been an effort, and I think there may have been an effort to develop a cotton trade in the nineteenth century but, of course, the cotton trade was all north of England, in Lancashire and thereabouts, so what happened with that? It was a bit like the developing countries today and the textiles trade, you know. The developed countries put down the barriers then, the multifibres arrangement, and prevent them from trading, and in those days if we had any emerging industry where the mainland UK had an industrial interest, you got the lobbying of government in London, as you get it everywhere today—Australia was doing it over agriculture goods, how Europe has been lobbying—and you got the market becoming difficult to enter, all sorts of barriers to entry.

It wasn't a common market in those days, and for that reason there was a lot of risk of entering into trades that required that you export. It still exists in the world, I know, but this state—you being from Australia you probably know all these things. This state emerged out of disruption and rebellion in the early years of the century and eventually, through negotiation, in 1922 we got our local state but the 1920s, as you will remember from your economic history, and even the '30s, were not a great time for investment, and a great deal didn't happen. I mean, a great deal did happen in that they set up the bones and the electricity generating system and they started to roll it out all over the country and managed to do it by the 1950s or early '60s, but Ireland couldn't provide jobs for its people. First of all, we produced a lot of people. We had the replacement ratio of a developing country really at the time, but we couldn't produce jobs for them so the young, particularly the young and able, would have to emigrate, and Australia has, shall I say, benefited from that to some extent.

The Hon. Dr PEZZUTTI: A double-edged sword.

Mr LONG: A double-edged sword, yeah. Well, they're the Irish for you. Be careful of them.

The Hon. TONY KELLY: It's a matter of opinion.

Mr LONG: So that happened, and the net result of that was that, of course, we were losing people in the active age groups, particularly people who had gone through the education system and going out. They had to go. There was nothing to hold them.

The Hon. Dr PEZZUTTI: Those who had the get up and go.

Mr LONG: Yeah, get up and go; on your bike.

The Hon. Dr PEZZUTTI: That's right.

Mr LONG: So our dependency ratio, those who were older and those who were too young to be in the active age groups, that was enormous. Up until, I would say, 1990 or thereabouts the dependency ratio, the number of people dependent on a worker, per worker in the economy, was about 2.2 to 1, but it had been much higher in the past. Now, we had all sorts of things. The 1920s were very poor for investment but the state started to look at infrastructure and do it, electricity being the one that started. The 1930s a terrible time. The 1940s, war and post-war. But by 1948—in the 1930s, like the rest of the world, we said, "We are going to produce our wealth from within," and we passed all sorts of restrictive legislation.

If you had an Irish company, company law said that a majority of the directors had to be Irish citizens. So that was inimical to investment in Ireland. Nonetheless, there was some investment in Ireland, mainly British, and why not? It had been part of Britain for so long. So larger British companies—Cadburys and companies in the pharmaceutical and so forth area—would come into Ireland and they would manufacture in Ireland for the local market because there was pressure put on them by government to do it. They wouldn't do it normally as it made no sense to have a—for example, the greatest sort of bad example of this policy was that in order to sell motor cars in Ireland, and I think Australia had a similar approach but you had a bigger market and it made better sense in Australia—in order to motor cars in Ireland the car manufacturers had to assemble a proportion of their market share here in Ireland. So you ended up with a situation where some people were actually buying-hand made Jaguars in Ireland because it wasn't worth bringing over the jigs for two Jaguars a year or something like that, but in order to be in the market they had to do that. The same for televisions.

Until the late '60s, television sets, you couldn't sell them in Ireland unless they were manufactured in Ireland, and that was the sort of support we had for job creation in Ireland—restrictive sort of things. Now, round about the 1950s we took a great time—we sort of said, "That closed policy of the '30s is not working for Ireland. We will have to become more open." So in the '50s we started doing a bit of what we called economic programming, producing programs for economic development. Economic planning was too nasty a word to use in those days.

The Hon. Dr PEZZUTTI: But not these days.

Mr LONG: It smacked of Moscow.

The Hon. Dr PEZZUTTI: But not these days.

Mr LONG: Yeah. But among the economic planning things that we did was that we decided that we had to actually be open to the world. In 1950, '51-'52, we passed our first piece of legislation to promote inward investment into Ireland. Consequent on that we had a few mismatches in the beginning like if somebody came into us in this department and wanted to look at investing in Ireland we would say, "Yes, yes. Now, of course, we have got all these restrictions in company law about inward investment but here's the list of solicitors and they will all be able to take you around the law," you know, so we had to get a whole lot of things in line, and we spent the period from 1950 through the 1960s sort of getting the thing in line, and we joined the GATT at the time.

We formed a free trade area with the United Kingdom and we joined the European Community, as it was at that, all opening up, and it decimated, of course, some of the older industries. I mean, the industrial face of Ireland today is very different not just because there has been lots of inward investment since then but in that the sort of activities that were viable at that stage are no longer viable; they have gone, disappeared. It is still happening. There is a constant process of

adjustment, especially in periods of growth and rising expectations, and then others have to adjust to it and they are not able to, so they fade away.

I reckon that now that there's a bit of tightness in the international markets there will be another period of adjustment while those who are relying on stable markets for their produce find that they are not stable and they have troubles also. But the funny thing is that the policy paid off, the policy of openness paid off. Other economic activities grew. Farming really depended on the level of subsidy from Brussels, the fate of farming. I couldn't—now don't quote me because this would be politically sensitive here but I couldn't—oh, don't worry, you can put the actual words there—but I couldn't honestly say that farming has been a great addition to the Irish economy because the net output of farming in Ireland, and I haven't checked these figures recently but it has always been somewhere in the region of £2.2 billion Irish, 2.4 billion, you know, something in that region, and yet the transfers just to sustain that production and sustain the life of people contributing to that production has been nearly £2 billion, so there was no economic justification for a lot of what was going on.

The Hon. Dr PEZZUTTI: Except for the add-value part of tourism and—

Mr LONG: That, of course, yeah.

The Hon. Dr PEZZUTTI: And the bed and breakfasts.

Mr LONG: And the bed and breakfasts.

The Hon. Dr PEZZUTTI: And also, I have to say, if you got rid of farming altogether in Ireland—

Mr LONG: Well, we would have a problem.

The Hon. Dr PEZZUTTI: If you did, the number of people would probably find jobs but the depopulation of the countryside would create all sorts of problems for you.

The Hon. TONY KELLY: In the city.

Mr LONG: Well, I'm not the best one to talk about agriculture since I don't sort of read it up very assiduously but my impression is that there may be something in the region of 125,000 people now who say that they are involved in agriculture but when you take out the part-timers, those who have land and use it, though their real sources of income are elsewhere—

The Hon. Dr PEZZUTTI: That's right.

Mr LONG:—you are probably down to a very small number, and I think with further adjustment over the years ahead you might well be down to way under 50,000 real farmers. Now, I don't know how far down to go on that, but way under 50,000 farmers. But you could actually have a lot of business farming in there, which would make economic sense. The problem has always been one of scale, too many small-scale people who protested that they wanted to go on with this life. It's an enjoyable life; it's a good life for people. But, in any event, the rest of the economy has grown, and it has grown substantially. I mean, if you were to go back over—we've had very bad spells of deep troughs, but ignoring the deep troughs, if you were to go back over the other years since 1970, I think that our rate of GDP growth would have tended to be about double that of the European Union.

Now, in the 1990s, the latter part of the 1990s to date, we have managed up to four times the rate of growth of the European Union. And you want to know why. The official answers are that we managed to—I don't mean they are official in the sense that we have a catalogue that we have got to recite, but these are the things that are most often cited. We managed to deal with the sort of British disease that came into Ireland with the trade unions, the old militant antagonistic trade unions of the British style—

The Hon. TONY KELLY: Lefties.

Mr LONG:—prior to the development of Madam Thatcher. They have been fractious and there have been lots of disputes at industry and the cheque book had been the way of solving the problems of industry, so things—labour, unionising priced too high and that had to be addressed. How did we do it? We came together. Government, employers, trade unions, farmers and some other producers like the construction industry, came together and they said, "Look, we have to face this. We have to have constraints on pay growth to allow the economy to get back on the rails." They did that in '87 and that did yield—

there was restraint on the trade union side, whereas the high wage demands and high wage settlements of the previous 20 years had resulted in no job growth and, actually, with inflation, the inflationary effect of that—lower incomes at the end of the 20 years than at the beginning of it. The effect of the moderation has been to increase net take-home pay very substantially.

The Hon. Dr PEZZUTTI: It is interesting because it was at exactly that time, '82, Bob Hawke, a previous Prime Minister, made a very important speech and he said to—he said the President of the ACTU in Australia, the Australian Council of Trade Unions. He said, "If you keep on striking"—he was head of the ACTU, head of the union movement—"If you keep on striking for higher and higher pay, there will be no jobs for your children."

Mr LONG: That's right.

The Hon. TONY KELLY: A similar thing at the same time.

The Hon. Dr PEZZUTTI: And they booed him, and then he had the Accord, which didn't work as well.

The Hon. TONY KELLY: But the Accord was trying to do the same thing.

The Hon. Dr PEZZUTTI: The Accord tried to do the same thing but the ramification was the same.

Mr LONG: Well, Rogernomics and the other approaches, of course—

The Hon. Dr PEZZUTTI: Yes, that's right.

Mr LONG:—they did something similar, in fact, and, I suppose, lots of us were looking at New Zealand at that stage.

The Hon. Dr PEZZUTTI: Yes.

Mr LONG: Their ups and downs in economic and political life, but that was the interesting experiment that everyone was looking at at that stage. I think we sort of cottoned on to the Rogernomics.

The Hon. Dr PEZZUTTI: It was Michael Porter. The vice of him was Porter.

Mr LONG: Yes, this is Michael E. Porter.

The Hon. Dr PEZZUTTI: Yes, like the plaster gnome.

Mr LONG: Well, we had Michael E. Porter's—he didn't come himself but his right-hand man came over to help us with planning industrial policy about 1991, and I will tell you about that, but just giving the broad economic history sweep to it, we have had this success as a result of—there was a big contributor, the wage moderation. We've institutionalised that into a national partnership now where these social partners meet, and they are actually quite powerful, and if I were a parliamentarian I would be worried about their power because they actually meet and they decide what the budget allocations will be. "Where is Parliament?" you might ask. But they really decide what are priorities, how much money is required for this over a period, how much for that. It's all being done in this manner, and very largely it works.

The Hon. Dr PEZZUTTI: Parliament's role is not inimical to that because, after all, government's role is to produce a program and fund it.

Mr LONG: Yes.

The Hon. Dr PEZZUTTI: Parliament's role is to make that clear and to point out the up sides and down sides, not to direct.

Mr LONG: I think Parliament has had to live with this because it has worked but, in fact, there are issues for Parliament and for the workings of elected assemblies I think in this. I'm not sure to what extent they have worked them out. I haven't spoken to any of the—

The Hon. Dr PEZZUTTI: And how transparent they are is the worst worry.

Mr LONG: Yeah. To my mind the whole idea of an elected assembly is that people have a mandate to go in there and to work on priorities such as these and to do it. The difficulty about the antagonism of the political parties and political systems is that parties don't want to share the decision making. However, government has shared the decision making with the social partners in Ireland.

The Hon. Dr PEZZUTTI: It's their option.

Mr LONG: And it's both sides. I mean, it's both of the parties of government, the major parties of government. The Labour Party will crown me if they hear me say "both" but shall I say all of the parties of government have used this system in the past 14 or 15 years and they have been happy to use it, and it seems to work. So far it seems to work. My fear is—

The Hon. Dr PEZZUTTI: Because it is delivering.

Mr LONG: Because it's delivering. But my fear is that you now have a new generation of trade union leaders and you have got a different work force, members of the trade unions and they have no memory of what contributed to the problems in the past. The learning is hard to bring home to them, but we will wait and see. A lot for us in the future depends on how we work that one out because, clearly, the sort of cohesion thing and single-minded thing, you can do it more easily when you are coming away from a problem and overcoming a problem than when you have lived with good times for a while and your memory is short. So that's one thing.

The other thing that I have to say that has contributed has been the foreign direct investment. This is the thing that I am primarily involved in, the enterprise policy and science policy. Now, as I say, it was 1950, round about 1950, the late years of the '40s and early in the '50s, we set up our orientation towards foreign direct investment, and given that Irish business was never going to reinvest enough to provide for job opportunities, it became a very important piece of the policy armoury for dealing with job creation and income and wealth and all the rest, so much so that there are now—we have been at it for a long time. We are actually—I am not saying this in a boastful way but I think it's quite true—we are pretty good at it. We are aided by the fact of being English speakers in Europe, and up until recently we had a surfeit of well-educated young people.

The Hon. Dr PEZZUTTI: Yes, I was wondering when you were going to get to that.

Mr LONG: Yeah. Well, we had too many and there were no opportunities here so it was very easy. In fact, I think—

The Hon. Dr PEZZUTTI: Sitting here waiting for a job to come.

Mr LONG: Yeah. They were going off to other things. One of the things that changed life for us was that we got the enormous flagship projects in the 1980s. We got—all of the larger pharmaceutical companies are here. We have got all of the American software companies here and we have got, of course, Intel, and then that led to HP and IBM and to others. They have always wanted to be in Britain or else in the sort of Amsterdam-Frankfurt-Paris sort of triangle there, but we, for example, we've got Intel—they said, "Well, how can we—we need such a specialised work force. How can you do it?" We said, "No problem. Give us a month and we will be back to you," and within a month we were back to them with the names and addresses of 400 Irish engineers who had disciplines and work experience relevant to them, who were resident overseas, whom we had contacted, without giving their name, and from whom we had got an expression of interest in returning to Ireland to work in a top-notch—

The Hon. Dr PEZZUTTI: Job.

Mr LONG: —job in a company like Intel. So when we got Intel we no longer had to knock on doors—

The Hon. TONY KELLY: To prove you could do it.

Mr LONG: —to get into companies in America. There were lots of American companies who wanted a presence in Europe.

The Hon. Dr PEZZUTTI: How did you have this database of Irish engineers working overseas?

Mr LONG: How did we do it? Well, it's a small country, see. You go, first of all, to the universities and look for their list of alumni here in the engineering school and then follow them. So we got a big resource into doing that within a month, getting a list of 400, contacting them and—

The Hon. Dr PEZZUTTI: Ireland and New Zealand probably are the biggest exporters of education.

Mr LONG: Yeah. Yeah, we were. We still have an export of people because it's in our blood to go abroad.

The Hon. Dr PEZZUTTI: They have relatives everywhere.

Mr LONG: My own youngest went abroad, went to London to work when she graduated, you know. I couldn't tell her not to, you know. She had been saying to us across the breakfast table for about 15 years, "Anyway, as soon as I am old enough or well off enough I'm out of this house. I'm off somewhere else." And she went off. And it's of the nature of things. And there's a sort of a sense, "Well, if I go abroad, I can work in these companies and get this experience and I will come back some day."

The Hon. Dr PEZZUTTI: To have the kids.

Mr LONG: Yeah, and come back, and we do benefit from that. We should have—I don't want to claim that we do have, but we should have a very open international sort of perspective on the world because no matter where you live in Ireland, the people on that side of you and that side of you have worked abroad for a period. They have lived abroad and worked abroad, and a lot of that was due to the poor prospects of employment in Ireland at some stage.

The Hon. Dr PEZZUTTI: Can I go back a little bit?

Mr LONG: Yeah.

The Hon. Dr PEZZUTTI: I have been told that there was substantial investment—

The Hon. TONY KELLY: In education.

The Hon. Dr PEZZUTTI: —in education in the '60s and '70s.

Mr LONG: In 1968 we produced a policy document called "Investment in Education", and it was revolutionary thinking because even the very notion of investment in education was controversial at the time. People said, "No, no, you shouldn't think of it as an investment because if you look at it as an investment you are looking for a pay-off from it."

The Hon. TONY KELLY: A return.

Mr LONG: "You should think of it as something much more sacred and fundamental than that," and that's not entirely wrong but countries have to earn bread too, you know.

The Hon. TONY KELLY: There has certainly been a huge investment.

The Hon. Dr PEZZUTTI: But educating engineers when there were no prospects of jobs really here.

Mr LONG: There weren't prospects.

The Hon. Dr PEZZUTTI: And yet you weren't funded from overseas for the people who very much needed your engineers.

Mr LONG: No, there was no payment for that.

The Hon. Dr PEZZUTTI: It was a real foresighted initiative.

Mr LONG: Because there wasn't a great deal of wealth or endowment in the country, it was taken as the best thing that a family could do for their offspring, was to give them a good education so that they would fare well wherever they went.

The Hon. Dr PEZZUTTI: That's true.

Mr LONG: So that was a value, a national value, not unique to us, but it was in this context that there were no job opportunities here but they still did it. So we were able to do that. Now, after we got Intel—

The Hon. Dr PEZZUTTI: Sorry, it's a real investment in an individual rather than in a country, isn't it? It is not an infrastructure you would build for yourself but you were just well positioned in the '90s by doing what you did. But that's a genius thing to go to universities and ask them where their graduates are. That's a genius thing because they would have gone on and on. They really deal with all levels in an organisation.

Mr LONG: Well, see, with smaller countries you can do things. Communities sort of have a feeling for where other members of the community may be and so forth. It is unimaginable that you could do it in Paris or London or somewhere like that because you just couldn't keep the sort of—

The Hon. Dr PEZZUTTI: You could do it in Australia, though.

The Hon. TONY KELLY: You can do it in Australia, yeah, yeah.

The Hon. Dr PEZZUTTI: You see, we have a lot of our graduates are right through the—the previous Indonesian Parliament, sorry, Government, half of them were graduated from one of our universities.

Mr LONG: Oh, really. Oh, right.

The Hon. Dr PEZZUTTI: That gives you a bit of push but you are talking now that those people, our engineers, are in their country but mostly they have their own engineers.

Mr LONG: Yes, yes, yes.

The Hon. Dr PEZZUTTI: So it is not quite the same, but it was a good idea, that one, in the short-term.

Mr LONG: Anyway, from the late '80s on we have had no difficulty about opening doors in America. In fact, an executive going to his board in America to suggest an investment in Europe who had not looked at Ireland would probably have had trouble with his board for not looking at Ireland, so we were on the agenda and over the horizon. We were able to make good use of it. So the funny thing is that right up to '93 though we had these high rates of economic growth, we had no extra job creation. The growth wasn't resulting in extra jobs, so we were stunned by this phenomenon of jobless growth. We didn't know what to make of it. And we sort of reckoned that unless growth here was above about three point something per cent you didn't get job creation. Now, we have had massive growth since '94. The average for '94 to '99 was probably over 7 per cent per annum and it has gone up now because we had in '99-2000 over 10 per cent rates of GDP growth and GNP—there's a big difference between—the difference is about 14 per cent of GDP, between GDP and GNP, and the reason for that is that so much of the Irish productive sector is foreign owned and, of course, the profits go out and that, and then there are other sort of—

The Hon. Dr PEZZUTTI: How much do you skim off before they go from here?

Mr LONG: Sorry?

The Hon. Dr PEZZUTTI: How much do you skim off before they take it away.

Mr LONG: Well, they pay—they have been paying a 10 per cent corporate profits tax.

The Hon. Dr PEZZUTTI: Is that all?

Mr LONG: Ten per cent. We are increasing it to 12½ per cent and while the rate is low the incidence of the tax is actually high, and you would not necessarily—it's more predictable than dealing, let's say, in the Netherlands where you have to negotiate with your tax inspector what your effective rate of tax is.

The Hon. TONY KELLY: Really!

Mr LONG: Yeah. Or in other countries with 35 per cent rates of tax, but then they have all sorts of write-offs for capital acquisitions.

The Hon. Dr PEZZUTTI: But 12 per cent of a large amount is a hell of a lot better than—12 per cent of a large amount of money is a hell of a lot better than 35 per cent.

Mr LONG: Yeah, well, the outcome has been that the Exchequer for three years now has been in heavy surplus. We never had that experience before. If you went back to the mid-1980s, the Government was borrowing—the cost of running, the day-to-day running of government was probably 47, close on 50, per cent of GDP, but the Government was having to borrow 12 per cent of GDP every year to fund, which it couldn't raise through taxes, whereas today we are repaying debt. Our debt is now quite—I don't know the figure today but I think it's probably approaching 30 per cent of GDP, the equivalent of debt.

The Hon. Dr PEZZUTTI: Is that government debt or general debt?

Mr LONG: The figures that we use for Europe are general government debt.

The Hon. Dr PEZZUTTI: Okay. But 30 per cent of GDP—

Mr LONG: That would include local government debt and some—

The Hon. TONY KELLY: Statutory debt.

Mr LONG:—state guarantees.

The Hon. Dr PEZZUTTI: State guarantees, but it doesn't include—your state guarantee debt doesn't include any private sector debt, borrowings?

Mr LONG: No.

The Hon. Dr PEZZUTTI: Gee, that's still very high then, isn't it?

The Hon. TONY KELLY: That's got the electricity companies—

Mr LONG: It's down. If you went back to the mid-80s, it would have been 121-122 per cent of GDP.

The Hon. Dr PEZZUTTI: Yes, Brazil is at the moment 187.

Mr LONG: Italy is about that area and Greece I think is actually very high. So we managed to get it down, and it is still being repaid at the moment for as long as the—

The Hon. Dr PEZZUTTI: What's your rating at the moment, Standard and Poor's?

Mr LONG: Oh, I think—

The Hon. Dr PEZZUTTI: AB?

Mr LONG: No, I think we are up in the—I don't think we have been downgraded at all. The ability to repay is not beyond doubt at the moment. Where things will go as a result of the current wind-back of the international economy, who knows, but the situation today now is that they are so heavily dependent—well let me talk about the development of the labour arm. In 1990 there were 1.1 million people in employment in Ireland, 1.1 million people. It stayed more or less around that until '94 and then it started to expand, and this is what led to the statements about importing people from around the world.

The Hon. TONY KELLY: Well, gee, 168,000 is still a huge percentage on, you know, that sort of base figure. There's 10 per cent more jobs than—

Mr LONG: Yeah. Well, you see what happened was that from '94 on the employment started to grow with the very high rates of growth in the economy and there was a massive expansion in services, personal services and services to business, a massive growth in those areas, and then there was a massive growth in building and construction.

The Hon. Dr PEZZUTTI: Sorry, did you have a period where there was constant job numbers but growth? Was there a transfer from the public sector to the private sector?

Mr LONG: Well, in—

The Hon. Dr PEZZUTTI: Even though there might be the same number of chairs.

Mr LONG: Of employment and activity? There was an effort in 1987 or '88 to reduce the employment levels in the public sector and a voluntary early retirement scheme was introduced. Now, the voluntary early retirement scheme here operates on the basis of giving people so many extra years service which they can add to their pensionable service, and people over 50 were invited to apply for that.

The Hon. Dr PEZZUTTI: So they can go on to their superannuation early.

Mr LONG: Go on superannuation early, and that was a way of reducing the current cost.

The Hon. Dr PEZZUTTI: But this wasn't as a result just of, say, contracting out, for example?

Mr LONG: When Ireland went to what we call pursuing public private partnerships more as a way of getting not the state to build and to run operations, be it roads, toll roads or bridges or in the education and health area, to make investments of that sort.

The Hon. TONY KELLY: We call them BOOT schemes, build-own-operate-transfer.

Mr LONG: Yes, it's the same idea.

The Hon. TONY KELLY: Say, I build a highway.

The Hon. Dr PEZZUTTI: Sorry, my reason for asking the question was just that you said you had great

Mr LONG: Well, that's when we started. There has been no—what has happened is that we had—during the '30s and '40s when nobody was investing, no private investor was investing, the state got involved in a whole lot of operations which you wouldn't normally associate with the state. Like, the state became a steel maker, the state became a fertiliser producer, the state became, well, of course, airlines and other things. The state had a chemical works producing industrial alcohol from olesin. Now, during the '80s and '90s we have been getting out of those. This is a pound note. I sold a steel mill five years ago and this is a pound note. I sold it for a pound. Now, it had liabilities of 20 million in excess of assets, so I had to take a pound—

The Hon. TONY KELLY: So you did well.

Mr LONG: —and give 20 million—no, no, no, I had to give them the 20 million because they had to have an even balance sheet, and I got the pound and everyone who was involved signed the pound and gave it to me, so they framed it, but I had to actually cough up a pound note and put it into the Exchequer, so I reckon that implicates me personally in steel production, but now I am off this afternoon to Manchester to meet Imperial Chemical Industries, ICI, to talk about selling our fertiliser company.

The Hon. TONY KELLY: So you have still got that?

Mr LONG: We still have that, and it's not appropriate to us. We are a very poor shareholder in these things because we don't know the business that well. So we have been trying to get out of that sort of thing but as to the sort of public private partnership and BOOT schemes, we are only starting on that. Our public service is about 350,000 people. That's out of a total employed now of—it is approaching 1.8 million. We won't have up-to-date statistics for a while. It's approaching 1.8 million, I reckon.

The Hon. Dr PEZZUTTI: That includes your nurses and teachers, though, doesn't it?

Mr LONG: That includes nurses and teachers, yeah.

The Hon. TONY KELLY: Police.

Mr LONG: They are all unionised. They are all in trade unions to a man, all in trade unions. The total trade union membership of the country is about 500,000.

The Hon. TONY KELLY: So that's about 30 per cent.

The Hon. Dr PEZZUTTI: It's very high.

The Hon. TONY KELLY: That's about ours.

Mr LONG: Well, it's high. The thing about the trade unions is that they are represented in the public services, in the old employments, and not in any of the new employments at all where, frankly, they are not wanted by the employers. They don't seem to be much wanted. Up until now, anyway, they haven't been much wanted by the workers.

The Hon. Dr PEZZUTTI: It's a shame really, isn't it? There are very good reasons why trade unions should be there, the occupational health and safety and general health things, but it carries on to—yeah, okay. I don't need to—

Mr LONG: So that's a picture of the labour force—massive growth from 1.1 million in the early years of the last decade of the 1990s to approaching 1.8 million. That is massive growth over a short period of time, and it has been due to the uplift in the economy, a lot of which came from the multinationals coming in here. There have been several benefits. First of all, they were massive producers of goods and then they were massive consumers of services and also there has been the spin-off benefit that they introduced advanced modern management.

The Hon. TONY KELLY: So that's about an 80 per cent increase in employment.

Mr LONG: Yeah. I mean, it's just unbelievable.

The Hon. TONY KELLY: Have you had a population explosion as well? Are people coming?

Mr LONG: I will talk to you about population. Yeah, the population is growing. Unfortunately, we were due to have a population census but because of foot and mouth—

The Hon. TONY KELLY: You didn't have any people to do it.

Mr LONG: Well, because of foot and mouth those things had to be cancelled, so we will, hopefully, do it a year late and get a mix but I will tell you our population later. First of all, I want to just talk to you about what has been happening in the growth of the labour force.

The Hon. Dr PEZZUTTI: Technological.

Mr LONG: That growth in the labour force has grown out of that. It has also grown out of the changing demographics. Whereas the Irish used to have, as I told you, 2.2 dependants for every person at work, they are now down to something like 1.4 dependants, and it looks as though it's going—you know, if current trends are maintained, it will go down closer to one dependant for every person at work, so that has meant—

The Hon. Dr PEZZUTTI: 1.1! That's good.

Mr LONG: Well, you know, that's if trends are maintained. I think it's about 1.4 at the moment but the trend is very good. Now, that means that there's an awful lot more discretionary spending—

The Hon. Dr PEZZUTTI: Absolutely.

The Hon. TONY KELLY: Yes.

Mr LONG: —for people. The other thing that has happened is that people feel wealthy because their houses have gone up in value, very rapidly and by amazing amounts. There may be some adjustment but it seems hardly likely that they are going to actually have great deflation in value—

The Hon. TONY KELLY: There would be a

Mr LONG: —to even out. It seems unlikely but I know in economic life anything can happen. Now, what has happened there is that for the first time the Irish, who used to inherit nothing, no value, you are looking at a generation having—

The Hon. Dr PEZZUTTI: They inherit their good looks, personality and style.

Mr LONG: Oh, yes, well, temperament.

The Hon. TONY KELLY: Heritage.

Mr LONG: But not a lot of wealth. But the next generation, the generation that's going to inherit from now on, is going to have a fair amount of capital.

The Hon. Dr PEZZUTTI: Yes.

Mr LONG: Now, if we get the conditions right, that has tremendous possibilities for long-term future self-sustaining growth, and we need it. We need it because we now have, let's say, half a million people employed in what we will call industry broadly but including services like software and banking services that sell overseas, and half of them approximately—very close to half of them—are employed in multinational foreign enterprises that have established here. The Irish-owned element of industry has not been—it has grown in employment terms. It had gone down during the bad times of the '80s to probably something close to 190,000 but it's back up to 250 or thereabouts. It's something in the region of 250,000 at the moment. It's doing fairly well, but there are a lot of old sectors that are coming under pressure and particularly with a high-growth economy, with expectations of wage growth being very high. Some of these don't have the productivity capability to keep on supporting a rising, too high a rise in the wage cost.

The Hon. Dr PEZZUTTI: They need new bricks.

Mr LONG: Yeah. So we have done very well, and we hope to go on doing very well on the inward investment. On the indigenous industry, we have a lot of challenges. We are having some success stories, some good stories, but we have a lot of things. For one thing, they are very limited. They prefer to trade at home or on the British market, and they are not linking. The British market is a bit at risk now since Britain isn't in the euro. They are not linking much into European markets. Some of them have been managing to sell into, particularly in the software area, to sell big time into the US, and they have been doing very well out of that, but there's a lot of—how shall I say—there's a really big job to be done on that.

We have divided up our supports. This is my area of supports for enterprise development. We've got an agency called IDA, the Industrial Development Agency, dealing with inward investment. I'm on the board of that. And we have another agency called Enterprise Ireland dealing with the development of indigenous enterprise. There are a few little complications with minor agencies that do the same thing but we are trying to regularise that. Regional agencies are hard to deal with because all politics is local and regional politics doesn't like you changing regional arrangements but basically that's the divide. We are adding a third agency because our view here is that, okay, the Americans aren't investing at the moment, not even in America; the Europeans are going through a trauma, also the German economy is pretty flat—

The Hon. Dr PEZZUTTI: Why are the Americans not investing?

Mr LONG: They are not investing at home. There's no US investment happening at the moment that I can see.

The Hon. Dr PEZZUTTI: What are they doing with their money?

Mr LONG: Retrenching. What has happened in the large corporations is that since the fall of the NASDAQ in April of last year the people who are calling the shots in the large corporations are no longer the people with the sort of strategic vision for the company, the where we are going next, onwards and upwards. It's the accountants, it's the chief financial officers.

The Hon. Dr PEZZUTTI: Oh, the bean counters, like us.

Mr LONG: So the bean counters are in, and the bean counters are trying to take out cost everywhere. That is just the phase we are in with all of the multinational companies particularly, not so much in pharmaceuticals and health care because we might say, "I can live with my computer with another year but if we need a hit or if we need drugs we're going to get them." So that sector is growing. In ICT a few things have happened. The telecommunications industry bought licences because they couldn't exist in the industry without licences. The governments in Europe, and probably elsewhere, auctioned the licences to get the highest price they could. The telecommunications companies spent all the cash they had to get licences so they could continue to exist. They have now no money to reinvest and they have no prospect of getting a return on the investments that they have made on licences.

The Hon. TONY KELLY: On the licences.

Mr LONG: So it's a real conundrum there. The regulator has got it wrong in Europe.

The Hon. Dr PEZZUTTI: The regulator has got it wrong in Australia too with the broadband. They were expecting some high amount of money and they only got a low amount of money so they took it off the market. It was wrong. I think they should have—

The Hon. TONY KELLY: They should have sold it anyway.

The Hon. Dr PEZZUTTI: I frankly think that because it was worth nothing—it wasn't on the government's program. Why don't they just give them away? I mean, really, what is the benefit for the government to think that they have got the right to say, you know? I mean—

The Hon. TONY KELLY: They sell what they have got in Britain—

The Hon. Dr PEZZUTTI: And all you end up with is a whole lot of people who pay in cash and with anything that they have got they can pull strings to get a monopoly. I know they want certainty but if they get it for nothing they don't need certainty, do they?

Mr LONG: No, no. No, no. But you could charge them something. There is an in between. You could charge them something but you select them not on the basis of the highest price but on the basis of who has got the wherewithal to invest in this industry and to make a contribution to infrastructure, you know.

The Hon. Dr PEZZUTTI: We have had a couple going broke—One.Tel, Vodaphone—Vodaphone is still going but what's the other one, another big one.

The Hon. TONY KELLY: Ericsson.

The Hon. Dr PEZZUTTI: Not Ericsson, no, no.

The Hon. TONY KELLY: They are not in Australia, are they.

The Hon. Dr PEZZUTTI: Yes, the big "yes", what do they call them?

Mr CARR: Telecom Hutchinson, Orange—oh, Optus.

The Hon. Dr PEZZUTTI: Optus.

The Hon. TONY KELLY: Optus.

The Hon. Dr PEZZUTTI: Optus is now going to look like it might go into Singapore Telecom.

Mr LONG: Oh, I see.

The Hon. Dr PEZZUTTI: Now, that's a huge problem for us because Optus has got all the contracts for our defence forces, so if you have to go through Singapore Telecom it is going to be a huge problem for Australia and there may be an intervention by the Government on a security basis, because we certainly wouldn't trust the Singaporeans. What sort of gimmicks do you get if you come to Ireland to invest apart from 12 per cent corporate tax?

Mr LONG: The 12 per cent corporate tax is the big investment. Now, you will pay 12 per cent whereas if you—for example, if you go to the Netherlands and say, "I have got this big biotechnology plant that I want to invest. It's going to be a billion dollars investment. Show me how I can write it off," and they will give you advance depreciation for the capital write-off so that you can say that for several years you will pay no tax, you know.

The Hon. Dr PEZZUTTI: Until you have paid off your investment.

Mr LONG: Yeah.

The Hon. Dr PEZZUTTI: So what do you do?

Mr LONG: Well, we do the—well, it depends on the sort of investment but there are rules for how long you write off the, over what period you write off the plant and over what period you write off the buildings. I think buildings are over 15 or 20 years. I am not terribly sure.

The Hon. TONY KELLY: Five per cent.

Mr LONG: Yeah, and the plant will be written off over 12 years, I think.

The Hon. Dr PEZZUTTI: Twelve!

Mr LONG: Something like that.

The Hon. Dr PEZZUTTI: That's a long time.

The Hon. TONY KELLY: Is that the same for industry?

Mr LONG: So you end up paying—you pay—I mean, you may have some deductions but you are going to end up paying almost the full 12½ per cent corporate tax here. We give grants on the basis that everybody else gives grants but we have got the grants down to very low levels. In fact, for projects that want to locate in Dublin, which is not—it is a crowded sort of city, Dublin—unless it's bringing something really top-level professional research type activity we would tend to give nothing for Dublin. If it's something we really want for Dublin and it fits the capital city dimension, it needs the universities and so forth, then we might give something, but we tend to give nothing for Dublin. The sort of rate of intervention in the west of Ireland has come down. We used to—I mean, it's only two years ago that we were giving about £10,000 per job created for projects.

The Hon. TONY KELLY: £10,000. Wow!

The Hon. Dr PEZZUTTI: Well, that has a positive effect.

Mr LONG: If you went back to the 1980s we were giving 30.

The Hon. Dr PEZZUTTI: In Wales and northern England they do that.

Mr LONG: Well, we are doing something like that now in the west of Ireland, which is a priority region. We can get good projects. We try to negotiate to get the best deal we can for Ireland. In fact, we have introduced fairly sophisticated—I mean, we have several tests. We do a qualitative test and we invest in companies and say, you know, "is this a company that's going to be around? Does its marketing plan stack up? Are the arrangements—"

The Hon. Dr PEZZUTTI: How do you find that out?

Mr LONG: We negotiate everything with them down to the arrangements for managing the Irish plant, are they going to be adequate and, you know, have they got the right people, and we keep close to them to help them. We also calculate—if we are putting money into it by way of a grant, we also calculate how long is it going to take the Irish economy to get that money back through the local spending in the economy, and we will expect that fairly quickly? How long will it take the Irish Exchequer to get its money back through the tax payments that this project is going to make? And we would expect for services-type projects with not much capital, like the software, we would expect to get our money back within a period of months.

The Hon. TONY KELLY: Oh!

Mr LONG: Yeah, less than 10 months.

The Hon. Dr PEZZUTTI: What's the

Mr LONG: For a capital-intensive project we might go out to about three years but when it starts to go over three years we would begin to wonder is this going to—are we paying too much? Are we going to lose? I can see—for example, there was a Volkswagen investment in Portugal and the grant assistance to Volkswagen to move to Portugal, all German taxpayers' money, of course—the Portuguese didn't care—this is one of the rash comments—

The Hon. Dr PEZZUTTI: But hang on. The German taxpayers are paying for most of this regional development anyway, so let's not get too coy about it.

Mr LONG: But the grant payments to Volkswagen to move to Portugal were so large that we reckoned here that there could never be a return on that money.

The Hon. TONY KELLY: Oh!

Mr LONG: There could never be a return it was out so far. The same has happened with microprocessor investments in Europe. They are so sexy that governments in Europe have paid—there is one now near Trier in Germany, I think, somewhere near the Luxembourg-Netherlands border, and it was a depressed area of Germany because it was on the border of these countries. They are not particularly depressed themselves, but it is the country. And the German Government paid an 18 per cent grant for micro—we would never pay that much. Eighteen per cent of what today would cost \$1 billion I'm sure. That's an awful lot of money. We would never get a return on that.

The Hon. Dr PEZZUTTI: You said—when I was in Britain, what, four years ago, there was a big investment by the Koreans and Japanese into—

Mr LONG: A lot of those have failed. Yeah, a lot of those have failed in the meantime because of—

The Hon. Dr PEZZUTTI: A lot of money came.

Mr LONG: Because you had the disasters in the Far East in Korea and Asia.

The Hon. TONY KELLY: The crisis.

Mr LONG: Yeah, and also, you know, these companies turned out to be so highly levered that the leverage on the projects was enormous and they just didn't have the possibility of raising those funds given the adjustment of expectations, so a lot of those have gone.

The Hon. TONY KELLY: What are the taxation advantages?

The Hon. Dr PEZZUTTI: Which Korean stuff came to here? Probably television sets.

Mr LONG: No, Belfast, I think.

The Hon. Dr PEZZUTTI: Belfast, yes.

The Hon. TONY KELLY: The taxation advantages, well, the taxation rates, they are applicable to home-grown industries as well?

Mr LONG: Oh, yes, they are for everything now.

The Hon. TONY KELLY: So everything in Ireland.

Mr LONG: Everything was—12½ per cent is for everything. It doesn't matter what you do. You can keep a bed and breakfast if you have a company.

The Hon. TONY KELLY: It is a company rate; that's what it is.

Mr LONG: It is a corporate—

The Hon. Dr PEZZUTTI: What's your personal income tax level?

Mr LONG: Sorry? Personal income tax level? Used to be among the highest in Europe but has been gradually brought down. The rates are moderate. I mean, the first tranche of income tax is 20 per cent.

The Hon. Dr PEZZUTTI: Starting at zero?

Mr LONG: No. I've got to read it out to you. I carry my tax.

The Hon. Dr PEZZUTTI: Well, that's important because over and above the capital, the company tax, you have got to distribute that tax to spend it, haven't you?

Mr LONG: Yeah. Now, the rates—20 per cent of the first £14,800.

The Hon. Dr PEZZUTTI: Starting from zero?

Mr LONG: Yeah, for a single person. Now, there is a minimum.

The Hon. TONY KELLY: Tax-free threshold.

Mr LONG: Or 20 per cent of the first £21,460 for a married couple with one income, and then for a married couple with two incomes it's twice the single, and there's 42 per cent on the balance but it's extended—

The Hon. Dr PEZZUTTI: Sorry, when you say twice the single, does that mean they can share their incomes together? Say I earn 100,000 and you earn 20,000.

Mr LONG: Well, that's not intended, no.

The Hon. TONY KELLY: They are treated as two single people.

The Hon. Dr PEZZUTTI: What a shame, what a shame.

Mr LONG: In fact, I think the Minister for Finance may well see a revolt. He hasn't finished introducing this individualisation of tax, which, of course, means that a married couple with one income will have much lower tax thresholds than a married couple with two incomes.

The Hon. Dr PEZZUTTI: That's right.

Mr LONG: So I think that there is still a lot of single-earner families in Ireland and I think there might well be a backlash when he does it, but he has said that he is going to do it in the next budget. He is going to finalise the individualisation of tax. Then the higher rate is 42 per cent at the moment but my recollection is that the Government has committed in the next budget to bringing that down to 40 per cent, so everything above the 14,800 or 21,600—

The Hon. Dr PEZZUTTI: Well, that's very good. That's very, very low, very moderate. But once you pay—say in the company you pay company tax of 12 per cent, then you distribute the profit to the husband and wife, the two partners, and you can distribute that however you like. You can distribute that however you like but then they, if they are the beneficiary, then they have to pay tax on that, so they are better off being a married couple and paying it only to the husband and not paying the wife a penny.

Mr LONG: That's something, you see, you will be able to do in Ireland if you are in a business but if you are sort of an ordinary taxpayer, an employee taxpayer, you won't be able to do it, and that's where the inequity will emerge, so there are always problems with these things, but this Minister for Finance had reduced the sort of capital tax that's like the inheritance taxes and things like that to 20 per cent.

The Hon. Dr PEZZUTTI: Oh, there's still capital tax?

Mr LONG: Capital gains tax is 20 per cent, yes.

The Hon. Dr PEZZUTTI: That's light.

Mr LONG: So he has brought that down to the same level as the general rate, the first income tax rate, the 20 per cent rate, and that's not a bad thing to do. You get less distortion in the tax system if no matter how you get your income you are going to pay the same level of it, otherwise people do all sorts of things to disguise the income as something else.

The Hon. TONY KELLY: Except company tax. Company tax is still half?

Mr LONG: Yeah, the company tax. Well, you see, that's the company tax but you still pay income on the distribution.

The Hon. Dr PEZZUTTI: That's right. You see, that money is not input.

The Hon. TONY KELLY: Yeah, but if you have your own private company you don't have to distribute it.

The Hon. Dr PEZZUTTI: Yes, you do, yes you do, because when you spend it it's not the company spending it, it's only Tony Kelly spending it.

The Hon. TONY KELLY: No, if you have got a farm—can you have a farm company, a company farm?

Mr LONG: Yeah. Well, I suppose, you could but I don't think it has been done. I don't know—

The Hon. TONY KELLY: We do a lot of that in Australia.

Mr LONG: Well, of course, you would have bigger farms so they are really—

The Hon. TONY KELLY: No, I could have—most people my size would have a company for their farm.

The Hon. Dr PEZZUTTI: But if you did, then the minute you spend it for personal reasons you aren't distributing it.

The Hon. TONY KELLY: But you don't have to spend it for personal reasons.

The Hon. Dr PEZZUTTI: Well, that's why the commissioner comes and checks up on you and you will see farmers, and I have seen farmers get heavily hit by the commissioner but the company tax is good because in Australia company taxes are all input credited so if I get a dividend from a company in Australia it has already been taxed, so if I get income from a company investment, a dividend, then I don't pay any tax on that because it has already been taxed.

The Hon. TONY KELLY: It's fully franked.

The Hon. Dr PEZZUTTI: It's 27.

The Hon. TONY KELLY: Fully franked.

The Hon. Dr PEZZUTTI: And I think the company tax is 27 or 30.

The Hon. TONY KELLY: It's 30 per cent.

The Hon. Dr PEZZUTTI: Thirty, is it? But it's fully taxed.

Mr LONG: Well, we think our corporate tax system is a winner for us.

The Hon. Dr PEZZUTTI: It is.

The Hon. TONY KELLY: It certainly is.

Mr LONG: We need it because—

The Hon. TONY KELLY: The employment—

Mr LONG: I mean, our population—just going on to population, our population has been lower than it is today. Today it is, again without a recent census it is hard to say but my guess is that the population today is probably approaching four million. I think the official figure is something under 3.8 million from the last census but I think, you know, there has been a massive influx of people into Ireland over the past decade, so I think it must surely be about four million.

The Hon. Dr PEZZUTTI: How many tourists a year? Have you any idea?

Mr LONG: Oh, a figure of a million comes to mind but I am not absolutely sure of it, you know.

The Hon. Dr PEZZUTTI: That would be growing.

The Hon. TONY KELLY: It would be at least that.

Mr LONG: There has been more interest in Ireland. I mean, if you were just to judge from the sort of political and economic interest in the Irish experience of the last decade, we have come up over the horizon and you guys are saying, "We must go to Ireland and find out about Ireland." Similarly people on the streets of Milan are saying, "Oh, Ireland is supposed to be an interesting place," and they are coming for holidays, and you are getting more, so publicity is good.

The Hon. Dr PEZZUTTI: Yes, it is.

Mr LONG: Good publicity about your good economic performance is good. But we are still coming from—I mean, you have got a generation now who are at work and they are coming from a background where they knew of people in their families who never got work, and you have got a new generation of youngsters out there who because of the accumulation of deprivation and poverty over the years have still got disadvantages and they are going to be very expensive to deal with to bring forward the least advantaged in the community—big issues there. I mean, our unemployment is down now. I think the official figure is something like 150 or 168,000 or something like that. I can't remember exactly. The rate is down from about 3.4 or 3.5 per cent unemployment rate.

The Hon. Dr PEZZUTTI: I see the Minister is looking for 4,000 extra nurses.

Mr LONG: Well, there have been problems in relation to some skills. We just haven't been able to produce them in sufficient quantity. So we are going to need a proper immigration policy. We don't have one. That's one of the things we are going to have to develop—a proper immigration policy.

The Hon. Dr PEZZUTTI: But you export them. I mean, Australia has been surviving on Irish—

The Hon. TONY KELLY: Irish nurses for a long time.

The Hon. Dr PEZZUTTI: Forever. They just come and work for a couple of years and they probably still will, and they are now picking them up from Australia. There picked up 190 last month alone in Sydney.

Mr LONG: Our youngsters—I mean, I think the cut-off—

The Hon. Dr PEZZUTTI: These are Australian nurses coming over here.

Mr LONG: Oh, really! Yeah. But our youngsters—I think there's a cut-off date of 25 or 27 for this one-year visa—they all want to go off. I mean, all our young professionals when they get to 25 they say, "Oh, I have to do my year in Australia now before I'm too old," and they are all going off. My daughter, who works in IBM here, seems to be at drinking parties every Friday for somebody going from IBM to Australia.

The Hon. Dr PEZZUTTI: They come back, though.

Mr LONG: Yes. Well, hopefully there's a benefit. There's this openness in learning and experience of the world and perhaps they will have done something. I think it's probably better for them to leave here as professionals with a bit of work experience.

The Hon. Dr PEZZUTTI: Yes, and discipline.

Mr LONG: Those who have gone before they have had work experience, you know, a year out after college or something like that, they end up picking fruit or working on farms whereas the ones who go out with work experience can get worthwhile jobs and it's of value to them. Let's see, what did I want to say to you next? I wanted to talk to you about the future but I think there was something else I wanted to say about demographics. Yeah, demographics. I reckon we are at or close to the four million at the moment, but even if you assume sort of moderate growth rates, by 2020 we think that we should have lots of things—I mean, I don't know to what extent this is scientific—we are doing it—but I am reminded of the story of the father who plotted the height of his child month by month and year by year on the wall, and the graph went up and the mother said, "Jesus, the house won't be big enough for him in 15 or 20 or 25 years." But, you know, we have been doing things on what will the core population of Ireland be and what will the population of Ireland be and so forth

and where will they live and trying to do a bit of regional planning on that. But the population, we think, could go up by another million or maybe 1.3 million depending on what your growth experience is in the intervening period if you have moderate economic growth in the 4½-5½ per cent on average. Whether we can do that or not is another thing. So we are beginning to get that sort of matter. But if you look around the world there are very few countries of under five or six million that have had enough sustainable internal resource to actually make it. Switzerland is a case. They have done it.

The Hon. Dr PEZZUTTI: But it's seven million. I mean, it has been seven million for a long time.

Mr LONG: Yes, but they were six for most of the century, most of the last century, about six for most of the last century. They were able to build up expertise and specialties and stuff. They are the most protectionist state in the world. Maybe that helped them.

The Hon. Dr PEZZUTTI: If you talk to the Swiss, you know, they are not very comfortable about the future although they are pessimistic people but—

Mr LONG: They have had bad years since.

The Hon. Dr PEZZUTTI: And they have had some very bad years.

Mr LONG: In '87 and '88.

The Hon. Dr PEZZUTTI: Last year and the year before very bad years and they are very worried but they are particularly worried about the Italian—they have the Italian problem of not having made enough investment for their pension exposure. What's your position on that?

Mr LONG: Well, if we didn't do anything about it, we'd have a problem. The National Investment Fund. Now, this arose because it was sensible to do it. The Exchequer had loads of money coming in. The demands on government to spend it on all sorts of worthwhile projects were enormous.

The Hon. TONY KELLY: So

Mr LONG: So the Minister of the day very wisely thought, "I'm going to put some of it by for the future needs because we can foresee them now and we had better provide for them," so he started doing that.

The Hon. Dr PEZZUTTI: Is the civil service, which is a very large percentage of it, have they got a capitalised superannuation fund?

Mr LONG: No.

The Hon. Dr PEZZUTTI: I see. So, I suppose, you could—

Mr LONG: It is non-funded. It's paid from current revenue.

The Hon. Dr PEZZUTTI: Ah! Well, see, that could be—well, Tony, if that was New South Wales, that could be somewhere like 15 or 16 billion.

Mr LONG: No, they have introduced an element for recruits after '92 or '93, they make a contribution towards their pension, but the likes of me don't.

The Hon. TONY KELLY: Sorry, you make a contribution.

The Hon. Dr PEZZUTTI: He doesn't make any contribution.

Mr LONG: I don't make any contribution.

The Hon. TONY KELLY: You don't make a—

Mr LONG: I don't make a contribution.

The Hon. TONY KELLY: You don't?

Mr LONG: No.

The Hon. Dr PEZZUTTI: This is what the papers say of it, Tony, here.

Mr LONG: But there's a notional—you see they—

The Hon. Dr PEZZUTTI: It's notional.

Mr LONG: There's a notional deduction from salary that I'm paid a sum that assumed that I was making a contribution.

The Hon. TONY KELLY: Yeah, we did that at one stage.

Mr LONG: But it wasn't funded.

The Hon. Dr PEZZUTTI: Because they weren't taking it. They were doing it on the books but they weren't actually—

Mr LONG: They weren't actually putting it into it.

The Hon. Dr PEZZUTTI: So have they estimated what their unfunded liability is? See, in 1991 New South Wales was seven billion. They'd have the same number of public servants, wouldn't they?

Mr LONG: Well, I don't know. My generation will have to give up spoofing in here and sort of nodding like Zeus to people when they come with decision-making proposals and so forth. When we are finished with that we usually die off quickly.

The Hon. Dr PEZZUTTI: Yeah, but, no, no, no, for your age your chance of living to 80 is excellent, and that's a part of the problem—age. You are drawing on your superannuation. The other big issue that has come into the picture has been that not only people—I mean, 65 was the retirement age by somebody in Germany when people died when they were 70. You know, they were all dead by 70. Well, now, when you retire at 60-65, your chance of being extremely healthy into 80-85 is very, very good without needing hospitals or anything, but you will still be drawing 50,000 a year in pension.

Mr LONG: That's right.

The Hon. Dr PEZZUTTI: And whereas you are dead at 70, you are going on 15 more years drawing 50,000—

Mr LONG: Yeah.

The Hon. Dr PEZZUTTI: —and probably escalating.

The Hon. TONY KELLY: But Paul Keating did announce some years ago—he started off the Superannuation Guarantee Fund, and instead of—the normal pay increase for everybody in the country would have been 6 per cent this year, instead what he did he said, "Right, you can have 3 per cent but the employer must put the other 3 per cent into a funded superannuation scheme," so the public service as well as private business had to do that, so that's actually funded, whereas in your case it's a similar thing, you know, you are getting it instead of salary—

The Hon. Dr PEZZUTTI: But it's not funded.

The Hon. TONY KELLY: —but it's not funded. It's not going into a fund.

The Hon. Dr PEZZUTTI: Is it any different in the private sector? In the private sector is there any compulsory superannuation?

Mr LONG: Well, now, there is a compulsory state fund for public pensions, but those pensions are sort of rather small, and while sort of the old industrial working class were content to put up with that, they are no longer content and they are far more into growth together with in recent times in the '80s and '90s a growth in the number of occupational pension schemes and people contributing to occupational pensions. Once upon a time these occupational pensions were very restrictive in that they were tied to the employment and if you left the employment or that—

The Hon. Dr PEZZUTTI: Or they sacked you six months before you were due to get the benefit.

Mr LONG: It could have been, yeah. Whereas now it has been better regulated and they have become transportable pensions so that you can take them with you, so that has been one development. Of course, if you went back to the '70s and early '80s, there was still an expectation of a job for life, and it's still out there in parts of Ireland that if you get employment, that the employment will last and last and last until you retire.

The Hon. Dr PEZZUTTI: When you retire from that, what does the state pay? Is there a state paid pension?

Mr LONG: Well, the state pay—I can't remember the rates, but they are rather low. For example, I fancy that for a contributory pension it would be considerably less than £200 a week, maybe £180 or something like that a week.

The Hon. Dr PEZZUTTI: And what's that in terms of the male average—

The Hon. TONY KELLY: Wage.

The Hon. Dr PEZZUTTI:—wage?

Mr LONG: The average industrial wage is now something of the order of £17,000 or £18,000 a year.

The Hon. Dr PEZZUTTI: Well, that's very high, that pension, then, because ours works out at 25 per cent of average male weekly earnings with some sort of modifier on it. Isn't it 25?

The Hon. TONY KELLY: Well, they are working towards 25, yeah, but it's about 20.

The Hon. Dr PEZZUTTI: I think it is fixed on 25, so if you retire as a pensioner—you haven't had to pay anything for that, but, you know—

The Hon. TONY KELLY: Ours could be in superannuation.

Mr LONG: This would be the contributory pension. There would be a non-contributory pension, which is just state support for people, which would be just barely over for a married couple—now, this is a rate for a married couple—it would be barely over £100, I think.

The Hon. TONY KELLY: Okay.

The Hon. Dr PEZZUTTI: That's

Mr LONG: Non-contributory. The contributory you get better than that.

The Hon. TONY KELLY: No, that has simplified it. You were going to tell us something about the future.

Mr LONG: Yeah, well, the future, but, first of all, the demographics. I mean, with that sort of prospect ahead, we have to think, you know, how do we keep this the most highly productive population in Europe, and we can't do it from within. The industrial base in Ireland and the ability to reinvest in it from within Ireland is not going to do it, and while we are trying hard to ensure that the education systems and the research infrastructure will give rise to innovation and invention and so forth, the reality is that we are going to come up with very relatively few entirely products the ownership of which will be in Ireland and so forth.

So what are our challenges? Our challenges are to have high productivity employment. The growth, of course, more to narrow the gap between GDP and GNP, will be very hard to do but we will have to look at how we do it, which means essentially having more ownership of things in Ireland and having Ireland as the most attractive place to be for owning things wherever they may be in the world and to have more ownership by Irish companies and individuals of assets in other countries and so forth—something that we have been slow on, but we started in the '80s and '90s. We started doing that through some of our corporations.

The Hon. Dr PEZZUTTI: That's where Italy is different because its gross domestic product is nothing like its gross money product because they have companies all over the world.

Mr LONG: That's right.

The Hon. Dr PEZZUTTI: So they threw it—

Mr LONG: Well, a lot of it—Britain is like that too because they've had income. I mean the sort of nineteenth century Argentina investments.

The Hon. TONY KELLY: In Australia they owned most of it.

Mr LONG: So these are the challenges for the future. We are hoping—we are drafting something on how to deal with that, and we hope to have it done for the autumn, but we are putting a lot of emphasis on the right infrastructure, especially in terms of the research infrastructure. We are setting up a new institution. We are calling it Science Foundation Ireland, and we managed to get a commitment last year to £560 million for that body to spend between now and 2006 and I did it by sort of sleight of hand. I hope I keep it because the Department of Finance planning side said, "Well, how much do you need for this?" And I said, "£560 million." And they said, "Okay." They wrote it into the national plan, within the national plan. But the estimates people of the Department of finance didn't hear about it until they read the national plan, and they went white, "What do you mean an extra £560 million?" But I hope to keep it. We are making it a sort of a priority of the future, and basically what we are doing—I mean, you might think this is a wing and a prayer sort of stuff, and maybe you're right, but what we are doing is—

The Hon. TONY KELLY: But you did that with education 30 years ago and it wasn't a wing and a prayer.

Mr LONG: No, that's right.

The Hon. TONY KELLY: It has paid off.

Mr LONG: That gave rise to sort of raising compulsory education age and getting more, giving free education to people. Now, what we want to do is there's loads more money in the kitty so we want more funding for research at a very advanced level, and our money is going to go for the sort of Renaissance-type activity following the fall of Byzantium when all the scholars left Byzantium and they were available for people to bring in, and the Italian cities saw it correctly and they brought in the scholars from Byzantium, and look what happened to Italy as a result. So were looking all over the world. We were unusual in that we had our first call for proposals last year.

We advertised it in the international press like *Nature* and *Science* magazine, that if you are among the top 5 per cent in these disciplines and would like to do research in Ireland, we give you a budget of £5 million to do research." And we have had some very bright people come and now we have got a rolling program up on the Internet for researchers who would like to do research to think of it and come to us with proposals and we look at it, and we are going to spend—we are spending about 20 million this year; we will spend about 60 million next year; we will be up to 100 million the year after that and we will see where we go.

Well, how you get the transfer from that into productive activity is going to be something that we will have to learn how to do. We won't have to manage it very closely. It's not to be, like, spent on the universities, where nobody manages anything, least of all the professors. One of our difficulties in this has been—and don't quote this to anybody either—one of our difficulties has been that if you are looking for a top-notch researcher to come and lead a team of investigators, you can't say to them, "Now here's the deed of research and here's the professor of the department. You are reporting to them. They will tell you what to do." So we have had to say, "No, they will decide what teaching they will do. You don't tell them. And they are working for us on this project. If they are doing it in your college it's your privilege and we are locating in your college so that you will get spill-over effects and it will generate more enthusiasm and interest."

The Hon. Dr PEZZUTTI: It's the intellectual transfer that is as valuable as the research.

Mr LONG: That's right because if you isolated it away from the rest of the education and research community you would have—so you want sparks to fly; you want people to take interest and to become very enthusiastic.

The Hon. Dr PEZZUTTI: And improve the quality of your professors a bit.

Mr LONG: You know how. So that is the big departure. The other thing that we have to do, we were very disappointed there in April. We had been after the leading, one of the leading biotechnology companies if the world, a company called

Biogem, the American company, and it decided not to come to us. It went to Denmark, and it went to Denmark because Denmark had a better infrastructure for it. So we have to address that now. We have to ensure that when these companies are into investment again, the ICT and the biocompanies, and they are into it—incidentally, for research we have chosen two research areas. They are very broad, in fact, but we tried to sort of have at least some channel, some focus, on what we are doing, but we are open to suggestions within them.

ICT and biotechnology are the two areas. And we are now looking for good, well-developed infrastructures, regionally spaced but for big or medium-size ICT biotechnology investments, so we have to get proper infrastructures in place, which will involve land acquisition, developing the land, ensuring that the water, the wastewater disposal, the electricity, the gas and all that's required are going to be there in sufficient quantity, that the road structure, the access to international airports, you know, all that is going to be in order.

It's bigger than anything we will have done before. We are going to need government approval. It's going to be difficult because the Government is coming to the end of its term and they are all—how shall I say? All politics is local, so at the government end they are all saying, "No, it's for my constituency. It's not for yours," and we are into difficulties like that at this stage. I am inclined to think that maybe we should save it until after the next election but that's the sort of thing that civil servants should never tell politicians like yourselves.

The Hon. Dr PEZZUTTI: Oh, no, no, no. Courageous decisions have to be taken at some stage.

Mr LONG: Some of these decisions are easier to make three months after the formation of a new government.

The Hon. Dr PEZZUTTI: In politics there are no points for leadership.

Mr LONG: No, I'm afraid not.

The Hon. Dr PEZZUTTI: Or vision.

Mr LONG: It's very much sort of batting for your own home wicket, and the nearer you get to an election the more that becomes so. Making selections for sites is going to be politically very difficult at this stage but we have to do it, and I reckon that we are talking of—between the sites and the development of the sites and the infrastructure we are talking of an extra 500 million.

The Hon. TONY KELLY: Over and above the other 500 million?

Mr LONG: Over and above the other 500 million.

The Hon. Dr PEZZUTTI: That's still a moderate amount, isn't it?

Mr LONG: Well, I think it is, and I find savings elsewhere in budgets to the extent of about 300 million but that's not the issue. The issue is going to be one of where things happen, and that's politically so sensitive that it will have to be managed very carefully. So that's the direction for the future in terms of indigenous Irish industry, and we're going to go after the biotech and the ICT. It's sort of a logic to our train of thought now. We have narrowed in on these. But that doesn't mean that we would refuse anything else, you know, that it has to be that kind of activity. The Irish industry productivity levels are too low.

So what I hope to be saying to Enterprise Ireland, if I can get political clearance for it, is, "We are going to judge you and your use of public money on the difference that you make to productivity in the companies that you intervene in and the increased propensity to export," and we have to be careful of that because Europe is very sensitive to export promotion aids and things like that and they don't want any of that, but if these guys are not competitive in those sophisticated markets, more sophisticated markets, then they are not competitive. You are only competitive in trade. So we are going to make it a sort of critical issue for Enterprise Ireland to get this competitiveness in the enterprises, in the Irish enterprises. So in essence we are saying to them, "You have to be very selective. You will deal with those who can, only those who can do it in terms of productivity and exports, and those who don't want to do it, forget them."

The Hon. Dr PEZZUTTI: What about the public sector?

Mr LONG: Well, there's a lot—

The Hon. Dr PEZZUTTI: Are you sort of moving bits of the public sector out to the countryside?

Mr LONG: Yeah. Well, my Deputy Prime Minister told me—I went on holidays in June and she said to me as I was going on holidays, "There will be a decision in 10 days' time about where the departments are going, government departments are going," and there are still no decisions. It is the same thing I mentioned to you.

The Hon. Dr PEZZUTTI: Is it seen to be a viable alternative, though, to move, say, somewhere like this to Waterford or out of town?

Mr LONG: I tell you, I would be happy enough with that decision if you also moved the Department of Finance out of town.

The Hon. TONY KELLY: They should go first.

Mr LONG: No, but this reason. If they stay here and we are moved out, our ability to influence things will be diminished and they will be—

The Hon. Dr PEZZUTTI: Yeah, that's right.

The Hon. TONY KELLY: Running the show.

The Hon. Dr PEZZUTTI: What about less sensitive things like education or local government or—

The Hon. TONY KELLY: Agriculture.

The Hon. Dr PEZZUTTI: —agriculture, those sorts of things?

Mr LONG: Just to finish on that one, we have had more impact on the taxation policy in the past 10 years than anybody else. It makes sense. In fact, why don't they go the whole hog and move the seat of government out of Dublin and put it somewhere else?

The Hon. TONY KELLY: Well, that's what happens in America.

The Hon. Dr PEZZUTTI: That's right.

The Hon. TONY KELLY: In America the Government is never in the capital city in a state. It's never. It's somewhere else.

The Hon. Dr PEZZUTTI: is the centre of government.

The Hon. TONY KELLY: It's not in LA; it's in Sacramento in California.

Mr LONG: Well, I think they should do something—

The Hon. Dr PEZZUTTI: I mean, Little Rock, Alabama, is a tiny town. It only exists as the administrative capital.

Mr LONG: Yes, yes, yes, yes, yes, yes. Well, it would make sense for them to think in those terms and to do that and leave Dublin to commerce and international activity but they still can't take a decision, and it's the same problem. They all want—everyone at the Cabinet table wants something in their place and they can't reach agreement.

The Hon. TONY KELLY: Two issues for your future trade—the euro which comes in on 1 January. For some reason England is not going that way. That's going to be very restrictive for England.

Mr LONG: That's going to be a risk, yeah.

The Hon. TONY KELLY: Whereas it should be an advantage to you but it would also make it difficult for you to trade with them as opposed to trading somewhere else, and their airport.

Mr LONG: The pound and the dollar.

The Hon. TONY KELLY: And their airport. Is there better access into Ireland than through Heathrow? That must be a terrible impediment. It's shocking people.

The Hon. Dr PEZZUTTI: It's almost one and a half miles walking to go from—

The Hon. TONY KELLY: Terminal 89 or something, 88.

The Hon. Dr PEZZUTTI: To 87 or 88, and it's very ordinary. So any businessman going from New York to—

The Hon. TONY KELLY: You can bypass them, can't you? You can go to Shannon and out straight to the USA. You don't have to go through Heathrow, do you?

Mr LONG: Oh, no, you can fly to the states from here.

The Hon. TONY KELLY: Yes, you don't have to go through Heathrow.

Mr LONG: You don't always have to go. Some flights go through Shannon and some of them go direct from Dublin, yeah. There are other better airports about. I am not saying their facilities at Heathrow are not a bit run down.

The Hon. Dr PEZZUTTI: They were awful.

The Hon. TONY KELLY: It's the worst one I've come across.

The Hon. Dr PEZZUTTI: Just awful.

Mr LONG: But there are other airports which are better, and they don't have as many connections, though. London City in the docklands is a very good airport. There are flights to Stanstead, and there is a choice of carrier to Stanstead, and then there are flights to Gatwick.

The Hon. TONY KELLY: Gatwick, yeah.

Mr LONG: A choice at Gatwick. But Heathrow—

The Hon. TONY KELLY: Even Luton.

Mr LONG: But Heathrow is pretty dismal. I am off now tonight to Manchester for the fertiliser company and it's years since I was there but there has been a lot of investment in Manchester airport as part of the sort of regional development of that north-western part of England.

The Hon. TONY KELLY: So you will fly direct to Manchester.

Mr LONG: From Dublin, yes. It's a short flight. It's only half an hour.

The Hon. TONY KELLY: Yes, it just struck us that it would be an impediment to Ireland if all your transport was through there.

Mr LONG: Well, I think most of it is. See, Aer Lingus and Lionair are the ones servicing Heathrow and they have most of their flights to Heathrow because Heathrow just offers more runways and more runway time and slots. But just getting on to biotechnology, which you mentioned, at the moment, we have had a spate of attempts to do field research with crops and they have been disrupted by the environmentalists, the enthusiasts and that, and the courts have been very lenient.

The Hon. TONY KELLY: Have they?

Mr LONG: Yeah, they have.

The Hon. TONY KELLY: So what sorts of experiments have you been doing?

Mr LONG: Oh, they were just field trials of crops. They were crops that had been grown under GM conditions.

The Hon. TONY KELLY: Not GM potatoes?

Mr LONG: No, I think there was beet and—

The Hon. TONY KELLY: Corn?

Mr LONG: Corn isn't really an option for Ireland, you know.

The Hon. TONY KELLY: That's US.

Mr LONG: You don't get big areas. You need big prairies and a good and one thing you can't rely upon here is the weather to stay the same for one day at a time.

The Hon. TONY KELLY: So has it been more vegetables or—

Mr LONG: Yes, it's more vegetables, and I know beet was one of them, but there may have been others, sugar beet, you know.

The Hon. TONY KELLY: Mmm.

Mr LONG: And the other thing is that in the UK and also in Europe there has been a consumer resistance to the foods with GM ingredients.

The Hon. TONY KELLY: Yep.

Mr LONG: And the supermarkets have just gone against it. The latest thing, of course, is the stem cell research and the Pope has asked President Bush to make sure it doesn't happen because abortion is involved, though they don't have to be aborted. I don't know if you can do it without having abortions.

The Hon. Dr PEZZUTTI: Mr Bush hasn't replied positively.

Mr LONG: So politics is very nervous of these things. We have tried—I had a committee which issued a report on biotechnology and generally we were sort of prudent and cautious but said, "This is the area for future investment. We mustn't allow a sort of superstition or taboos not based on reason to rule us out of this. We need more research and we need field trials and we must have a way of making sure that the field trials happen," and we recommended various changes. One of them was to set up a local ethics committee. I had all of the departments in government with any potential interest in this on an interdepartmental committee, and we issued a report, and I won't give you a copy of it, but you can get it on our website. Does it give my www—

Mr CARR: Yes.

Mr LONG: So you will get the report on the website.

The Hon. Dr PEZZUTTI: Entitled?

Mr LONG: Interdepartmental Committee on Biotechnology. So if you just look for "biotechnology", you will get it. That came out last year. It was supported by the Government. We haven't done much since because most of the activity in relation to farming was just put on hold because of the—

The Hon. TONY KELLY: Foot and mouth.

Mr LONG: —foot and mouth disease, so we are having a meeting in September to see where we go. I am hoping to set up the ethics committee this year. We are asking the Royal Irish Academy to do it. The usual professors when they got together they came up with—I sort of said, "Okay, I've got 25"—

The Hon. Dr PEZZUTTI: So why is it the Royal Irish Academy, as a matter of interest?

Mr LONG: Ah, well, it goes back to the eighteenth century, you see. There are several institutions in Dublin. There's the Royal Irish Academy, the Royal Hibernian Academy for painting and graphic arts, the Royal Dublin Society, which was in its day the development agency and a number of the gentry and gentlemen came together and said, "We have to help the farmers of Ireland to get productivity up. Now, we will give demonstrations of good practice. We must train apprentices so that they will learn skills the right way."

The Hon. Dr PEZZUTTI: "We must have a railway."

Mr LONG: Yeah, this sort of thing. And this is the beginnings of intervention in the Irish economy by the wealthy, so they set up this society. The Royal Irish Academy is just across the road parallel to the one outside, a very nice old building, a lovely library. You should wander in and look at the view.

The Hon. TONY KELLY: In Kildare Street?

Mr LONG: No, it's in—

The Hon. TONY KELLY: The next one down?

Mr LONG: —Dawson Street, the next one parallel.

The Hon. TONY KELLY: At Johnson?

The Hon. Dr PEZZUTTI: At Dawson.

The Hon. TONY KELLY: Dawson?

Mr LONG: No, at Dawson Street. So we are trying to do that but, in fact, consumer resistance is enormous in relation to that. The area where there is no consumer resistance is in the area of pharmaceuticals.

The Hon. Dr PEZZUTTI: Yes, I know. It's fascinating, isn't it? People inject themselves all day with insulin—

Mr LONG: That's right.

The Hon. Dr PEZZUTTI: —made from E. Coli.

Mr LONG: They wouldn't have it if there weren't genetic engineering plants to do it.

The Hon. Dr PEZZUTTI: And insulin made from sheep, if you like.

Mr LONG: That's right. So we will move cautiously on that, but we are not, you know—

The Hon. Dr PEZZUTTI: It's a good time to do field trials now with the foot and mouth. It stops people moving around the place.

Mr LONG: Yeah, but those restrictions are nearly gone. I hope we haven't misjudged it, but they seem to think that the foot and mouth threat is really over. It's just that they keep getting new cases in the UK and places that they never thought they would get them, and I don't know that it has really gone away.

The Hon. Dr PEZZUTTI: Because every mouth ulcer is also not foot and mouth.

Mr LONG: Yeah.

The Hon. Dr PEZZUTTI: In the calves.

Mr LONG: But, mind you, they are finding sheep in the UK with foot and mouth antibodies, which means that they got it, they have recovered, but it's now probably endemic in the UK.

The Hon. TONY KELLY: It can come back, yeah. I really think you've done a good job here of protection.

Mr LONG: We have kept it out so far, yeah.

The Hon. Dr PEZZUTTI: See, I mean, people today—it's not a particularly lethal disease, is it?

Mr LONG: No, it's not lethal. It's just that it affects your markets, and some markets are closed to you if at the moment you are not foot and mouth free, and productivity goes down.

The Hon. TONY KELLY: The productivity is significant.

Mr LONG: There's just one other thing that I had in mind to mention to you. I've got another string to my bow here—microenterprise development. The agencies that I have mentioned to you don't deal with company start-ups under 10 people and so forth, but I have a system of 35 regional boards, county enterprise boards, around the country, and this will be your rural development hat. There are a lot of things happening in rural development, and the Department of Agriculture has efforts at community development, investing in things that will help communities, whether they are through skills of learning and upgrading abilities or regional, rural, transport or rural centres for community activity, you know, things like that.

The Hon. TONY KELLY: Mmm. We talked to them this morning.

Mr LONG: Did you?

The Hon. TONY KELLY: And they did explain that a little bit.

Mr LONG: Who did you meet?

The Hon. TONY KELLY: Liam.

Mr LONG: Yeah, he's going to go round—he and my leader are going to on Friday.

The Hon. TONY KELLY: Yes, Liam Mainer.

Mr LONG: Right, yeah.

The Hon. Dr PEZZUTTI: They are very good.

Mr LONG: In fact, I gave him observations on it when I went round there because I felt that they were now moving into a situation where they have so much money that they are going to say, "Let's start enterprises. We will put money into enterprises," where I have got county enterprise boards out there. They don't have much money. We give them about 25 million a year for the whole lot, and their business is to help enterprises get up and learn. Everyone wants the Government to give them their share of capital, give them their equity and make their business viable but we have sort of reined them back from giving subsidies to enterprises to say, "No, let the people invest in their ideas. There's enough money around for them to get their first 10,000 themselves. Why should the taxpayer be giving everyone the first 10,000? Put money into making sure that they know what they are at, that they know how to do it and that they will be able to deal with the planning and shocks and disappointment there will inevitably be. Put a lot of resource into that." But they still give some grants to start an enterprise. We are trying to minimise that. So I was a bit afraid that the leader that Liam was dealing with would get into this, so I got my Deputy Prime Minister and my Minister for Science out, who takes an interest in the county enterprise activity, to write I got them to agree to saying that county enterprise boards are mandated to be the primary vehicle for small enterprise creation in the country. If the leaders gets involved in anything to do with these they must co-ordinate it through agreement.

The Hon. Dr PEZZUTTI: I think they mentioned that this morning.

The Hon. TONY KELLY: Yes, they did.

The Hon. Dr PEZZUTTI: Because they said that they have these spread across the country and they are co-located.

Mr LONG: In fact, what has happened around the country is chaos with people with small business proposals coming to the county enterprise boards, who try to apply criteria, feeling that this was too bureaucratic or, you know, they should just

get their money, going to the leader, just getting their money and saying, "Why bother with you crowd?" So I want to get some order in it.

The Hon. TONY KELLY: So that's like a business enterprise centre.

Mr LONG: I am determined that there will not be free and easy money. You know, rural Ireland has been spoiled by the common agricultural policy. They expect free money for everything and they have had it under the common agricultural policy. God, I would be slaughtered in Ireland for saying this to Australians but—

The Hon. Dr PEZZUTTI: But in 2006 it may all stop.

Mr LONG: That's right.

The Hon. TONY KELLY: With the enlargement the money is not going to be there.

Mr LONG: And they realise that. They know that. But we are trying to clean up everything.

The Hon. Dr PEZZUTTI: The subsidies will remain but the grants—

Mr LONG: The export subsidies have to be negotiated, and the only thing that happened in the—the Uruguay round—not the Uruguay, the last one—the Uruguay, yeah. The only thing that happened there really was that they agreed that there would be a negotiation which would include agriculture next time and it's going to introduce access to markets and export subsidies and, you know, Europe basically in Europe most of the government's in Europe want to deal with that issue. It's just that they haven't got the political balls to deal with it, and if they need—

The Hon. Dr PEZZUTTI: The French.

Mr LONG: The French won't hear of it.

The Hon. TONY KELLY: Because of the—

Mr LONG: Well, see, that's because the agricultural policy was part of the original pact with Germany. Germany got the markets for the diesel engines and France got the—

The Hon. Dr PEZZUTTI: Paysan.

Mr LONG: The peasants, yes.

The Hon. Dr PEZZUTTI: Well, the difference between Ireland and France, frankly, is that your rural population is better educated than the French population, and I think your rural farmers will take it a fair bit better than the rural farmers in France, who really subsist on five or six cattle.

Mr LONG: Well, there's still a lot of that in Ireland, you see.

The Hon. Dr PEZZUTTI: Is there?

Mr LONG: And the lowest skilled pool tends to be in the farming, not the big business farms but the smaller farms around Ireland, where the skill levels are actually quite low. They have just left school at the minimum age, the mandatory age, and they have gone into farming.

The Hon. Dr PEZZUTTI: It is probably better for them to do farming than to be a bum on the street.

The Hon. TONY KELLY: Much better. It's following a life.

The Hon. Dr PEZZUTTI: It's a lifestyle that they can understand and it's good enough for them and, you know, any sort of subsidy like that is a social subsidy as much as anything else but the advantage, of course—the problem for government is providing services for such a widespread farming community. Here it's not a problem but in New South Wales, you know, I mean, people can be 150 kilometres from the closest little town.

Mr LONG: Well, here, you see, there has been another problem, and while the cattle population of the country is probably twice—I don't know exactly, but probably twice—the human population—it may be more, in fact, a bit closer to three times, but the Irish produce has always had a lower price on the European market. We found it difficult to get on the European market.

The Hon. Dr PEZZUTTI: What, the price of your—

Mr LONG: For beef, yeah.

The Hon. Dr PEZZUTTI: Why?

Mr LONG: Well, I suppose, some of it may have been because we weren't growing the sort of beef that they like. They like grain-fed beef in Europe where we had grass-fed beef.

The Hon. Dr PEZZUTTI: The taste would be there.

Mr LONG: Mmm?

The Hon. Dr PEZZUTTI: A better taste.

The Hon. TONY KELLY: Yeah. I prefer it. Well, you are mostly Angus.

Mr LONG: There's a big—I mean, if you travel around Europe you find—I remember in Austria a couple of years ago big signs up everywhere because they had entered the Common Market and they had to deal with freedom to trade—big signs up everywhere showing the lovely Austrian village square and the Austrian farming folk sitting around in the evening and the cow on the green in front of them and it said in German underneath "At least I know where my beef is coming from." And there has been a lot of that in Europe, particularly after BSE and so forth, where they said, you know, they have renationalised the markets and people have said, "Is that local beef? You know, I want it."

The Hon. Dr PEZZUTTI: That's what the Poms said yesterday, that the market for British beef in Britain hasn't changed one bit.

Mr LONG: Really!

The Hon. TONY KELLY: Yeah.

The Hon. Dr PEZZUTTI: He said there is no change.

The Hon. TONY KELLY: If I was in Britain I would eat anything but British beef.

The Hon. Dr PEZZUTTI: But that's what they did. They ate British beef.

Mr LONG: In fact, the chances of BSE if you were in the UK during the '50s, '60s and '70s, the chances of BSE are quite high.

The Hon. TONY KELLY: Yeah.

Mr LONG: I mean, quite high.

The Hon. Dr PEZZUTTI: That's why this new drug that the Irish are developing that gets rid of Alzheimer's is going to be very important. It was on the front page of the paper—a billion dollars yesterday. It is going to be the from stopping all existing people with Alzheimer's but it may have an impact on CJD, of course.

Mr LONG: Great, great.

The Hon. Dr PEZZUTTI: So you reckon there's going to be a lot of Poms with CJD in a few years, do you?

Mr LONG: Yeah, yeah.

The Hon. Dr PEZZUTTI: They have only had 60 cases, 60 cases in Britain—is it 60 or 70?

Mr LONG: I don't know, but, I mean, it's cropping up here now, you know. I have met people who have had work colleagues who have developed CJD.

The Hon. Dr PEZZUTTI: And if it was going to be significant—

Mr LONG: I don't know to what extent the new variant is going to—whether that's the growing factor or just the old CJD but up until sort of the 1990s I used to say to my colleagues from Germany, and Denmark particularly, "Of course, you know, your population is dying out." To the Danes I used to say, "You know that the last Dane is going to be born on 29 September 2027. There will be no Danes born after that."

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Meeting No. 15: Wednesday, 25 July 2001 Enterprise Ireland Dublin, Ireland

Also in attendance:

Dr Michael Brougham, Manager, Strategy Department, National Informatics Directorate, Enterprise Ireland

Mr BROUGHAM: . . . are in Dublin.

The Hon. TONY KELLY: Only 5 per cent are in Dublin.

Mr BROUGHAM: Eighty-five.

The Hon. TONY KELLY: Oh, 85.

The Hon. Dr PEZZUTTI: Well, there's no need for them to be there, is there?

The Hon. TONY KELLY: No.

The Hon. Dr PEZZUTTI: Of all of the industries that's the one, except they need to be co-located somewhere to get the Porter thing.

The Hon. TONY KELLY: Yeah, the clusters.

The Hon. Dr PEZZUTTI: They have to be the composite.

Mr BROUGHAM: It's interesting because I travel out of the dress-ring situation because we have some ideas and interests there that we need to sort out in Ireland, and that will be a very interesting comparison because, you are right, without the clustering effect, then the software companies don't want to go to the regional locations.

The Hon. Dr PEZZUTTI: Except look at Silicon Valley. I mean, that's miles out of town, isn't it?

Mr BROUGHAM: Mmm.

The Hon. Dr PEZZUTTI: It's a separate little valley that did all that stuff.

The Hon. TONY KELLY: A separate cluster.

The Hon. Dr PEZZUTTI: It is a cluster.

Mr CARR: It's close to school, employment and universities for young people.

The Hon. Dr PEZZUTTI: But there was nothing there 10 years ago—well, sorry, not 10 years ago, but 30 years ago there was absolutely nothing there.

Mr BROUGHAM: There are seven universities in Ireland and—

The Hon. Dr PEZZUTTI: Is that all?

Mr BROUGHAM: Yeah. There's another 12 institutes of higher education.

The Hon. Dr PEZZUTTI: Right. Okay.

Mr BROUGHAM: They are not full universities but they do offer degree courses and diploma courses.

The Hon. Dr PEZZUTTI: Yes.

Mr BROUGHAM: And there's one of those in almost all towns in Ireland.

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: So there's about 12 of those.

The Hon. Dr PEZZUTTI: Good.

Mr BROUGHAM: It was interesting about the biotech. This is the news coming up. The European Commissioner is trying to make moves on GMO food, particularly on the labelling question, so that's raising its head again now in Europe. I was involved in the early days of the agency of working on the regulatory side of GMOs for Ireland.

The Hon. TONY KELLY: Oh.

The Hon. Dr PEZZUTTI: But they haven't come—I mean, it sounds good but they haven't come very far, have they?

Mr BROUGHAM: No.

The Hon. Dr PEZZUTTI: I mean, this announcement today gives the nod to it but it means you have got to clean up and the hurdles to get to marketing and then whether or not the people are buy it.

Mr BROUGHAM: Well, I believe that consumers are entitled to know what's in the food that they're eating.

The Hon. TONY KELLY: Of course.

Mr BROUGHAM: So, therefore, that means we have to label the food, and I believe that if you label food as coming from a GMO source and if there's a choice there of natural food or GMO or so-called natural food I don't believe that people will go for the GMO. I think there's too many fears about that, you know.

The Hon. Dr PEZZUTTI: Well, Lord Jenkin yesterday said that—he did the report for Britain for the British Parliament. He reckoned that the recent survey done in London, done in England, sorry, showed that 60 per cent would.

Mr BROUGHAM: Really!

The Hon. TONY KELLY: Mmm.

The Hon. Dr PEZZUTTI: Mmm.

The Hon. TONY KELLY: It's changing.

The Hon. Dr PEZZUTTI: A big change.

The Hon. TONY KELLY: I don't know how accurate that is. It's the first time they've said it.

The Hon. Dr PEZZUTTI: Now, you would have to wonder about it because what has happened to the debate, because Blair said he was going to have the debate, and the debate didn't sort of happen, so what is it that made people suddenly change?

Mr BROUGHAM: I don't know.

The Hon. Dr PEZZUTTI: Have you done any surveys here?

Mr BROUGHAM: No. There have been European-wide surveys. The last ones I looked at now were some years ago but the ones—they were certainly showing a tremendous resistance to it. The biotech industry in the UK is very big.

The Hon. TONY KELLY: The what?

Mr BROUGHAM: Biotech is very big in the UK.

The Hon. Dr PEZZUTTI: Well, of course, the thing is that they have wiped themselves out within their own market, you see, Tony. They can't take any advantage of the development and the research, so the UK has got a huge interest in the approval of GMO foods and GMO.

The Hon. TONY KELLY: It's interesting, isn't it?

The Hon. Dr PEZZUTTI: No, no, not at all, not just for—if they can't do it in England they can't do it anywhere because the argument will go, "Well, gee, you know, terrific stuff, but are you doing it in England?" "No." "Well, it's not good enough for us. Rack off." Whereas the Americans say, "Well, of course we are doing it. Come and see the hundreds and twenties and millions of hectares, and here's the corn, and here's the product. We grow it in our place." But if the Poms don't do it, they can't sell it, so they are concentrating on the pharmaceutical side, aren't they?

Mr BROUGHAM: Yeah, they are, yeah, and the regulatory side in the US is different from that in Europe. The basis is different.

The Hon. Dr PEZZUTTI: There's a label, Tony, that says exactly what's in this. I mean, if you go to Indonesia and they have got one of those they forget it has a lot of E. Coli in it as well, but that's the sort of labelling for GM foods that might be the 20 different genes that you put in but they want to put it on that label. It's not possible to put it on the front label, is it?

Mr BROUGHAM: No.

The Hon. Dr PEZZUTTI: And sometimes on our labelling, you know, for all the various preservatives you need not just my little glasses but—

The Hon. TONY KELLY: Really

The Hon. Dr PEZZUTTI: You try and get the size of some of the in these these days, if you try to read some of this stuff, even with my little readers it's hard. Interesting! "Total dissolved solids at 180 degrees Celsius". Okay? Now, what chance do you and I have of heating this up to 180 degrees Celsius?

The Hon. TONY KELLY: Inside.

The Hon. Dr PEZZUTTI: Eh? What chance?

Mr BROUGHAM: None.

The Hon. Dr PEZZUTTI: Absolutely. So what does it mean? That's the problem with a lot of this labelling. It means absolutely nothing. Except somebody set a standard somewhere. See that, Tony, on the back of the bottle, "Total dissolved solids at 180 degrees C, 420 milligrams per litre" but given that they are dissolved in there now, there would still be 120 milligrams of it but the litre would be bigger, wouldn't it, because the water wouldn't be standard?

Mr BROUGHAM: That's right, yeah.

The Hon. Dr PEZZUTTI: So there's actually probably 300 milligrams per litre.

Mr BROUGHAM: Yes. It's a very interesting debate. It's shaping up to be.

The Hon. Dr PEZZUTTI: Are you Michael or Mick?

The Hon. TONY KELLY: Mick.

The Hon. Dr PEZZUTTI: Auburn, Dublin Road. That's where Auburn comes from, of course. Auburn, Dublin Road.

The Hon. TONY KELLY: Auburn, is it?

The Hon. Dr PEZZUTTI: The main street of my home town in Lismore is Molesworth Street.

Mr BROUGHAM: Oh, really!

The Hon. Dr PEZZUTTI: And it's named for because the town itself was named for Lismore.

Mr BROUGHAM: In the County of Waterford.

The Hon. Dr PEZZUTTI: Yeah, and, in fact, the castle at Lismore I visited once when I was over here. The cathedral in Lismore is a copy of the cathedral in Lismore.

Mr BROUGHAM: I joined the agency of the public service in '91, so I am a veritable child in all of this. In that time since '91 I joined the science and technology agency called OLAS. In '94 we were merged with what we used to call the domestic wing of the Industrial Development Authority, which was the part of the Industrial Development Authority that dealt with Irish-owned businesses, and we were called then Fervert, which was Gaelic for "developed". So that was '94, October '94. And then about two years ago we were merged with another organisation called the Trade Board, which was responsible for external marketing of companies and so on overseas. So in that short space of time there's been a tremendous amount of chopping and changing of the industrial development scenario here in Ireland, and I would say that we are probably heading into some more in the years to come because I'm sure as Ronald was telling you about the Science Foundation, the funding that's going into research and development.

That Science Foundation now would be a sister organisation of ours and the Science Foundation, the money that's going into that research, is very clearly, if you listen closely to what Ronald has to say, it's an instrument of industrial policy. In other words, there has been a view now taken at government level that we must as a country invest in basic economical research if we want to see the right technology companies coming out of the woodwork, and so that has an impact on the industrial development agencies in the scenario that we would be engaging in in the years to come.

So it's a very exciting, in one way, place to be at the moment but it's also disconcerting for a lot of people because, I mean, the organisation that I joined, which was called OLAS for science and technology, that itself was a merger of those two previous mergers in a matter of the previous 10 years, so for many of the people who would have grown up in the science and technology area, let's say, there's been a tremendous amount of change and refocusing going on, and at the moment we have a voluntary retirement package in the organisation and one-tenth of the people are opting for that at the moment. There's about a thousand people in this organisation.

The Hon. Dr PEZZUTTI: So what's your job really?

Mr BROUGHAM: Sir, I'm a biochemist by training and from UCG on the west coast in Galway, and I did my Ph.D. in industrial biochemistry and, as was the norm at the time, there was very little work for Ph.D. research scientists in this country, so—

The Hon. Dr PEZZUTTI: It must have been hard to get a grant.

Mr BROUGHAM: It was impossible. There was no grants to speak of.

The Hon. Dr PEZZUTTI: So how did you fund your research?

Mr BROUGHAM: The research was funded by a mixture of grants that I got as a student from government and a mixture of some industrial funding that I

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: So I finished in 1980 and then I went off to the United States, and I worked for four years in the University of Florida at Gainesville on genetic recombination.

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: And we were working on a fungus, a eucaryated fungus, looking at the mechanism of the combination in that fungus, and I wasn't involved in GMOs per se, but we were involved in looking at the mechanism of how recombination happens in the real state. So I spent four and a half years there, and I got married towards the end of it, to an Irish girl, of course.

The Hon. TONY KELLY: I was going to say.

Mr BROUGHAM: And we always had this notion in our head of coming back to Ireland because, you know, for raising kids and stuff like that, so we came home, and I was out of work for five months. I eventually got a job in research in a small biotechnology start-up—you couldn't call it biotechnology really; it was more in the diagnostics field—in Galway, and from there I moved into diagnostics in a German-owned diagnostic company, and then in 1988 I moved into the—sorry, about 1991 I moved into the science and technology agency, OLAS. In OLAS, the story is interesting because, you know, it's almost like back to the future in one sense because I was working on funding programs for science and technology trying to get industry to work with colleges, funding Ph.D. students and MSE students in colleges, funding strategic research in colleges, and at the time we were talking about grants of the order of £25,000.

The Hon. Dr PEZZUTTI: For five years.

Mr BROUGHAM: No, for three or, you know, but it was ridiculous kind of money. I think the top grant that we were giving out at the time was £100,000 over two years, and that was for strategic research, which the competition in that—

The Hon. Dr PEZZUTTI: To proven researchers?

Mr BROUGHAM: Of course, yeah, and the competition for those grants was horrendous, and many of the guys that grew up through the system went overseas and got professorships and what have you, and now we are trying to attract them back through the Science Foundation of Ireland and, of course, we have a lot of structural problems in our research base that we need to address. Not least of all we need to kind of look in the university system the process of the salaries that are paid for researchers. If we don't pay the right kind of salaries we are not going to get the right kind of people.

The Hon. Dr PEZZUTTI: All the brains go overseas

Mr BROUGHAM: I mean, it's a similar story in all the world, but we are now on the—at least we are getting to the stage where we are now talking about funding projects of £1 million per annum for five years—£5 million projects—and that is something else for us because many of the research groups that would have grown up in this country would have been very small research groups. You know, a 10-person research group was an enormous group in this country.

The Hon. Dr PEZZUTTI: Ten.

Mr BROUGHAM: Ten people, yeah, and now we're looking to build world-class research schemes in two areas—biotechnology and information and communications technology. So in the agency that I started out funding research, running funding programs, and then when Fervert was established I got a job as a regional director in one of the regions, in the midlands, which is why I am living down there. I moved. And so I am kind of clued into the political environment and I'm clued into the issues of regional development and all of that kind of thing, and I would have been a colleague of Brian Quinlan that hopefully you guys are going to see on Friday in Cork.

So, when, when Enterprise Ireland was formed I moved into this software directorate area, which is about—my responsibility is in the area of strategic development, so I look at the software sector and I look at—and this will become obvious as we work through the presentation but we look at how to build the software sector, build on the success that we have already had and, indeed, broaden it out beyond software into areas like digital media and biotechnology. So I will head into this and some of this you probably are very well aware of already. I mean, this is the PR kind of bit, you know, where we are talking about the growth that we've had in GDP over the last five or six years has been very significant as compared to the European average.

The European average was down on the floor at 2.3 per cent or something like that and we were up at 8½ per cent, and so we're, you know—but we're a small country. We're only four million people, you know, in a EU of 350 million, so we are a small island off the west coast and we are like a small region really in Europe and, you know, when we have had that significant growth in capacity almost, like, we have no need to move to a different kind of growth and we need to move to kind of value-added growth. I mean, one of the—in trying to compare ourselves to other countries, one of the ones we compare ourselves to is

The Hon. Dr PEZZUTTI: The tiger.

Mr BROUGHAM: Yeah, that's nice, isn't it? Actually this book up at the top here is a piece of art from the *Book of Kells*.

The Hon. Dr PEZZUTTI: From where?

Mr BROUGHAM: From the Book of Kells, which is one of the most famous Irish

The Hon. TONY KELLY: Part of it was in Australia just recently.

The Hon. Dr PEZZUTTI: It did too.

Mr BROUGHAM: And the monks were there drawing all these things.

The Hon. Dr PEZZUTTI: The President brought it over for the bicentenary.

The Hon. TONY KELLY: Yeah.

Mr BROUGHAM: And I was surfing one day.

The Hon. TONY KELLY: It's in Trinity.

Mr BROUGHAM: That's right, yeah, and I saw this image on the *Book of Kells* and when I put the cursor over it, it said "Tiger" and I said, "Well, that's perfect. That's an Irish tiger, built like Celtic Tigers," but I put it in there for more than just a bit of illumination, as the monks would have called it back in the old days. They illuminated their manuscripts with art. I put it in there because back in those days Ireland was a powerhouse of knowledge and education in Europe and I think it's appropriate to remember where we came from in the sense that we are not talking about becoming a very much knowledge-driven economy, and it's important for us to realise that we have somewhat of a track record in this area. It might have been separated by a thousand years but one of the—I refer back a lot to history. I'm very interested in it, and I drive through the midlands nearly every day, and one of the little places that I drive through is a small little village and it's about 25 miles away from the Institute of Technology in Athlone, and the Institute of Technology in Athlone has three and a half thousand students. It's got about 350 staff members and so on, and so it's a reasonable institute of technology. But this little village that I pass through, I often remind people in the midlands, and I'm an outsider coming to the midlands and I remind them that, you know, back in AD600 there was a university in this little village and there was 3,000 students from all over Europe in this place. So the history of education and knowledge in this country has a deep root, and I think it gives us a bit of confidence when we see our country trying to move into the knowledge-driven economy, but, I mean, we have had some good growth in GDP, and many of the reasons for that—

The Hon. Dr PEZZUTTI: Sorry, just before you go on, just to give you something to—Singapore, the whole GDP of Singapore fits into western Sydney not in terms of size but in terms of—

The Hon. TONY KELLY: Dollars.

The Hon. Dr PEZZUTTI: In terms of dollars. So the whole of the economy of Singapore fits into western Sydney.

Mr BROUGHAM: I see. When we're doing these kind of presentations, I mean, I do try to remind people that, you know, there is an issue of scale here as well but, you know, we have some very good growth but, you know, we are now facing an issue of scale in this country and, I mean, if we were to continue with the GDP growth that we have had of 7 per cent or something like that over the next number of years it's estimated that we are going to need 300,000 people to immigrate into this country.

The Hon. Dr PEZZUTTI: Who was it—Ronald said—was it Ronald? Who was the fellow—

The Hon. TONY KELLY: Yeah, Ronald.

The Hon. Dr PEZZUTTI: Ronald said that at 3½ per cent growth Ireland had no growth in employment.

The Hon. TONY KELLY: Under that.

The Hon. Dr PEZZUTTI: Under 3½ per cent no unemployment growth, which is fascinating.

Mr BROUGHAM: Well—

The Hon. TONY KELLY: There must have been a big backlog there or something—

The Hon. Dr PEZZUTTI: There must have been.

The Hon. TONY KELLY: —that it took a long time to pick up on, underutilisation.

The Hon. Dr PEZZUTTI: But he said you have got to stay above 3½ to continue to increase your need for people.

Mr BROUGHAM: Yeah, if we go up to 7 per cent or beyond, you know, we are definitely going to need—

The Hon. Dr PEZZUTTI: Yes, absolutely.

Mr BROUGHAM: —a huge—and that's going to change the face of Ireland, and the face of Ireland is changing today. If you walk around Dublin you see people from many different cultures, and there's lots of different languages being spoken around Dublin now. There's people here from Africa, from eastern Europe and—

The Hon. Dr PEZZUTTI: Unless you bring everybody with you. Unless you retrain what you've got.

Mr BROUGHAM: Well, yeah, and there's a limit that we can do there but we can also move into the area of the value added and, I mean, one of the reasons why we have been successful is we have had a very strong inward investment. Many of the top companies, the high-technology companies from the states have bases in Ireland, and so Apple are here and IBM and all of these things and even on the biotech side there's Boston Scientific. That's just one of them. They are all here. Abbotts are here, you know. So we have been very successful in attracting foreign multinationals into this country but they have been not on the R and D side.

We have been very poor at attracting in research and development units of these companies, and now we have a stated aim of trying to attract these R and D units but we are really—it's a difficult agenda for us to meet. But some of the other reasons why, I suppose, we've had this kind of good growth is that the growth manifests itself in all sorts of different ways, like, you know, our debt-to-GDP ratio dropping through the floor and stuff like that and, you know, we are down to, what, one to four per cent or whatever of unemployment and, you know, that's considered full employment.

The Hon. TONY KELLY: Yeah, it would nearly have to be, wouldn't it?

Mr BROUGHAM: You know, absolutely, yeah.

The Hon. TONY KELLY: Well, it's more than full employment.

Mr BROUGHAM: So it hasn't taken long but it's been very significant and our very own population.

The Hon. TONY KELLY: Yeah, it hasn't taken long and that's, what, over a period of seven or eight years or something, isn't it?

Mr BROUGHAM: Yeah, yeah. And, I mean, we might have four million people in this country but 25 per cent of them are in education somewhere.

The Hon. Dr PEZZUTTI: Yes, that's right.

Mr BROUGHAM: It's a very big figure, yeah, and I will come to that educational agenda again. So just a little bit about what is the sort of industrial development in Ireland. We have two main plants here.

The Hon. TONY KELLY: See. See, they draw the line in for the Pommy bit on golf. In England yesterday they didn't.

Mr BROUGHAM: Really!

The Hon. TONY KELLY: They just had that top bit.

The Hon. Dr PEZZUTTI: Yes, you couldn't see it.

The Hon. TONY KELLY: That top bit, and the rest didn't exist.

The Hon. Dr PEZZUTTI: You just couldn't see it.

Mr BROUGHAM: Over 70 per cent of the view down here in the south is that we want these people to join the party voluntarily. There would be other presenters who would put in full Ireland but it's a different dimension.

The Hon. Dr PEZZUTTI: You're not the only one. Ronald—sorry, before it's this morning, the assistant secretary, he didn't put it in either.

Mr CARR: Ronald.

The Hon. TONY KELLY: Ronald.

The Hon. Dr PEZZUTTI: Ronald.

Mr BROUGHAM: Ronald Long, yeah.

The Hon. Dr PEZZUTTI: He didn't have it in Ireland.

Mr BROUGHAM: It's an interesting one and now with the peace process we have got cross-border bodies of tourism and what have you, the water rates and stuff like that. But the industrial development has really centred on two organisations—ID Ireland is still the overseas foreign direct investment. Their agenda now is twofold. One is to get value-added projects in here. We don't want call centres any more. We have got enough. We need research and development units if we can get them. We need ICT-type companies. We need biotechnology-type companies. And then Enterprise Ireland is responsible for the local or indigenous development, and in addition to that, from the point of view of the political arena and the regional development, in each county there is what we call a county enterprise board, and each board would have a fund of maybe or a project has half a million a year would be the tops of it. What they do is they fund one, two and five-man projects.

The Hon. TONY KELLY: How many of those are there?

Mr BROUGHAM: There's 35 of these county enterprise boards. There's one in Westmeath; there would be, like, two in Dublin, two in every county.

The Hon. TONY KELLY: So that covers something in the order of 100,000 population.

The Hon. Dr PEZZUTTI: They get \$1 million per annum.

The Hon. TONY KELLY: They get \$1 million Australian.

Mr BROUGHAM: Only the tops of it now. Some different enterprise boards would have different levels of funding.

The Hon. TONY KELLY: That's good funding.

Mr BROUGHAM: It's good funding, and it's very recent and what it does is that it's the one or two-man operations that wants to set up a welding shop or that wants to set up something or other. It's not into export. They are not into export. But there might be a small computer services company that wants to sort of service the midlands, and they get funding from this organisation, and they get two kinds of support from the enterprise board—a grant for a per capita rates job of £5,000 and the possibility of getting capital money. In other words, up to a maximum of £50,000 per company can be put into these little companies, these microcompanies, and what it's doing, it's creating lots of churning, churning going on at the lower end. A lot of microenterprises.

And then our staff would sit on the boards of these things. I for five years sat on the boards of two of them, Westmeath and Longford, and the staff that I had sat on other boards, so we would be on these boards. We actually have a veto on the boards. We can stop projects or we can—at the behest of the Minister we can actually close down one of these enterprises, so we would be the instrument of If there's skulduggery or something going on and he says, "Right. Shut them down," then we have a veto.

The Hon. Dr PEZZUTTI: And then you have to start a new board.

Mr BROUGHAM: Start again.

The Hon. Dr PEZZUTTI: Well, he appoints the board anyway, doesn't he?

Mr BROUGHAM: The board is made up of I think it's—do I live with because it's interesting from a regional point of view. The board is made up of agency people like myself, local politicians, county councillors always and from all the different parties, so their representatives will be there, and some industrial people.

The Hon. TONY KELLY: How big is the size of the board?

Mr BROUGHAM: Oh, there could be 12 people on the board and there would also be social groups on it, like—

The Hon. TONY KELLY: Years ago we used to have, like, an industry development board, a similar thing, but the very first ones that were set up were like that, and I think they were very good. They had seven-seven-seven. They had seven from local government, seven from business and seven from government departments.

Mr BROUGHAM: And that concept now of local development has even got more involved because now at each county level they are changing the structure of the local authorities and now there's a director under the county manager who is responsible for economic development in the county and he has a board, a county development board, which has people from Enterprise Ireland or IDA and local groups and industry and so on.

The Hon. TONY KELLY: Is that on every county council?

Mr BROUGHAM: And that's a strategy committee. That's a kind of a strategy.

The Hon. Dr PEZZUTTI: But that's aimed entirely at making sure that if they decide to go in a certain direction that (a) they are consistent with government policy—that's why they have got you on it.

Mr BROUGHAM: Yes.

The Hon. Dr PEZZUTTI: And that industry thinks it's a reasonable idea, that it's generally agreed, but also they have got you to lobby straight into the Minister saying, "We think this is terrific."

Mr BROUGHAM: Yep, and we've got the local politicians on it, you know, which is, you know, we've got the local kudos, and so that's important.

The Hon. TONY KELLY: So in the local county council, the local council, you have got the county manager?

Mr BROUGHAM: Yes.

The Hon. TONY KELLY: And underneath him you have got a—

Mr BROUGHAM: Director.

The Hon. TONY KELLY: —a development officer, a director of development.

Mr BROUGHAM: Yeah, for economic development there would be a director of—

The Hon. TONY KELLY: So is that structure set by statute?

Mr BROUGHAM: Yes, by central

The Hon. TONY KELLY: Is it?

Mr BROUGHAM: By the Department of the Environment, which is the department under which local government sits.

The Hon. Dr PEZZUTTI: Is that planning? Do they own planning?

The Hon. TONY KELLY: No, it's local government.

Mr BROUGHAM: Oh, there's local planning, yes.

The Hon. Dr PEZZUTTI: No, does the Department of Environment own the land?

The Hon. TONY KELLY: No, local government.

Mr BROUGHAM: No.

The Hon. TONY KELLY: I think the local government department owns that.

The Hon. Dr PEZZUTTI: Well, which department in Ireland is responsible for planning?

Mr BROUGHAM: Oh, environment, yes.

The Hon. TONY KELLY: No, but, Brian, they are also responsible for the department—they are the Department of Local Government.

The Hon. Dr PEZZUTTI: No, there's the Department of Local Government and the Department of Planning under the same Minister but—

Mr BROUGHAM: Yeah, it used to be called the Department of Local Government and—

The Hon. TONY KELLY: He just said they are combining.

Mr BROUGHAM: And they are now both together under the Department of the Environment so they are, yeah, the local planning, and they would be the people—

The Hon. Dr PEZZUTTI: We used to have one called the Department of Planning and the Environment and it was called DOPE, and they had to change the name.

Mr BROUGHAM: We have one of those now. There's one called the Department of Public Enterprises, DOPE, but they call themselves DPE. Okay. And then Enterprise Ireland deals with projects with more than 10 people and then, indeed, we deal with projects of less than 10 as well where it will be a software company or a high-technology company or whatever.

The Hon. TONY KELLY: Just before you leave that last issue, have you got any documentation on that local government structure?

Mr BROUGHAM: Oh, yeah. It's no problem.

The Hon. TONY KELLY: If I could get a copy of that.

Mr BROUGHAM: Yeah. I'll—will it be best if I send it to you?

The Hon. TONY KELLY: E-mail it to me or post it to me, whatever.

Mr BROUGHAM: Yeah, I will post it tomorrow. Will I send it to—

The Hon. TONY KELLY: Send it to me, if you will.

Mr BROUGHAM: To you. Okay. All right Tony. It's on local government.

The Hon. TONY KELLY: We have our ministry.

Mr BROUGHAM: We are not short of documents in this country. We have plans for everything.

The Hon. Dr PEZZUTTI: I wouldn't mind a copy of that too, thanks, because it's quite interesting.

Mr CARR: Perhaps the secretariat might get a copy.

Mr BROUGHAM: Yeah. Okay, I'll send it.

The Hon. Dr PEZZUTTI: Because that structure is important. Well, it works, doesn't it.

Mr BROUGHAM: Does it work? It certainly in my experience has worked at a county enterprise board level. We are now in the early stages of this county development process and it's getting into spatial planning and all this kind of stuff and, yes, we will produce the plans. Whether or not we will see implementation or to what degree we are going to see implementation is another day's work. The difference with the county enterprise board is that the county enterprise board had an executive arm and it had a fund and it took applications for projects and it approved projects and it put money into companies, into small companies, and so that was—very clearly you could count the number of jobs that were supported over the course of a year.

The Hon. Dr PEZZUTTI: You can test their success.

Mr BROUGHAM: Yes. It's much more difficult now with this county development process to—

The Hon. Dr PEZZUTTI: But it's much more strategic.

Mr BROUGHAM: It's much more strategic, and it has a stated aim of kind of co-ordinating everybody and co-ordinating none. You know, it's a difficult one.

The Hon. Dr PEZZUTTI: But no power. No power but plenty of influence.

Mr BROUGHAM: Yeah. The local county development documents.

The Hon. Dr PEZZUTTI: What would our equivalent be, Tony?

The Hon. TONY KELLY: We don't have an equivalent. Different councils have them, and in my council—I used to be the county general manager equivalent in my town, and we appointed people but it wasn't set down by the department or by regulation, so some of the progressive councils did; the non-progressive ones didn't.

The Hon. Dr PEZZUTTI: This would be

The Hon. TONY KELLY: This went one step further and it's got the board that operates there, not just the general manager telling him what to do, but you've got the outside board. Now, has that outside board got just councillors on it, elected officials, elected politicians, or it has businessmen, say?

Mr BROUGHAM: It has businessmen as well and agencies.

The Hon. Dr PEZZUTTI: Is it a bit like the Merinos that were set up by—I think it's like the Merinos, Tony. They were a voluntary organisation, Tony.

The Hon. TONY KELLY: But, again, it was voluntary with local government to be involved in it. You know, I used to be involved but I was out—there was nothing official in it. Every council didn't have to be there; only the progressive ones. That sort of a structure.

The Hon. Dr PEZZUTTI: Does this structure of yours have a university or the education sector in it?

Mr BROUGHAM: Yeah, associated, sometimes on the board through the old vocational and educational committees and people like that. In some cases people from—

The Hon. Dr PEZZUTTI: They are not construed as part of industry or anything?

Mr BROUGHAM: Not in this particular thing but certainly in our agenda it's a big issue.

The Hon. Dr PEZZUTTI: Because it's an essential feature of what we are doing.

Mr BROUGHAM: Yeah, that's certain. But the board of the county enterprise board would actually decide on each and every project if they have got a problem.

The Hon. TONY KELLY: So where do they get their funding from?

Mr BROUGHAM: From the Department of—originally it was—it's from the Department of Enterprise, Trade and Employment, Ronald's department.

The Hon. TONY KELLY: Yeah, okay.

Mr BROUGHAM: A different section from Ronald, but it was always from the industrial development side of things that they got the money.

The Hon. Dr PEZZUTTI: Right.

The Hon. TONY KELLY: And what would that funding go towards? What sort of funding is it?

Mr BROUGHAM: Well, it's—

The Hon. TONY KELLY: To help them set up, or—

Mr BROUGHAM: Yeah. You can get a capital grant. If you apply to the county enterprise board and say, "I want to set up a computer services outfit to service the County of Westmeath. I'm going to employ three people. I need to buy X amount of equipment. I need this, that and the other," you can get a capital grant up to £50,000, and you can get £5,000 per job created.

The Hon. TONY KELLY: I'm just trying to get in my own mind what the counties cover. The local government construction in Ireland, how far down the scale does it go? Are there 35 local government bodies?

Mr BROUGHAM: There are 26, one for each county.

The Hon. TONY KELLY: Is that all?

Mr BROUGHAM: Yes.

The Hon. TONY KELLY: So there's nothing below that?

Mr BROUGHAM: In Dublin there's two because it's north and south.

The Hon. TONY KELLY: So there's nothing below that?

Mr BROUGHAM: No.

The Hon. TONY KELLY: There's no, like, a village that might have or a town that's got 8,000 or 10,000 people or even a thousand people it wouldn't have its own.

Mr BROUGHAM: No.

The Hon. TONY KELLY: It's a regional county.

Mr BROUGHAM: It's a county structure. In other words, the Auburn District Council, which is an elected thing for smaller towns but—

The Hon. TONY KELLY: But would they actually have anybody work for them?

Mr BROUGHAM: No. They would have a small number of people but by far and away in many counties the biggest employer is the county council.

The Hon. TONY KELLY: Yeah.

Mr BROUGHAM: Because their guys are doing everything from the roads up. It's huge, you know.

The Hon. TONY KELLY: And the district, the little village councils, what do they look after? Not much?

Mr BROUGHAM: It's kind of more promotion of the town, maybe some town, little town, some rules and regulations about the operation of the town or whatever, you know.

The Hon. TONY KELLY: So the county council is the equivalent of our local government, principally.

Mr BROUGHAM: Yeah, very much. So that's the kind of structure. It's a fairly intensive structure in the country.

The Hon. TONY KELLY: That's good.

Mr BROUGHAM: So, just then focusing in on Enterprise Ireland, I mean, it's a big, big place. We have four locations here in Dublin. We have eight regional offices around the country. We have 40 locations around the world from Sydney to Tokyo to San Jose in California to Honolulu.

The Hon. TONY KELLY: Was it Condon—Michelle Condon, was it?

Mr CARR: Condon?

The Hon. TONY KELLY: Condon we met in Sydney.

Mr BROUGHAM: Jennifer Condon.

The Hon. TONY KELLY: Jennifer.

Mr BROUGHAM: Jennifer's my boss.

The Hon. TONY KELLY: She's your boss?

Mr BROUGHAM: Yeah.

The Hon. TONY KELLY: Oh, right.

The Hon. Dr PEZZUTTI: She lives in Sydney.

The Hon. TONY KELLY: No, no, no. She came and—

Mr BROUGHAM: She came over.

The Hon. TONY KELLY: We had dinner with her a few weeks ago.

Mr BROUGHAM: She had a visit there recently.

Mr CARR: Catherine Mulcahey.

The Hon. TONY KELLY: Catherine Mulcahey.

Mr BROUGHAM: Catherine Mulcahey is the manager of the office in Sydney.

The Hon. TONY KELLY: The local one.

Mr BROUGHAM: Yeah. So, I mean, in trying to kind of distil out what it is Enterprise Ireland is all about, well, it's very much about growing sales and about exports—exports, exports, exports. It's a small island so it's all exports. And we are about trying to develop a strong, vibrant business, indigenous business sector that will get into exports. So that kind of sets the tone for a lot of what we do, and because we have come from a series of mergers we have a fairly significant process that we go through, that we look at every service that we operate and we try and evaluate where that service is in terms of

contributing to the co-ordination and so, for example, right now this year on one of the other locations in Dublin, which has been sort of the traditional laboratories that we used to have and manage which did everything from concrete testing to, you know, optical fibre testing to telecoms testing to whatever, we are looking at all of those services and we're saying, "Is that core to the mission?" And if it is, fine; if it isn't, we try and change it, get somebody else to do it and redirect the people on to the core mission.

So there's a fairly significant process of alignment of what we do within a big organisation, and it takes quite a while to achieve that. And the way that we interact with the individual company is quite unique in that each company has a single person in the organisation that they deal with, but we try and bring expertise to bear in areas of research and development, business strategy, marketing, finance, human resources and production across all the business functions, and so what we do is we provide finance in those areas, we provide assistance and advice, we provide consultancy to them, we provide training, all of these things, in all of those areas, and our suite of packages would be evolving all the time to try and fill the gaps, and I will talk about some of that later on.

The Hon. Dr PEZZUTTI: Can you help a business get access for a research and development company, because some of them are too small to have their own R and D or in the area where they need R and D they simply have no idea how to go about it, but there are companies who do that R and D. Are there standalone R and D companies?

Mr BROUGHAM: In digital media now we have one of the biggest in the world here. It's the MIT media lab for Europe, and they're doing what in essence is that kind of research and development. We would fund—

The Hon. Dr PEZZUTTI: Contracted.

Mr BROUGHAM: Yeah. We would fund collaborative research between companies and universities.

The Hon. Dr PEZZUTTI: Mondragón does that. That's where we first heard it. Sorry.

Mr BROUGHAM: We also fund groups of companies doing research projects.

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: And we fund individual companies to do research projects.

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: And we fund companies to build up their expertise in research and development management and innovation management. We have an institute that we established here about four years ago, a National Institute for Technology Management at the UCD, and we put funding in, four or five million or something like this, and what they do is they run courses for company executives on innovation management, so everything within a research and development area from providing funding to the companies to do research themselves, to assisting them to do research with universities or institutes of technology or, indeed, with other companies, and beyond that we provide assistance to these companies to get involved in European research projects where they have partners with other European companies and other institutes throughout Europe, and we provide a little bit of funding for them to get involved in that kind of a project. The main part, bulk of that funding comes from the EU and, so, these consortia would make applications to the EU for funding.

The Hon. Dr PEZZUTTI: Under Interreg?

Mr BROUGHAM: I don't know. Yeah, Interreg is another one in it, but I don't know too much about that, and the straightforward funding that we get from the EU in terms of research, our take on the research and development, we are getting more than our due desserts, if you like, so we are quite successful in getting research funding out of Europe. So it's quite an involved process in any one of the key business areas that we try and provide assistance to the company. And all that is supposed to be delivered through a single individual, and this individual is more of—he opens gates as distinct from being a gatekeeper, opens avenues into the organisation, then leverages expertise in other areas. So, for example, if I'm the—we call these gentlemen development advisers or client executives or whatever.

The Hon. Dr PEZZUTTI:

Mr BROUGHAM: Yeah. So if I'm the guy that's for your company and you have a human resource problem, then I will bring human resource experts to bear upon your problem, and the way we do it, we start with the company at the beginning

and we try and go through a lot of these business function areas and we look at where there are problems and we come up with a plan, an agreed plan, between me and the company as to what we want to do about it in the next two years. It's nice in theory and it's working, but it requires constant maintenance, it requires lots of effort to build relationships across the organisation. Like we say at foreign marketing, me again being the DA, my job is kind of your company is interested in doing business in Australia. Well, my role then is to make sure that you're fully in tune with what Catherine Mulcahey is doing in Sydney and what she can do for you as a company and so on and so forth, and not only that but that you're plugged into the strategic development side, which talks about how do you get into the Japanese market and how do you do business in Japan and how do you do business anywhere, so it means me going off and building relationships with people in the overseas offices and—

The Hon. Dr PEZZUTTI: But the person from Tony's company doesn't have to ring around this whole organisation.

Mr BROUGHAM: No.

The Hon. Dr PEZZUTTI: He just picks up one phone and he's responsible for finding out which button to press.

Mr BROUGHAM: Yeah, just make a problem, and you don't have to know about Enterprise Ireland. It's my job to go and sort your problem, and whether I can find that expertise in Enterprise Ireland or, indeed, if I can't find it in Enterprise Ireland, if I need to go to an outside consultant, I can go to an outside consultant and pay for it.

The Hon. Dr PEZZUTTI: You pay for it?

Mr BROUGHAM: Yeah.

The Hon. Dr PEZZUTTI: Enterprise Ireland?

Mr BROUGHAM: Well, it will all be calculated in sort of the package that we give Tony's company.

The Hon. Dr PEZZUTTI: That will be included as the support for your company as being 150,000, of which 50,000, say—

The Hon. TONY KELLY: Is support in kind.

The Hon. Dr PEZZUTTI: Yeah, that's appropriate, but that's, yeah, for the bean counters.

Mr BROUGHAM: And what we do now is we are kind of trying to move away from a straightforward grant mentality, and you will find I talk about this later on, about equity and that, but you will find that we have a very big equity portfolio, so we have equity in all of the NASDAQ sort of Irish companies. We have equity in many of the smaller ones and we have equity in a rake of those we don't want to talk about. It's not good. Like, last year we returned 16 million to the Exchequer from partial sales of some of our shareholdings.

The Hon. Dr PEZZUTTI: If one-tenth of them make money, you make money. But, then, the problem with doing what you're doing, of course, makes it very clear what sort of subsidies you are offering to industry. I mean, that's much more open than most European countries would do. It would all be very hidden.

Mr BROUGHAM: That's right.

The Hon. Dr PEZZUTTI: I mean, you will report that, and that makes subsidies obvious.

Mr BROUGHAM: Yeah, and we do get into trouble with Europe over it.

The Hon. Dr PEZZUTTI: Of course, because that looks like a subsidy to industry.

Mr BROUGHAM: For example, like, I can't give you much of a grant to go and do business in Australia because that's seen as somewhat anti-competitive in the context of a European situation. Don't ask me why. But what I can do is I can put you in touch with the right kind of people. They can ease your way into it. They can go with you on the itinerary. They make the meetings. They arrange it. We hold it in our office. We will sort out the hotels for you, we will sort out flights, we will make all the meetings, we will go with you.

The Hon. Dr PEZZUTTI: It doesn't count. But in yours you count it.

Mr BROUGHAM: It's important for us and for you that the EU doesn't count it, and it's grand. But I can't give you £10,000 for you to do it yourself. We used to. We used to do it all over the place but they are stopping us.

The Hon. Dr PEZZUTTI: The difference is when Michael Egan brought over the technology showcase, they paid their own way.

The Hon. TONY KELLY: Yeah.

Mr BROUGHAM: What we do is we get the companies to pay part of the expenses as well. I mean, there's always this thing.

The Hon. TONY KELLY: Our Federal Government gives, I think, 50 per cent towards those sorts of things.

The Hon. Dr PEZZUTTI: Those sort of things, yeah.

Mr BROUGHAM: So how are the clients doing? Well, this is the latest figures. Sales up 10 per cent, exports up 14 per cent.

The Hon. Dr PEZZUTTI: £20 billion. That's very good. \$40 billion worth of—

Mr BROUGHAM: And that's for about three and a half thousand companies.

The Hon. TONY KELLY: Michael, have you got a computer CD or something that you could give to Steven of all this?

The Hon. Dr PEZZUTTI: Steve, you've got these slides he has just given you.

Mr BROUGHAM: The best thing I can do actually is I can e-mail it to you and then you can just, you know.

The Hon. TONY KELLY: Yeah, just e-mail us.

Mr BROUGHAM: Yes, that's the handiest. Food is still—there's a, you know, big history of agriculture in this country. It's an important sector for us. Food and natural resources are 60 per cent of exports and, of course, in that is everything from, you know, raw meat to food ingredients, and the UK is still in the round the biggest market for us. But, interestingly, the US is the biggest market for us in software.

The Hon. Dr PEZZUTTI: Yeah, of course.

Mr BROUGHAM: And other markets are growing very significantly. So this is—we have had kind of figures like this for the last three or four years. It's quite good. So there's a lot of structural rearrangement going on.

The Hon. Dr PEZZUTTI: For software, of course, the sky is not going to stop, is it?

Mr BROUGHAM: No, and I will delve down a little deeper into the software in a minute. So there's the exports by sector. ITS is our shorthand for International Trade Services, which includes software companies and R and D companies or other kind of service companies, and look at the growth rate there in terms of exports—42 per cent over the last year. Food and natural resources about 10. Consumer products 10 per cent and industrial products—that's engineering and what have you—close on 20 per cent growth.

The Hon. Dr PEZZUTTI: It's also on a big base.

Mr BROUGHAM: Yes.

The Hon. TONY KELLY: It's \$1 billion.

Mr BROUGHAM: So, like, you know, software on a small base with huge growth rates, so you can imagine the profits in the companies.

The Hon. Dr PEZZUTTI: Yeah.

Mr BROUGHAM: I won't go into that now. But food is the biggie in this country.

The Hon. TONY KELLY: Oh, that's overall, isn't it, yeah.

Mr BROUGHAM: Yeah.

The Hon. TONY KELLY: No, that's by clients.

Mr BROUGHAM: Yeah.

The Hon. TONY KELLY: That's part of your three and a half thousand clients.

Mr BROUGHAM: That's our three and a half thousand clients.

The Hon. TONY KELLY: So ones that aren't your clients are in addition to that?

Mr BROUGHAM: That's correct, but we would have most of the industrial—

The Hon. TONY KELLY: Most of the exporter ones.

Mr BROUGHAM: Yeah. Food is very big and a lot of amalgamation going on there. You know, Kerry Group—we started out with co-ops in this country, far more co-ops, not too long ago, 20 years, 25 years ago, and very quickly those co-ops became, some of them became international traders and gobbled up some of the other ones and even today now we are down to—we've got Kerry Group, we have got Aviemore, Waterford, which is an amalgamation, and the Kerry Group are making a bid for Aviemore I think.

The Hon. TONY KELLY: So the Kerry Group is a co-operative?

Mr BROUGHAM: Yeah. Originally it comes from a co-operative system.

The Hon. Dr PEZZUTTI: Is it still a co-operative or is it a corporation?

Mr BROUGHAM: No, that's a corporation now but, I mean, some of the farmers would still have, the farmers organisations, would still have shares in them or might even have a board member. But it's a scene of consolidation. It's a scene of transformation in the industry in terms of we would have a big agenda there with research and development trying to get them to move into functional foods and the devil and all and what have you, and the same in the other two areas. We don't have a problem in the ITS area to talk to them about research and development. That's their whole reason for being. But you can see even if you just lumped them all together and say 40 per cent growth in exports, that's quite significant, and for a lot of these companies which are—you know, they started out like mum-and-pop operations and sort of weekend family companies and they might have a hundred people. I know one company down the midlands—it's involved with furniture and windows and doors. Right? So it makes some furniture, but it makes, you know, these double-glazed windows and doors. And it's a husband and wife that's the managing directors. He's the man on the floor and she's the financial controller, and they have—

The Hon. Dr PEZZUTTI: Aren't they always?

Mr BROUGHAM: Yeah. And they have about 300 people in a small town that you wouldn't—

The Hon. TONY KELLY: Two hundred.

Mr BROUGHAM: Two hundred and fifty or more people, a lot of casual labour, and they are on track to be a £20 million company, and that lady sat on the county enterprise board in Westmeath, so they are just kind of giving back to your community going on because she sits on the Chamber of Commerce and she sits on this, that and the other, you know, but that's a very traditional kind of an industry which has been transformed. I mean, only three or four years ago they were talking about getting a materials requirement planning software system into the organisation so that their salesmen out on the road would have their little laptop and shoot the order back to base through the modem. What always gets it in the neck around here is the textile industry.

The Hon. Dr PEZZUTTI: They are still making Irish tea towels, though, aren't they?

Mr BROUGHAM: Oh, yeah, and they're making plenty of—

The Hon. Dr PEZZUTTI: My wife will kill me if I don't bring a tea towel home.

Mr BROUGHAM: Oh, yeah. But many of the traditional linen and shirt manufacturers in the north-west in Donegal have closed and 200 jobs, 300 jobs, 150 jobs, you know.

The Hon. Dr PEZZUTTI: They have all gone to China.

Mr BROUGHAM: Yeah, yeah, they have gone to sweatshops.

The Hon. TONY KELLY: So Galway is the place for us to buy that stuff, isn't it?

Mr BROUGHAM: Oh, yeah. Oh, they will take any kind of money in Galway.

The Hon. Dr PEZZUTTI: It will be more expensive in Galway, won't it? More expensive?

Mr BROUGHAM: Yeah. Well, there's expenses. And then looking at the markets, as I said, the UK is the biggie, and we are really trying to wean ourselves off that. There's a big agenda now with Europe trying to make Europe really become a significant marketplace.

The Hon. TONY KELLY: Well, particularly now with the euro, it's going to be easier to go into Europe and forget England.

Mr BROUGHAM: Yes, we have got a problem now with England, you know.

The Hon. TONY KELLY: With England, yeah. But they will have to change.

Mr BROUGHAM: Oh, they will, but it's a question of timing and positioning.

The Hon. Dr PEZZUTTI: They mightn't, Tony. They might use the hedging process because they can hedge against the euro and hedge against the American dollar and they can make it both ways, the Brits. If they position themselves as a financial capital, which they are, they can use their financial capital position to be—because they really have capital. I mean, you think that they're small but that's one of the biggest—

Mr BROUGHAM: I have a feeling, though, that the Labour Government will probably maybe do the business. They now have another five years in government and they will probably bring the UK into the euro zone in that five years because if they leave it beyond that, then the conservative government will never come in.

The Hon. Dr PEZZUTTI: But they may wait long enough to see it's not a good thing to do because, see, while at the moment you can change your exports for each individual company by country by devaluation and revaluation. If it was just the euro one, then that might be good for—a very stable euro might be really good for the Germans but not really good for Ireland, so you are locked in with all these national competing interests, so the Brits might well go it alone on that one.

Mr BROUGHAM: And the importance of the US for us is enormous and, indeed, Asia, you know, is an emerging marketplace for us. It's important.

The Hon. Dr PEZZUTTI: That's our market, Asia. What are you doing with that?

The Hon. TONY KELLY: Who's the ROW?

Mr BROUGHAM: The rest of the world.

The Hon. TONY KELLY: Oh, right.

Mr BROUGHAM: But, like, I mean, we are making small inroads. I mean, in software, for example, if you are looking at the Indian market, you know, there's only five companies or six companies from Ireland kind of doing business over there, and most of the business has been going to one of the bigger ones, but a lot of the companies are going over there looking for talent, that kind of thing.

The Hon. Dr PEZZUTTI: Lots of talent in Asia. Half of Silicon Valley is now Indian, isn't it?

Mr BROUGHAM: Yeah, that's right. And, I mean, I was talking to a software start-up in the telecoms area last week in Athlone, and I went in to see them because they had just succeeded in raising their first round of funding, and one of the first guys I met was an Indian guy who was brought on board. He's a project manager for their research and development. So you see a lot of that kind of thing around here. And so, I mean, just from the very broad kind of perspective, the key message would be that in the area of software, IT and prepared consumer foods we are seeing either emergence or we are seeing growth. That's where a lot of it's happening. Textiles, clothing and commodity foods are very much in decline and are a difficult agenda for us. I don't know what we can do about that.

The Hon. TONY KELLY: What do you mean by commodity foods, you know, to the consumer?

Mr BROUGHAM: Well, prepared consumer foods would be things like pizzas, it would be things like breaded chicken, it would be things like—what do you call it—butter that would be, you know, like garlic butters or herbal butter or—

The Hon. TONY KELLY: Is there a Lenard's chickens around here, Lenard's chickens?

The Hon. Dr PEZZUTTI: Lenard's?

The Hon. TONY KELLY: At shopping centres. Yeah, you can get all different chicken products, prepared chicken products.

Mr BROUGHAM: No, not to my knowledge.

The Hon. TONY KELLY: There's a number of them, seven or eight, in Ireland. I just don't know where they are.

Mr BROUGHAM: So, that's a kind of a general trend but then I ought to go really down to the software and international trade services, which is—

Mr CARR: Irish owned.

Mr BROUGHAM: Yes, it was. It's the darling of the sectors in Ireland at the moment—two billion turnover for about six or seven companies.

The Hon. Dr PEZZUTTI: The most absolute cream on the cake, isn't it?

Mr BROUGHAM: Yep.

The Hon. Dr PEZZUTTI: Cakes with a bit of cream's better.

The Hon. TONY KELLY: So these are actually Irish?

Mr BROUGHAM: These are Irish owned.

The Hon. TONY KELLY: Not Microsoft?

Mr BROUGHAM: No, there's no Microsoft here. Microsoft would have a turnover of about five or six billion in this country, though. You know, exports there, you know, over—

The Hon. Dr PEZZUTTI: That's very good. That's feeding off their investment, though, isn't it? It's good stuff.

Mr BROUGHAM: And look at the growth rates—33 per cent in turnover, 41 per cent in exports. So you can imagine what the management issues are in those companies.

The Hon. Dr PEZZUTTI: Huge.

Mr BROUGHAM: It's enormous. It's probably the single biggest issue facing these companies—the quality of the management team that are there—and, I suppose, one of the reasons why this has grown up, I mean, this sector took a kind of a traditional route in one way. We got the multinationals in. We fed out of the multinationals for a long, long time doing localisation work. Now, we are moving into exports and now all of a sudden we are seeing a lot of new high-potential start-up companies in this area. So there's a good cohort of management in the multinational sector in this country, and as they are beginning to—

The Hon. Dr PEZZUTTI: But they're locals.

Mr BROUGHAM: They're Irish. They're our boys.

The Hon. Dr PEZZUTTI: Yeah, and girls.

Mr BROUGHAM: And, you know what they're doing? They are taking equity positions in these companies. They are going on the board. We call them investment gurus and they are going on boards. They put money in the rural area and they do very hard deals with these technogeeks but they are bringing a lot of expertise to these companies, and usually in the lifetime of one of these high-potential start-ups you will find a little boardroom shuffle and, you know, the original—

The Hon. Dr PEZZUTTI: The geek's gone, the software geek.

Mr BROUGHAM: Yeah, they are gone back to being the technical director or they will lam off the company altogether.

The Hon. Dr PEZZUTTI: The intellectual property has gone.

Mr BROUGHAM: Yeah. But a lot of these management would have earned their bread in the multinational sector in Ireland. So I like to talk about sort of what's the commitment we have in this country for the high-technology area, and I talk about three different things. Skills—I talk at length about the educational sector and the history that we have in it and the importance of education. I mean, nobody else—almost everybody of my generation would have grown up in an environment where their parents didn't have third level qualifications, and it would have been drummed into us from day one about education being the route.

The Hon. Dr PEZZUTTI: Out of here.

Mr BROUGHAM: Out of here, you know. This is the route to success. And it usually meant off the island. What it was was your passport. And that was all-pervasive all over the country. So we now, like, have 25 per cent of the population in education and we're doing a lot more in terms of trying to increase the numbers of people with skills in the IT area. They are providing conversion options for them so they might have a start up of business or we're saying, "Look, here's an opportunity for you to become skilled in the area of IT and computers," so it's kind of like an add-on piece or something like that. So we are increasing the number of people coming out of the colleges with the right kind of education, but we are also putting in place huge investment.

The Hon. Dr PEZZUTTI: about that. At the, say, University of New South Wales we spend an awful lot of time with the Asian students making sure they have English so if they come to architecture, this will do English every single year, so they came out speaking reasonable English but also they have to do these funny subjects around not related to their degree. They are now introducing compulsory IT. There's one hour per week for—every student who does anything at the University of New South Wales has to be—there's computer development. So this is what we are talking about here, isn't it?

Mr BROUGHAM: Yeah.

The Hon. Dr PEZZUTTI: The same sort of thing.

Mr BROUGHAM: Yeah, it is the same sort of thing because we have three levels of education in this country—primary for the kids, then secondary, which is the high school kind of thing, and then tertiary or third level university. In each and every area we are investing huge amounts of money for education. Like, for example, in the University in Galway there has just opened a new IT building for the information technology department, a new professor brought on board, funding from industry to set up the chair of e-business. And in UCD down the south side of the city here a huge investment in the area of biotechnology, a new biotech building, believe it or not for the last number of years in Trinity College, a new school of

genetics, huge investment there from the private sector, and so on any campus that you go on to in this country it's building. And the same is true in Athlone. They are putting on a new building for hotel and catering and a new building for engineering and computer science.

So there is a huge amount of investment and even at the little kids stage, Intel, for example, in collaboration with the Irish Government are putting computers into schools, getting the schools wired up to the Internet, putting in that kind of facility. So there's a huge amount of investment around here. So there is a tremendous commitment there to that skills issue and to the education. And the other one is research and development that Ronald has probably talked to you about and the advent of Science Foundation Ireland. I mean, the message there is, you know, back in the days when I was sort of approving grants of £25,000 and £30,000, now these guys are approving grants of £5 million for five years.

The Hon. Dr PEZZUTTI: But that's attracting somebody.

Mr BROUGHAM: That is, yeah, serious. And those calls for proposals were in *Nature*, they were in the press in the States and all over the place, and we are targeting people overseas. And you don't have to be Irish. You can be Pakistani, you can be Indian.

The Hon. TONY KELLY: As long as you come back here and do the research in a job here.

Mr BROUGHAM: You have to do it here. That's the only condition.

The Hon. TONY KELLY: So what it will be is, "This is your future." Like, you invested hugely in education 20 or 30 years ago and that's created the jobs you've got now.

Mr BROUGHAM: Yes.

The Hon. TONY KELLY: The future wave is going to be from research and development.

Mr BROUGHAM: Correct.

The Hon. Dr PEZZUTTI: The reason you are bringing these top researchers here is to train the next generation of researchers.

Mr BROUGHAM: That's correct, because this goes to the skills issue because the guys and the girls who are going to be working on these projects are the future entrepreneurs. They are the future high-technology specialists that this country is going to need. And, like, if you talk about research and development within Enterprise Ireland, I mean, we would have a budget going forward over the next couple of years of about £2 billion Irish for research and development funding into companies and into collaborative research at universities and into this, that and the other. We, for example, have a program right now where we are funding the establishment of incubators in all the universities and, indeed, in the institutes of technology. Athlone is the first one to put in an application from the institutes of technology. UCD's one has been approved and has been

The Hon. TONY KELLY: Where did we see all this—Tasmania?

Mr CARR: An incubator?

The Hon. TONY KELLY: Mmm. It was Tasmania, wasn't it?

Mr CARR: No, we saw one in Queensland.

The Hon. Dr PEZZUTTI: We had a company in Australia called Commonwealth Serum Laboratories, who used to do all the research for making—

Mr BROUGHAM: CSIRO, yeah.

The Hon. Dr PEZZUTTI: CSL, and that was floated and the staff were very, very edgy about it, and their shares have increased by a factor of 60 I think from when they were issued. They have just bought the Swiss Blood Bank and so on. But that's a research and development company where the research and development is marketable because it's in a very special area, and that company is now a private company.

The Hon. TONY KELLY: It wasn't the CSIRO. It's a different—

The Hon. Dr PEZZUTTI: No, CSL, Commonwealth Serum Laboratories, and, of course, the Government figured that they didn't really need to be in the business of making, you know, serums any more, but that company, most of its money is now made out of individual research for governments to test or check, as a laboratory check, of their serums and serum testing, and they have positioned themselves extremely well, but they have spent a huge amount of their It seems to be when the people that work in it now are buying the place. When they get out they are all multimillionaires, the whole lot of them.

Mr BROUGHAM: It's a huge area of commitment. Telecoms infrastructure. We had big, big success here and a lot of money went into sort of getting global crossing to land the telecoms in the outer part of town in Wexford or whatever.

The Hon. Dr PEZZUTTI: The what?

The Hon. TONY KELLY: Telecom fat byte.

Mr BROUGHAM: The fat byte. You know, I go into all of this. The optical cables or whatever that go on overseas link us up to Europe and North America so we have plenty of capacity off the island.

The Hon. TONY KELLY: It cuts out Britain, too.

Mr BROUGHAM: Yeah.

The Hon. TONY KELLY: It just goes straight across to Europe.

Mr BROUGHAM: That's right. And around the country, then, we have been laying fibre to all the major towns and I think from the point of view of off the island and in terms of the backbone around the country we're fine. We, like everybody else, are struggling with the last mile, but we're doing things like, for example, this week or next week there's a test going on on the satellite system, which could be interesting. You know, in Texas, for example, they have tried out satellite—

The Hon. TONY KELLY: Connection.

Mr BROUGHAM:—connections for the last month. There could be an issue here for us doing it because some of the companies here that are around the telecoms arena were talking about rolling out DSL technology, which is kind of like all that was on the Internet kind of would be very good for companies and homes. It's the broadband, I suppose. But they have pulled back, like a lot of telecoms companies, because of the investment scenario. But I think there's a commitment there at government level. You know, they're going to do this.

The Hon. Dr PEZZUTTI: If you go the last mile with the satellite, why go the last mile? Why not go all the way?

The Hon. TONY KELLY: No, no, he means to get to the last mile on the line.

The Hon. Dr PEZZUTTI: I know that, but if you are going to do that for the last mile—

The Hon. TONY KELLY: It is all the way.

The Hon. Dr PEZZUTTI:— why not use it all the way? Why lay only fibre cable?

Mr BROUGHAM: Well, the cable is laid.

The Hon. Dr PEZZUTTI: We put ours down 10 years ago but if you are worried about extending it for the last mile why did you put the cable down in the first place?

Mr BROUGHAM: I think we are only coming to this because we hadn't planned to go to the satellite type of thing. We were expecting—

The Hon. Dr PEZZUTTI: So if you were in Africa, what would you do?

Mr BROUGHAM: Well, I mean, I don't know and I'm no expert in this area but it would seem to me that satellite—

The Hon. TONY KELLY: Only satellite.

Mr BROUGHAM: Formerly, yes.

The Hon. TONY KELLY: You wouldn't start with the optical today.

The Hon. Dr PEZZUTTI: No.

Mr BROUGHAM: We do have a problem to work out there but, you know, that's an emerging thing and that has a good history as well about investing in telecommunications infrastructure in this country. One of the lads in the office in Athlone, where I work, one of the guys who used to work for me was just telling me a story about this. It's about 25 years old, this story. It was about the IDA were trying to attract a company into Longford from America—right—and there was consternation because the American company wanted two phone lines, and our posts and telegraphs department said, "Why do you want two lines into Longford?" and the Americans said, "Well, we want one for a telefax machine." So there was scratching. "What's a telefax machine?" Twenty-five years ago. They had to get ministerial intervention, which was Alfred Reynolds, who was the Minister at the time, who directed that a second line go into Longford to facilitate this American company going in, so that's kind of the transformation that you're looking at. It's enormous in a very short period of time. We will still probably use the ministerial interventions to get there.

The Hon. Dr PEZZUTTI: It's interesting, though, that this development in fixed wire, Telecom Australia now have developed a process where you can run your computer at the same time as you use the phone as a phone with one pair—two wires going together. The standard pair that would go into your house can now be used for your computer as well as talk on the phone.

The Hon. TONY KELLY: I was just saying, Brian, in my house, that was built in 1899—the phone would have been put on about 10 years later—the first 100 phone lines 10 went into my house. There's 10 phone lines in my house.

The Hon. Dr PEZZUTTI: Well, the phone line to our house was a cable that thick at Bonalbo, and my mother had it taken off just after my father died because everybody in the village would come to use her phone. And I think there are seven phone lines in our village but they weren't little fine cables; they were bits of cable. We pulled it up. It's up next to the sacred bamboo and we have taped it up because it's really—I mean, the phone has been put back on again but this huge cable to run the telephone.

The Hon. TONY KELLY: We had better start to move I think.

Mr BROUGHAM: Just cut us whenever you want to because, I mean, I can go on all day.

The Hon. TONY KELLY: Another five minutes. If you will give us a copy of all this, that would be fantastic.

Mr BROUGHAM: I'll shoot ahead. We have been involved in a strategic process trying to look at other sectors that we need to get involved in and the areas that we are talking about getting involved in is biotechnology and the digital media. I talk sometimes about this venture creation process in Ireland, and what they say is that if you have good stories in all of these areas from the ideas stage to the start up to the growth round to the exit mechanisms for the investors, then you have a very good venture creation process. That's based on the Silicon Valley model. And what I do is I can point to individual aspects of that that we have here in Ireland, like, we have research funded people, we have—

The Hon. Dr PEZZUTTI: There's more angels in Ireland than there are

Mr BROUGHAM: There are absolutely more angels and all of these networks or unofficial, which are the best. So a very supportive environment. So I could point to a lot of aspects of this where we think we have a very good emerging venture creation process in this country and we are beginning to see it—that these are the high-technology start-ups per annum over the last number of years on the increase and projected to increase on average over the next number of years.

The Hon. Dr PEZZUTTI: Are people in Ireland easier to manage personnel-wise than in other countries?

Mr BROUGHAM: I would think so.

The Hon. Dr PEZZUTTI: Professional management is one of the important issues, or personnel management is. Is it easier to manage Irish people or not?

Mr BROUGHAM: I think I would say that there's a very—there's a very good industrial relations scene in this country. Where you see problems is in old traditional situations, particularly in the state-run ones. Irish Rail is on strike again.

The Hon. TONY KELLY: Are they?

Mr BROUGHAM: Yeah. There are some trains delayed today coming from the southern part of the country. But in industry we've had a very good partnership arrangement.

The Hon. Dr PEZZUTTI: No, I don't mean that. I mean at a personal level making teams is easy or not easy?

Mr BROUGHAM: Oh, building teams and all that kind of thing.

The Hon. Dr PEZZUTTI: I mean, if you are looking at a start-up company you are looking at professional management more or less as the third tier. The important bit, that's finance, but it's also human relations and getting the right teams.

Mr BROUGHAM: That's right.

The Hon. Dr PEZZUTTI: Not just human resources but building the team once you've got them in, is that easier with Irish people or from experience or is that a typical contract?

Mr BROUGHAM: Well, I think it's easier—well, I think it's easy in Ireland. Well, not easy but, I mean, it is certainly do-able. Whether it is easier than in other countries, I'm not sure, but that's the experience, the direct experience, that I had particularly in smaller companies.

The Hon. TONY KELLY: What are you saying, Brian? Do they work better in teams?

The Hon. Dr PEZZUTTI: Well, I'm just wondering because it is a solo, almost a single culture.

The Hon. TONY KELLY: Yeah, and they work together better.

The Hon. Dr PEZZUTTI: They work together better because in Sydney you can put together a—HR people can identify the right sort of people for your organisation to work together with 12 completely different ethnic backgrounds and four of them would have been born overseas.

The Hon. TONY KELLY: In different countries.

The Hon. Dr PEZZUTTI: In different countries.

Mr BROUGHAM: Yeah, that's a problem we are going to be facing.

The Hon. Dr PEZZUTTI: But you don't have that at the moment?

Mr BROUGHAM: We don't have that.

The Hon. Dr PEZZUTTI: Do you think that's going to be a disadvantage for you or an advantage? In other words, is the current situation, is it easy to get a team together, to put all these mad Irishmen together and it all works?

The Hon. TONY KELLY: What's this mad Irishmen business?

Mr BROUGHAM: Well, we are sort of—

The Hon. Dr PEZZUTTI: The sort of people you are talking about in these desired companies, they are quite interesting individuals, aren't they?

Mr BROUGHAM: Yes.

The Hon. Dr PEZZUTTI: And they really are, and putting those—mad Irishmen is a funny way to put it, but you know what I mean? They are quite special Irishmen together to make them a team to go forward.

Mr BROUGHAM: That's what I need to say. I think it's probably easier than it's going to be in the future.

The Hon. Dr PEZZUTTI: Okay, okay.

Mr BROUGHAM: And in terms of—these are commercial incubators that we are setting up around the country. The kind of lines you see there now is our programmed backbone around the country, so you can see we are getting reasonably good coverage, and we are talking about putting these incubators, high-class acceleration units, in each of the towns, in Galway, in the smaller towns of Sligo, Letterkenny and Tralee, in Limerick and in Cork. We are at the stage now with this—this is an initiative that we identified about a year ago and published. We are at the stage now of getting approval from Ronald.

The Hon. Dr PEZZUTTI: Approval from what?

Mr BROUGHAM: Approval from Ronald Long for the funding mechanism that we are going to use, and it looks like the mechanism is going to be one of capital grant and we are going to do it through public-private partnership, so you are a developer in Cork and we provide a grant for you to put this thing up.

The Hon. Dr PEZZUTTI: Right.

Mr BROUGHAM: And this is about clusters now. This is about high-tech companies wired to the hilt with experienced entrepreneurs knocking around the building. We will provide expertise in terms of intellectual property; we will provide access to legal and what have you. We will have our own staff in there.

The Hon. Dr PEZZUTTI: So you are in the business of making money.

Mr BROUGHAM: Yeah. And, so, the idea is that these would become hothouses of development and research and so on. And I talk about one in particular, and that's the digital media in Dublin, and they did it on the south side of the city. It's in an old Guinness site. The first stream of funding has been—

The Hon. TONY KELLY: This is the \$30 million? We are going to see it now.

Mr BROUGHAM: Oh, are you?

The Hon. TONY KELLY: Yeah.

Mr BROUGHAM: Oh, okay. Right, well, government funding of about 16 million has been approved already and there's more to come. The Massachusetts Institute of Technology Media Lab for Europe is already on site. We are looking at putting up one of these networks or these accelerators on the site and we are also talking about—in here we are talking about wiring the thing to the hilt; we are talking about a business and research campus; we are talking to the Dublin Institute of Technology about moving their multimedia and research unit on to the site; we are talking to various people, existing companies, about this opportunity, and this is—

The Hon. Dr PEZZUTTI: Is this going to be the new regional headquarter thing, is it—in other words, having a foot in every market? You know, for Harvard to have a foot in Europe, is this their foot in Europe? People fight for these.

Mr BROUGHAM: Yeah, but—

The Hon. TONY KELLY: We had better go.

Mr BROUGHAM: I don't know. There hasn't been much commercial implementation from MIT.

The Hon. Dr PEZZUTTI: No, but have they got their foot anywhere else?

Mr BROUGHAM: No.

The Hon. Dr PEZZUTTI: No.

Mr BROUGHAM: This is their first expansion.

The Hon. Dr PEZZUTTI: So this will be the new—

The Hon. TONY KELLY: So this will be a cluster here, this information?

Mr BROUGHAM: Yeah. But when you come back in three years time we hopefully will be able to show you, you know, a place where you have got a hotbed of companies. We will have pre and post-production facilities. There will be research units from the universities. The media lab will be down there. I talk about things like, you know, using it as a demonstration for new technology like Blue Tooth or whatever, you know. So it will be a demonstration site in Europe as well and it will be the place where people—we are hoping it's going to be the place where people are going to come and say, "You know, here's a really good experience about digital media." Right now we don't have a digital media sector. We have a traditional media sector that has a lot of capability and we have a natural flair for content, and so we're off. That's our story.

The Hon. TONY KELLY: So this is the part of the Guinness, old Guinness brewery that's now unused?

Mr BROUGHAM: That's right.

The Hon. TONY KELLY: And is it £30 million, something like that?

Mr BROUGHAM: £60 million Irish—

The Hon. TONY KELLY: £60 million Irish.

Mr BROUGHAM: —is the funding that's being made available. That's on top of the funding that's going into the media lab.

The Hon. TONY KELLY: Has Guinness got any money in that at all or it just happens to be on their site?

Mr BROUGHAM: Oh, they are selling us the land.

The Hon. Dr PEZZUTTI: They just sold their house to the Irish Government as an entertainment area for the politicians. That's another 30—

The Hon. TONY KELLY: That's a good idea.

The Hon. Dr PEZZUTTI: £48 million altogether. So when they spend 48 million on that you can really see this is a pretty reasonable thing to spend it on.

The Hon. TONY KELLY: So this will be run by the Government, by Enterprise Ireland or by—

Mr BROUGHAM: Right now the Department of Public Enterprise is the lead department on this. They have set up a company called Digital Media Development Limited on which are people like the Chief Executive of Enterprise Ireland. The Dublin City Manager is on it because there's a social aspect to this too. It's a rundown area of the city. There's a drug problem down there. There's low-quality housing there that has to be cleared away and new housing to go in for those tenants, so there's a social reconstruction element coming into this now as well, which is making things quite complicated, but it's probably the only way to move forward because, you know, you are living in an environment.

The Hon. TONY KELLY: So it's only just for starting—

Mr BROUGHAM: Oh, yeah.

The Hon. TONY KELLY: —embryo stages.

Mr BROUGHAM: It's just starting up.

The Hon. TONY KELLY: Completion three years.

Mr BROUGHAM: That's right. There's a team, a professional team. The team that was responsible for the development of Temple Bar have been brought on to implement this.

The Hon. TONY KELLY: Oh, okay.

The Hon. Dr PEZZUTTI: So in the siting of this there were rumours of the big one, of the UTS, Sydney University and the University of New South Wales place at Redfern and the trouble that happens is that around it, right round it, the accommodation becomes extremely expensive because all sorts of visiting people from overseas.

The Hon. TONY KELLY: Want to be on site.

The Hon. Dr PEZZUTTI: Wolfgang What's-His-Face put in a 600-room hotel in the middle of the—not as an incubator—what do they call it—Technology Park—put this huge hotel in because they needed it for visiting people.

Meeting No. 16 Thursday, 26 July 2001 Department of Health and Children - Food Safety Authority Dublin, Ireland

Also in attendance:

Ms Maeve O'Brian, Assistant Principal Food Unit, Department of Health and Children

Mr Sean Connell, Executive Officer, Department of Health and Children

Dr Martine Brennan, Technical Executive, Food Safety Authority of Ireland

Ms O'BRIAN: . . . relation of GM food and crops, and it spans a number of different areas. For example, the crops, the growing of them, the field trials, they are all the responsibility of the Department of the Environment here, and their executive agency is the Environmental Protection Authority, so they would—you are probably aware that it is sort of co-ordinated on a European basis that an application is made to all member states in the European Community and it's sent around to all the other member states and everybody has a say on whether or not this product should be made available in Europe. Like, one country can't authorise a product. It's either authorised in 15 or in none.

The Hon. TONY KELLY: Oh, okay. So each country has the power of veto over the other virtually.

Ms O'BRIAN: Not necessarily, no, because, I mean, the European Community operates on a basis—it's called qualified majority, and depending on the size of the country—

The Hon. TONY KELLY: You get consensus.

Ms O'BRIAN: —you get a certain voting weight and there has to be a certain percentage—what, I think two-thirds or something like that—

The Hon. TONY KELLY: Yep.

Ms O'BRIAN: —for something to go through. Just to explain just the background to the area, and then this department here is responsible for genetically modified food so that would be when somebody goes to place it on the market for human consumption it becomes our responsibility and there is an EU-wide legislation called the Normal Foods Regulation that governs the authorisation procedure. There is also the area of GM feed. Animal feed, is the responsibility of the Department of Agriculture and genetically modified seed is also the Department of Agriculture's responsibility. There's also a sort of broader, the broader biotechnology issues. Say, for example, like the industry is really the Department of Enterprise, Trade and Employment and there's actually because there are so many different agencies and government departments involved there is an interdepartmental group established, and this is the report. Unfortunately, this is my only copy of it.

Dr BRENNAN: I will leave this one for you.

Ms O'BRIAN: I was trying to find it. I know it's on their website and that's what I was trying to do before I came up.

Dr BRENNAN: I couldn't get it off yet today, yesterday. There's a sort of summary press release that went with it.

The Hon. TONY KELLY: Oh, excellent.

Ms O'BRIAN: So really what this explains is it's the Government's co-ordinated position on modern biotechnology. I mean, it is broader than just food, but I suppose food is a big aspect of it. And this report was October last year I think. It was entered. The Government Ministers and the Cabinet has supported the report and supported the recommendations and, I suppose, the main recommendation is that Ireland supports genetic modification but would support it on a precautionary basis to see if it can be of benefit but would only proceed with caution and evaluate it on a case-by-case basis. So there are quite a number of recommendations in this report and they are in the process of being implemented at the moment and the group, although this report came out in October, the group I think is meeting on a six-monthly basis just to oversee the implementation of the recommendations. So that will probably give you a better idea of the state of play in Ireland at the moment.

Dr BRENNAN: Yeah, I think on the second page there is like a summary of some of the conclusions.

The Hon. TONY KELLY: They are both the same, aren't they?

Dr BRENNAN: Yeah, yeah.

The Hon. TONY KELLY: But Tedesta, that's Deputy Prime Minister, is it?

Dr BRENNAN: Yeah.

The Hon. TONY KELLY: Mary is Deputy Prime Minister?

Dr BRENNAN: Yes, that's on the second page that's got the conclusions from the reports and the first bit of the report is a summary and then there's chapters going to detail in different areas.

Ms O'BRIAN: So, of course, that's just where—I mean, it's difficult. I know you are coming but, like, your specific questions and unfortunately they span a large number areas but we can give you as much information as we can. The Department of Health is involved in the policymaking on genetically modified food whereas the Food Safety Authority is more the competent authority for the regulations. If an application were to come to Ireland, which hasn't happened yet, for genetically modified food to be sold, the Food Safety Authority would do the assessment of it as well. That's the situation at the moment but, actually, I didn't find out yesterday—

Mr CARR: Do you have a lead government agency? While you span a couple of different agencies is there one government agency which is taking the lead in co-ordinating the others?

Ms O'BRIAN: Probably the Department of Enterprise, Trade and Employment but on a much broader, like, it is much more than just food. There is a new EU proposal. It's only—it's a draft that has come out in the last few weeks—to regulate the genetically modified food and feed that would on the food side replace current legislation and on the feed side bring forward legislation for the first time really on animal feed. This department has taken the lead role on that, so on the last Friday we all had a meeting, ourselves, the Department of Agriculture, the Department of Environment, the Food Safety Authority, the Environmental Protection Agency, the State Laboratory. That's about everybody, I think, who would have an interest in this new draft regulation but that will have to go through the process in Europe and, like, it will probably be six months or a year before it's passed and another couple of years before it will come actually into effect.

The Hon. TONY KELLY: So it will be a fairly slow process.

Ms O'BRIAN: Well, I don't know, really. The commission, the European Commission would like to, you know, put it through quickly.

Dr BRENNAN: Maybe—you've spoken to them already. Maybe they told you how quickly it will come in.

The Hon. TONY KELLY: I don't know that they just said it was a draft. Were they talking about six months? I can't recall. But they assumed it was going to be approved.

Dr BRENNAN: But you should certainly look at the future policy when you are thinking about what to do for Europe.

Mr CARR: So do you have any genetically modified crops being trialed and commercially grown or is that not in your—

Ms O'BRIAN: That's not me.

Dr BRENNAN: That would be the Environmental Protection Agency or Department of Agriculture that would know that but there are crop trials. I don't know about commercially grown. I would say probably not.

Ms O'BRIAN: I don't think so.

Dr BRENNAN: I don't think so. But, yeah, there are crop trials.

The Hon. TONY KELLY: Contact?

Mr CONNELL: Tom MacLoughlin.

Ms O'BRIAN: Yeah, Tom MacLoughlin is in the Environmental Protection Agency. The number is 053. He is in Wexford.

The Hon. TONY KELLY: In Wexford?

Ms O'BRIAN: Yeah.

The Hon. TONY KELLY: We are going there today.

Ms O'BRIAN: Yeah.

Mr CARR: 053?

Ms O'BRIAN: 60600. Does that sound right?

Dr BRENNAN: I don't know. I don't know how you remember that.

The Hon. TONY KELLY: So Tom MacLoughlin in the EPA.

Ms O'BRIAN: It's the Environmental Protection Agency.

Mr CARR: And what's his e-mail address?

Mr CONNELL: It's t.macloughlin.

The Hon. TONY KELLY: Oh, that's his e-mail.

Ms O'BRIAN: That's M-A-C-L-O-U-G-H-L-I-N.

Mr CONNELL: @epa.ie. That's the EPA one I think.

Dr BRENNAN: Yeah, that sounds right.

Ms O'BRIAN: And they are the competent authority for an EU directive which is on the deliberate release of GMOs, and they would be involved in crop trials or whatever.

Dr BRENNAN: And the recommendation in the report is that Ireland continues the crop trials but following EU conditions, policies and that the EPA should put together new guidelines to be followed, so that would all cover, for instance, the first bit about their buffer zones. The thing is about operating in secret in the report. It says that everything should be done with transparency so that the things are available for the public. Quite how that will be done is probably included on the website rather than actually advertise it I would have thought.

Mr CARR: Yes, we have got that on the website in Australia.

Ms O'BRIAN: They also keep a register, don't they, the EPA?

Dr BRENNAN: Yeah, they have to.

Ms O'BRIAN: I think it's probably available to you at the registry.

Mr CARR: Okay. And you have got a food safety council or group that's looking at that. You have got trials and then, I presume, Aventis is conducting a trial, say, for example, and then that needs to go to the next stage to go to some sort of commercial development. How do they—who oversees the process and who oversees the trialing and then the commercial release? Who's the body who does it?

Ms O'BRIAN: Well, on the agricultural side and the growing it's between the EPA and the Department of Agriculture, Food and Environmental Development but then when it gets to looking at it as a food, that's when we come in, but that's all done on an EC-wide basis.

Dr BRENNAN: Like, what actually happens if a crop wanted to be sold in some form as a food, a company has to make an application to one member states in the EU, and that member state, if it was Ireland—it hasn't happened in Ireland yet, but if it were to Ireland they would make an application to the Food Safety Authority, who would have to look at all the dossiers and get as much information as they would require from the company and draw up what is called an initial assessment report, and that's basically a summary of their findings, and we would make a recommendation whether they think this GM food was safe for human consumption or not, and if it was deemed to be safe for human consumption by the assessment body, it goes to every other EU member state, who gets—60 or 90 days?

Dr BRENNAN: Sixty days. Fascotch gets 90.

Ms O'BRIAN: Yeah. Sixty days in which they can raise objections, ask comments, you know, ask questions, make comments, do whatever, and all these are sent back to the European Commission. They would co-ordinate all the reactions from all the member states, and then if there are enough objections the commission normally what they do is send it off to an EU scientific committee where they would examine all the member states' questions or objections or whatever and then if they were all ironed out it may be approved but, again, every member state has to vote on it being approved or it may be rejected. Now, there has been under novel foods, which is—at the moment genetically modified food are in the category of novel foods, which are just foods which haven't been sold in the European Community before May 1997, and there has been a number of novel foods which would be things like—

Dr BRENNAN: Plant extracts.

Ms O'BRIAN: Yeah, but they wouldn't be genetically modified food. They would be, you know, prepared using a high-pressure treatment, just something that hasn't been done before.

Dr BRENNAN: Or an unusual fruit that's not normally sold to Europe.

Ms O'BRIAN: There had been a nut as well from Brazil or somewhere which was rejected because there wasn't enough information on the allergies or toxicity or something like that, so that process would be gone through if a genetically modified food were to be, if somebody were to apply to place it on the market. There has been what is referred to as a de facto moratorium for the last—two years, is it?

Dr BRENNAN: It is about two years.

Ms O'BRIAN: Yeah, about two years, because on the European directive, which was the deliberate release, which would be the step before food was, like field trials and that, probably because of consumer concerns more than anything else, they stopped—all applications came to a halt and the European Commission agreed that they would try to revise the legislation and make it more stricter and stringent, and that has only been published in the last few months, so I'm not sure. Are all those crops going to go ahead again? I'm not sure.

Dr BRENNAN: I'm not sure. Well, it's up to the companies that submit them, I guess, they have to resubmit them under the new—

Ms O'BRIAN: Under the new criteria.

Dr BRENNAN: Under the new criteria, yeah.

Ms O'BRIAN: I suppose, nothing has really happened in the last few years but it is starting to become a live issue again just over the last few months really.

Dr BRENNAN: Because there are very few GM products, foods, that can be marketed in the EC at the moment. There's four soya bean, two maize and one tomato, and that's all.

The Hon. TONY KELLY: Four soya bean, two maize and one tomato.

Dr BRENNAN: Mmm.

Ms O'BRIAN: And the tomato—

Dr BRENNAN: It's not marketed.

Ms O'BRIAN: It has been used as a tomato in a tomato puree.

The Hon. TONY KELLY: So it's not readily available on the shelves if you go to a supermarket?

Ms O'BRIAN: It's not particularly marketed, no.

Mr CARR: This is not the flavour saver tomato?

Dr BRENNAN: There are two. I think there are two tomatoes. One is the flavour saver. I think that one has passed. But then the other one is the purees.

Ms O'BRIAN: Zenika, was it.

Dr BRENNAN: Zenika's, and that was marketed very well, but then there was all the opposition against GM foods and it was taken off the market but not for safety reasons.

The Hon. TONY KELLY: And what sort of labelling?

Dr BRENNAN: The labelling—if you know there is a GM food, a GM DNA or protein in a food, then it has to be labelled to say "This contains genetically modified".

The Hon. TONY KELLY: Is there a percentage level?

Dr BRENNAN: If you know it's present you have to label.

The Hon. TONY KELLY: Regardless?

Dr BRENNAN: But if it's a mistake, it's just contamination, if it is less than 1 per cent, then you don't have to label.

The Hon. TONY KELLY: Okay.

Dr BRENNAN: But that's going to change in the new proposal.

The Hon. TONY KELLY: Going to change how?

Dr BRENNAN: I think they will let—I think they might be changing the 1 per cent threshold but I don't know any details but I think they want everything labelled whether it has actually got the GM DNA in it or not, which means you can't test to see if the labelling is right because at the moment you can test and look for the GM DNA or protein and then see if the labelling complies but in the new policy they just want everything labelled. Say, like a cheese that's had kinase instead of the rennet, then you wouldn't actually find that and you would have to label to say it's been made with genetically modified.

The Hon. TONY KELLY: That's more stringent than ours.

Mr CARR: Yeah, we are going down the substantial goodwill—

Dr BRENNAN: Yeah. I mean, we don't know that that will necessarily come in, but that's the proposal.

The Hon. TONY KELLY: That's the proposal.

Ms O'BRIAN: Here we are going down the road of 1 per cent if the food is from a GM source.

The Hon. TONY KELLY: If it is less than 1 per cent you don't have to label it.

Dr BRENNAN: Even if it is in there on purpose.

The Hon. TONY KELLY: Yeah. Yours is better, I think.

Ms O'BRIAN: If it is accidental. You know, if the grain has been mixed in a harvester that has already harvested GM.

The Hon. TONY KELLY: So as long as it is not 1 per cent you don't have to—

Dr BRENNAN: But you also have to prove that you have taken all means not to get GM into your product so you have to have traceability to show where your product has come from, and you have to have that as well.

Mr CARR: So, stringent supplier chain-type processes.

Dr BRENNAN: Mmm.

Ms O'BRIAN: And the new draft proposals that the commission is publishing at the moment, as Martine mentioned, is making the labelling requirements even more strict because at the moment she mentioned it's fine, you can test a product if somebody, you know, labels it, you know, anything as containing GM soya or GM maize you can test it, and if it contains GM DNA or protein, it's fine, but now because of consumer concerns if, say, something like a highly refined oil that would have originally come from a GM source but is so refined that there is no GM material present in the final product, that would have to be labelled now under the new proposals, but it is on the basis of consumer concerns really that those proposals are coming forward because there has been quite a vocal anti-GM lobby in Europe over the last few years. I suppose it has worked in that all the current legislation has been revised to make it stricter. You know, people have a right to know. If they don't want to eat anything derived from a GM they have the right to know, and that's the way the legislation is going.

Dr BRENNAN: And that's the stance that the EC Food Commissioner put in his press release yesterday about the new proposals. He was saying, "We have listened to you the public. We know you want a choice, so we are giving these directives to give you what you want."

Mr CARR: Just a question about—you were talking about trials and how they had to go to other member states of the EU. Say, for example, Ireland had an objection on a particular issue and the EC considered that objection and said, "We understand your concerns but we think this is sufficient and we are going to go ahead anyway." What does Ireland do? Anything? Nothing?

Dr BRENNAN: We don't get a say at that stage, do we?

Ms O'BRIAN: Well, at the assessment stage you are entitled to raise objections. I mean, ultimately it will go to a vote around the table.

The Hon. TONY KELLY: If everyone else votes against you and says it's okay—

Mr CARR: 14.1 or whatever it is.

The Hon. TONY KELLY: Yeah. So, okay, it gets introduced. Does that mean, though, that you have still got a power of veto in your own country?

Dr BRENNAN: No, there's nothing like that.

The Hon. TONY KELLY: It is taken out of your hands?

Dr BRENNAN: Mmm.

The Hon. TONY KELLY: Okay.

Ms O'BRIAN: We ordered tea and coffee. It hasn't arrived.

Mr CARR: That's just looking, like, cold.

The Hon. TONY KELLY: Yeah. Did you ask for it hot?

Dr BRENNAN: But also when it goes to—once every country member state has had its say, then if there is still sort of indecision, then, within the EC—I mean, you might have heard this at your meeting there—they have committees which

they go to for advice so they would be EC committees, the Standing Committee for Food and the Scientific Committee, so they take their advice from them and that helps to make the final decision, and that's also where a lot of the applications get held up. I mean, they just take a long time there whereas there's a time limit when all the member states are involved—90 days initially for the initial assessment and then 60 days. By the time it gets to the EC that's where it is held up but not much in the way of time limits.

The Hon. TONY KELLY: What are the proposed advantages?

Dr BRENNAN: Sorry?

The Hon. TONY KELLY: Are you aware of any proposed advantages of, say, the tomato?

Dr BRENNAN: To who? To the consumer.

The Hon. TONY KELLY: To anybody. Yeah, the consumer, the farmer.

Dr BRENNAN: Well, that would be for the people marketing it to be concerned about. We are only concerned on the safety and if it is one of the crops—

The Hon. TONY KELLY: But you are not aware of any?

Dr BRENNAN: Well, yes, obviously some products do have a benefit. The tomato did and the cheese did for vegetarians but the latest ones are the soya and maize and they don't have that much advantage to the consumer and that's probably why people aren't so favourable of GM products because they don't see the advantage of them. They just see it as big companies getting a lot of money and that's it.

The Hon. TONY KELLY: Trying to corner a market or something.

Dr BRENNAN: I mean, if the products were a lot cheaper like the tomato was—the tinned tomato puree was a lot cheaper than the standard.

The Hon. TONY KELLY: Was it?

Dr BRENNAN: People bought it.

The Hon. TONY KELLY: But then eventually the public opinion took it off the market, did it? Is that what happened with the tomato puree?

Dr BRENNAN: I only know from England because I am English what happened there, but what happened was that the supermarkets took it off the market because they thought the consumers didn't want it.

The Hon. TONY KELLY: Yeah. What was that the other day, the two big supermarkets there?

Mr CARR: Tesco.

The Hon. TONY KELLY: No, the other one, Sainsburys. Didn't Sainsburys come out in the last couple of days and say that they were going to withdraw any GM off their shelves?

Dr BRENNAN: I don't know of anything recent.

The Hon. TONY KELLY: I think that was in the morning we arrived I think.

Ms O'BRIAN: A lot of supermarkets in Ireland have come out and said that. Marks and Spencers, Superquinn and Tesco, I believe, have said that in their own brand—

The Hon. TONY KELLY: They will not have any.

Ms O'BRIAN: —they will not have any GM ingredients but, again, they have all said it's a marketing—

Dr BRENNAN: Ploy.

Ms O'BRIAN: Yeah. Well, it's a marketing decision rather than—it's not on safety grounds.

The Hon. TONY KELLY: But if it is a marketing decision and they are doing it for that reason then they obviously believe that no-one wants it.

Ms O'BRIAN: Oh, yeah.

Dr BRENNAN: But with the pureed tomatoes, I know someone who went into Sainsburys and asked for it just the day after they had withdrawn it off the shelves and they said, "Sorry, we can't sell that any more." And they said, "I thought you were giving the consumer a choice. I want to buy it. Why won't you sell it to me?" and they said, "Sorry, we can't." So they talk about choice and labelling things and giving people a choice but then they are not in the supermarket, saying, "No, the choice is you can't have GM even if you want it."

The Hon. TONY KELLY: Fair enough.

Ms O'BRIAN: As Martine mentioned, that has been the difficulty because any of the food on the market at the moment, only the soya and maize, all the advantages are all with the grower and there is no perceived advantage to the consumer, but if a product did come along and, you know, lowered cholesterol or, you know, had some health benefit—

Dr BRENNAN: Tasted better, yeah.

Ms O'BRIAN: —I would think people would be more inclined to buy it, you know, and there has been a strong lobby in England and in here. Because a lot of the English papers are sold here, it sort of spilled over. Like, the headlines are "Frankenstein food". You know, there has been these—

Mr CARR: We read that from—I think it was maybe from one of the EC pieces of material that they see the modifications at this stage as being input orientated rather than, you know, input so that—

The Hon. TONY KELLY: The advantages.

Mr CARR: Yeah, saving the amount of fertiliser that is going into the production process. There have been a lot of input orientated things where the rice with the vitamin A improvement is something different.

Ms O'BRIAN: I think if more foods like that came along, you know, with an actual benefit to the consumer they might be greeted in a more favourable manner.

Dr BRENNAN: I am fairly sure they definitely would because we saw it happen in the tomatoes.

Mr CONNELL: There's much less trouble in the area of medical products, isn't there?

Ms O'BRIAN: Than food, yeah. Banks use them and whatever.

The Hon. TONY KELLY: Yes, if the other member was here with us, he's a doctor and he said, "You know, people have been having insulin for years."

Ms O'BRIAN: Exactly, yeah.

The Hon. TONY KELLY: Injecting themselves with it.

Mr CARR: Has the Government done any sort of surveying or does it see it's role of doing surveys of public opinion? You know, obviously, Martine, you were talking about marketing the benefits of that and the Government in some cases saying, "Okay, well, the food is safe" or "The product is safe. I'm not going to stand in its way." But does it see any sort of role in terms of educating the public?

Dr BRENNAN: Yeah, they definitely see a role in educating the public. I don't think they have done anything official in the way of surveying the public. There have been small surveys maybe done by tertiary college students or even school

people questioning people about their ideas on it and there are a few sort of that are available but I would say there's no official government one. Would you agree?

Ms O'BRIAN: Yes.

Dr BRENNAN: But they do say in the report that we have a role to play in educating, and all those surveys, school student surveys, they all say that the public want more information, and if they go and ask the public, "What do you think of GM foods?" the first will be negative. Then when they have explained how it is done and explained the process, they suddenly realise that it is good and change their minds quite quickly. So it probably is a lack of information.

Ms O'BRIAN: The Department of the Environment as well a couple years ago, maybe '98 or '99, hosted a consultative forum on GMOs and the environment and anybody was asked to make submissions, and everybody who made submissions were brought together in a hotel for a couple of days, and the Environment Minister made a statement and issued a policy document, which I have downstairs and I should have brought up. I could probably forward it on to you.

The Hon. TONY KELLY: It would be good if you would e-mail it to Steven.

Ms O'BRIAN: That process came before this but in a way it led to this interdepartmental group report. It was on the environment.

The Hon. TONY KELLY: That Tom MacLoughlin—is Wexford a big place? Not having been there yet, is it a town of 5,000 or 50,000?

Dr BRENNAN: No, not too big.

Ms O'BRIAN: Ten.

The Hon. TONY KELLY: Okay. So it should be easy for us to find him, his building, should it?

Ms O'BRIAN: Well, no, it's in the country. It's Johnstown Castle. It's DE'ETE. There's a castle and the Department of Agriculture have offices there and the Environmental Protection Agency have offices there.

The Hon. TONY KELLY: Okay. So, what's it called—Johns?

Ms O'BRIAN: Johnstown Castle.

The Hon. TONY KELLY: Johnstown Castle. Okay.

Ms O'BRIAN: I think you would probably be better off ringing him and asking him for directions.

The Hon. TONY KELLY: Yeah, we will. Or he may not be there today so we will ring him because we will be close.

Ms O'BRIAN: Yeah, I still have a vague idea how to get there but certainly it's up a country road.

The Hon. TONY KELLY: Okay. How far to Wexford in time—an hour?

Ms O'BRIAN: Two hours, two and a half maybe.

The Hon. TONY KELLY: Oh, good. Yep, excellent.

Dr BRENNAN: Would Bernie be able to speak to them if Tom wasn't around?

Ms O'BRIAN: Yeah, Bernie Murray works with Tom MacLoughlin.

The Hon. TONY KELLY: That's Bernie Murray?

Dr BRENNAN: It's Bernadette, Bernie.

The Hon. TONY KELLY: Bernadette. Okay. Now, is Avoca before or afterwards?

Ms O'BRIAN: Is where?

The Hon. TONY KELLY: Avoca.

Ms O'BRIAN: It's on the Dublin side of Wexford.

The Hon. TONY KELLY: So we will have lunch and go there after lunch.

Ms O'BRIAN: I will see what other questions can we answer.

Mr CARR: Well, I suppose, just in terms of food, you know, just in principle food, the food unit. Talking about the Brazil nut and allergies, if I was to put on my really green hat and say, "How can you be sure that there is not going to be an allergy that we don't know about, that hasn't been tested by Aventis and Monsanto but may adversely affect someone or a number of people."

Ms O'BRIAN: You can't be sure.

Mr CARR: Yeah. What would you say?

Ms O'BRIAN: You can't be sure but, I suppose, that's the whole point of having so many scientists involved in any of the assessments. You know, you look at the information. If there's any doubt about potential allergenicity, a product won't be authorised.

The Hon. TONY KELLY: Is there acceptable risk?

Ms O'BRIAN: Not really, no. If there was any doubts at all. I mean, there was one. There was a nut—was it?

Dr BRENNAN: It didn't get very far.

Mr CARR: Yeah, there was a test of a Brazil nut.

Ms O'BRIAN: But it was rejected.

Dr BRENNAN: The nut itself.

Ms O'BRIAN: Just because the information wasn't there that people could accept that it couldn't cause allergies, it was rejected.

The Hon. TONY KELLY: Sorry, what was that again?

Ms O'BRIAN: There wasn't enough information in the application, in the dossier, to prove that it wouldn't cause allergies. There wasn't enough information so it was rejected.

Dr BRENNAN: When a company does an application, they have to look at specific areas, and they would include toxicity and allergenicity, so they would have to do tests on them, and then a lot of the objections or comments from member states would be, "Do more tests. Find out more information," and then they could go away and do that and then resubmit or come back in with extra information.

The Hon. TONY KELLY: See, it can take a long time for some negative effects. My wife had throat cancer and she was, I think, one of only 19 in Australia who did go on to have children after and they said that she had to wait a certain time because the radioactive treatment would have been like the child would have been at Hiroshima when the bomb was dropped so it was a pretty traumatic time for her, and they said to her—the specialist said to her, "Have you ever had one of these two things?" and the two things, the questions they asked, were 40 years ago or something in Australia they used to have at the big department stores, and they probably had it in London and places here, it was a gimmick to test your shoe size. You put your foot in a little blue ray thing and it would tell you what your shoe size was.

And the other one was if kids used to get head lice at different schools and they used to treat it with ray treatment. Your hair would fall out or something. So they were the two things. And this doctor said to her, "Have you ever had any of those

things in your youth?" and Ann said, "Yeah, I went to a school in Sydney and we got this head lice and they did that." He said, "I thought so." He said, "Ninety-three per cent of everybody with your type of cancer has had that, one of those two things," and this is 20 years after. He said they banned those things within five years of them coming out but how do you know they are not going to find something out in 10 years time? So that's the thing you have got to guard against, I suppose, as well.

Dr BRENNAN: Yeah. There are a group of doctors in Ireland who are not exactly anti-GM but they are concerned that there might be more allergic responses because of it, and they want to know, and other countries want to know what's going to happen to show that there are no—I mean, once the product is in the market is there going to be continuous assessment? It is a very difficult thing to do.

The Hon. TONY KELLY: So, will that happen? Will there be continuous—

Dr BRENNAN: Well, they are talking about it in the EC but, I mean, I don't think there's a good way of doing it. What we all say if people say, "Well, how do you know they are safe?" we say, "Well, look at America. They have been using GM foods for years. They are all right."

The Hon. TONY KELLY: Are they? Or they might have always been that way.

Dr BRENNAN: But, I mean, you can't unless you are doing tests on humans. It is not really feasible to monitor.

Mr CARR: See, that sort of scale of testing far exceeds what we do for normal cross-hybrid type of seed. It would far exceed that sort of testing.

Ms O'BRIAN: But they say if a potato were to go through the process, the novel foods process, now, it would be rejected.

The Hon. TONY KELLY: I can't see any reason to produce potatoes a different way.

Ms O'BRIAN: No, no, no, even an ordinary potato.

The Hon. TONY KELLY: Yeah.

Ms O'BRIAN: If they have never been eaten before in Europe and were to come through the novel foods process now, they say it wouldn't pass.

The Hon. TONY KELLY: It wouldn't pass?

Mr CARR: Do you know on what basis?

The Hon. TONY KELLY: Because it's a hybrid.

Dr BRENNAN: Because of the toxins in it.

Mr CONNELL: Raw potatoes are quite toxic. If you eat enough of them, you will get quite sick.

The Hon. TONY KELLY: Only if they are—

Mr CONNELL: Raw.

The Hon. TONY KELLY: No, only if the sun gets at them and they go a bit green.

Dr BRENNAN: The green parts particularly. But there are other things other than just the green.

The Hon. TONY KELLY: I am a potato grower.

Dr BRENNAN: Well, you know better, then.

Ms O'BRIAN: Are there any other questions we should answer?

The Hon. TONY KELLY: Well, that's a good level of information.

Ms O'BRIAN: There is in this interdepartmental report all the agencies involved in GM are putting together research proposals.

The Hon. TONY KELLY: Oh, okay.

Ms O'BRIAN: I don't think any of them have been agreed yet, do you know?

Dr BRENNAN: No, I don't think so, yeah, but they definitely want some research and there's Teagasc, who come under the Department of Agriculture.

The Hon. TONY KELLY: Oh, yeah, they mentioned them yesterday. How do you actually spell their name.

Dr BRENNAN: T-E-A-G-A-S-C.

Ms O'BRIAN: I bet you don't know what that means?

Dr BRENNAN: Something to do with information. I used to work for them.

The Hon. TONY KELLY: What was it?

Dr BRENNAN: To do with information and advices and things. Anyway, they are a sort of agriculture and food group. They are putting in a lot of money into biotechnology research and they are supposed to come up with a new building and a lot of new scientists working in the area but it hasn't happened yet.

The Hon. TONY KELLY: Do you have an information broadcast? Do you with new information have a mailing list for the media or research that you do or investigations that you are doing or reports that you do? You don't necessarily?

Dr BRENNAN: A mailing list of who to—

The Hon. TONY KELLY: If your group comes up with a new decision—

Mr CARR: A media release.

The Hon. TONY KELLY: If you make another media release, have you got a system? It is just I was going to suggest if you have put us on it, please.

Dr BRENNAN: Right, okay.

The Hon. TONY KELLY: You know, something that happens in three or six or eight months' time, if you would let us know about it we would really appreciate it.

Mr CARR: The interdepartmental group report, what sort of weight does it have in terms of recommendations? Is this sort of considered government policy?

Ms O'BRIAN: Mm-mm.

Mr CARR: Okay. So of these recommendations—this is produced in, what, in November 2000, October 2000—of these recommendations how far have they gone to sort of implementing them?

The Hon. TONY KELLY: One of the recommendations is for it to continue permanently.

Dr BRENNAN: And another listing is organised.

Ms O'BRIAN: Six months. It was to meet in May or June.

The Hon. TONY KELLY: But the foot and mouth.

Ms O'BRIAN: The foot and mouth. There were no meetings at all. So I don't know that there is another one.

Dr BRENNAN: Yeah, there's one organised for October, I think.

The Hon. TONY KELLY: October.

Dr BRENNAN: Yeah.

Mr CARR: Or another way of putting it, are there any ones which are definitely not, the Government has changed its mind on perhaps?

Dr BRENNAN: Not that I have heard.

Ms O'BRIAN: No.

Dr BRENNAN: Just one of them down there is "State Laboratory should be designated as a national reference". The laboratory—it might be worth just mentioning that. That is the Laboratory of the State of Ireland and they test for GM materials in foods, so obviously they want to—or this is saying that they should put a bit more money into that and expand it.

The Hon. TONY KELLY: Yes, okay.

Dr BRENNAN: We are using—at the moment we are using commercial laboratories for doing our GM testing because the State Laboratory aren't ready to quantify, so if they can't quantify how much GM is present, that doesn't help us check the labelling.

The Hon. TONY KELLY: But your recommendations basically will eventually mean that they will do it themselves.

Dr BRENNAN: They will do it all.

The Hon. TONY KELLY: So they will be totally independent.

Dr BRENNAN: Mm-mm.

Ms O'BRIAN: And they are involved in—there is a joint research centre, EU joint research centre in Ispra in Italy, and they are organising—there's a network of laboratories in the EU. They are doing retrials and things and the State Laboratory is involved in that.

The Hon. TONY KELLY: In most of those other countries are they independent? Are they government-owned laboratories or are they private contractual ones?

Ms O'BRIAN: Doing testing in others?

The Hon. TONY KELLY: Yes.

Dr BRENNAN: I don't know, actually. It's a bit of both.

The Hon. TONY KELLY: I would have thought that's possibly an issue that really should be government-owned and totally independent.

Dr BRENNAN: Well, they do have to be audited and, you know, have different quality marks to be used, I guess.

The Hon. TONY KELLY: Do they?

Dr BRENNAN: That helps slightly. It has got here "A national biotechnology ethics committee should be established". I haven't heard of that in the Senate review.

Ms O'BRIAN: Yeah, the last I heard there is a Royal Irish Academy.

The Hon. TONY KELLY: Yeah, they told us about that yesterday, the Department of Ag guys.

Ms O'BRIAN: The last I heard they had been written to.

The Hon. TONY KELLY: Yep.

Ms O'BRIAN: They were looking into what would be needed to set up that ethics committee.

The Hon. TONY KELLY: Yes, they told us that.

Dr BRENNAN: That's good.

Ms O'BRIAN: It has been set up, then.

The Hon. TONY KELLY: I think so, or they are moving down that way.

Dr BRENNAN: So I think, you know, they are making steps on most of these but I would say that none were fully implemented.

The Hon. TONY KELLY: The timetable has slowed up a bit because the same people have been tied up with foot and mouth.

Dr BRENNAN: Yeah.

Ms O'BRIAN: And all the different agencies are looking into what research could be undertaken.

Dr BRENNAN: Yep.

The Hon. TONY KELLY: Well, that's very good. Any other questions?

Ms O'BRIAN: I just apologise that we can only sort of answer on particular aspects.

The Hon. TONY KELLY: This stuff is invaluable.

Mr CARR: This one here?

Ms O'BRIAN: That's definitely on the website or I have it somewhere. I could e-mail it to you as well if you need it.

Mr CARR: If it's on that website that's fine.

Ms O'BRIAN: I couldn't find it when I was looking for it.

Dr BRENNAN: I found the website but it wouldn't open.

Mr CARR: Okay.

Dr BRENNAN: We found it before.

Mr CARR: Maybe you could e-mail it to me over the Internet. You talked about the processes of getting to the approvals and waiting on GM foods within the EU. Say, for example, Australia had a product that was approved—

Dr BRENNAN: There's another gentleman here to join you.

Mr CARR: Dr Pezzutti.

The Hon. Dr PEZZUTTI: Sorry, I was running a bit late. Sorry, we have had a fire drill at the embassy, so everything I was doing had to sort of be put on hold.

Mr CARR: If Australia has a GM—obviously your processes, you are working internally within the EU. What happens if, say, for example, an Australian product is coming over to Ireland? How do you manage that?

Dr BRENNAN: For what's coming in?

The Hon. TONY KELLY: If we wanted to market something that was GM.

Ms O'BRIAN: You would have to go through the European process.

The Hon. TONY KELLY: So the same voting procedure and assessment procedure?

Dr BRENNAN: Yeah, but you can choose which country you want to market the product in initially.

Mr CARR: Yeah, entry point is important, isn't it, or is it important?

Dr BRENNAN: Well, at the moment with the policy of where it stands the differences would be, one, the cost to the applicant is different in different countries, how much help you might get with putting your dossier together and how long it is going to take them to assess it, because it is specified it should be 90 days, but some of them—I think the Netherlands—have had so many that they just can't meet their deadline, so if you want it through quickly put it through a different country.

Mr CARR: Okay.

Ms O'BRIAN: The new proposals, even though now they haven't been agreed so these are just the commission ideas—they have to be agreed by all the member states yet, so there's going to be a new European Food Authority. It's supposed to be up and running by January 2002—I had to think what year is it—and now the new proposals that are instead of an application being made to one member state, it would be made to the European Food Authority.

The Hon. TONY KELLY: Oh, okay. So when will that be effective from—January?

Dr BRENNAN: This is the new policy.

Ms O'BRIAN: It's in the new draft regulations, which may take six months or a year to be agreed, and there will be a further period for it to come into force. Now, the European Food Authority hasn't been—the proposals to establish it have been agreed but the actual physical—

The Hon. TONY KELLY: So it's a couple of years away.

Ms O'BRIAN: Well, it's supposed to—it's meant to be—there's an agreement that it will be—

The Hon. TONY KELLY: 1 January.

Ms O'BRIAN: —1 January, but even the location hasn't been agreed yet.

The Hon. TONY KELLY: That will take a year to decide.

Ms O'BRIAN: That is going to be agreed in September I think but, I mean, it will be established in some shape or form in January but it will probably take some time to be, like, completely, be fully operational, but that is—the new proposal will be that the European Food Authority will do the assessments. The member states will still have an involvement.

The Hon. TONY KELLY: Did you have—we have been through everything.

The Hon. Dr PEZZUTTI: Did they tell you about whether the consumers will eat it or not?

The Hon. TONY KELLY: Well, we had a big discussion about the supermarkets withdrawing it and all that, yeah.

Dr BRENNAN: I think that depends on the product, you know.

The Hon. TONY KELLY: At this stage I don't know.

Dr BRENNAN: And I think the media will tend to try and make a story out of this.

The Hon. TONY KELLY: Yeah.

Dr BRENNAN: I mean, there have been some newspaper clippings that have shown the positive things. Like, there was one for tomatoes with—no, it's onions, or tomatoes with extra lycopene and saying how great that will be for your health, and it was a very positive article, but then there were others that, as I said, said talk about Frankenstein food.

The Hon. TONY KELLY: On a percentage basis of media articles, you would get 1 per cent positive and 99 per cent negative or something like that, would you? Certainly it wouldn't be fifty-fifty.

The Hon. Dr PEZZUTTI: Particularly on health, have you seen the research that is done on bananas providing, that had a typhoid immunisation process involved with the banana, in other words immunisation against typhoid, instead of taking your three tablets taking a couple of bananas. Sorry, the question I have of you, if you are in health, what's the attitude for food as medicine—in other words, supplementation of foods with folate, supplementation or the use of something like a banana that gave you immunisation?

Ms O'BRIAN: We could be here for a day talking about that because, I suppose, there has always been a great difficulty because we have very strict medicines legislation and something that claims to treat or prevent or—what's the other word—a disease cannot be a food; it's a medicine.

The Hon. Dr PEZZUTTI: So, you can't—so, for example, if you want to reduce the spina bifida incidence by feeding pre-pregnant women, or women before they get pregnant, with lots of folate you would not allow folate to be supplemented in cereal or bread?

Dr BRENNAN: You can do that, because that's not a disease.

The Hon. Dr PEZZUTTI: We had a fight with our food authority when we were in government.

Ms O'BRIAN: There's a campaign at the moment, you know, urging women of childbearing years—

The Hon. Dr PEZZUTTI: To take lots of folate.

Ms O'BRIAN: To take folic acid, yeah.

The Hon. Dr PEZZUTTI: But you don't supplement the bread.

Ms O'BRIAN: No. There has been a debate really, an ongoing debate over the last number of years, whether there should be mandatory fortification.

The Hon. Dr PEZZUTTI: Yes.

Ms O'BRIAN: And because there is a concern that it can hide, it can mask the symptoms of pernicious anaemia in older people, you know, it has never been resolved, but I don't think we will go down the road of mandatory fortification.

The Hon. Dr PEZZUTTI: We didn't go down that road but we allowed the manufacturers—

The Hon. TONY KELLY: Or fluoride in water.

Ms O'BRIAN: That's another big issue.

The Hon. Dr PEZZUTTI: Just to allow manufacturers to put it in was a huge fight in Australia with the food—we call them the food police—and we had a real problem with that but then the issue of this banana which had a genetic modification, to put in a gene which stimulated the immune response to typhoid, was the next big issue in terms of genetically modified food because in medicine there's lots of genetically modified organisms used in medicine. I mean, every bit of insulin used in this country would be made by a genetically modified process, E. Coli. So how do you approach that one? I mean, is the therapeutic goods—

Ms O'BRIAN: That would be a very difficult one. I mean, just going back to the folic acid, a lot of, like, breakfast cereals and that—

The Hon. Dr PEZZUTTI: Yes, exactly.

Ms O'BRIAN: —do have enhanced folic acid.

The Hon. Dr PEZZUTTI: Or they claim.

Ms O'BRIAN: And the Food Safety Authority have a folic acid flash scheme going. There's a special logo that you can use if you are fortifying your food.

The Hon. Dr PEZZUTTI: And you are allowed to say that? You are allowed to say, "I'm fortifying this food with—"

Ms O'BRIAN: That's not an issue yet because no application has arisen. I think it would be—there would have to be a lot of co-ordination or interaction between the medicines division here in the department and we have an Irish Medicines Board as well because basically a food isn't a medicine.

The Hon. TONY KELLY: Brian, they have given us a contact to make contact at Wexford, which we pass through—

The Hon. Dr PEZZUTTI: Oh, good.

The Hon. TONY KELLY: —on our way down, which is their EPA, which handles these issues, so we are going to try to see that guy on our way through.

The Hon. Dr PEZZUTTI: Okay. It just seems that the whole issue seems to be odd that with medicine we can use genetically modified organisms almost carte blanche because they go through the FDA and all the pharmaceutical approvals and the new process for food is almost like that, isn't it, pre-testing, but again no need to feed 50 rats for a hundred years, but are there protocols, an inventory where there are protocols for what sort of testing they can do before they market it?

The Hon. TONY KELLY: For pharmaceuticals?

The Hon. Dr PEZZUTTI: No, no, for food.

Dr BRENNAN: For food, yes, there is.

The Hon. Dr PEZZUTTI: Does that sort of line up with the pharmaceutical testing?

The Hon. TONY KELLY: No. We have been through that. It's all in what they have given us.

Ms O'BRIAN: I don't think they have to go through clinical trials and things like you would do for medicines. I don't think I have—I don't know, have you seen the European Scientific Committee for Food produced back about '97? Have you seen that document, the information that you need to put together for an application?

The Hon. TONY KELLY: Yep, I am sure we have got that.

Ms O'BRIAN: So that would be all applications would follow that process laid down in that.

The Hon. TONY KELLY: Okay. Well, thank you very much for your time. If you don't mind sending us that other information, that would be really handy, and we have got your cards if we want to make some more contact, and if you do, if something pops up in the next six months, if you remember us, let us know. That's just a little money holder from the New South Wales Parliament. You have got to have money to be able to use it.

Dr BRENNAN: Thank you very much.

The Hon. TONY KELLY: But it has the New South Wales Parliament on it.

Dr BRENNAN: Just to explain the cards, I gave you mine, but as I won't be round from September for six months, this is my boss. She's in the same protecting as well, who is at a meeting today.

The Hon. TONY KELLY: Excellent. Thank you very much. So you're at, as Brian said, the food police. That's great. Thank you. We will just pack this up. It looks like a nice day.

Ms O'BRIAN: The forecast was bad. It's meant to rain.

Meeting No. 18 Monday, 30 July 2001 National University of Ireland Galway, Ireland

Also in attendance:

Professor Roy Green, Professor of Management, School of Business and Economics, National University of Ireland

Professor GREEN: . . . intervening period until you mentioned that.

The Hon. TONY KELLY: Because the suggestion was that 10 per cent that was the tax rate at the time—I think it is 12½ now—was a big encouragement for them to come here.

Professor GREEN: Mmm, mmm.

The Hon. TONY KELLY: I want to find out whether there was anything else as well. We can talk to them.

The Hon. Dr PEZZUTTI: I mean, Tony blamed Mr—

The Hon. TONY KELLY: Baldwin.

The Hon. Dr PEZZUTTI: —Baldwin for not getting on to it but the reality was that they were only playing ducks and drakes anyway.

Professor GREEN: Mmm, mmm, mmm. Yes, that was a mysterious one.

The Hon. Dr PEZZUTTI: We still can't find them. We are desperate to find them. But if you find them—

Professor GREEN: If I—yeah, if I see anything—well, they may have changed their name, of course.

The Hon. Dr PEZZUTTI: I mean, they would be a relatively small player but we have given them a huge amount of investment.

The Hon. TONY KELLY: I thought the company was the same name in South Africa, Rack Right.

The Hon. Dr PEZZUTTI: It's the same name, yeah, but we have got to find out where they are over here.

Professor GREEN: Who have you asked over here? Have you asked the agencies?

The Hon. TONY KELLY: Yeah, we have asked the agencies.

Professor GREEN: They would know. They keep track.

The Hon. TONY KELLY: We have been through phone books.

Professor GREEN: No, they keep track. No, there wouldn't be a foreign investor around here that they really wouldn't.

The Hon. TONY KELLY: Gee, they told us their system when one of the computer companies said they were interested in coming here and could you get employees. Within a month they had contacted and received positive responses from over 400 people with the correct qualifications who had been trained in the universities in Ireland and were somewhere else in the world and had agreed to come back. They had that all within one month. Who was the company, the first one.

Mr CARR: Intel.

The Hon. Dr PEZZUTTI: Intel, but they just simply went through the—

Mr CARR: No, it wasn't Intel; it was the other one.

The Hon. Dr PEZZUTTI: I meant it was something we wouldn't do. They went through the alumni association and rang up all the engineers.

Professor GREEN: Well, and also, of course, Ireland has the second highest output of science and technology graduates in the world next to Japan, way ahead of Australia, per head of population.

The Hon. TONY KELLY: Well, that's what we see as being one of the major reasons why they have done so well. You know, some people might glibly say it has got something to do with the EU but I think from what we have found, the courageous decision they took some 20 or 30 years ago to heavily invest in education has paid off for them now in jobs, and I suspect they are just about to go into another phase in research and technology.

Professor GREEN: Absolutely. In fact, we are part of that at the moment. The national development plan allocates £1.9 billion—over \$4 billion—to investment in research in the higher education institutions for a country with seven universities, and compare that with the Federal Government's innovation statement of a little while ago giving \$700 million to the ARC for 36 or 37 universities. What they are talking about here is a massive catch-up in research. They know that—well, they haven't got the natural resources, they have to rely on their own ingenuity and so they are investing in their intelligence and the knowledge economy.

The Hon. Dr PEZZUTTI: Well, they didn't—this is relatively new. I mean, they invested and gave the kids the infrastructure to do it but they all went overseas to get their research experience and now they are actually paying for them to come home.

Professor GREEN: Yeah, but they are also investing in the next generation, and they are doing this by providing tranches of around £300 or £400 million for university to compete to set up centres of excellence, like our key centres of teaching and research a few years ago, co-operative research centres. They are doing this but they are providing a great deal more money—

The Hon. Dr PEZZUTTI: Big dollars.

Professor GREEN: —per institutional proposal. Now, we have a—I should have brought it actually. We have got a proposal in from the Faculty of Commerce which we have been working on for the last six months. It's the most complex application process I have ever been involved in but the prize at the end is £3 million to set up a centre for innovation and structural change, and we would then become the national centre.

The Hon. TONY KELLY: Three million?

Professor GREEN: £3 million over sort of five years.

The Hon. Dr PEZZUTTI: Who was it yesterday telling us about research where the prize can be up to £2 million or £3 million for an individual researcher?

The Hon. TONY KELLY: Yeah, five million over five years.

The Hon. Dr PEZZUTTI: They go head hunting.

Professor GREEN: Oh, this is another tranche, another part of this 1.9 billion is for what they call Science Foundation Ireland and that's really the one which is head hunting. That's bringing—in fact, they made the announcements two days ago in the newspaper of the successful applicants for the first round of that whereby they are bringing back people who are leaders in the field focusing particularly on ICT and biotechnology.

The Hon. Dr PEZZUTTI: That's right.

Professor GREEN: They are bringing them back, Irish people working in Stanford or wherever and also non-Irish leaders in the field. They are just saying, "How much will it take to get you to Ireland to build an international research team of 20 or 30 people and become the leaders, make Ireland the leader in this particular field? And we want this to happen in the next two or three years." It's a bit like the US in the 1950s and '60s when they were buying in the best people from around the world.

The Hon. Dr PEZZUTTI: That's right.

Professor GREEN: That's what Ireland is going to do, and money is no object. They are just prepared to pour it in.

The Hon. TONY KELLY: Well, they have proved that that sort of investment has paid off in the past, haven't they?

Professor GREEN: Yeah. Well, they have done it in a phased sort of process. In fact, I might just. What might be useful is if I put—

The Hon. Dr PEZZUTTI: 1.9 billion over how many years—six years, isn't it?

Professor GREEN: That's over the 2000-2006 national development plan. I have got an Australian-Ireland comparison here somewhere too. I won't show you all of these but there's just a few.

The Hon. Dr PEZZUTTI: The national research centre institute, is that separate?

Professor GREEN: The Science Foundation Ireland?

The Hon. Dr PEZZUTTI: Yes.

Professor GREEN: That is part of the 1.9 billion. That has been allocated a tranche of 560 million.

The Hon. Dr PEZZUTTI: That's right.

Professor GREEN: Focusing on ICT and biotechnology. But maybe if I put all that in a context here, and just interrupt me as I go along. This is a presentation that arises from a research project that we were doing on the ICT sector in Ireland, which has now been published by the OECD in a recent OECD book. I think I might have sent it to you. Steven, did I put that on the e-mail? I can't remember.

The Hon. TONY KELLY: They talked to us about it over there too.

Mr CARR: We got some background information but I don't think I have got a copy of the —

Professor GREEN: Well, this is a draft of it. It is about the most recent draft. I couldn't put my hands on the final one. And there's a couple of newspaper items on it.

The Hon. Dr PEZZUTTI: That's a great way of putting two words the wrong way around, isn't it, boundaryless clusters.

Professor GREEN: That's right, as opposed to one with specific geographical boundaries, in other words, a global cluster, defying the usual stereotypes that you find in the academic literature of Michael Porter, where clusters are defined by internal domestic competition and the ability to develop an international export base from the home country via competition. This cluster here in Ireland in the ICT sector is immediately part of the global economy. Ireland is just part of a global sector, and the ICT firms may incidentally compete with each other in Ireland but it's not part of their game plan to do so. If there is any interaction between them, it's more in areas where they can collaborate rather than compete on research and on labour pools.

So, okay, well, what I might do is start with some comparisons between Australia and Ireland. I will just put the extraordinary economic achievement here, and in this respect you won't find much difference between what I am going to say and what you hear from the official interpretation. GDP growth, importer growth and trade balance. So GDP growth over the '86 to '99 period is about double in Ireland. Australia thought it was doing pretty well during that period, and in OECD terms Australia wasn't doing too badly, particularly in employment growth during the late 1980s and the 1990s, where it was fairly similar to Ireland but it has been in the period '96 to 2000 that you see the real impact of the Irish take-off. Initially, perhaps you could say growth, not exactly jobless growth but growth with perhaps less, with a similar point of impact to other countries, but in the later 1990s we see growth in Ireland well surpassing, employment growth well surpassing other OECD countries, and the most dramatic contrast I think between Australia and Ireland has been the trade balance.

The Hon. Dr PEZZUTTI: And that includes cash injection and cash investment, doesn't it?

Professor GREEN: Sorry?

The Hon. Dr PEZZUTTI: Does that include cash investment, trade balance? In other words, if a company is investing in Ireland is that included in that as well?

Professor GREEN: No, no, this is just the merchandise trade balance. The balance of payments is a separate category which would include the inflows and outflows of capital. Certainly the external positive trade balance also coincides with massive capital inflows but we also have massive capital inflows in Australia as well to offset the deficit. Here we have a positive trade balance plus trade plus capital inflows for investment and really exports and the positive trade balance is driving Irish growth. Investment by international companies combined with exports from the domestic base to Europe, the US. The composition of trade is now diversified dramatically as part of Ireland's position in the EU away from the predominance of trade with the UK to a more diverse trade pattern with the rest of the EU.

The Hon. Dr PEZZUTTI: How come they can still get to be a less favoured position? How come they are still getting huge capital injections from the EU if they are doing as well?

Professor GREEN: Well, that's coming to an end.

The Hon. Dr PEZZUTTI: Not till the end of 2006, though.

Professor GREEN: No, what has happened is that during the 1990s they were getting significant subsidies via the structural funds, reaching a peak around 1996 of 4 per cent of GDP, and it has been tapering off since then, and in the current round they have been told that they are no longer an Objective 1 country, in other words, a country where national income per head is less than 75 per cent of the European average. In fact, the national income per head is now approaching EU levels and will surpass that in the next couple of years. Already GDP per head is higher than the EU average, but what has happened as a transition is that the country has been divided in half and the so-called BMW region, which is the border midlands and west, in which we are included here, is categorised as an Objective 1 status, so there is a bias in favour of this region in terms of allocation of European funds, whereas the rest of Ireland is now categorised in the same way as any other part of the EU with no particular priority for European funds. But European funds go to every country.

Germany gets European structural funds. It's part of the redistribution of the tax that European countries pay to the commission, and the commission reallocates that as any nation state would to projects of particular European significance, and here they have mainly been projects in the area of infrastructure, research and the building up of the social capital as well because they see a very close relationship between the development of the economic infrastructure and the social infrastructure. Many of the museums, for example, that you would see out here in the west have been constructed with European money and have enabled Ireland to develop a component of what people now see as its cultural self-confidence that it is able to build museums to its heroes and to its ancestry which it hasn't been able to do before.

I think it might be worth just going through what the policy drivers are in the Irish context here. What I think I will do here is just look at a few facts and figures and then we will get back to the issue of the rural towns and the distribution of funds. Before we do that, this is just a chart of employment change over the 1990s, and you can see where Australia fits into that, and this is Ireland. This is the US. So Ireland. The Netherlands is next with its also having a social partnership model like Ireland, the US, Canada, Australia and some of the other European countries, and Germany is the one that has been dragging back employment growth mainly at the beginning of the 1990s because of the big events there over the incorporation of the eastern zone into the rest of Germany. That has just taken up a lot of public resources in Germany. But in the last two years German employment growth has been faster than the US, and it isn't just in services that this has all happened.

I think it is also important to recognise, as I think I might have pointed out in the context of the Hunter region as well, that manufacturing remains an important part of economic growth in Ireland as much as anywhere else despite the shift in the composition of growth towards internationally traded services. Nevertheless, this is the employment change in manufacturing in the seven-year period 1990 to 1997—almost a 40 per cent increase. And where that has occurred it has occurred mainly in ICT hardware companies like Intel and Dell and also in pharmaceuticals—the largest pharmaceutical companies in the world are here—and more recently, especially around Galway, and I will come to this if you are interested, the growth in medical technologies. Galway has become a cluster of medical technology companies, mainly American but also with supply chains of local manufacturers as well, Boston Scientific, AB Medtronic.

I was on a plane a while back with a German guy coming out of Galway and I was just interested in why he was there. He said, "Well, I used to make—I have been working in the medical technology, medical devices sector, for the last 20 or 30

years and I have always made trips from Germany to Switzerland to source whatever we are doing in Germany. Now, all my trips are to Galway." Galway produces 80 per cent of Europe's medical devices by value.

But on the question of what are the drivers of all of this, and this is really the key question, I suppose, which you will get different opinions about but, I suppose, the traditional interpretation, certainly by outsiders and by some who are a bit cynical about the Irish experience, they would say, "Well, it's all due to very low corporate tax rates" or "It's all due to these EU funds which have been propping up the local economy." And we can't rule those out because those are important factors, especially at the initial stages of the boom. The corporate tax regime, 10 per cent for manufacturing exporters, is an important incentive for foreign investors, especially American foreign investors in Ireland, and it has come under some criticism from Ireland's EU partners, who feel that their funds are subsidising these low corporate tax rates in Ireland, and it's hard to deny the element of truth in that but if it was simply low taxes, the boom would not necessarily have occurred here and it certainly wouldn't have taken the shape it has.

The Hon. Dr PEZZUTTI: What base are we talking? What's the GDP of Ireland?

Professor GREEN: A good question. Probably—

The Hon. Dr PEZZUTTI: There are only four million people.

Professor GREEN: Probably \$300 or \$400 million. I don't know, \$1 billion. I am not sure.

The Hon. Dr PEZZUTTI: American. Do you think it's that big?

Professor GREEN: That's something to look up.

The Hon. Dr PEZZUTTI: I think it's a lot smaller.

Professor GREEN: We usually talk in terms of growth rather than absolute numbers, but I will have to think about that. I think it would be around \$300 or \$400 million but we would have to check.

The Hon. TONY KELLY: With their corporate tax regime anyway, the amount of companies that have come here and set up, I mean, the gross amount of tax they are paying would be much higher than had they not come and they had triple the rate of tax.

Professor GREEN: Yeah, well, that's the theory behind it, and I am not sure if there are any precise figures on it, but certainly tax revenues, including from the corporate sector, are booming and along with the trade surplus there is also a very large budget surplus—

The Hon. TONY KELLY: Well, the Government has a huge surplus, though.

Professor GREEN: —that can be used for this national development plan. So the low tax regime has paid off, and the question is: is it specific to a small country on the periphery of Europe? If everyone did it, of course, there wouldn't be any competitive advantage in having a low tax regime, and if a big country did it, then it would quickly be stamped on by the European Council of Ministers. So Ireland has just about got away with it, but whether anyone else could do anything like that in the future is an open question.

The EU structural and cohesion funds, as I said, have been a very important factor as well in building up infrastructure from a pretty low base as you can see when you are driving around in Ireland. Infrastructure and development is not at a high level. But the other three I think are the ones worth focusing on because these are transferable policy initiatives, and they have the relevance to Australia as well. The first is social partnership. Ireland has had something like the Accord for the last 14 years since the disaster in which it found itself in the mid-1980s with the national debt higher than GDP, with 20 per cent unemployment, with 17 per cent inflation. You couldn't imagine a worse basket-case economy in Europe or anywhere else, and that was when the social partners took matters into their own hands. It was not even driven by government; it was driven by business and unions. But not just business and unions; also involved in this were the welfare groups, the churches and community organisations. It was a much broader concept of partnership than the Accord.

If one could criticise the Accord in this context you would say that it was confined to an elite of negotiators whereas this partnership is a much broader concept. It really reaches down into every element of the Irish community. All the partners are on board. The unions play a major role but they are not the only partner in this context, and I think it is to that which

the partnership would owe its resilience. It has really been a major factor in the ability of government to have the confidence to follow through, firstly, a macroeconomic stability program under the tutelage of the EU. That meant recognising that Keynesianism wasn't really possible in a small country. You weren't going to get growth simply by public spending. You could broaden the Irish market, but the Irish market is nothing. The real market is out there. So it was a question of the social partnership enabling Ireland to globalise its economy.

The second factor there, skills and education, started even earlier than that. You mentioned that, Tony. At the end of the 1960s the civil service here colluded with the OECD to produce a very progressive report which undermined, really, the church's role in the Irish education system and modernised the teaching of science, engineering, mathematics in the primary and secondary school system, and it wouldn't be right, in fact, to pass over the role of the civil service in this whole process.

The civil service in Ireland is a very, very high quality group of people that are among the best senior civil servants I have ever encountered. They genuinely — the civil service here has genuinely attracted the best and the brightest over the generations, and the people in charge of education, in charge of industry policy and social policy are very, very visionary people and, I suppose, what contributes to that as well is that the political party system is completely different here. You know, it changes from Fine Gael to Fianna Fáil. It doesn't really make any difference, much difference, to economic and social policy. The civil servants are really the driving sector. We politicians might—

The Hon. Dr PEZZUTTI: We got the severe impression that the civil servants were desperately running the longer term and they feed the politicians with something for your constituency and something for yours.

Professor GREEN: Exactly.

The Hon. Dr PEZZUTTI: It was almost, not quite arrogant; it was almost like telling it like that.

The Hon. TONY KELLY: That we could see.

Professor GREEN: Yes Minister is an understatement in this country.

The Hon. Dr PEZZUTTI: Yes.

The Hon. TONY KELLY: But we agree with what you say about their quality and ability. We had a couple of hours with the Deputy Secretary of the Department of Trade and—I just can't think of his name at the moment but he was excellent.

Professor GREEN: I don't know him but I know the secretary there, the Secretary General, Paul Harran, and he is a brilliant character, just incredible.

The Hon. Dr PEZZUTTI: This guy was amazing. He said—

The Hon. TONY KELLY: Ronald Long?

Mr CARR: Ronald Long.

The Hon. Dr PEZZUTTI: He is as concerned as anybody else that what is happening in America, what's happening in Australia and in Britain and now here is how are they going to continue to attract the brightest into the civil service, and the idea of a civil service as you move into a me-too economy.

Professor GREEN: That's the difficulty. Well, even in the case of Paul Harran, the current secretary general in that department, we had a function over here and so I had an opportunity to have lunch with him and had quite a good conversation, and it turned out that his game plan was to retire. He is only, you know, 45. He is going to retire in four years time and go on the board of a company. He said, "Well, that will be the end of it for me and I'd like to spend the last half of my life working in the private sector where I am going to triple my salary but have a better lifestyle."

The Hon. Dr PEZZUTTI: But the investment that they make in these people is not small.

Professor GREEN: Mmm.

The Hon. Dr PEZZUTTI: I mean, they come in. They are working. He said the top 4 or 5 per cent of the population up to education enter the civil service because they've, just like Egypt, got this process but now—

The Hon. TONY KELLY: That's not the case any more.

The Hon. Dr PEZZUTTI: Well, they are still picking them but now they are dropping out too early, and that's common through the United States. The United States has a huge problem attracting people to the public service.

Professor GREEN: Well, Ireland is certainly running into that now. So, anyway, as far as the educational reforms are concerned, the civil service was really the architect of that, and together with the OECD, using international pressure, they really outfoxed the church and even some elements of the political parties in introducing these reforms which no politician could have done on their own, and that was continued through the 1980s. But the problem that they came across in the 1980s was that although they had this very well trained graduate population now in computer science and engineering, they were all going abroad, so 45,000 people approximately were leaving Ireland net per year during the 1980s combined with this terrible state of the Irish economy, and those people, they are the people they are now trying to get back, but the Government realised that they had to take other steps to develop the Irish economy. It wouldn't happen just because you had skills here, and if you look at it in the context, for example, of Robert Rike's book on the work of nations where he said the key competitive element for countries in the modern world is the level of skills, well, that was only partly true for Ireland. They had the skills but they were still not getting the investment and the growth, and that's where the IDA came into the picture.

The IDA had been attracting foreign investment across the board since the 1950s. Ireland's economy was already globalising but it was globalising in the wrong areas. It was trying to attract the low end of manufacturing, which the Irish are not particularly good at. If you want to site a low-value-adding manufacturing plant somewhere you wouldn't necessarily pick Ireland but they kept wages low so that there was at least that element of attraction and their skills were therefore wasted and going abroad, and so the IDA took the view that it would target the areas of global growth over the next 10 or 15 years. It would pick winners, essentially, quite unashamedly pick the winners. It could be wrong and therefore they would be wasting a lot of money, but if they were right then the pay-off would be huge and the areas they picked happened to be the right ones.

They went for the ICT sector, which was only just then taking off internationally. They went for pharmaceuticals. They went for agrifood, which was an obvious one. They were then a little bit later going for health care and medical devices. But they kept the list fairly narrow but they picked the ones where the growth was going to be the most rapid and then they went after the companies, the big companies in those areas, with a view to making use of the skills that had been developed in Ireland and its position in the EU as a springboard for the European market, and that was one of the reasons why Ireland has been so favourable towards EU initiatives and even more so than Britain to the extent that it entered the euro without the UK.

This is a point that you will see mentioned in all the Irish brochures to international companies "We are part of the euro zone. Britain is not. We are the only English speaking member of the euro zone". Quite a clever marketing strategy. The Americans always had a cultural affinity here anyway, but together with the incentive packages that were then offered by the IDA, they could bring out 20 of the top 25 software companies in the world to Ireland and all the leading ICT electronics companies, so in the ICT sector starting with manufacturing and the mass-produced end, which may not be here forever actually. I am surprised that companies like Intel keep such a high presence in Ireland given the level of wages now, but the key thing is to move these companies and any new companies in Ireland up the value chain so that Ireland makes use of these skills as its key competitive advantage rather than low labour costs, which it no longer has.

Labour costs here are not all that dissimilar from the rest of Europe. But having targeted these companies and having brought many of them in, the Irish policy establishment didn't just sit back and say, "Well, we have succeeded." They said, "Well, how do we keep them here?" And more importantly than that, "How do we develop the indigenous sector, the local small company sector, to take over, to duplicate and then to take over many of the activities that are performed either internally in these foreign companies or by external suppliers to the extent that Intel or any other company would use suppliers in Germany or in America? Can they be replaced by local Irish suppliers?" And so they began a process which, I suppose, is not unlike the Industry Supplies Office in the Australian states but on a much vaster scale, combining all the elements that have ever been good ideas in Australian industry policy in one institution, that is Enterprise Ireland.

You might remember we had a NIES program, the National Industry Extension Service. We had the Industry Supplies Office. We had a whole lot of very good and the best practice program. We had a number of very good programs over the years in Australia but they were never brought together in a coherent way. They were always very disparate within the Australian policy structure and then they would be abolished. As governments changed one would be abolished and another one would be brought in, and every time anything ever had a chance to develop, it was knocked on the head. But Enterprise

Ireland was introduced. It was supported in a bipartisan way and its function—it was separate from the IDA. The IDA was reduced to a very small group of officers, a few hundred, whereas Enterprise Ireland had something like 1,500 to 2,000 employees, so you can see that that is the major element now of Irish industry policy, the IDA having the role of attracting foreign investors, setting up industry packages but doing so in a very targeted way not only in terms of sectors now but also in terms of spatial strategy because, as you said earlier, about where they want to see these foreign investors located, they now say to the foreign investors—they don't say, "You can put your company wherever you like." They say, "We want your company to be in Sligo, and this is how we will create the environment in Sligo to make it worth your while to be there," and so by a number of procedures the company is convinced that's obviously the place they should go so there is now a spatial element to the strategy.

Enterprise Ireland has a separate role of building up the local supply chains around these inward investors. It locks them into the locality and it ensures that smaller Irish companies are developing the capacity not only to service these larger companies but also to develop an international market of their own, and this has happened most dramatically in the software sector, where many companies that have started as spin-offs from multinationals or as suppliers to the multinational sector are now international players in their own right like Baltimore Technologies, and Partners and Storemen. These are all Irish companies.

Now, the article there is one which looks in a quite preliminary way because we are going to do some more research in this area at the Galway experience which I think is an interesting microcosm of a town which was facing a similar problem to that of Newcastle in Australia with the closure of its major company. Now, the major company here in the early 1990s was Digital Equipment Corporation, DEC, and they were manufacturing computers here. They had a work force of 2,000 people and their hardware manufacturing area was attracted away from Galway to Ayr in Scotland by British industrial subsidies and so they closed down the manufacturing element here with the loss of hundreds of jobs. That was seen to be a catastrophe for Galway in the same way as the closure of BHP was seen to be a catastrophe for Newcastle, but the parallels don't stop there because in both cases it has turned out probably to be of benefit that the sort of low-value-adding end of ICT in this country has been closed down in Galway and replaced over the years by a much more research-intensive software sector.

Digital was ultimately taken over by Compaq, kept its software engineers in Galway and many of them spun out to form their own companies as well. There's a sort of group, an informal group, around Galway known as the ex-DECs, and these are very skilled people who formed their own consultancies or software companies or entered new ones and who formed the basis of a viable software cluster in Galway. Even Enterprise Ireland statistics didn't really grasp how vibrant this sector was now in Galway. It encompasses around 60 companies. Most of the statistics suggested it was between 20 or 30 but there are 60 companies here which are of various sizes and shapes but all are at the cutting edge of software development.

Now, software in general in Ireland is one of the fastest growing sectors. I think I might just show you this slide here. As you can see from this, okay, the light bar is computer exports, the dark bar software exports. The US has the highest level, of course, of computer exports followed by Japan, the UK, the Netherlands. Ireland is number five. So in terms of computer exports Ireland is doing pretty well but in software exports Ireland is number one now, a higher level of exports than the US. Much of that, of course, is duplicated software. It's localisation whereby software is originally generated in Silicon Valley or Research Triangle or somewhere in the US and then is duplicated for the European market in Ireland with some changes, changes in the language, changes in the brochures, so the Irish have to do some value adding to it along the way, but it isn't what—you wouldn't say that it was research driven, and, in fact, as a result of this research coming mainly from abroad, Ireland has what the OECD calls a very high deficit in the technology balance of payments.

Countries like the US and Switzerland export products with a high embodiment of their own technologies whereas Ireland, while it has very high technology exports, has a much or similar level of imports of the research that is embodied in those products so it's bringing in products from the US that it then re-exports with a little bit amendment and modification to them. That's the major part of its software export story. So it's not as marvellous as perhaps it might otherwise look.

The Hon. Dr PEZZUTTI: Just yet.

Professor GREEN: Just yet because Enterprise Ireland knows that, and actually one document which I should have brought along which you must get hold of is called ITS 2007, Internationally Traded Services 2007, which is the Enterprise Ireland plan over the next few years to move the software industry up-market so that it isn't just duplication and localisation but originating new software, which is what the Irish are good at actually, and you can ask the question, I suppose, about the cultural attributes of Ireland and why it has taken so swiftly and effectively to the software sector. It was no better than anyone else in repetitive manufacturing and probably not as good as most other countries in that area. Metal bashing has never been part of the Irish industrial scene. It has moved from more or less a third world economy to a post-modern one

in 10 to 15 years, and it has moved to an economy where the leading technologies rely on ingenuity, they rely on language, on the use of language, on all the kind of attributes that the Irish are actually very good at in history, and so it is perhaps no wonder that software has taken off here as rapidly as it has. So those are the main reasons why I think□

The Hon. Dr PEZZUTTI: You could say the same thing about India.

Professor GREEN: Yeah, exactly. Oh, I might just point to what would be seen as the weaknesses perhaps in the current scheme of things. I have mentioned some of them but clearly there is a very heavy dependence on foreign direct investment here, a huge dependence especially on American foreign direct investment, and that has meant that Ireland is not as autonomous an economic policy as it might wish to be. It has brought considerable advantages, of course, but it is a very one-sided development for a small economy, and that is something they need to address, and which they are addressing through this capability building via the Enterprise Ireland industry policy, and also by EU policy because the EU now has a new program, which I think you probably have come across and which I think is a very important one, called the Regional Innovation Systems Program, which takes the view that building up capability in regions is not just about investment by a company or putting in an institute of technology or giving some money to the local chamber of commerce; it's a combination of all these things in a systematic way which amounts to what would be termed a regional innovation system, an interconnected set of relationships between the company sector, higher education and research, the local development agencies, local consultants.

Then business expenditure as a proportion of GDP is now around 1.1 per cent, which is about the OECD average. Four or five years ago it was 0.5 per cent, which was half the OECD average, so it is increasing dramatically fast but it is not increasing as fast as it should in the high technology sectors. The proportion of R and D expenditure and turnover in the best companies is around 20 per cent, and that's what they have to aim for now.

The Hon. Dr PEZZUTTI: I mean, if you think about it, until they develop their own corporations that are owned by Ireland the R and D will never be done except in the country of origin or the ownership of the company. In other words, you give too much away.

Professor GREEN: Well, that's an interesting□ that's an area of debate. I am not sure.

The Hon. Dr PEZZUTTI: You give too much away.

Professor GREEN: Well, I think that's an area which is undergoing some quite interesting changes, and it's not clear which way it's going to go, but in the medical technology sector, for example, here that has been very, very centralised up till now in Minneapolis, where Medtronic and Boston Scientific are based, and it has just been in the last couple of years that the head offices have realised that a lot of the best ideas are to be found among the engineers here locally and so they are now beginning the process of devolving a lot of their R and D functions to Galway.

We are closer to the market here. The cycle times have to be very quick and they can't organise them from America. The responses have to be devised here. They have missed a number of opportunities because they didn't follow advice from the local engineers, and so the local company manager here of Medtronic gave a very interesting talk about that a few months ago in which he described how the American head office, purely pragmatically, not really as part of any great principled change but pragmatically is just shifting one component of R and D after another down to the local office here.

Now, how far they can pursue that, whether they devolve any sort of their major strategic functions is an open question but I thought it was interesting, and if this is common across the company sector, then it is even more interesting that they are beginning to see that controlling all of the R and D in an office somewhere separate from their markets is not as effective as having people in the companies, in the subsidiaries, responding to the market and developing products.

The Hon. Dr PEZZUTTI: Well, if they do, it would be a huge explosion—huge.

Professor GREEN: That's another area. So Enterprise Ireland is, of course, encouraging that as well, and I wouldn't be surprised if they come up with all sorts of clever ideas for incentives to R and D at the local level in the software sector as well as in medical devices. Okay, and the venture capital market here has also been quite weak especially in the regions. In Dublin now the venture capital market has now got a critical mass. I guess, you could say, but whereas in Silicon Valley, up till recently anyway, venture capitalists were chasing software engineers through their living rooms just to offer them, falling over to give them money, that has certainly not been the case in Ireland, and it has been a difficult process to establish a venture capital market in a peripheral area of Europe, but they have managed to do it in Dublin. That's the other area perhaps of great progress, the development of the financial services market in Dublin and, again, they had to invest in the

infrastructure to do that, but the venture capital market hasn't spread outside of Dublin, so here in Galway the companies have to go cap in hand to Dublin or to America or to London to get any kind of support. Now, Enterprise Ireland fills that gap to some degree. It runs its own venture capital business in a way that if it were happening in Australia it would be called Ireland Inc. and would therefore not be electorally feasible after the experiences in a few of the States.

The Hon. Dr PEZZUTTI: They explained that to us, though, didn't they, Tony?

The Hon. TONY KELLY: Mmm.

The Hon. Dr PEZZUTTI: They said basically they back a few and they lose a few.

The Hon. TONY KELLY: Yes, give way when they lose a few.

The Hon. Dr PEZZUTTI: They keep ownership, they keep a percentage ownership of the stock and they flog them off when the company thinks that they are on their own feet, and they flog them off at a profit.

The Hon. TONY KELLY: Sixty million return to Treasury this year.

Professor GREEN: They are making a fortune, yeah.

The Hon. Dr PEZZUTTI: But they lose.

Professor GREEN: Yep, that's right.

The Hon. Dr PEZZUTTI: But the trick is to have a co-ordinator general or somebody, a public servant, who is free to make these decisions but who is commercially alive enough and not subject to what we would call ICAC—you know, the Independent Commission Against Corruption—because a lot of the dealings that they do are so, they have so many Chinese walls within their head, then with this company and that company and the Government, that you really do have to trust these people implicitly to make good decisions.

Professor GREEN: Yes, absolutely.

The Hon. Dr PEZZUTTI: And, you know, sort of huge trust can breed the sort of problem that governments fall with.

Professor GREEN: Yeah, well, they have been fortunate in that respect, firstly, with the quality of the personnel administering this process and, secondly, with the returns that they have made from those equity investments, so Enterprise Ireland holds equity in a lot of the local firms here and then gradually it lets go, and as you could see from your travels, infrastructure and skills deficits are chronic in Ireland now. Infrastructure is really holding things back, and part of a group, a steering group, of companies on the western corridor here—they call themselves the Atlantic Corridor—they are mainly ITC companies in Galway and in Shannon-Limerick. They are trying to develop a corridor idea in the west as a counterweight to the economic dominance of the east, and these are major companies. We have got Nortel and Sebel Systems, Compaq and a few others up here in Galway. Down there is Dell and Intel and Tel Labs, and the biggest problem, of course, is the road in between the two. It's just a goat track between here and Shannon and particularly from here to the airport. I have missed two planes since I arrived in Ireland trying to get down there in time and there's a tractor on the road or something in the way. You've really got to leave sort of three hours in advance to catch a plane.

The Hon. Dr PEZZUTTI: Heathrow—we were, what, an hour and a half on the freeway to Heathrow because a car had an accident and they landed the helicopter on the freeway.

Professor GREEN: Oh, you are kidding.

The Hon. Dr PEZZUTTI: And the whole thing just ground to a halt.

The Hon. TONY KELLY: It took hours. When we got on the plane, when we arrived here in Ireland we said, "Well, the biggest thing Ireland can do for itself for future progress is to not have to go through Heathrow airport. Come direct."

The Hon. Dr PEZZUTTI: In fact, the walk from Heathrow 1 to get on a plane to come to Ireland is almost a two-kilometre walk.

Professor GREEN: No, it's shocking. I think actually □ the people here have got used to it but I think it's a colonialist mentality over there. They push the Irish component at the airport right to the end into this little cigar box area. I will not go through Heathrow if I can avoid it. I will go through Charles de Gaulle in Paris, which is a much better hub, or through Schipol. I will do anything to avoid Heathrow now. Irish business people take the greatest amount of pleasure in getting on a plane in Dublin and flying over the top of the UK to do business in Europe—"See you".

The Hon. Dr PEZZUTTI: Yes, but again it's not—Heathrow is now striking about building a fifth hub.

Professor GREEN: That's right.

The Hon. Dr PEZZUTTI: And that may well be a big success for them but just the walk from one to □

Professor GREEN: No, that's right, and you would be lucky if you avoid someone giving you a questionnaire asking you how you feel about your latest visit to Heathrow airport. Well, I mean, they are taking a risk I think.

The Hon. Dr PEZZUTTI: They lost our luggage.

Professor GREEN: That happens on at least one out of five trips going through Heathrow. It happens to me, I must say. So, anyway, infrastructure is an important issue here, and that is being addressed by the national development plan, but slowly. It is difficult to see the relationship between the words on paper and progress on the ground, and we are going to see motorways going out from Dublin to all the regional areas. We are going to see improvements in the rail system.

The Hon. Dr PEZZUTTI: They are not into fixing up the electricity first, then?

Professor GREEN: Well, we need more power stations, certainly out here in the west because, you know, in the ICT industry if we want to set up server farms—

The Hon. TONY KELLY: That's right.

Professor GREEN: —they take up a lot of—and electronic data centres—these take up a huge amount of electricity. So that's a big problem. And then in the area—

The Hon. Dr PEZZUTTI: In fact, just the delivery system with those cables above the ground is just so inefficient and you couldn't get a stable electricity. You would have to have a generator on site to get stable electricity. The grid is simply not close.

Professor GREEN: Yeah. No, that's a real problem I think, but one of the problems also in addressing all of these things is the skills deficit. It is not only in the technology sectors themselves but in the construction sector to get the changes that they need in infrastructure that they change a bit with the downturn. It has been a major problem, and the Titian Prime Minister has been talking recently about just in order to get these motorways built just getting one of these big German or British construction companies over and planting them in the middle of Ireland and then telling them to bring their own workers and telling them to build a motorway, just get on with it because there just aren't enough workers in Ireland to do it.

Demographic issues: well, it's certainly the youngest working population in Europe at the present time but it's getting older quite rapidly, and in this university, for example, we will see a tailing off of entrants fairly shortly and then the issue will be how do we upgrade the skills of the mature age students and the older workers. The emphasis will shift to the training system.

The Hon. Dr PEZZUTTI: How many places do you sell a year in Ireland.

Professor GREEN: How many?

The Hon. Dr PEZZUTTI: Places at universities are you now selling? What's the percentage of your student intake at undergraduate and graduate level that are indigenous?

Professor GREEN: Oh, nearer to 100 per cent. There is a big market for international students that is not being tapped. When we have our award ceremonies here giving out degrees I look at that sea of faces of 400 to 500 commerce graduates. They are all white, they are all Irish and as we read down their names you would be lucky to see even a Greek or Italian

name let alone Vietnamese or Chinese. It reminds me of what it must have been like in Australia in the 1940s or '50s seeing one of these graduation ceremonies but I know looking at them within 10 years that is certainly going to change.

The Hon. Dr PEZZUTTI: It will have to if you are to attract them. There will be fewer and fewer kids coming through from Ireland. I mean, you will start to look like Australian universities. There's a lot of money involved, of course.

Professor GREEN: Yeah.

The Hon. Dr PEZZUTTI: But also PDOPs and your best students from Asia and Africa.

Professor GREEN: We are just negotiating at the moment with a university in Peking, Beijing, the Chinese Information University, a very large new university with provincial arms, to feed into—firstly, to feed into our MBA course here and then they want us to tool up their MBA course so there will be an ongoing relationship with that university over the next 10 or 15 years but this is the first time anything like Galway has been involved in anything like it. Australian universities have been doing that for 10 years or more.

The Hon. Dr PEZZUTTI: But they are just contracts. They are just contracts from the World Bank or whatever. I mean, that's all they are to develop something like New South Wales Uni has got a contract for 20 million to develop a public health, a master of public health administration. For the first couple of years they taught it in Australia and then they moved them across and now it is entirely a franchised course, and that is—you know, I mean, this place here would have just the same to offer. It gives the professors more pay basically. That's the only way you can afford to pay the professors more.

Professor GREEN: Well, I must say the salaries in the Irish higher education system would be a good deal better than in the Australian one I have to say, but this university is probably now about the size of Wollongong. It's about 12,000 students and growing very rapidly, but in order to continue growing it is going to have to tap into that international market.

The Hon. TONY KELLY: How many—in other words full time, how many correspondents?

Professor GREEN: Mostly, it's a very traditional operation here. It's mostly full-time students.

The Hon. TONY KELLY: So the EFTS is 10 or 12,000.

Professor GREEN: Yeah, and there would be a small proportion of part-time but mainly in the post-graduate areas.

The Hon. Dr PEZZUTTI: So how many—it would be the post-graduate you would be trying to push, wouldn't it?

Professor GREEN: That's right.

The Hon. Dr PEZZUTTI: That would line up with your other investment, the 1.9 bill?

Professor GREEN: Yeah, yeah. So, for example, in our proposal to the HEA for a new centre, the thing that they want to hear about most is what will this do for your local post-graduate population? How are you going to boost doctoral students, post-docs, how will you develop masters programs to feed into the doctoral programs. We had to have it all very well mapped out. But in the process of doing the analysis of it we found that our commerce post-graduate numbers had increased by 40 per cent in the last three years, and that's without any great increase in staff, so we began to think, "Well, we will have to put in some applications for more staff here." So, I suppose, essentially my version of this is not all that different from the official story except that I would say that on the infrastructure side things have been a lot slower than any of the officials are likely to admit, and it's causing a great deal of concern and frustration among businesses, especially on the western side of Ireland.

The Hon. Dr PEZZUTTI: With the demographics can you go a bit deeper into that because this is the issue that concerns us a lot, both the ageing of the population but particularly the country population in Australia is ageing very rapidly and I think it is the same here and certainly in Italy and those sort of places—wasn't it, Tony?

The Hon. TONY KELLY: Mmm.

The Hon. Dr PEZZUTTI: That was the thing that—even Mondragon is having trouble with that. So what's the detail of the demographic issues here from a country point of view?

Professor GREEN: Well, with this I wish we had my colleague Michael Cuddy because he is leading the Centre for Rural Development at the university. He would have been a logical person to speak about this but I think what is happening here is not all that dissimilar from Australia in the sense, as you say, that the age structure is getting older in the country towns, and also while IDA and Enterprise Ireland is trying to focus on these smaller regional centres I don't think it's going to have very great success.

What foreign investment is doing and what economic development generally is doing is focusing economic activity around the larger centres like Galway, and the smaller centres are losing out, and the even smaller centres are losing out completely, except in the area of tourism, but as far as economic development is concerned, there is a very□ there is a lack of any decentralisation despite the plans of the government.

Now, the Government may well, through its various measures, be able to ameliorate that or even reverse it in some cases as in the case, for example, Sligo, where it is really identified and Letterkenny, places like that, which are small but not so small as to be unviable, and they can't really afford to let regional centres like that go so they are putting a huge amount of time and investment into ensuring they get their share of economic activity but in order to focus on those, they can't focus on everything so there are going to be other places where depopulation continues.

The Hon. Dr PEZZUTTI: We looked at the population growth around Killarney and places like that, didn't we?

The Hon. TONY KELLY: Yeah, in fact□

The Hon. Dr PEZZUTTI: I was quite impressed with that.

The Hon. TONY KELLY: Yeah, they told us they sort of target those smaller areas, anything from 2,000 population up, which is quite, you know—even if we thought we were local thinkers in Australia I think we probably only start at about 5,000 or 10,000, but they are starting at 2—2 to 20 was their target. It was pretty good, I thought. But we were quite surprised at travelling around that a lot of centres had—you know, a lot of the homes were either new around small areas or being rebuilt or well repainted, very little signs of neglect in the majority of areas we went to so obviously outside the big centres that must have had—well, some of these IDA places were attached to smaller towns as well but the tourism is obviously paying off well in some areas, which is contributing to that.

The Hon. Dr PEZZUTTI: Around the Ring of Kerry. What was that little place we went to?

The Hon. TONY KELLY: Dingle.

The Hon. Dr PEZZUTTI: No, no, no, no, no. We stopped and there was this little IDA site.

The Hon. TONY KELLY: Yes, that was a small place.

The Hon. Dr PEZZUTTI: Just on the coast, a little tiny place actually. We stopped and took a couple of piccies.

The Hon. TONY KELLY: Oh, well, there was one, population 7,000. What was that place?

The Hon. Dr PEZZUTTI: Casaveen?

The Hon. TONY KELLY: Yeah, that was the one. It was like that Tasmanian sweater.

Mr CARR: Casaveen.

The Hon. TONY KELLY: Casaveen.

The Hon. Dr PEZZUTTI: Yeah, a name like Casaveen.

The Hon. TONY KELLY: Yeah, and that wasn't, you know—

The Hon. Dr PEZZUTTI: And they their own little like a—

The Hon. TONY KELLY: IDA centre.

The Hon. Dr PEZZUTTI: I think they market all of their industrial zones with the IDA marking so that it looks, I think, better than it is but they try to obviously—the town clerk will say, "Well, this is where we are going to put all our industries," and they tart it up a bit, but IDA obviously or Enterprise Ireland obviously takes some investment position in those to make them smarter and to make them available and put them on their website—"We now have spaces in this place". But a lot of new houses around there. This is the thing.

The Hon. TONY KELLY: Heaps of new houses.

The Hon. Dr PEZZUTTI: Heaps of new houses.

The Hon. TONY KELLY: And the farming I think must be—

Professor GREEN: This is not necessarily planned, however.

The Hon. Dr PEZZUTTI: No, no.

Professor GREEN: It's called bungalow blight.

The Hon. Dr PEZZUTTI: In fact, it's exactly what it is. It's what we would call the flea, the flea of rural residential, but, you know, it's better than having a house on the South Coast, I suppose,.

The Hon. TONY KELLY: So that brings it to that sort of last dot point, economic inequality.

Professor GREEN: Sure.

The Hon. TONY KELLY: Whereabouts is that showing up? Because it looked pretty good to us everywhere we have been so far. Maybe we have been in a different area.

Professor GREEN: Well the statistics are demonstrating that Ireland still has one of the highest levels of economic inequality in the OECD next to the US and the UK, and it's not improving. In fact, it's getting worse. There were just new figures published on this about a week ago. Now, that's not because people are worse off because everyone is better off but the people at the top are much better off and the trickle-down effect has not been operating as some economists might assume it would.

The Hon. TONY KELLY: Yes, some of the old farms we saw around that Dingle peninsula and so on looked like they had not seen it yet.

The Hon. Dr PEZZUTTI: But you see you can't force people to want to live differently. It was a point I made with somebody at one of the meetings. You know, the EU—who was that Pommy, the English Pommy, not Pommy but—was his name Brown or something in Belgium? You know, where they go into a region and they have got these regional development plans and subsidiarity and solidarity and all this sort of stuff but, you know, you can't force a community to change if it doesn't want to. If they want to stay in a nice little village where they live the way they have lived all their lives, you can't force them to change, and some of them will make that choice.

Professor GREEN: Well, that's true but I think this is a wider issue than just groups in villages who don't want to change. This is a problem that we saw occurring under the Accord as well and that is where you have a wages policy in place which is holding down pay levels you can operate it most effectively in the public sector but not in the private sector, where if there are skill shortages then companies will just pay whatever it takes to get people in, so what we are finding is that there are certain groups in society who are really getting ahead. Obviously people who have land and are selling it are getting ahead. It's a once-and-for-all opportunity for some people but on a more systematic basis apart from entrepreneurs those workers who are getting ahead are those in areas where there are skill shortages and where they can get wage increases way above the 5 per cent which has been set within the program for prosperity and fairness, which is the name given to the partnership document, but on the other hand those groups, particularly within the public sector, who are already relatively low paid—bus drivers and people on the railways, teachers as well now, as you can see from the industrial unrest here over the last year, these are people who are chafing now who don't feel as though they are getting their share of the Celtic Tigers' prosperity, and they don't feel that because it's true, they are not, but the Government is faced with the problem where is it going to put its public spending surplus? Is it going to continue with its program to build up infrastructure or is it going to put it into pay increases for low paid people in the public sector?

Well, it has got to do a bit of both and it's trying to do it, and it has approached it in as systematic a way as it thinks it can via a process called benchmarking, whereby it will compare different occupational groups with comparators in the private sector over a two or three-period, and that's also something that we became very adept at in the Accord, putting off pay increases as long as possible while granting them in the end, and there are a number of unions that are objecting to that as well. So I think they are in a very difficult position. They can't pay everyone what everyone is getting in the private sector immediately but they will try and harmonise wages in a way that contributes to overall stability as well as fairness for those groups that feel that they have been left behind. There is no doubt that they have been left behind.

The Hon. Dr PEZZUTTI: What about the health area in the same area? We arrived to hear the stories that they are building 4,000 more hospital beds and employing large numbers more nurses.

The Hon. TONY KELLY: Was that here or in England?

The Hon. Dr PEZZUTTI: No, here, in Ireland, and that was a commitment by the Government as we hit the place.

The Hon. TONY KELLY: That's right, it was too. Yep.

The Hon. Dr PEZZUTTI: And, of course, it is not an election year. Is it an election year?

Professor GREEN: Next year.

The Hon. Dr PEZZUTTI: Oh, well, that's why. You are like Tony Blair is halving the wages in which like Bob Carr is halving the wages. It never happens.

Professor GREEN: The health sector is really the key for any government here. They have to—

The Hon. Dr PEZZUTTI: You have just got to promise it; you don't deliver it. You have just got to promise it. Nobody believes it is going to happen. But what about Irish nurses? We used to be importing Irish nurses into Australia among others. The month before we came here about 119 nurses left Sydney to come to work in Ireland, which means that the wages must be better than they were—not necessarily better than Australia but they are better than they were—and that Ireland is no longer an exporter or people aren't training in nursing.

Professor GREEN: You might recall I said 45,000 people net left Ireland in the 1980s. That has been totally reversed. It's now 45,000 to 50,000 net coming in, and these people are meeting these skill deficits. Ireland is setting up job fairs in all the major cities of the world. In fact, they have had one in Australia.

The Hon. Dr PEZZUTTI: Yeah, they have, certainly in nursing.

Professor GREEN: They are certainly trying to bring in people to the areas where they are running labour shortages, and nursing is one of those. Wages for nurses haven't improved greatly here, it has to be said, but on the other hand, compared with Australia perhaps because of the effect of the falling dollar as well—I am not sure—the wages now here look pretty good compared with those available in Australian hospitals, so they are certainly attracting people in and□

The Hon. Dr PEZZUTTI: But where are the people who used to train or who used to work in nursing who aren't being exported any more although some are still going to travel because nurses always travel but where are they working now? Where are the nurses of yore now working, the young women and the young fellows who went through their training programs here? Are they going to university and doing other things?

Professor GREEN: Well, a lot of people went out of the nursing profession here as they did in Australia and the UK simply because of low pay or because they got bad backs or whatever and have not come back in, so now they are having to increase the output of young trainee nurses from the universities and institutes of technology to make up the gaps. You would think that they could bring a few people back, but I am not sure how successful they have been in doing that.

The Hon. Dr PEZZUTTI: We have tried that and the Minister runs around almost begging and not very successfully. I mean, the stress levels are very high. Have they done something about nurses' pay?

Professor GREEN: Well, there was a nurses strike here about two years ago. I wasn't here, of course, but apparently the nurses were far more successful at that time than the teachers were here a few months ago. The teachers did not follow a very successful strategy. There are several different unions and they were in conflict with each other as well as with the

partnership so it was a dispute that went nowhere for them, but the nurses, on the other hand, were very unified and had public sympathy and they put a lot of pressure on the Government and the Government—it may have been around an election; who knows—but the Government eventually paid up, so nurses' pay is not too bad, and it's the teachers now who feel they have been left behind.

The Hon. Dr PEZZUTTI: What about—is there a private public mix here?

Professor GREEN: Well, there is.

The Hon. Dr PEZZUTTI: For education and health?

Professor GREEN: Well, not in education so much. Education—well, both of them are very peculiar systems that we would find difficulty recognising. The education system at primary and secondary level is still, formally at least, run by the church. The so-called national schools, primary and local, are controlled by various denominations of the church, including the Church of Ireland but mainly various denominations.

The Hon. TONY KELLY: So the national school is not the public one?

Professor GREEN: They get public money but the churches run them and that is what the OECD report so many years ago found stultifying because so much of the education was religious. But now, of course, you would have to look very hard to find a nun or a priest in a school because they are mainly lay teachers. And we have got two boys in school here and I am a bit apprehensive about this, and I said, "Well how did it go this week, boys? Did you have any religious classes?" and they said, "Oh, well, I can't really remember." It worked out that they got about half an hour a week, which was less than you get in a New South Wales primary school.

The Hon. Dr PEZZUTTI: They'll regret it.

Professor GREEN: Well, so they might. I think that, mind you, they have missed out on the period leading up to time when they are seven years old, the communion, which is a big issue here. They think, "Well, once we have got them through communion it's only a matter of servicing them after that." But, anyway, the point is that the education system is now to all intents and purposes a pretty secular system, and there are private schools but a very small proportion of them.

The Hon. Dr PEZZUTTI: We are going back to the embassy tomorrow but the First Assistant Secretary's daughter is going to a teacher co-op school in Dublin owned by a group of teachers.

Professor GREEN: Yeah. Well, that's the thing, you see. A number of teachers and parents—we have actually sent the best to the local schools. They are happy with those. I think the money—if you look at the primary school here you would say that it hasn't had as much resources as the New South Wales equivalent over the years, but they are pouring it in now. It's a process of catch-up there as well. As far as the health system is concerned I find it all very difficult to fathom what goes on there. They have a very□ in Ireland, just looking at the raw figures, the welfare state is not large by international standards in terms of public spending, so you think, "Well, how do you look after the really, the people that can't afford health care here?" They can't go into the private sector. There is a private insurance sector as well. And the way it operates is through taxes. Because no-one has had the political courage to say, "Do we want a public health care system that works and we are going to put public spending into it," or to say "We want a private health care system," they are got this very strange compromise which operates almost entirely through tax deductions. So I go to the GP and I don't put in my Medicare card as I would for bulk billing in Australia. He sort of adds up all my visits and then he says, "You can take this and put it in with your tax next year," and you get this massive tax deduction so the state pays.

The Hon. Dr PEZZUTTI: You put the money out first.

Professor GREEN: You have to pay at first and then at the end of the year you will get—I'm not quite sure how much back. I have yet to see that. Maybe half, maybe the whole lot. I don't know.

The Hon. Dr PEZZUTTI: But what if you are not a wage earner or a salary earner?

Professor GREEN: Then you have a medical card. They have got a medical card sector.

The Hon. Dr PEZZUTTI: The doctor bills the—

Professor GREEN: Which is like our Medicare but you have to be out of it. I mean, there are very strict criteria for that, but if you are a wage earner, I thought, "Well, now we have to pay for all our doctor's bills," but, in fact, you don't. You get this sort of backdoor reimbursement. I don't know how—if you were a health economist, I am sure there would be some efficiencies.

The Hon. Dr PEZZUTTI: In terms of superannuation stuff, they are now building up some sort of quite large sort of superannuation moneys for their own. Will they use—so that will be helpful for Enterprise Ireland, for example, to access what will be a substantial amount of money as in Australia. We have these huge investments.

Professor GREEN: Yeah. No, the pension funds are becoming quite large here as well.

The Hon. Dr PEZZUTTI: Now, are they able to be used in what Enterprise Ireland does? I mean, the biggest issue for rural New South Wales is trying to get capital for start-up or for expansion. You currently get to 20 and then what happens after that, you know? You have to have both help to go past 20, or even to go past 10 sometimes, advice, technical and other, and financial help but also you need capital.

Professor GREEN: I think that's an important debate in Australia but it hasn't figured in the Irish debate as far as I am aware for all the pension funds in providing investment capital for these sort of—

The Hon. TONY KELLY: Enterprise Ireland is providing a fair whack of it anyway.

The Hon. Dr PEZZUTTI: Well, where do they get their money?

Professor GREEN: Well, they get their money from the state.

The Hon. TONY KELLY: From the Government.

Professor GREEN: And part of that is from booming tax revenues.

The Hon. TONY KELLY: At 12½ per cent.

The Hon. Dr PEZZUTTI: I have to tell you we have booming tax revenues in New South Wales like you have never seen but the regional development money is \$3 million Australian.

Professor GREEN: Yeah. Well, we haven't commented really on New South Wales in this context, but I think DSRD in New South Wales compares very, very unfavourably to anything I have seen here, and I really think the Government ought to be looking closely at that whole area, giving it a shaking up from top to bottom, starting at the top.

The Hon. TONY KELLY: And to try to model it on some of these, what, IDA or Enterprise Ireland?

The Hon. Dr PEZZUTTI: Yeah. I think you will see that happening. Tony is the head of Country Labor so I think if the Premier is going to listen to anything he will listen to Tony, but I really think that here in Galway they are talking about—we heard a new word the other day, the infrastructure deficit.

The Hon. TONY KELLY: Deficit, yeah.

The Hon. Dr PEZZUTTI: A great word, great word, a great word, and the amount of investment that Enterprise Ireland will produce, and they will have winners, and the subsidiarity of the European investment for regional development for that we think has got some good stuff in that to tie their companies up.

Professor GREEN: Well, the strategy in New South Wales, as I understand it, from anything I have seen emanating from DSRD, from Loftus Harris, is that Sydney will be the global city and will attract the money to become a global financial centre and the regions, well, they can have call centres. Too bad.

The Hon. Dr PEZZUTTI: Well, that's only what we have heard in London, Tony.

The Hon. TONY KELLY: Ireland seems to have gone—this guy, Roland Smith or Roland, whatever his name was the other day—

The Hon. Dr PEZZUTTI: He was very good.

The Hon. TONY KELLY: He said they are not interested in call centres any more.

Professor GREEN: The call centres—there's something very interesting going on in the call centre market. Ireland has a lot of major call centres. I'd like to, if you were here for longer, I would take you out to a call centre at Compaq here. It's not like any call centre that you will be familiar with. Most call centres you imagine are full of women in low-skill, low-paid jobs in the modern version of—

The Hon. TONY KELLY: Factory workers.

Professor GREEN: —sweatshops, and they are answering routine phone calls for a number of companies or one large company. Here, while those kind of call centres exist, it is also recognised that they won't last here very long because as soon as wages go up they can go just as well into Sri Lanka or India.

The Hon. TONY KELLY: Which is exactly what this guy said.

Professor GREEN: But the call centres they want to remain in are the kind that you will see out at Compaq here where 14 languages are spoken and where people are very highly trained to respond to inquiries about computer defects. This is what the Irish are tremendously good at. They are not necessarily good at routine work but they are good at spotting and understanding problems and coming up with solutions, so the big call centres want to put their—this is an international Compaq call centre, and it services companies right across the world in all the different languages that you can imagine to troubleshoot with their computer systems if there's any problems, and they have this quite nice open space area at the Compaq plant out here at Ballybrett where it all happens.

The other kind call centre which will have a future are those that use emotional intelligence, where it isn't just a question of a technical problem but a problem where there isn't a standard response but one which requires the person on the other end of the line to think about where this person with the problem can go for a solution or can a solution be provided on the spot—maybe a solution to a problem with a product or a solution to some sort of social problem, but those are the kind call centres where intelligence, ingenuity, training and qualifications are required and where high wages will be paid.

The Hon. Dr PEZZUTTI: Yeah, it's interesting. We went to a restaurant last night just off the Kingsgate Path, and we got three completely different directions from the barman, the guy here and the guy there to get to a restaurant barely 60 metres away—three completely—and this guy here was the only one who knew it. They all knew exactly where it was but they had absolutely no idea of how to explain how to get there. This guy here knew but he kept saying, "No, no, no, they are all wrong."

The Hon. TONY KELLY: I think they had the view of it, "Well, if I'd be going there I wouldn't be starting from here."

The Hon. Dr PEZZUTTI: That's right.

Professor GREEN: Well, we are all familiar with that one.

The Hon. Dr PEZZUTTI: But the fellow's name we met was Ronald Long.

The Hon. TONY KELLY: He was excellent.

The Hon. Dr PEZZUTTI: Oh, I was very impressed.

The Hon. TONY KELLY: He is the 2IC to the guy that you have been talking about.

The Hon. Dr PEZZUTTI: A senior bureaucrat.

Professor GREEN: Well, you see, the point about the bureaucrats here is that they are not thinking about next year; they are thinking—

The Hon. TONY KELLY: Five, 10 or 15 years.

Professor GREEN: —10 or 20 years down the track, and this document I mentioned, "ITS 2007", that was written a year or so ago. That is imagining what the internationally traded services sector is going to look like in seven years time, and they are promoting a number of areas which they believe will be the areas that the world market will favour. They are second-guessing the market in other words, but they are going to do that by installing infrastructure which will anticipate those developments, including a very interesting approach which I think would be relevant to the rural towns called webworks.

Webworks will be facilities not unlike a business park. I guess, but with a much higher level of technological sophistication, with broadband access, with high-level telecommunications infrastructure, and as part of a network with other webworks in other rural areas, so Galway, for example, which is not exactly a rural area, will be getting the first webworks, which will be a building, a smart building, if you like, and Cork, and then they will move it down to the smaller towns so that many of the towns in Ireland will have their own webworks facility where if you are in the technology sector and you are in the start-up phase, you can go and you can develop your company there.

On the Enterprise Ireland website you will find not only the ITS 2007 document itself but all the tables and figures but you will also find the research documents behind ITS 2007, including central breakdowns of all the key sectors which they identified, including software and medical devices and so on.

The Hon. Dr PEZZUTTI: One of the things of this webworks, does this go down to sort of like little telecottages for—I mean, how do you replace banks except to use e-commerce? You get older people and train them. Was he the guy who told us about training old people in computer skills so they are more ready to face the changes in the world?

The Hon. TONY KELLY: Yes, I think he was.

The Hon. Dr PEZZUTTI: Because the banks are withdrawing. I mean, there's nothing you and I can do about that, nor should we. I mean, if I was an investor in a bank I wouldn't want to be losing millions of dollars waiting for Mary to come in and deposit her two and six and take out four and five pence the next day, but when you can do a lot of this by Bpay or whatever we have in Australia—you have the same, Epay—but a central place where you can go and do that sort of stuff and be assisted would make a huge difference to people who were frightened or worried if they put the keystroke in the wrong way they would lose £4 million that would disappear out of their account.

The Hon. TONY KELLY: I've done that.

Professor GREEN: Well, there is a debate going on about using post offices.

The Hon. Dr PEZZUTTI: Well, the post offices are all closing.

Professor GREEN: The post offices are closing as well, yeah, but if you sort of amalgamate a number of functions in one organisational unit.

Appendix 2

FAO Statement on Biotechnology

FAO Statement on Biotechnology

Biotechnology provides powerful tools for the sustainable development of agriculture, fisheries and forestry, as well as the food industry. When appropriately integrated with other technologies for the production of food, agricultural products and services, biotechnology can be of significant assistance in meeting the needs of an expanding and increasingly urbanized population in the next millennium.

There is a wide array of 'biotechnologies' with different techniques and applications. The Convention on Biological Diversity (CBD) defines biotechnology as:

any technological application that uses biological systems, living organisms, or derivatives thereof, to make or modify products or processes for specific use.

Interpreted in this broad sense, the definition of biotechnology covers many of the tools and techniques that are commonplace in agriculture and food production. Interpreted in a narrow sense, which considers only the new DNA techniques, molecular biology and reproductive technological applications, the definition covers a range of different technologies such as gene manipulation and gene transfer, DNA typing and cloning of plants and animals.

While there is little controversy about many aspects of biotechnology and its application, genetically modified organisms (GMOs) have become the target of a very intensive and, at times, emotionally charged debate. FAO recognizes that genetic engineering has the potential to help increase production and productivity in agriculture, forestry and fisheries. It could lead to higher yields on marginal lands in countries that today cannot grow enough food to feed their people. There are already examples where genetic engineering is helping to reduce the transmission of human and animal diseases through new vaccines. Rice has been genetically engineered to contain pro-vitamin A (beta carotene) and iron, which could improve the health of many low-income communities.

Other biotechnological methods have led to organisms that improve food quality and consistency, or that clean up oil spills and heavy metals in fragile ecosystems. Tissue culture has produced plants that are increasing crop yields by providing farmers with healthier planting material. Marker-assisted selection and DNA fingerprinting allow a faster and much more targeted development of improved genotypes for all living species. They also provide new research methods which can assist in the conservation and characterization of biodiversity. The new techniques will enable scientists to recognize and target quantitative trait loci and thus increase the efficiency of breeding for some traditionally intractable agronomic problems such as drought resistance and improved root systems.

However, FAO is also aware of the concern about the potential risks posed by certain aspects of biotechnology. These risks fall into two basic categories: the effects on human and animal health and the environmental consequences. Caution must be exercised in order to reduce the risks of transferring toxins from one life form to another, of creating new toxins or of transferring allergenic compounds from one species to another, which could result in unexpected allergic reactions. Risks to the environment include the possibility of outcrossing, which could lead, for example, to the development of more aggressive weeds or wild relatives with increased resistance to diseases or environmental stresses, upsetting the ecosystem balance. Biodiversity may also be lost, as a result of the displacement of traditional cultivars by a small number of genetically modified cultivars, for example.

FAO supports a science-based evaluation system that would objectively determine the benefits and risks of each individual GMO. This calls for a cautious case-by-case approach to address legitimate concerns for the biosafety of each product or process prior to its release. The possible effects on biodiversity, the environment and food safety need to be evaluated, and the extent to which the benefits of the product or process outweigh its risks assessed. The evaluation process should also take into consideration experience gained by national regulatory authorities in clearing such products. Careful monitoring of the post-release effects of these products and processes is also essential to ensure their continued safety to human beings, animals and the environment.

Current investment in biotechnological research tends to be concentrated in the private sector and oriented towards agriculture in higher-income countries where there is purchasing power for its products. In view of the potential contribution of biotechnologies for increasing food supply and overcoming food insecurity and vulnerability, FAO considers that efforts should be made to ensure that developing countries, in general, and resource-poor farmers, in particular, benefit more from biotechnological research, while continuing to have access to a diversity of sources of genetic material. FAO proposes that this need be addressed through increased public funding and dialogue between the public and private sectors.

FAO continues to assist its member countries, particularly developing countries, to reap the benefits derived from the application of biotechnologies in agriculture, forestry and fisheries - through, for example, the network on plant biotechnology for Latin America and the Caribbean (REDBIO), which involves 33 countries. The Organization also assists developing countries to participate more effectively and equitably in international commodities and food trade. FAO provides technical information and assistance, as well as socio-economic and environmental analyses, on major global issues related to new technological developments. Whenever the need arises, FAO acts as an "honest broker" by providing a forum for discussion.

For instance, together with the World Health Organization, FAO provides the secretariat to the Codex Alimentarius Commission which has just established an ad hoc Intergovernmental Task Force on Foods Derived from Biotechnologies, in which government-designated experts will develop standards, guidelines or recommendations, as appropriate, for foods derived from biotechnologies or traits introduced into foods by biotechnological methods. The Codex Alimentarius Commission is also considering the labelling of foods derived from biotechnologies to allow the consumer to make an informed choice.

Another example is the FAO Commission on Genetic Resources for Food and Agriculture, a permanent intergovernmental forum where countries are developing a Code of Conduct on Biotechnology aimed at maximizing the benefits of modern biotechnologies and minimizing the risks. The Code will be based on scientific considerations and will take into account the environmental, socio-economic and ethical implications of biotechnology. As in applications in medicine, these ethical aspects warrant responsible consideration. Therefore the Organization is working towards the establishment of an international expert committee on ethics in food and agriculture.

FAO is constantly striving to determine the potential benefits and possible risks associated with the application of modern technologies to increase plant and animal productivity and production. However, the responsibility for formulating policies towards these technologies rests with the Member Governments themselves.

Appendix 3

Attendees at Official Meetings

Attendees at Official Meetings

No.	Attendees	Location
1	<p>Mr Jose Esquinas-Alcazar, Secretary, Genetic Resources for Food and Agriculture, Food and Agriculture Organisation of the United Nations</p> <p>Dr Josef Schmidhuber, Senior Economist, Global Perspectives Studies Unit, Economic and Social Department, Food and Agriculture Organisation of the United Nations</p>	Rome, Italy
2	<p>Mr Cesare Bertini, International Promotion, Assopiastrelle</p> <p>Mr Andrea Serri, Press Office, Assopiastrelle</p>	Sassuolo, Italy
3	<p>Mr Enzo Malonca, Direttore, Associazione Imprese Commercio e Terziario</p> <p>Ms Christina Mazza, Capo Servizio, Ufficio Affari Generali, Associazione Imprese Commercio e Terziario</p> <p>Ms Anna-Rita Staino, Hotel Tourism Consortium, Associazione Imprese Commercio e Terziario (Interpreter)</p>	Parma, Italy
4	<p>Mr Cesare Azzali, Direttore, Unione Parmense degli Industriali</p> <p>Ms Federica Ravasio, Interpreter, Unione Parmense degli Industriali</p>	Parma, Italy
5	<p>Mr Jesus Ma Herrasti, President, Mondragón Corporación Cooperativa</p>	Mondragón, Spain
6	<p>Mrs Minna Ollikainen, Administrator, Committee on Regional Policy and Transport, European Parliament</p> <p>Mr George Pfeifer, Administrator, Committee on Regional Policy, Transport and Tourism, Directorate General for Committees and Delegations, European Parliament</p> <p>Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union</p>	Brussels, Belgium
7	<p>Mr Charles White, Principal Administrator, European Commission Regional Policy Directorate-General</p> <p>Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union</p>	Brussels, Belgium
8	<p>Ms Helen Williams, Representative, European Commission, Agriculture Directorate-General</p> <p>Mr Peter Thomas, Minister-Counsellor (Agriculture), Australian Embassy and Mission to the European Union</p>	Brussels, Belgium
9	<p>Mr Ian Jones, Director, Regional Group, British Trade International</p> <p>Mr Jim Law, Head of Regional Policy, British Trade International</p> <p>Ms Diana Mophew, Senior Manager, New South Wales Government Trade and Investment Office</p>	London, England

10	<p>Mr Paul Steeples, Assistant Director, Regional Policy, Department of Trade and Industry</p> <p>Ms Diana Morphew, Senior Manager, New South Wales Government Trade and Investment Office</p>	London, England
11	Lord (Peter) Jenkin Of Roding , Member, House of Lords	London, England
12	<p>Baroness (Diana) Maddock, Member, House of Lords</p> <p>Mr Thomas Radice, Clerk to Sub-Committee D (Environment, Agriculture, Public Health and Consumer Protection), European Union Committee, House of Lords</p> <p>Mr Gary Offner, Director, Regional Group, New South Wales Government Trade and Investment Office</p>	London, England
13	<p>Ms Mona Mahoney, Assistant Principal, Rural Development Division 1, Department of Agriculture, Food and Rural Development</p> <p>Mr Evan Breen, Administrative Officer, Rural Development Division, Department of Agriculture, Food and Rural Development</p> <p>Mr Liam Fitzgerald, Principal, Rural Development Division II, Department of Agriculture, Food and Rural Development</p>	Dublin, Ireland
14	Mr Ronald Long , Assistant Secretary, Department of Enterprise, Trade and Employment	Dublin, Ireland
15	Dr Michael Brougham , Manager, Strategy Department, National Informatics Directorate, Enterprise Ireland	Dublin, Ireland
16	<p>Ms Maeve O'Brian, Assistant Principal Food Unit, Department of Health and Children</p> <p>Mr Sean Connell, Executive Officer, Department of Health and Children</p> <p>Dr Martine Brennan, Technical Executive, Food Safety Authority of Ireland</p>	Dublin, Ireland
17	<p>Mr Brian Quinlan, Software & International Services, Enterprise Ireland</p> <p>Dr Michael Brougham, Manager, Strategy Department, National Informatics Directorate, Enterprise Ireland</p>	Dublin, Ireland
18	Professor Roy Green , Professor of Management, School of Business and Economics, National University of Ireland	Galway, Ireland
19	<p>Hon Bob Halverson OBE, Australian Ambassador to Ireland and the Holy See</p> <p>Mr David Hammond, First Secretary, Australian Embassy, and Mission to Ireland</p>	Dublin, Ireland
20	<p>Deputy Tony Killeen, Chairman of the Working Group of Committee Chairpersons, Chair of Members Interests</p> <p>Deputy John Brown</p> <p>Ms Patricia Doran, Committee Clerk, Joint Committee on Tourism, Sport and Recreation, Joint Committee, Justice, Equality, Defence and Women's Rights</p>	Dublin, Ireland