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DEFENCE AND TRADE

TRADE SUBCOMMITTEE

**Reference: Australia's trade and investment relations with Asia, the Pacific and
Latin America**

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**JOINT STANDING COMMITTEE
ON FOREIGN AFFAIRS, DEFENCE AND TRADE**

Trade Subcommittee

Wednesday, 28 October 2009

Members: Senator Forshaw (*Chair*), Mr Hawker (*Deputy Chair*), Senators Arbib, Mark Bishop, Cormann, Ferguson, Fifield, Moore, O'Brien, Payne, and Trood and Mr Baldwin, Mr Bevis, Mr Danby, Ms Annette Ellis, Mr Gibbons, Ms Grierson, Mr Hale, Mr Ian Macfarlane, Mrs Mirabella, Ms Parke, Ms Rea, Mr Ripoll, Mr Robb, Mr Robert, Mr Ruddock, Ms Saffin, Mr Bruce Scott, Mr Kelvin Thomson and Ms Vamvakinou

Trade Subcommittee members: Ms Saffin (*Chair*), Mr Bruce Scott (*Deputy Chair*), Senators Cormann and Forshaw (*ex officio*) and Mr Gibbons, Mr Hale, Mr Hawker (*ex officio*), Mr Ian Macfarlane, Mr Ripoll and Ms Vamvakinou

Members in attendance: Senators Ferguson, Forshaw and Furner and Mr Murphy and Ms Saffin

Terms of reference for the inquiry:

To inquire into and report on:

Opportunities for expanding Australia's trade and investment relations with the countries of Asia, the Pacific and Latin America, with particular attention to:

- the nature of existing trade and investment relations;
- likely future trends in those relations;
- the role that these countries might play in advancing the Doha round of multilateral trade negotiations in the WTO; and
- the role of the Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas, to maximise opportunities in these regions.

WITNESSES

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Subcommittee met at 11.06 am

CHAIR (Ms Saffin)—I declare open this ninth public hearing into Australia's trade and investment relations with the nations of Asia, the Pacific and Latin America, which is being conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. Today the subcommittee will be taking evidence from the South Pacific trade commissioner. Australia has had a long involvement with the Pacific Island nations and has supported the efforts of the various Pacific Islands trade commissioners since the position was established. We anticipate an informative and encouraging discussion about current projects and future cooperative efforts in the fields of trade and investment between this country and the Pacific Islands. The subcommittee hopes that the discussion this morning will assist in widening and deepening the warm relationships between Australia and the Pacific Island nations. Its inquiry is seeking ways of improving trade and investment relations with the countries covered by its terms of reference, which include all of the islands of the Pacific. It aims also to assist Australian companies to make the most of current and developing opportunities. Finally, I remind any members of the media who may be observing the public hearing of the need to report fairly and accurately the proceedings of the subcommittee, as required by the Senate order concerning the broadcasting of Senate and committee proceedings.

[11.09 am]

JARVIS, Mr Caleb Holman Frank, Trade Commissioner, Pacific Islands Trade and Investment Commission

CHAIR—Welcome. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although this subcommittee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. I invite you to make an opening statement.

A PowerPoint presentation was then given—

Mr Jarvis—On behalf of the Pacific Islands Trade and Investment Commission, I sincerely thank you for this opportunity to meet with you to discuss how we can better manage our trading relations with the Pacific Islands. As Trade Commissioner for the Pacific Islands Trade and Investment Commission, I manage its Sydney office. I have lived and worked in the Pacific for over 10 years, mainly in Papua New Guinea. I have worked with the Pacific Islands private sector, managing Papua New Guinea's largest importer and distributor of pharmaceuticals and medical devices. This business has gone on to become one of the largest retailers in Papua New Guinea since its acquisition of supermarket and hardware chains. Between 2003 and 2008 I worked for Austrade, managing Austrade's largest domestic network of export advisers in New South Wales and the ACT. During this time I also worked in Mexico City as Austrade's acting trade commissioner to Mexico City.

Firstly, I will overview who we are in terms of the Pacific Islands Forum Secretariat and our Sydney office. I will then briefly mention what our current strategy is and the types of services that we provide, including a demonstration of how we work, by presenting a quick case study. The presentation will go on to highlight the challenges of the Australia-Pacific-PNG aid program. Finally, I will address term of reference point 4 when I make some comments about potential solutions.

The Pacific Islands Trade and Investment Commission, or PITIC, as it is commonly referred to, is one of four trade offices of the Pacific Islands Forum Secretariat. The forum is based in Fiji and is the region's premier political and economic policy organisation, representing the 14 Pacific Island nations as well as Australia and New Zealand. PITIC Sydney is tasked with the promotion of trade and investment between Australia and the Pacific. We encourage trade from the Pacific to Australia and promote investment from Australia back to the Pacific. One can divide the services offered by PITIC and any export promotion agency into five broad categories, which are listed on the PowerPoint slide for you to see. PITIC is the leading agency that focuses on delivering export and investment facilitation services across key industry sectors, which include agriculture, fisheries, general goods and limited services. We work in tourism promotion, and this year we have also begun to do a bit of export facilitation in the creative arts, which is important to the region. We also work in the complex area of investment promotion and facilitation.

To demonstrate what we actually do I will briefly profile a client success story. This export case study is a story about Kirricat, which builds state-of-the-art powercats in Kiribati. This is a photo of one of their cats being loaded onto the *Kiribati Chief* for delivery to Australia. Who would have ever expected that a beautifully crafted boat such as this would be completely manufactured in Kiribati? As always, the client is the star. When we met the client we were able to identify that they had three key needs. What did we do for them? Firstly, we undertook research for them in Australia about the potential distribution channels of marine craft to the consumer market. We then worked with the client to develop an in-house marketing strategy. Then, in partner with the client, we began to execute this marketing strategy, which also included the development of a website. This is a photo of the Kirricat 1100 in the waters off the Gold Coast, and that is the website, should you wish to learn more about it.

What did we achieve by working with the client? We were able to finalise a distribution agreement between them and the distributor in the Gold Coast, who now officially represents Kirricat. We developed a comprehensive marketing strategy which is still in the process of being implemented. With our support they will exhibit in the 2010 Sydney International Boat Show, which we are excited about. To date Kirricat have sold three vessels in Australia.

CHAIR—That's good.

Mr Jarvis—That's a good story. All the forum trade offices provide a lot of services around the promotion of tourism in the Pacific Island countries. It is such a significant sector in the economies of a lot of the forum island states, especially for some of the small island states. We work with the regional bodies, South-Pacific Travel organisation, the national tourism offices, PR firms and the local Australian tourism industry to promote the Pacific as a tourist destination.

Another key role of any export promotion agency is to develop market specific publications and learning resources. Here is a list of some of the types of publications and resources we develop. We have developed learning materials on export pricing and market research and exporting product guides on coffee, timber, taro, cassava and cocoa which are incredibly important in looking at exports from some of the Pacific Island countries. We have developed a country guide for each one of the 14 forum island countries and we now have an online newsletter as well.

The challenges facing the Pacific Islands are many and varied as most of us know, and I have provided the committee with some printouts and hope you have had time to review these. The first printout is the Australian current trade and investment relationship with the Pacific Island countries. Rather than using this valuable time to highlight the trade imbalance between Australia and the Pacific I provide these DFAT country profiles to illustrate the huge economic trading divides. These country profiles also provide additional general information and economic information, and of particular interest, I think, is the incredibly small population of some of these Pacific Island countries. Papua New Guinea, with its wealth of resources, is the exception as it does maintain a trade surplus with Australia. Most of the surplus is accounted for by Lihir Gold as it exports gold to Australia.

Many of the Pacific Island countries are low lying and we have heard a lot in the press in the lead up to Copenhagen that some of these countries are extremely vulnerable to climate change and other natural disasters, as we have just seen in the case of Samoa, Tonga and Kiribati.

Kiribati will be one of the first countries to be impacted by rising sea levels and that is something that everybody needs to be greatly concerned about. Security is also of concern as many of these countries have had volatile histories, especially Fiji which is into its third coup. The Solomon Islands have been of recent concern, but RAMSI is making a big difference there. There were also problems in Tonga back in 2006.

CHAIR—I welcome Senator Michael Forshaw.

Senator FORSHAW—My apologies for being late.

Mr Jarvis—No problem. I am sure you are very busy. The second document I provide to the subcommittee is an excerpt taken from the Pacific's progress towards achieving the Millennium Development Goals. This summary was recently published by AusAID and is titled *Tracking development and governance in the Pacific*. This report highlights the fact that, despite Australia's massive aid contribution, the Pacific is off track to achieve the Millennium Development Goals by 2015.

CHAIR—Off track?

Mr Jarvis—Yes. If you examine the document, the red boxes indicate 'off track' and the orange boxes indicate of concern. Unfortunately as you can see looking at the Pacific Island countries, many of them are not performing very well against the Millennium Development Goals and this is very sad. In particular, the largest recipient of aid from Australia, Papua New Guinea, performs the worst and that raises a lot of concerns.

CHAIR—It does, doesn't it?

Mr Jarvis—It is estimated that AusAID's official development assistance for PNG and the Pacific in 2009-10 is \$896 million. It is also worth noting that the AusAID report *Pacific 2020* released in 2006 following the white paper on Australia's overseas aid program said that there is widespread recognition among Pacific Island leaders that an increase in prosperity necessary to generate jobs and income opportunities cannot be achieved without a dynamic private sector. The report also stressed that ultimately it is private sector investment that will drive economic growth, not only by adding capital stock but also by increasing entrepreneurial activity.

The AusAID funded Enterprise Challenge Fund, which has just completed its pilot phase, is a great example of how the Australian government has supported private sector growth. This stated, it is fair to say that much more needs to be done. For the record the Australian government also supports the Pacific Islands Forum Secretariat, our office, the Pacific Islands Trade Investment Commission, the Secretariat Pacific Community, Pacific Islands Forum Fisheries Agency, South Pacific Regional Environmental Program, Council of Regional Organisations in the Pacific, South Pacific Travel Organisation—and list of bureaucracies goes on. Most of this support focuses solely on policy and governance issues and very little of it focuses on delivering practical support to the private sector. Despite the views and opinions of many Pacific leaders, including Prime Minister Rudd, and despite what the white paper states there is still limited practical Australian government support for the private sector in the Pacific Islands.

In terms of addressing terms of reference point 4, it is clear that the Australian government needs to continually challenge its thinking on effectively delivering aid and support to our closest neighbours. It is Australia's social responsibility to support these countries to emerge and grow their economies which will alleviate poverty and guarantee regional security. Over time this will allow Australia to maximise opportunities in these regions. Specifically, more practical effort is required to support the private sector. This can take the form of enterprise development support, increased trade and investment facilitation support and addressing the issues of capital raising, leadership and compliance.

Secondly, and most importantly, the movement of naturalised persons into Australia and inter-regionally is critical. The pilot which is under way is promising, although the scope of activities and industries in which these workers can work could be broadly reviewed. The continued aid support for infrastructure, health and education is also paramount in many of these countries.

I am on the final leg now. As this is my domain let me briefly discuss a vision to create a larger and more professional regional trade and investment promotional organisation. Currently, with the support of donor agencies, as I have highlighted, the Pacific Islands Forum Secretariat only has four forum trade offices, as highlighted in this slide.

CHAIR—Where are they?

Mr Jarvis—They are on the right. We have offices in Sydney, Auckland, Beijing and Tokyo. The offices in Tokyo, which is sponsored by the Japanese government, and Beijing really only represent one or 1½ people. They are very small offices. When you look at what the Pacific Islands have to export many of their agricultural commodities go north. There is demand from Europe and North America for copra, coffee, timber and other similar types of products. We do not currently have any representation there which is a big issue. This is in comparison with the Australian Trade Commission that operates 115 offices in 62 countries. What a lot of people do not know about Austrade is that they have more than 100 export advisers that work in Australia building the capacity of the Australian business sector. These local export advisers focus on the development of Australian industry one business at a time. Jobs are created when suppliers identify and satisfy buyers and vice versa.

Senator FORSHAW—Are the two offices you mentioned in Beijing and Japan co-located with the embassy?

Mr Jarvis—The Australian Embassy or the Pacific Islands embassy?

Senator FORSHAW—That is what I want to know. Where are they?

Mr Jarvis—The Tokyo office is located in the Japanese trade and investment ministry—

Senator FORSHAW—So it is a similar office to the embassy.

Mr Jarvis—They reside within the ministry, yes. The one in Beijing is a separate office altogether.

Senator FORSHAW—The reason that prompted me was the point you made about Austrade. A lot of the Austrade offices around the world are co-located with embassies and often the officer may have a second function, but is primarily for Austrade.

Mr Jarvis—Yes, absolutely

Senator FORSHAW—It gives them that additional capacity.

Mr Jarvis—It achieves a lot of economy, where you do not actually have to set up offices and provide full staff.

Senator FORSHAW—I am not suggesting that should happen.

Mr Jarvis—That is a nice segue into my final slide. The thinking recently in terms of the trade and investment promotional role is that we can do more. Our business can work on export development and, potentially, even private sector development in the islands. But when it comes to selling those goods and services overseas, it is a very expensive exercise to put more trade commissions out there, so we are exploring and doing some research at the moment about creating a larger regional body for the Pacific Islands, which would strongly rely on support from Australia and New Zealand, and what models could potentially work.

It is very expensive to go out and build your own trade commissions. I think Austrade's budget is about \$310 million this year, compared to the money that is available to the forum. We could subcontract the private sector overseas or we could partner up with the likes of Austrade or New Zealand Trade and Enterprise to have a Pacific Islands focus as well. I know that Minister Crean is looking for some creative solutions just generally in trade and certainly around the Pacific. I have had recent dialogue with Austrade regional directors, and we have discussed this. But at the moment we are only having informal decisions. We do hope that early next year the Secretary General of the Pacific Islands Forum secretariat will give us the go-ahead to pretty much draft up a strategy to put in front of the forum trade ministers at one of their meetings. That is very exciting, but it is very early days and there is a long way to travel before such an organisation will ever see the light of day.

Senator FURNER—You mentioned Fiji and, as I mentioned this morning at our combined committee, I am just wondering about the political position over there at present. How might that be affecting trade between Australia and Fiji?

Mr Jarvis—Fiji is the extremely challenging subject for everybody at the moment. The executive of the forum secretariat has suspended Fiji from the forum and, being based in Fiji, that is creating its own set of problems. I am not a Fiji expert but, that said, in terms of what we do in our office, we very much focus on working with the private sector. We either work in B to B or B to C type of activity. After we suspended Fiji from the forum I sought clarification in terms of, 'Can we continue to work with the private sector?' The response was an unequivocal, 'Absolutely'. Right now the private sector in Fiji requires more support than ever before.

We are working with the private sector, but from an economic perspective things are getting tougher. Consumer spending is down and the level of exports is down as well. It is going to take some time for Fiji to right the wrongs. I totally support and accept Australia's position on Fiji at

the moment. There is no justification to support and encourage the military junta, as I describe it. But Fiji does require assistance. They will need expertise to reform their constitution and their electoral system.

At some point in time Australia and other donor countries and agencies will really need to look at how they can provide that sort of support to Fiji. If Commodore Bainimarama's roadmap is to be adhered to and Fiji brought back to democratic elections in 2014, I ask: at what point in time do Australia and other countries need to begin that dialogue and open communication lines to work out how they can reform the economy, the constitution and the electoral system, which must be overhauled? That is the only positive to come out of this.

CHAIR—I have got a few questions that I would like to ask. We have got some prepared questions which we will go through but it arises out of what you said about the private sector. What sort of practical support could be given to a private sector that does not replace it but gives support for it to grow? Just describe that a bit more.

Mr Jarvis—There are a number of different solutions and it is a complex matter. At the moment there really is very little assistance provided to the private sector for business development support; such as practical support around business planning, pricing and sales of their goods, marketing services and access to capital for growing their business. I firmly believe that the investment promotion agencies which reside in a lot of the Pacific Island countries have performed mainly an administrative function in terms of investment forms and set-up. There really is not much support for the private sector in that practical way.

CHAIR—And in their country there would be very little under their own government?

Mr Jarvis—Under their own government. It could be an IPA or within the ministry, but particularly in the Pacific there seems to be quite a divide between the public sector and the private sector. There is not as much dialogue. That needs to happen. Raising capital is a huge issue in the Pacific Islands, as much of the land is customary land as well. So when the private banking sector and other financial funds look at it, normally businesses and individuals cannot provide the collateral which private banks need.

That is why the Enterprise Challenge Fund run by AusAID is an extremely beneficial program. As I said, it is in pilot and they are undergoing their review now. But it is a great source of grant funding to go to the private sector for innovative programs which will grow and employ more people. There are a number of other ways to provide support to the private sector in terms of governance issues but that comes back to compliance issues. These countries can use a lot of help in addressing the compliance issues, as often their bureaucracies are quite small and they have not got the resources to meet compliance on all the issues for the export of agricultural or fisheries products, and those sorts of things.

CHAIR—I wanted to ask about the Minister for Trade and the Parliamentary Secretary for International Development Assistance on 2 October putting out a media release referring to funding provided to each forum island country to help meet customs and quarantine requirements. Are you aware of that?

Mr Jarvis—Yes.

CHAIR—Can you give any idea of how they will be used or any projects established?

Mr Jarvis—I think it is still very early days. We were consulted on the scope of the project initially. One of the greatest challenges for many small subsistence farmers or small exporters is to meet those compliance issues. What this program will do is assist those businesses to understand what the compliance issues are and to become compliant as well. There is very good science and sound reasoning for a lot of the regulations that are in place, and we should not compromise those. This is more of a program that provides practical support to the industry and also assisting, with bodies like AQIS, to meet that compliance, and educating those agencies about what is required. Rather than sending a container of taro or cassava to Australia to then have it quarantined, those issues will be addressed before the cargo ever leaves the port.

CHAIR—It will be well targeted.

Mr Jarvis—Yes, it is a very good initiative.

CHAIR—The profiles on the various countries you supplied for us show substantial trade deficits which you spoke to in your address, the exception being PNG. How has this come about? It is probably obvious but it would be good if you elaborated on that.

Mr Jarvis—Other than PNG, which is the exception with its wealth of natural resources, most of the countries are in a large trade deficit situation mainly because a lot of them do not manufacture much at all. When you look at the statistics, they are an analysis of merchandise exports and do not take service exports into consideration. When you look across the Pacific Island countries some of the largest contributors to GDP revolve around tourism, and tourism to us is an export of a service. The movement of naturalised people contributes as well because their remittances, the money they send back, are also a significant foreign exchange earner for the countries. In a place like Tonga, remittances equate to almost 60 per cent of the country's GDP and some people say that unofficially it is as high as 80 per cent, and Tonga has very few exports other than small tourism. It has tourism exports as well but not many merchandise exports. The absence of a manufacturing sector is going to be challenging and will continue to be challenging. The trade deficits will continue as many of these countries are reliant on imports, and when you look at some of the top-line items that are being imported into the countries—

CHAIR—What are the main exports from here?

Mr Jarvis—General day-to-day items. It could be petroleum. For some it would be gas, but foodstuffs beverages, consumer goods, the stuff that everyday people will consume out of the trade stores and the supermarkets.

CHAIR—With very few imports into Australia?

Mr Jarvis—Yes, very few imports. PNG is an exception.

CHAIR—What are their exports?

Mr Jarvis—Gold is the most prominent one to Australia. Gas will soon become PNG's largest foreign exchange earner with the massive \$30 billion LNG gas pipeline coming online, but they

have everything. They have timber, coffee, agriculture stocks, nickel. It is an amazing country. Having lived in Port Moresby for seven years it is still very much one of the last frontiers, an incredibly exciting place but one with many challenges. The Papua New Guinea government last week announced a program to offer every Papua New Guinean child nine years' worth of education which is an outstanding development because there has been such huge poverty. If the government can provide education then those people will be more educated. They will demand more of their politicians; they will demand of their economy.

But health to me is still a major problem in Papua New Guinea and in other countries as well. The government has been trying to address the health issue with a fairly significant budget. I have health experience in Papua New Guinea and, to give you a statistic, in PNG there were over 2,000 aid posts operating throughout the country in the late eighties. At the moment there are probably only 600-odd aid posts operating in PNG and a good percentage of those would be operated by the church. There comes a point, I think, where you have to draw the line and look to privatising certain sectors and the PNG healthcare sector is something that needs to be looked at in terms of a public-private partnership, the PPPs that are currently being discussed. I see that maybe there is a 'D' in there as well—private-public-donor partnerships—to direct some of that aid into underwriting the budget on the premise that the private sector is going to be involved and will do it efficiently not corruptly. I am probably dancing on the line there a little bit as well.

Mr HALE—Caleb, I saw your solutions. Obviously the remittance money is really important in having people such as the seasonal workers that we had this year around the Riverina areas—it all helps—but to me it is a challenge of prioritising our efforts as much as anything. If you look at the Millennium Development Goals, we are really behind the eight ball here to have these countries developing at the pace that the world is demanding that they do develop. If you had to prioritise in the short term, is it allowing greater access for Pacific Islander people to come and work in Australia? Is it giving businesses in Australia better security in investing in South Pacific islands? Is it working at the governance level on South Pacific islands in order to make sure that corruption and things like that are not occurring as Australian businesses invest, or is it all of those things at the same time? If you could try to prioritise one area that the government could focus on and make a significant difference, what would it be?

Mr Jarvis—That is a very astute question and, unfortunately, there is no silver bullet. It is very complex. My heart tells me that health is such an important thing. The infant mortality rates in Papua New Guinea are some of the worst in the world. I have had children of members of my staff die due to really basic provision of healthcare services and it just should not happen. It should not happen 200 nautical miles off Australia's coast. But, if I had to do one thing and really prioritise it I think the movement of naturalised people from the Pacific Islands to Australia would make a considerable difference. My experience has been that, given the opportunity that many of them do not have—to work and to be educated—they will seize it with both hands. Given that opportunity, they can normally look after 20 of their family members and friends, minimally, as well. We have only got to look at the New Zealand RSC scheme to see how this scheme can be successful.

Unfortunately, the Australian scheme has not achieved great initial success due to a number of external factors. First of all, the global financial crisis was a huge problem. There was Timbercorp and another subsidiary of Timbercorp went bankrupt. The 50 Tongan workers who came out—predominantly the only workers to come out—were working with Timbercorp and

almost as soon as they got working the company appointed receivers. The Tongans are still here and they are being educated and moved around. They are doing some sort of work. But it has not been a huge success, although they are remitting funds—so that is great—and they are learning at the same time. Six Vanuatu workers—or ni-Vans—also came down under the scheme, but that is the total number of workers who have come under the pilot: 56 workers. From all the effort that has been put into it, I think another push needs to be made now to say that we really need to make this work.

CHAIR—The target was 90, wasn't it?

Mr Jarvis—I cannot tell you off the top of my head. I would have to get back to you. I thought it might be even 2,000.

CHAIR—But to start with, 90.

Mr Jarvis—Yes, 2,000 rings a bell, but I am happy to get back to you on that because we have got all that data in our office.

Senator FORSHAW—Can I follow up on Papua New Guinea? You referred to the huge LNG project. Which oil company is it? Is it Shell or BP?

Mr Jarvis—Exxon, Oil Search and Santos and the PNG government. They are the four main shareholders.

Senator FORSHAW—I recall we had some discussion about that in another committee. The Senate foreign affairs, defence and trade committee did an inquiry into economic challenges and issues in PNG and the Pacific, and we discussed that. Do you have any indication of how these figures for exports and investment are going to change when that project comes on line? As I understand it, this is going to be a massive revenue windfall for PNG. That raises a lot of issues that you have correctly pointed to, including how that is then transferred through to the benefit of the people of PNG. There is a great opportunity to utilise that increased revenue. Do you see, for instance, that it will lead to more PNG investment in Australia or other parts of the region? Whilst these figures show this surplus from PNG to Australia, there is a substantial Australian investment in this particular project and other projects, so it is not as simple as those two figures.

Mr Jarvis—It is complicated. They are touting figures of foreign exchange earnings in the vicinity of \$30 billion.

Senator FORSHAW—I am looking at the figures from the DFAT site.

Mr Jarvis—It is going to be significant. It depends who will buy the gas. I think they have lined up contracts in India and China. They have presold a lot of that gas already.

Senator FORSHAW—Are we likely to buy any?

Mr Jarvis—I think we are but, again, I am not an expert in this. There are enough good minds working on that. With the revenue the PNG government will earn in taxes and as a shareholder, it is a question of what will happen with those funds. There have been landowner agreements

struck, and they have generally been done in good faith. It will never be perfect, and there will always be a need to keep going back over those agreements with the landowner so they keep the highways open and do not sever the gas line—and all those sorts of challenges, which are real. But there is talk about setting up a Future Fund style fund to underwrite the development things which would impact on helping PNG achieve the Millennium Development Goals as well, which is really fundamental.

It is going to create a lot of jobs internally. The figures that they tout are that between 8,000 and 12,000 workers will be required. They are saying that about 4,000 jobs will be created internally, and that creates a great need for additional workers. That presents a great opportunity for the rest of the Pacific to migrate workers across to support the building phase. Once they have built it, the numbers will reduce dramatically down to 600 or 1,000 full-time employees. A lot of the expertise will come from Australia, Canada, the Philippines and elsewhere. We talk about this particular project, but they have discovered an even greater reserve there as well, which InterOil have explored and are looking to develop. It also depends on global demand for gas. At the moment, gas is at quite low levels. If you believe some of the futures traders, there is bound to be a lot more demand for gas and the price will go up, which will be good for Australia, the region and everybody else involved.

Senator FORSHAW—Thank you.

Mr MURPHY—How do you feel the South Pacific, particularly Papua New Guinea, has weathered the global financial crisis?

Mr Jarvis—Having worked around the region for a good solid 10 years mainly in the private sector, what I do know is that it is always hard to convince banks in the Pacific to give you money.

CHAIR—At any time.

Mr Jarvis—Yes, as is the case in Australia, often.

Senator FORSHAW—They will give you credit cards!

Mr Jarvis—Banks will give you credit cards and charge you 27 per cent! The South Pacific islands have actually had a very responsible approach to lending money. They have applied really strict guidelines in terms of providing capital. Unlike a lot of other parts of the world, particularly the US, where money was so cheap and free in a deregulated market that never happened in the islands. In fact a lot of the banks and superannuation funds in the South Pacific actually have a high level of liquidity. They have a lot of funds and one of their greatest challenges is finding investments in country for which they can get a good return on their investment.

One of the greatest impacts was the surge that we had in the price of oil when it went up to \$138 a barrel temporarily. As a lot of these countries rely on petroleum imports that had a major significant impact on business in the private sector and the cost of electricity and other items.

Senator FORSHAW—What about food? We know Indonesia and some of the other countries had problems of food security.

Mr Jarvis—A lot of the food is imported and that had a big inflationary impact on the price of food. A lot of people went back to traditional sources of food. Many of these people live in subsistence anyway with small top ups. It is very much a subsistence culture. Where the global financial crisis did impact is in the remittances. As workers were laid off it was those funds that were not being repatriated or there was a need to maintain the individual in the country of origin as well. With the UN making a move and not allowing Fijians to be recruited for future UN peacekeeping forces that will have a massive impact on Fiji. That is the most significant thing that has happened to Fiji since the junta took control. You can tell that Commodore Bainimarama is very agitated about that. I am not sure how agitated he was about other movements that have been made to date but there is that and also potentially being left out of the Commonwealth Games.

CHAIR—Military dictators do have certain agitations.

Mr MURPHY—Can I follow up specifically on Papua New Guinea. Was there anything you wanted to say on that country and the global financial crisis?

Mr Jarvis—Potentially there was a slowdown in future projects and exploration. In tough times people were being conservative and not looking to expand. That said, there is enough happening in PNG to buoy the economy for decades, if they can get the second LNG gas project up and running and the other exploration. Lihir and the other mines are expanding. Timber is still a massive export but the prime minister and his ambassador for climate change are really looking towards Copenhagen for the globe to, in a way, provide funding sources to the carbon credit trading issue to prevent further deforestation. That is a really significant thing. PNG Grand Chief Somare has been very vocal on this to say, ‘You can reduce your emissions as much as you like, but stopping deforestation is the most significant thing.’ The priority as many see it is to do that, but the only way many of these countries, Indonesia, Brazil, Papua New Guinea and Malaysia, are going to be motivated to stop is if they are compensated in some way. That is why a Copenhagen style agreement that addresses the payment of carbon credits will be really important.

Mr HALE—With regard to Papua New Guinea—and you touched on this just briefly then—they are probably in the best position of all the Pacific Island nations to look after themselves in the future if they can get their political structures in place. You touched on climate change. It is becoming very urgent for some of the smaller South Pacific islands. What sorts of things do you do with regard to sustainable development and education, whether it is with forests, cropping practices or even in their fishing industries? Is there a lot of work done on sustainable development with the islands?

Mr Jarvis—A lot of effort is going into ensuring the rigours of sustainable development, particularly around agriculture, fisheries and forestry. There are major problems. We predominantly work with exporters. As we help exporters find new markets, we do look at the way in which they forest the timber. We look at whether it is done in a sustainable way. Just three weeks ago we brought down a few timber exporters from Fiji and PNG to exhibit at the timber flooring show in Queensland. What was really heartening, as we put the program together

and met the importers here, was that the Australian forestry industry was not interested in importing any forestry that was not fully sanctioned, with permits, and done in a sustainable manner. So Australia is doing the right thing. The infrastructure and the processes are in place, but that is not to say that that is the practice globally. There are rumours that in certain countries forestry in particular is still in need of further work to ensure sustainability and compliance with international standards.

Fisheries is another issue. Fisheries I see as being the missed opportunity, the gold nugget that the Pacific Islands are not picking up. They are not developing an industry; they are selling licences.

CHAIR—I was just going to say that they sell licences.

Mr Jarvis—They are selling flags for ships to operate in their waters. We looked at some statistics. Based on the export of the stocks that are fished out of the region, which I think are in the vicinity of \$8 billion globally, \$4 billion comes out of the Pacific. They only generate around five per cent revenue out of that money from licences and selling flags. So more work needs to go into processing and looking at how to do this. But the industry are very self-sufficient and they bring down massive fleets and floating infrastructure to process it. They can do it more effectively than the Pacific Islands. So other than charging more for their licences and investing in those fleets, which is an extremely competitive business, I am not sure what the answer is. The Pacific Islands Forum Fisheries Agency, based in the Solomons, is doing good work around that and is looking at that issue. It comes back to sustainability and environmentally friendly practices as well. A lot of work is going into it, but it is very hard to regulate.

CHAIR—I have some additional questions which I will take you through, because they are important to our inquiry. They have to do with PACER Plus particularly. Do you have any idea how PACER Plus will differ from SPARTECA?

Mr Jarvis—Yes. Minister Crean articulates his vision very well. SPARTECA is clearly just a free trade agreement between the Pacific Islands and Australia to import tax-free goods. The exporters we work with take advantage of SPARTECA. PACER Plus is more of a creative regional cooperation agreement which will encompass a lot of other factors rather than looking solely at the trade elements. If you read between the lines, it will incorporate the labour issue. It will incorporate the delivery of aid. It will touch on capacity building as well, and a whole lot of other issues that need to meet WTO guidelines will come together. It is a regional agreement but it obviously has a free trade agreement style to it. Many of the countries do not have the expertise and experience to negotiate their position. The Office of the Chief Trade Negotiator, which hopefully will be in place by the end of the year, will have many challenges in bringing the 14 forum island countries to an informed position.

CHAIR—Is that a key part of their role? It is different from what you do as a commissioner—they will be the negotiator.

Mr Jarvis—They will be the negotiator. Generally, whilst I am an executive of the forum secretariat, through our Trade Facilitation Office, we do not get so involved in policy and governance issues unless people have asked for commentary. We really need to focus our limited resources on working with the private sector.

CHAIR—Continuing with that, what is your information on or view of the support for PACER Plus among the island economies? I refer to the Lowy Institute's submission to DFAT, which suggested that there is widespread opposition that needs to be addressed before negotiations are undertaken. Do you have any comment or information on that?

Mr Jarvis—Yes. It is still very early days. They have only just agreed to negotiate. It is fair to say that some countries are more supportive than others.

CHAIR—Why would that be? Is there any particular reason?

Mr Jarvis—I think that there is still a real lack of information out there about what the potential benefits of this agreement would be, or of free trade agreements in general. But, as I said previously, PACER Plus is being positioned as a regional agreement encompassing many other things now. As alluded to, I am not sure whether the public sector has had the opportunity to fully inform the private sector in a lot of the Pacific Island countries as well, and so more time is needed. It is very challenging. In terms of trading, a lot of these countries do not have the capacity to take advantage of the agreement, as they have not taken full advantage of SPARTECA. I think that we have to look historically and look at what is happening with the EPA negotiations and with the other negotiations. I think that it all gets back to the capacity to take advantage of these agreements.

CHAIR—Do you think some of them would be worried about what they see primarily as a loss of income from customs and not looking at the additional benefits?

Mr Jarvis—That is right. I think that is where most of the fear is. It is a real fear. A lot of these countries rely heavily on that revenue. As I pointed out, I do not think the world is going to change and suddenly start creating trade surpluses with Australia and other countries, so that imbalance will always exist. But that comes at a later stage in the negotiations, when the countries get down to the nitty-gritty and talk about the harmonised tariff codes.

CHAIR—Not just the agreement itself.

Mr Jarvis—Yes, the detail. There is an opportunity, as in all free trade agreements, to negotiate the harmonised tariff codes and ones that are particularly sensitive versus others that may not be as sensitive. I think there is misinformation and not enough information. The Australian government and other governments have not articulated what the potential benefits could be. That is something we have been asking for. But, as I said, it is still very early on in the process.

CHAIR—I have just one other question on that. Have you had any feedback on the results of the PACER plus meeting in Brisbane on 23 and 24 October?

Mr Jarvis—Only what came out in the media.

CHAIR—Okay. Nothing beyond that?

Mr Jarvis—No. They have agreed on the appointment of the chief trade negotiator. I do not know the individual's name, but they have agreed on it and that office should be up and running by the end of the year. In time it will be relocated to Vanuatu.

CHAIR—That is a good thing, isn't it?

Mr Jarvis—Yes.

Mr HALE—I know that there has been a lot of effort in the two years since the election with regard to dealing with the South Pacific islands, through Minister Crean and also parliamentary secretaries like Duncan Kerr and Bob McMullan. Unfortunately, Duncan is retiring—that is not a good thing.

Mr Jarvis—A big loss.

Mr HALE—Yes, a big loss. How have we been received as a government with regard to the way the South Pacific islands view Australia at the moment by comparison with years gone by, whether that was in the years of John Howard's prime ministership or even before then in the Keating and Hawke eras? How are things looking at the moment from the South Pacific islands leaders' perspective?

Mr Jarvis—It is an exciting time in the Pacific, particularly now that Prime Minister Rudd has the chair of the Pacific Islands Forum, and with negotiations beginning on PACER Plus. Generally there has been a lot more interaction. You can see this government has definitely been well received, with its change in policy, approach and dialogue, and also the type of people who are involved in those discussions do have a great deal of empathy and experience in the Pacific. It is a shame that we are losing the Hon. Duncan Kerr, with all his experience in the Pacific. Generally, I think it is a fairly positive time.

There is a risk as efforts increase to support, encourage and develop that Australia and New Zealand could be considered to be overbearing at times. I know it is something that is a really difficult balance. I think Minister Crean in particular is doing a great job working in collaboration with the forum trade ministers, as is Prime Minister Rudd with the other leaders as well. There is just generally increased dialogue and it is a positive time.

CHAIR—I have finished with the questions that I wanted to ask. Is there anything you want to add that we have not covered? I think we have covered a lot of ground.

Mr Jarvis—Probably only that as a business we are investing heavily into the creative arts sector.

CHAIR—That is right, you mentioned that at the beginning.

Mr Jarvis—We are doing that because it really reaches down to the grass roots level within a lot of these cultures. In a way, it helps to maintain the traditions and cultures. We have tried to do that in a very responsible and sustainable way, working with alliances, communities and individual artists as well. I just want to highlight that as that is something we are putting a lot of

effort into, and getting some really good feedback. We are now helping artists to make sales of their art into Australia and also into New Zealand.

CHAIR—So you tapped into the industry here somewhat?

Mr Jarvis—Yes. We are still working on that.

CHAIR—You must be.

Mr Jarvis—It is a private relationship; a private agreement between artists and galleries, but we are the matchmakers. We try to bring like-minded people to the table to negotiate projects and solutions and how they can work together.

Mr HALE—One other thing—you have just jolted my memory about something I wanted to ask about. What other First World nations are really involved? I know that we have got four offices working that you have pointed out to us. Are there any other nations, such as the United States or Canada—I know they are a long way away—that are actively working in the South Pacific?

Mr Jarvis—New Zealand, obviously—they are very active. At the Lowy Institute recently, before the Cairns forum, Minister McCully highlighted the actual number of Pacific Island peoples living in New Zealand, mainly in South Auckland. It is such a significant number of people that New Zealand is very active in policy, governance and trade. We do not hear so much about the US, although they are certainly active. There is definitely more interest from China and India in the Pacific. They are the First World countries. I think you have to look at the First World donor agencies as well and look at the European commission. I am new to this role. I have been in it for one year. I am amazed at the amount of investment and aid that comes in from the European commission. It is really significant.

CHAIR—And their offices that they have placed around the region as well.

Mr Jarvis—Yes. There is a lot of money out there. It just comes back to responding in a much more coordinated way. At the moment there is a lot of money, a lot of funds, a lot of energy and a lot of good people working on a lot of projects, but it needs further coordination to be truly effective.

CHAIR—Yes, it does. Sometimes the countries have 10 donors for one project and 10 reporting requirements.

Mr Jarvis—You are getting good at working with donors. Some of the other countries do generate a lot of GDP from donor funds and become quite reliant on it, which is potentially a future concern.

CHAIR—They do. We are coming to the conclusion of the proceedings, and there are just a few formalities that I have to go through. The first one is to ask: is it the wish of the trade subcommittee that it receives as evidence to the inquiry and authorises for publication the submission from Caleb Jarvis given to us today on Australia's trade and investment relationships with the countries of Asia, the Pacific and Latin America? There being no objection, it is so

resolved. I thank you, Caleb, for your attendance here today. It was very interesting and informative for us and will certainly help our inquiry.

Mr Jarvis—If there are any further questions, please do not hesitate to get in touch with me.

CHAIR—Thank you.

Resolved:

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.13 pm