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# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE  
AND TRADE

**Reference: Economic and security challenges facing Papua New Guinea and the  
island states of the southwest Pacific**

WEDNESDAY, 25 MARCH 2009

SYDNEY

BY AUTHORITY OF THE SENATE



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

**Wednesday, 25 March 2009**

**Members:** Senator Mark Bishop (*Chair*), Senator Trood (*Deputy Chair*), Senators Feeney, Ferguson, Forshaw, Kroger, Ludlam and McEwen

**Participating members:** Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Crossin, Eggleston, Farrell, Fielding, Fierravanti-Wells, Fifield, Fisher, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Lundy, Ian Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Williams, Wortley and Xenophon

**Senators in attendance:** Senators Mark Bishop, Ferguson, Forshaw, Kroger, McEwen and Trood

**Terms of reference for the inquiry:**

- (a) The following matter be referred to the Senate Standing Committee on Foreign Affairs, Defence and Trade for inquiry and report to the Senate by 30 May 2009.

The major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific;

- (i) the implications for Australia;
  - (ii) how the Australian Government can, in practical and concrete ways, assist these countries to meet the challenges.
- (b) The inquiry to include an examination of the following:
- (i) employment opportunities, labour mobility, education and skilling;
  - (ii) barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development; and
  - (iii) current regional organisations such as the Pacific Islands Forum and the Secretariat of Pacific Community.

**WITNESSES**

<b>ANDERSON, Mr Brian Francis, President, Australia Fiji Business Council .....</b>	<b>53</b>
<b>CLARKE, Mr Ian Chatfield, President, Australia Papua New Guinea Business Council.....</b>	<b>53</b>
<b>CRUMLIN, Mr Paddy, National Secretary, Maritime Union of Australia .....</b>	<b>35</b>
<b>GASKELL, Mr Chris, Head International Relations, Australian Prudential Regulation Authority.....</b>	<b>47</b>
<b>HODGSON, Mr Reginald Gordon, Executive Member and Treasurer, Australia Pacific Islands Business Council.....</b>	<b>53</b>
<b>JOYCE, Mr Brendan, Assistant Director, Palms Australia.....</b>	<b>15</b>
<b>PICKETTE, Mr Rod, Policy Executive Officer, Maritime Union of Australia.....</b>	<b>35</b>
<b>RANALD, Dr Patricia, Co-convenor, Australian Fair Trade and Investment Network.....</b>	<b>1</b>
<b>REDDEN, Mr Jim, Senior Lecturer and Director of Programs (Pacific), Institute for International Trade, University of Adelaide.....</b>	<b>25</b>
<b>REYNOLDS, Ms Zoe, Media and Communications Officer, Maritime Union of Australia.....</b>	<b>35</b>
<b>YOURN, Mr Francis Alric, Executive Director, Australia Papua New Guinea Business Council, Australia Fiji Business Council, Australia Pacific Islands Business Council .....</b>	<b>53</b>



**Committee met at 9.02 am****RANALD, Dr Patricia, Co-convenor, Australian Fair Trade and Investment Network**

**CHAIR**—Good morning; welcome. I declare open this public hearing of the Senate Standing Committee on Foreign Affairs, Defence and Trade into the economic and security challenges facing PNG and the island states of the south-west Pacific. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground on which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may also be made at any other time. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Dr Ranald**—No.

**CHAIR**—The committee has before it a submission from the Australian Fair Trade and Investment Network, It is a public document and has been marked by the committee as submission No. 12. Do you wish to make any amendments to your submission?

**Dr Ranald**—Not specifically. I will just talk to some points.

**CHAIR**—I now invite you to make a brief opening statement and then we will proceed to questions.

**Dr Ranald**—Thank you. As I have said, I represent the Australian Fair Trade and Investment Network, which is a network of unions, churches, aid and development organisations, and environment groups. We undertake community education and, I suppose, participate in debate about trade agreements, particularly their social impacts. Over the last couple of years, as the debate about trade agreements with the Pacific islands has developed, we have formed links with similar organisations in the Pacific islands—church groups and unions—and they are linked through the Pacific network on globalisation. Last year we helped to sponsor a visit by the Reverend Fei Tevi, who is the Chair of the Pacific Council of Churches. The concerns that we are raising in relation to Australia's trade relationships with the Pacific islands have been raised also by those community organisations in the Pacific islands.

I want to address the term of reference regarding the economic challenges facing this part of the Pacific, in particular looking at trade agreements and the development of PACER, the Pacific Agreement on Closer Economic Relations. As you know, it has been proposed that this agreement be negotiated between Australia, New Zealand and the Pacific islands. We would emphasise that you cannot look at these kinds of commercial trade agreements, which are based on trade law, in isolation; you have to place them in the historic context of relations between Australia, New Zealand and the Pacific islands. You have to take account of the history of

colonialism, the ongoing disadvantage of Pacific island economies and the economic dominance of Australia and New Zealand. So we are not talking here about a relationship between equals. Previous trade agreements, like SPARTECA, did recognise this imbalance and gave preferential access to products from the Pacific islands into Australia and New Zealand without demanding full reciprocal trade relationships with them, recognising that their economies are relatively small and vulnerable and cannot be treated just in terms of a commercial relationship.

A number of these islands also had the same sort of relationship with the European Union—that is, preferential access to European Union markets—and this was withdrawn in the context of disputes in the WTO. The EU is now demanding reciprocal market access with a number of these islands and has signed an agreement with Fiji and Papua New Guinea, which has triggered the possibility of negotiations for PACER. I should note that, when that agreement went to the European Parliament, European MPs raised a number of the same concerns that we are raising here today in our submission: the unequal relationship; and the impact of commercial reciprocal relations, without taking that unequal relationship into account.

With the way that PACER works, there has been an internal agreement amongst the Pacific islands themselves, which was mainly about trade in goods. An extension of that to Australia and New Zealand has been triggered by the fact that there have been these negotiations with the EU. That is because the basis of PICTA and the move to PACER were that, if the Pacific islands negotiated a trade agreement with another party, Australia and New Zealand could then commence negotiations. That is supposed to be subject to agreement from the Pacific islands themselves; it is not an automatic thing.

The initial proposals about PACER were around trade in goods but, in the last couple of years, Australia has put forward a proposal called PACER-Plus, which means that such an agreement would include trade in goods, services and investment and it would be done in the framework of other bilateral agreements. Our concerns about this are that it is imposing a very strict and, I would say, rather extreme model on small and vulnerable Pacific island economies, which are not necessarily suited to those kinds of commercial relationships. I will just try to explain that as I go along. For example, we can look at the goal of zero tariffs, complete tariff removal, in the context of the Pacific islands. At the moment tariff revenue for these small economies is a substantial part of their revenue. The tariff revenue for Fiji, Papua New Guinea, Samoa and Vanuatu is about \$10 million a year. That may not sound like very much, but it can be a very substantial part of their budgets. The loss of that revenue would have a substantial impact on their budgetary capacity, particularly on their ability to provide services to their communities.

It is proposed in these sorts of situations that the tariff revenue be replaced by a goods and services tax on all consumption. Again, in the kinds of economies we are talking about, that means that very poor people, who do not buy imported goods and therefore do not pay tariffs, would be paying a goods and services tax on everything they buy, including things like food, which is local produce. So in that shift from tariffs to a goods and services tax you have a more aggressive tax system for the poorest people. That is why the churches, in particular, in the Pacific have fought against the introduction of consumption taxes—because of their regressive impact on very poor communities. We would argue that it is not appropriate to just apply this idea of zero tariffs in the context of the particular conditions of these economies.

I now want to talk a bit about trade in services, which initially was excluded from the idea of PACER but is now proposed be included. Again, I think you have to look at the particular nature of these economies. Often you have communities living on small islands that have a need for heavily subsidised services and special provisions so that they can get access to services. Once you place services in a trade agreement, it means that those services have to be treated on a commercial basis. There is supposed to be an exclusion for public services, but the exclusion is very ambiguous. It says that a public service is a service that is not provided on a commercial basis or in competition with other services. That definition means that quite a lot of things that traditionally have been defined as public services may fall into the definition of 'public service' if there is a private service provided in competition and it can add to pressures for privatisation of those services.

The other part of the trade in services legal framework that I think could be damaging in the Pacific island context is that, again, once you place services in a trade agreement, it restricts the degree to which governments can regulate services, whether or not they are public or private. Again, as I have said, in a Pacific island context, there has to be quite a lot of regulation of services to make sure that people receive them. In the context of trade agreements, governments can be challenged if they attempt to regulate the numbers or locations of services; in particular, cross-subsidisation of services is not permitted once those services are in a trade agreement. This really limits the extent to which governments can ensure that services are provided. Again, church organisations, unions and other groups in the Pacific have expressed a lot of concern about this as well as the impact it would have on the ability of governments to provide services.

The third area proposed to be included is investment. Once you include investment in a trade agreement, the commercial framework means that there can be no limits on the level of foreign investments and no obligations on the foreign investor to contribute to local development and, again, there can be challenges to laws that foreign investors perceive as limiting or restricting their investments. In the Pacific islands, this has taken the form of a great deal of pressure from external investors to change local land tenure systems that very often do not suit external investors but which are very important to Pacific island communities. Again, this is a particular concern that has been expressed by Pacific island communities: they do not want to have some kind of comprehensive investment agreement that means that their local land tenure laws could be challenged by external investors. Of course, we are looking at not only very small economies but also very vulnerable ecosystems. We believe that governments should have the right to regulate and restrict investment in certain areas to protect both the rights of local people and the environment.

In the case of both services and investment, we believe that the current proposal is that the agreement be what is called a 'negative list agreement'. That means that everything that is not excluded is included. We believe that this is a particularly bad form of trade agreement for the Pacific islands, because it is very difficult for governments to predict what will happen with services and to make all the exclusions that they have to make.

**CHAIR**—What is a 'negative list agreement'?

**Dr Ranald**—It means that every service and every aspect of investment, if it applies to investment, is included unless specifically excluded. That is the form of bilateral trade agreements normally. In the World Trade Organisation, because a lot of governments object to

that formula, they have what is called a 'positive list'. That is that the governments agree to include only the services that they wish to include so that they can make a positive decision about the ones they want to include. We believe that is a more appropriate style of agreement, especially for developing countries. That is because, once they are involved in a comprehensive agreement, if they have not excluded certain things, it is impossible to exclude them later; and the implications of not excluding them may appear only later. We would argue that it is not a good idea to include services but, if you are going to include them, rather than it being a negative list agreement, it should be a positive one because that gives more flexibility to governments in this area.

There are two kinds of dispute mechanisms in trade agreements. In fact, all trade agreements have a government-to-government dispute process so that, if one government thinks that the other government is not abiding by the agreement, it can lodge a dispute and the dispute will be determined by a tribunal of trade lawyers. Another model of dispute that was initiated under the North American Free Trade Agreement, initially under US law, is called an 'investor state dispute process'. It means that a particular company can sue a government for damages if the company can show to a tribunal that actions of the government have harmed its investments in relation to the framework of a trade agreement. Again, we think this is a particularly unsuitable form of dispute process to have in an agreement with governments whose budgets could be entirely ruined if they were sued by a multinational company. It is not a normal form of dispute process. It is not in the WTO trade agreements and it is not in most of the bilateral agreements that Australia has, including the US-Australia Free Trade Agreement. Australia did not include it in the US-Australia Free Trade Agreement because of controversy about the way that those dispute processes have been used under the North American Free Trade Agreement where the Canadian and Mexican governments, in particular, were sued for millions of dollars by US companies. So, again, we would argue particularly that such a dispute mechanism should not be included in this type of agreement.

My fourth point is on labour mobility. We recognise that the Pacific island governments wanted an agreement on labour mobility and currently a pilot project is being undertaken, which will have to be evaluated. We draw the committee's attention to the problems that have arisen under visa 457 schemes in relation to the exploitation of workers. We are concerned particularly that workers be protected from those forms of exploitation. Since we wrote this submission, the Deakin review has emerged and currently the government is making amendments to that scheme to better protect workers' rights. At the moment the labour mobility scheme is separate from a trade agreement, and we believe that the two should be kept separate. The labour mobility scheme must have the ability to protect the rights of workers and cannot be put in the framework of a trade agreement, as trade agreements do not include those sorts of protections. They are legal-commercial agreements and—

**CHAIR**—It is not the position of the government to have mobility agreements in trade agreements.

**Dr Ranald**—There have been offers made to—

**CHAIR**—There might have been, but that is not the position of the government. The government has had them separate. It has working protections in labour mobility agreements; they have been negotiated.

**Dr Ranald**—I have to inform you that the Australian government made an offer, in the World Trade Organisation, to include labour mobility provisions in that agreement. I am certain about that because we made specific submissions to them to ask them not to do it.

**CHAIR**—You might provide me with the written detail, because it is not the position of the Australian government. It is the first that I have been made aware of it and I am on top of this issue. If that is the case, I would appreciate that to be drawn to our attention in writing so that it can be taken up with the government.

**Dr Ranald**—Yes. I can send you a copy of the letters that we have sent to the trade minister about it.

**CHAIR**—Not your letters; a copy of the relevant material relating to the position of the Australian government in WTO negotiations, putting the proposition that labour mobility agreements be part of—

**Dr Ranald**—I can send you a copy of Mr Crean's reply to us about that, and I am happy to do so.

**CHAIR**—That is not our position.

**Dr Ranald**—I am glad to hear that. So you agree with what I am advocating, that—

**CHAIR**—No, I did not say that; I just said that is not the position of the current government.

**Dr Ranald**—Right. I am advocating that labour mobility agreements should not be in trade agreements. This was a specific point made by church and union groups in the Pacific, when they have had communications with us. When Reverend Fei Tevi was here, he made that point too. So they want to have a labour mobility agreement but for it to be separate from any trade agreement, because all of those protections can be included in a labour mobility agreement whereas they could not be included in a trade agreement.

The last thing I want to draw to people's attention is processes for trade agreements in terms of the policy platform of the Australian Labor Party. We were very pleased to see that the policy platform included proposals that, prior to commencing negotiations for bilateral or regional trade agreements, documents be tabled in both houses setting out the government's priorities and objectives, including independent assessments of the costs and benefits of any proposals that may be negotiated, and that this assessment should consider the economic, regional, social, cultural, regulatory and environmental impacts that are expected to arise. We would urge the government to implement that policy in relation to all trade agreements, including, if it proceeds, the Pacific islands trade agreement. We would also draw attention to other parts of the ALP platform that recommend that trade agreements take account of and ensure that they do not undermine environmental and labour rights issues. In the case of the Pacific islands, we would urge that the specific situation of Indigenous peoples also be considered in relation to things like land tenure arrangements, which I referred to before.

**CHAIR**—Have you concluded, Dr Ranald?

**Dr Ranald**—Yes, thank you.

**CHAIR**—Thank you. We will turn to questions and commence with Senator Trood.

**Senator TROOD**—Thank you for your submission. I would like to clarify what ‘the network’ is. You say in your submission that there are ‘90 organisations’. What kinds of organisations are they?

**Dr Ranald**—They are church organisations, including the Australian Catholic Social Justice Council, the Uniting Church’s Uniting Care, and the National Council of Churches; unions, including the ACTU, the Education Union, the Manufacturing Workers Union and the Australian Services Union; environment groups, including the Australian Conservation Foundation and Greenpeace; and aid and development organisations, including Oxfam, AFIDA, Aid Watch—

**Senator TROOD**—I get a sense of who is involved; thank you. In the overview of your submission—you do not seem to have page numbers—you say:

Trade negotiations should be undertaken through open, democratic and transparent processes ...

Do I take your position to be that this is not the case at the moment?

**Dr Ranald**—We would prefer implementation of the policy, which is that parliament should have a greater say in debating trade agreements before negotiations commence and also in determining their final ratification. At the moment the whole process is a cabinet process, so it is cabinet that decides to initiate trade negotiations. Cabinet not only reports that to parliament but also directs the negotiations. At the end of the process, there is a parliamentary committee that looks at the agreement after it has been ratified and it is only then presented to parliament. Parliament does not vote on the whole agreement; it only votes on any legislation that is required to implement the agreement. This is quite different, for example, from the process in the US, where Congress decides whether the negotiations should commence and has much closer oversight of the negotiations. Then, unless there has been a special fast-track authority voted to the executive, Congress votes on the whole agreement.

**Senator TROOD**—It is a different system of government, of course.

**Dr Ranald**—Yes, but these are democratic principles. Some of the changes that I am proposing are now in ALP policy and we are simply asking—

**Senator TROOD**—I must say that I am grateful to your submission for drawing that to my attention, particularly to the Senate Foreign Affairs, Defence and Trade Committee report of November 2003, of which I was unaware. But I will look at that report with great interest and I will certainly be interested to see that the Labor members of the committee, on your representations anyway, appear to have supported that particular proposal.

**Dr Ranald**—It was majority support.

**CHAIR**—What are you referring to?

**Senator TROOD**—This is page 19. From my perspective, the more important issue is that it seems to me that you are not sympathetic to any kind of regional trade agreement with the Pacific. I would appear that your submission would deprive a trade agreement of all the things that should be in trade agreements.

**CHAIR**—Yes.

**Senator TROOD**—I conclude from your position that you are not in favour of a trade agreement at all. In particular, the things that are most obviously in trade agreements—the reduction of tariff barriers and things of that kind—you have concerns about. That is fine; it is more than appropriate for you to take that view, if you wish to do so. But am I right in saying that you would prefer there not to be a PACER or a PACER-Plus?

**Dr Ranald**—We do not think it is appropriate to apply to these small island economies exactly the same one-size-fits-all rules that you would apply if you were negotiating a trade agreement with an economy of equal size and equal strength. We are saying that these small island economies are particularly vulnerable. They have different economic structures. In some cases, a lot of their people are still living on subsistence either agricultural or fishery type activity. The imposition of strict commercial law frameworks on those economies could be very detrimental. That is what we are saying. We are asking the government to look at the specific situation of these economies rather than just apply a one-size-fits-all formula of trade agreements that have been applied in other situations.

**Senator TROOD**—So you do not advocate free trade; you are fair trade advocates. Is that correct?

**Dr Ranald**—That is correct. By ‘fair trade’, we mean that we support the idea of trade, but we want it to take into account the social impacts.

**Senator TROOD**—I understand that, but—correct me if I have misunderstood your submission—it seems to come down to the fact that you are not persuaded of there being a need for a regional trade agreement. Essentially, you are excluding the services sector and the manufacturing sector. You are concerned about the possibility of dropping tariff barriers because that will have an impact on economies, which is precisely counter to what the advocates of free trade agreements argue—which, of course, is that this is one way of forcing efficiencies in economies. You specifically said in your opening remarks that you are concerned about the fact that a trade agreement might force changes in land tenure arrangements in these countries, which is precisely among the reforms that almost everybody who has come before the committee has said are needed.

**Dr Ranald**—Yes; but those land tenure arrangements are very important, both culturally and economically, to the people who live in the Pacific islands. Those land tenure arrangements form a very large part of the basis of those societies. We would argue that you cannot look at those arrangements in the same way that you would look at commercial land arrangements in Australia or elsewhere. You have to take into account the particular cultural and economic basis of those societies. Certainly, in most cases, the community organisations and people living in those societies do not want to have those land tenure arrangements changed at the moment; even if they did, if changes were being proposed, we would argue that they should be done through a

democratic internal process in each country and not imposed externally through a trade agreement.

**CHAIR**—All of the governments in the south-west Pacific, from PNG heading east, are democratically elected—and we will not go into a debate about Fiji—

**Dr Ranald**—Not all of them but most of them are.

**CHAIR**—Nearly all of them are. Nearly all of them have forms of local election and local assembly. The current government and the previous government have been content to characterise them as democratic albeit with some problems. Just take that as a given. That being the case, if democratically elected governments choose to go down a particular path and not have restrictions contained in freely entered into trade agreements—if they do not seek such restrictions in the negotiation process and they sign up to the agreement, being aware of both the benefits and the costs of that freely entered into agreement—why is there any particular justification for later exclusions going into those freely entered into agreements?

**Dr Ranald**—You can look at the experience with the EU. Only two Pacific island countries were willing to enter into a similar type of agreement with the EU: Fiji, which actually does not have a democratically elected government, and PNG.

**CHAIR**—Which does.

**Dr Ranald**—Yes. But the other island economies were not willing to sign up to the EU agreement for the kinds of reasons that I have raised here.

**CHAIR**—But that is their right. I do not argue with that. If their governments choose not to sign up, they are not bound by the agreements and, therefore, do not receive the benefits or face the costs.

**Dr Ranald**—Yes, but I think it is legitimate for the parliament here to be informed of the concerns of those community organisations and those governments which may not wish to sign such an agreement. I think the pressure that can be exerted on them—

**CHAIR**—But you have not answered my question. If the PNG government chooses to enter into a free trade agreement with Australia and New Zealand and is aware of the potential benefits and costs and that agreement is ratified appropriately through its governmental processes, why is that not the end of the matter?

**Dr Ranald**—I am not suggesting that would not be the end of the matter. I am suggesting that the Australian government, as it enters into negotiations, should be aware of the specific circumstances of these small and vulnerable economies. That is what I am arguing.

**Senator McEWEN**—Perhaps I can ask a question, which follows on from what the chair was asking. In your view, what is the capacity of the smaller island nations, in particular, to negotiate these free trade agreements? A lot of submitters have said that their public services are inadequate to cope with the modern global economy et cetera. Do these small island states, in particular, have the capacity to negotiate these very complex free trade agreements?

**Dr Ranald**—Again, going on the information that we have received from them, that is precisely one of the issues that community organisations in those island economies are worried about. It is not unusual in some of the smaller countries for there to be no particular department of trade, for example, and to have no-one with expertise in that area; so the capacity to negotiate can be very limited. I think we have to recognise that, because of the history of Australia and New Zealand in the region, it is very easy for governments to be pressured without necessarily being fully aware of all the implications.

**Senator FERGUSON**—What do you mean by ‘the history of Australia and New Zealand’?

**Dr Ranald**—Historically, Australia and New Zealand have been colonial powers in the region. We are much stronger economies. We are industrialised economies. We dominate the region and are the dominant powers in the region. That is what I mean. I am not saying that we should not have any relationships with these economies; I am saying that it might be more appropriate, for instance, to develop the development arm of those relationships—and that is a separate process, which is going on—than to try to impose a one-size-fits-all trade agreement model on those economies. Through partnerships for development type relationships, there could be capacity building and projects for economic development in these areas, which I think would be more fruitful.

**Senator TROOD**—That goes back to my original issue, which is that the submission that you have given us seems to me to deprive what would normally be regarded as a multilateral trade agreement of its core. So you do not seem to be sympathetic to a regional trade agreement. Is that a fair statement of your position?

**Dr Ranald**—We would only be sympathetic to such an agreement if it took into account all of these issues. I do not think the model that is being proposed currently takes those issues into account. I would say that I think it is more appropriate at this stage for the relationship to be progressed through a development model rather than a trade model.

**Senator TROOD**—It seems to me that, if we took all your concerns into account, basically there would not be a regional trade agreement that is worth the effort of negotiating. There would be virtually nothing left.

**Dr Ranald**—We are saying that this model is not an appropriate one; that is what we are saying.

**Senator TROOD**—There would be nothing left, essentially, I think. So your network’s preference is basically for bilateral relationships between Australia and these countries that are built around a kind of developmental model. Is that what you are saying?

**Dr Ranald**—That kind of model is being progressed by the current government.

**Senator TROOD**—You find the Pacific partnerships proposal to be a sound foundation for undertaking that kind of—

**Dr Ranald**—I have not looked at it in enough detail, but I do think one of the advantages of that sort of model is that it can take into account the specific circumstances of each of these

countries, because some of them are very different. PNG is very different from Vanuatu, in terms of their particular needs for development.

**Senator TROOD**—The other thing that seems to come through in your submission—and perhaps this was not meant—is that you are reluctant to recognise the need for change in many of these communities. One of the obvious needs is for economic development and progress. That can be sympathetic with cultural traditions, mores and history et cetera—there is no question about that—but the absence of progress and all the indicators which might be markers of progress are appalling for many of these countries. One of the distressing things that I think most of us on the committee have discovered is that we are making so little progress on things like education, for example, and there clearly needs to be change of some kind or another. Does your network recognise the need for change in these communities?

**Dr Ranald**—Of course we recognise the need for change and for development, but we are making the point that the imposition of this kind of trade agreement may not lead to development outcomes. For example, it is clear that these island economies need more resources for education. For instance, if you remove the income from tariffs and replace it with a more regressive GST type system, not only will you reduce the resources which might be available to the government for education but also you will place additional hardships on the very families that need to access education and it might make it more difficult for them to do so. I guess I am arguing that there will be unintended consequences from this kind of trade agreement. Of course we support change and development. Again, we are told by our partner organisations in the Pacific islands that they want economic development but they do not want to have to abandon their own culture and identity in order to participate in economic development; they want to have forms of economic development that take into account their particular circumstances. I think that could be better done through development partnership agreements than a rigid commercial trade framework.

**Senator TROOD**—Just to clarify this point, is it your submission that the Australian government should abandon the regional trade agreement formula altogether and proceed through bilateral arrangements?

**Dr Ranald**—I do not think the PACER-Plus model being proposed is appropriate; that is what I am saying.

**Senator FERGUSON**—Several times you have said that we must not have a one-size-fits-all when we are looking at trade agreements; however, throughout your oral evidence you have continually suggested that, before there are any trade agreements, we should have a parliamentary debate, enter into trade negotiations, have our treaties committee look at it and, at the end, have another parliamentary debate. In addition, one of your recommendations says that, prior to undertaking any trade agreement, we have to outline how we will strengthen and support international standards on the environment, labour rights, human rights and the rights of Indigenous people. If we did all that, I do not think we would ever get to the stage of negotiating any agreements, quite frankly. In New Guinea and the south-west Pacific, we are dealing with countries not one of which can survive without aid, much of that aid coming from those two countries you have mentioned that have a ‘colonial past’—I think was your term for it. Australia and New Zealand have interests in the Pacific, but they also have provided a colossal amount of aid. There is not an economy that can survive on its own. Surely, with any trade agreement that

we can make with the south-west Pacific and New Guinea, if it is going to strengthen their economies, the governments of those countries will look at strengthening their economy certainly before starting to look at their other standards, which you say, as part of your recommendation, should be looked into before we make any trade agreements at all. Do we want to come up with an agreement that can help these people to help themselves, or will we try to put obstacles in the path of any economic improvement in all of those countries?

**Dr Ranald**—As I have said, I am not convinced that the particular model being proposed is going to mean real economic improvements for those countries and—

**Senator FERGUSON**—What are the worst aspects of the model?

**Dr Ranald**—the reason that I have raised things like human rights, labour rights, environmental protections and protections of the rights of Indigenous people is that they are the issues that have been raised with us by community organisations in those countries; so they are concerned about those issues. I think the parliament in Australia should be aware of those issues.

**CHAIR**—Do you want those things included in trade agreements?

**Dr Ranald**—No, but we want—

**CHAIR**—Do you want human rights, labour rights and environmental rights included in the trade agreement?

**Dr Ranald**—We believe that it is reasonable for trade agreements to contain commitments by governments, particularly in relation to labour rights and environmental protections. Such commitments are contained only in one trade agreement that we have, which is the Australia-US Free Trade Agreement. In addition, it is Labor Party policy to look at including those issues in consideration of trade agreements.

**CHAIR**—With due respect, I think you will find that it is Labor Party policy to have labour rights done through multilateral levels at the UN and the ILO, not the WTO.

**Dr Ranald**—No, I am not saying that the WTO should be in charge of labour rights. I am saying that, if you look at the platform with which the government went to the election, there are commitments in there to considering labour rights and environmental protections in the context of trade agreement negotiations; they are there.

**Senator FERGUSON**—So, setting aside the South Pacific for one minute, you would not be in favour of a negotiated agreement with China.

**Dr Ranald**—We have raised exactly the same issues about labour rights and environmental protections in relation to the negotiations around the free trade agreement; we raised them with the previous government and we have raised them with the current government. There was a specific resolution at the last ALP conference about negotiations with China regarding those issues.

**Senator FERGUSON**—I know that this is getting off the track, but are you suggesting then that we should not enter into an agreement with a country such as China—it might apply also to some of the South Pacific countries—until we are satisfied that all of those other matters, such as human rights, labour rights and environmental protections, have been dealt with satisfactorily?

**Dr Ranald**—We would argue that both parties to such an agreement should make a commitment to abide by those internationally agreed rights.

**Senator FERGUSON**—That is different.

**CHAIR**—One of the purposes of free trade agreements is to drive change at an institutional and a structural level and to bring reform into the parties that sign up to the agreement. That is a purpose and I do not have a problem with that. But in particular, in terms of the south-west Pacific, every group or witness who has been before us to date has raised the issue of land tenure and land reform. They have not said that it is important, a major issue, something to be negotiated through or something to be concluded over time; they have not used those sorts of weasel words. They have said that land reform, land tenure, is absolutely critical to any progress in terms of GDP growth or GDP per capita growth, improvement of living standards or funding of government services of the type that you and I regard as normal. They have said that, if you do not have land reform, you can forget everything else; we will just continue in this abyss of poverty for another 30, 50 or 70 years. Firstly, how do you respond to that? Secondly, if you do not do that—because this is the point—what is the solution to developing indigenous surpluses that fund growth?

**Dr Ranald**—I think, if there is to be a process of changing land tenure, it should take place in each country according to the needs of that country. I do not think it should be a one-size-fits-all process imposed in a trade agreement.

**CHAIR**—I understand what you are saying.

**Dr Ranald**—That is what our partner organisations—

**CHAIR**—I understand that. If there is not to be what you would characterise as a one-size-fits-all solution and what we would characterise as a multilateral agreement—the form of words used does not matter—how are you going to develop sufficient internal capital in each of these countries, one by one, that is going to fund growth and development of the type that they have told this committee they want and they need because they are sick of their kids dying, their kids not having futures, there being absolute poverty and all the rest of such things. How do you fund it if you do not have land reform?

**Dr Ranald**—I think it is not impossible to have that kind of development under traditional land tenure systems. There has been development in places like Papua New Guinea, Fiji and some of the other islands; Vanuatu, for instance, has a thriving tourism industry. So it is not impossible to negotiate through local land tenure structures to have development. But my point is that that process should be in consultation with the people involved. If you do not have consultation with the people involved, you end up with a Bougainville.

**CHAIR**—And, if you do not have change, you will continue to have literacy rates, health standards and infrastructure that are spiralling downwards.

**Dr Ranald**—I would argue that it is possible to have development that takes account of traditional forms of ownership, because there has been some development in those countries currently.

**CHAIR**—You are right; there has been some agricultural development of a scale, some mining development and some tourism development. There have been all of those things. Some energy and gas projects have come on or are coming on. No-one is saying that there have not been examples of that. But in each of these countries one by one—after New Zealand and Australian involvement for the last 50 years, spending tens and tens and tens of billions of dollars in aid or grants—we still have literacy standards of 40 per cent, health standards below those of Third World countries, AIDS and crime rife and gangs running countries. There does not appear to be a solution in your proposition that gives comfort to 50, 60 or 70 per cent of the population.

**Dr Ranald**—I would argue, for example, that needing to be put in place is a framework for development that would ensure that the wealth from that development is precisely redistributed to the rest of the community through things like adequate taxation systems and so on; governments then would have the resources to develop education and health systems et cetera. I think it is possible, through a development frame work, to develop policies that redistribute wealth. But you have to have, for example, a progressive tax system and an adequate company tax system to ensure that the wealth is redistributed throughout the community.

**CHAIR**—You have to have an incentive for companies to go into those countries, and that usually involves a reward.

**Dr Ranald**—Look at PNG, for example. There has been enormous wealth developed and removed from PNG, but it has not been redistributed. I would argue that, in part, that is due to there having been faults in successive governments in PNG; but also a model of development has been imposed on them that did not encourage them to have a progressive taxation system and to invest adequately in health and education. So I think we need to address those models of development.

**CHAIR**—But the PNG government is a democratically independent government of a sovereign state. It has been at arm's-length conflict with the Howard government for the best part of the last 10 years because it did not agree with the propositions of the Howard government. You cannot have it both ways and say that we should be telling democratically elected governments what to do and then—

**Dr Ranald**—But, through a trade agreement, you are saying that we should be telling them what to do.

**CHAIR**—No, we are not. We are saying that they are free to enter into a trade agreement.

**Dr Ranald**—But you are saying that that is the only path of development and it is required in order to have change in those societies.

**CHAIR**—No, I am not saying that at all. I am saying that, after 50 years of developmental aid and grant aid, every set of statistics that has come across this committee's desk has been absolutely terrible. On that basis, maybe it is time to think about a different path that might raise living standards for these people over time. That is all I am suggesting.

**Dr Ranald**—I would agree and I would argue that a different developmental model is needed than this kind of trade agreement. We are not differing about the objectives; we are differing about the means.

**CHAIR**—Are there further questions? Senator McEwen.

**Senator McEWEN**—I would like to conclude by saying that I appreciate very much the work of AFTINET and I have done for a long period of time. I understand that AFTINET always come from a high base and hope to get an acceptable outcome, but always the impetus is to protect those people who most need protection in whichever country you are working in. I would just like to put that on the record.

**Dr Ranald**—Thank you.

**CHAIR**—Thank you, Dr Ranald.

[9.58 am]

**JOYCE, Mr Brendan, Assistant Director, Palms Australia**

**CHAIR**—A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Mr Joyce**—No.

**CHAIR**—The committee has before it your submission. It is a public document. Do you wish to make any amendments to the submission?

**Mr Joyce**—No.

**CHAIR**—I now invite you to make a brief opening statement and then we will proceed to questions.

**Mr Joyce**—Thank you for the opportunity to speak to the inquiry. As a brief introduction to Palms Australia in addition to the introduction given in the submission, it might help to know that Palms Australia has been around for 48 years. For 20 of those years it received government funding via an agreement with AusAID. In 2004 as part of its new tender arrangement regarding the funding of volunteer sending AusAID ceased funding Palms Australia's volunteers. Since then, despite the loss of funding, we have established a fair trade café, further developed community education in Australia, including a cross-culture encounters program, conducted a PhD research project into models of volunteering with the University of Wollongong, supported Connect East Timor village radio project, which Prime Minister Gusmao and President Ramos Horta were so impressed by they have pledged to extend to every village in Timor-Leste. We piloted a reverse immersion for Timorese hospitality graduates and continued our volunteering program, maintaining 30 volunteers in the field.

Our submission focused on the shortcomings of recent top-down approaches to development in Papua New Guinea. The emphasis on governance has reflected an ideology that assumes a lack of accountability and transparency in the public sphere is responsible for the ongoing challenges to reducing poverty. While inefficiency and corruption are definitely obstacles to development, the focus has been predominantly on economic development from the top down. For the average Papua New Guinean, though, other obstacles such as a lack of opportunity remain. Furthermore, the approaches taken to address governance problems have their own problems. The major obstacles with the approaches taken so far—and this is based on the feedback from partner organisations of Palms Australia both in Australia and in Papua New Guinea—include the lack of administrative capacity, weak vertical linkages within organisations and corruption. A workplace culture of corruption is accepted as normal if not as correct or right by the public. Because each community has witnessed others misuse this power, when a relative reaches a position of power, diverting resources inappropriately to wantoks or relatives is often expected. Though there are exceptions to the practice, there are very few positive examples set to junior staff, because of a lack of downwards transparency.

The weak vertical linkages are something that we have witnessed again and again where even when there is a good leader their actions are not visible to the people below them in the workforce, so the example and the mentoring is not always set as well as it should be. This includes the example that many Papua New Guineans will see in expatriate staff, Australian and others. At first glance to a local Papua New Guinean the expatriate in the brand-new air-conditioned four-wheel drive travelling from one barbed wire compound to another seems no less corrupt than a Papua New Guinean seeking the same level of distance from the grassroots people. Because many expatriates are encouraged to maintain this distance for reasons of security there is little evidence to a Papua New Guinean that Australians have any higher moral ground to speak from when it comes to these matters. It is not our suggestion that this is the case, but this is the appearance that I guess too many of the grassroots people have.

The inefficiencies in public and private sectors often result from a working culture built on a lack of faith in local employees. This has been an issue since the origins of colonisation of Papua New Guinea. Tasks from the early stages of education through to administrative processes were simplified to a point where they lacked meaning and relevance. The tasks became a case of ticking a box or completing a certain task in a process without understanding the greater context that the task was in. Workplace tasks then hold less meaning and priority than familial tasks and therefore are not prioritised by many workers. Poor mentoring and education in big picture issues result in a reduced sense of corporate obligation or obligation to the state or to the people or to the country when compared with communal obligations. It is not surprising when someone takes a work vehicle to transport a relative, for example. Although this might be seen as an abuse of the power of having a work vehicle, this is something that Papua New Guineans see expatriates do all the time. Expatriates are able to justify it because Port Moresby is an unsafe place for a visiting relative to land in and have to travel, so they will take the work vehicle. There is no problem with that, but when a local person takes it to their village to bring a relative to hospital, for example, that is seen as an abuse of power. I certainly would not have a problem with someone picking up a relative from the airport in Papua New Guinea. While we might justify those behaviours, the image that is given is of a double standard.

We need to remember that governance issues are at their heart actually training issues. Proper training in PNG, Australia or any context, at least up to a certain level of competence and independence, relies on relationships. Relationships are not a pleasing side effect of aid. Aid is a relationship. What sort of a relationship it will be depends on both parties, but a relationship built on notions of superiority or pity will never work. An appropriate relationship would involve discarding notions that a successful PNG is one which is progressed to a certain point along a continuum on its way to Australia.

There is great hope that Australia's policies regarding the Pacific have moved past some of the diplomatic embarrassments of recent years. I guess the most obvious is the refusal of the police in Papua New Guinea under the Enhanced Cooperation Program. Michael Somare's embarrassment at being asked to remove his shoes entering Australia was another one. We hope that we may be able to move to a more respectful relationship. Certainly the signs from the words of Mr McMullan, Mr Kerr and Mr Rudd have been positive.

Increasing the aid budget to a more respectable level is one necessary step, as is prioritising those agencies which build relationships. NGOs are demonstrably better at this than private contractors and a proportion of the aid budget going through NGOs should also be increased.

The revitalised interest in the Pacific should be accompanied by increased support for research in the area.

**CHAIR**—You made some comments at the beginning of your remarks about governance issues. Could you just go through that again? I did not quite understand whether you were critical of the emphasis by AusAID on governance issues or whether you were supportive.

**Mr Joyce**—I believe governance issues are major issues in Papua New Guinea. From experience, they are obstacles to a lot of other forms of development so I do think there needs to be a focus on governance. I think it has been sometimes prioritised at the expense of perhaps other areas as well. I think the approach to governance has predominantly been a top down model rather than—

**CHAIR**—What do you mean by that?

**Mr Joyce**—It has been working with the public sector and the politicians, but I think there is not enough done for people at the grassroots to access or critique the systems themselves. The governance approach, while going through from government to government and then being implemented from the top down, is not making much of a difference in the lives of a regular person in the village or in the streets or in a house in a town.

**CHAIR**—I am not so sure it is intended to.

**Mr Joyce**—I would like to think that it is in the long run.

**CHAIR**—Yes, but the governance emphasis is about getting macroeconomic stability, accountability, transparency and responsibility in the distribution of government funds as opposed to if it is given effect to—

**Mr Joyce**—I am not sure it has actually been that effective in doing that. It is not so much the focus on governance as I think a training model where closer relationships were built, horizontal relationships between Australians and their counterparts in Papua New Guinea, for example, or within institutions in Papua New Guinea—and I do think there is a lot of scope for those to be increased—where those relationships can be enhanced so that it is not seen as Australia coming in arrogantly and enforcing a model which to the eyes of a Papua New Guinean does not always seem to be applied here either. Even if we may disagree with that and be offended by such a suggestion, my experience with Papua New Guineans is that politics is politics and it is always the same and it does not change. If that is the attitude of a person who is an up-and-coming politician, they will enter the system with the attitudes that they will behave the way that they think politics is done.

**CHAIR**—I think the characterisation you have made is correct. No-one has really argued with the characterisation. We might have a disagreement as to the appropriate solution, but I think it was made quite clear to us yesterday by a number of groups that there is a political and economic elite in PNG in particular that essentially takes most proceeds to itself. There is little distribution either across or down to the broader population.

**Senator FERGUSON**—You are somewhat critical of other volunteer organisations and what could loosely be called their attitude. You say here that local NGOs have reported having volunteers thrust at them or international volunteers sending agencies regardless of the need. Do you include Australian Volunteers International amongst those or not?

**Mr Joyce**—The stories we have heard about that we believe actually have resulted from the competitive process which AusAID implemented. Not being part of it, maybe we were misinformed but our understanding of it is that each agency has a quota to fill to receive its funding and the volunteers then are sometimes seen as commodities to place, because if we do not place all the volunteers where we have a quota to fill we will not receive our funding, for example. We have had partners—and again this was from partners—who have been wined and dined by one agency saying, ‘Use our volunteers over their volunteers.’ Instead of being a cooperative model, I do think that aid should be a cooperative process.

**Senator FERGUSON**—How many volunteer agencies are there in Australia?

**Mr Joyce**—To my knowledge, there are actually a lot, but in terms of NGOs there is the four supported by government. There is Palms Australia. There is one called Interserve and there are several smaller ones which focus on what might be called voluntourism or gap-year volunteering, which are not always founded on development theory.

**Senator FERGUSON**—I was just surprised. I thought it was being rather critical of people. Most people who volunteer to work in the countries in the south-west Pacific do so at a great personal cost. I know even our former Speaker’s wife was a volunteer for 12 months in New Guinea. I have never heard her speak of any what you might loosely call competition amongst the volunteer organisations, because she said when they went there they were too busy concentrating on what they had to do in their volunteering.

**Mr Joyce**—Not amongst the volunteers themselves. The volunteers go in and do great work and do the best in the circumstances that they are given. It is even reflected in recruitment in Australia. I think I mentioned this in my submission as well; and this is anecdotal. Rather than basing a volunteer placement on a request that comes from the local community, say, for example, a bishop or a hospital CEO or whoever, requesting a volunteer of the agency, there were cases we have heard where the country coordinator of a particular program went to the local organisation and was trying to convince them to take a volunteer. That was not a request from the local community. The other concern I guess was, again in order to fill quotas, we know of several stories where an organisation that already had staff in the country has been told by an in-country coordinator, ‘Make your representative a volunteer and we will cover this cost and that cost.’ Of course, a local NGO will not always but will often take the option of having their staff member funded. I know if I were running an NGO on limited funds and an Australian or other volunteer agency said, ‘We’ll pay for your staff, or a staff member’, I would not turn down the opportunity. But in terms of the model I think there are some placements which have not perhaps been assessed against the criteria that otherwise these agencies do hold themselves to. I know that they have evaluative processes for looking at a particular request or placement. I think sometimes those have been abandoned in the race to actually meet quotas.

**Senator FERGUSON**—How on earth can a focus on governance be interpreted as renewed colonial ambitions?

**Mr Joyce**—I am sorry, can I ask which page that is on?

**Senator FERGUSON**—It is at the start of the second paragraph in your executive summary. You say, ‘The focus on governance has mischaracterised Pacific cultures as lazy, inept and corrupt and has in turn perpetuated an image of Australia as an arrogant power with renewed colonial ambitions.’

**Mr Joyce**—Again, this is the feedback from our partners, that the relationship of Australia to the Pacific during the Howard government years, particularly—and I am not here to get involved in partisan bickering—

**Senator TROOD**—It sounds like it.

**Mr Joyce**—The relationship with the Pacific at times, at least again in the view of the Pacific Islanders, was one where—and I do not know the full background to this—Australia sort of pressured Pacific nations to include an Australian in a senior position on the Pacific Islands Forum. I am not quite sure of this. And there was the attitude taken with the enhanced cooperation program. While things like RAMSI and the intervention in East Timor were perhaps necessary and have had some very positive outcomes I think sometimes the dialog between countries was seen as one of Australia saying, ‘These are the things that you have got wrong with you and now we’re going to fix them.’ The dialog since the recent election has been one more of—I think Charles Hawksley from University of Wollongong indicated in a paper that I read recently that while the actual outcomes and aims of the process have not been any different the dialog has been a little more respectful and one of ‘in partnership we’ll work through this together’. I think it was just more the impression that Papua New Guineans and other Pacific Islanders were getting of being bullied at times.

**Senator FERGUSON**—That may be your interpretation, but can I say to correct the record that in the 11 years of the Howard government the Foreign Minister visited at least three Pacific countries every year. His predecessor never visited the Pacific and his successor has not yet visited the Pacific but has a junior minister doing the role, or a parliamentary secretary. You might consider that to be aggressive, but it was a sign of the interest and the importance of the Pacific.

**Mr Joyce**—I am not reflecting my views on aggression. I am saying this is how it was perceived by Papua New Guineans to whom I have spoken and people from other Pacific islands to whom I have spoken.

**Senator FERGUSON**—I will let it rest.

**Senator McEWEN**—I enjoyed your submission very much. I think it calls it like it is, uncomfortable though that may be for some of us. In your opening statements with regard to program delivery you talked about NGOs versus private contractors and you said that NGOs are demonstrably better in delivering programs.

**Mr Joyce**—Building relationships, yes.

**Senator McEWEN**—Can you explain how they are demonstrably better and why do you think that is?

**Mr Joyce**—As you know, a large amount of the Australian aid budget goes through private contractors. NGOs can often maintain longer relationships that continue for many years. For example, Palms has been around for 48 years and we are still in communication with some of the same organisations with whom we started sending volunteers. At times we have been able to place a volunteer who has trained a local person in such a way that, although they have not needed a volunteer for some time, due to people moving on and the changes that I guess happen over time the agency has felt able to come back to us and the understanding that we have built up with that agency over all that time has allowed us to better prepare the person to work with them. The agencies themselves will come back and request another volunteer from us because they see that as a worthwhile process. I understand that NGOs cannot do a lot of the projects that are funded by aid. I certainly would not want to be going in and rebuilding the Highlands Highway myself—

**Senator McEWEN**—You might have more success.

**Mr Joyce**—I doubt it, but I guess the local people will see an employee or a volunteer specifically not as someone coming with some other ulterior motive or notion of superiority. Volunteers have the ability to go in at the same level as a local person and therefore build friendships/relationships that can last beyond the project and it is not seen as, ‘I’m going in there because I have been paid an incredible fee as a contractor to do so.’

**Senator McEWEN**—You also talk a lot about people in Papua New Guinea needing role models other than what currently exist perhaps to adequately perform the task, particularly at a public service or governmental level. What role do you think there is for us spending money and putting in an effort to bring Papua New Guineans to Australia to train in universities? I am thinking of perhaps going back to the old Colombo Plan-type arrangements.

**Mr Joyce**—I think there is a good scope for that. I am not sure what was done previously with regard to that—

**Senator McEWEN**—You are not old enough to remember the Colombo Plan.

**Mr Joyce**—No, that is right. I guess I can be proud of that. We found the aid training programs to be effective if done in Papua New Guinea or here. I think we have great expertise and universities here and there are universities that are very interested in being involved. One member of Palms told us recently that he has not had a Pacific Island student for years and he used to have many. That may have been under that plan. He is concerned about that and he did raise that with me.

**Senator McEWEN**—Finally, there are other countries, of course, involved in delivering aid in Papua New Guinea. We have had some evidence that there is a plethora of aid organisations and different countries involved. How much bumping up against each other and duplication do you think there is?

**Mr Joyce**—I could not be sure in terms of at a level of AusAID.

**Senator McEWEN**—Would Palms turn up in a village somewhere to install toilets or something for the local school and find some EU country aid organisation is already there?

**Mr Joyce**—In my experience a lot of it is actually being done fairly well and it is done cooperatively. As to my experience as a volunteer, I was working alongside another Australian volunteer and down the road there was a New Zealand volunteer, and I met Germans and British people as well. In the case of volunteers I guess because it is not project based work per se as much as it is a skills transfer role there is probably less competition in a sense of bumping up against each other. I have not witnessed agencies competing for the rights to that village, if you put it in that way. I have seen that perhaps sometimes with some larger battles over religion at times, although that is probably again more in the history than is currently the practice. It is not something I have witnessed.

**Senator McEWEN**—Is Palms faith based at all?

**Mr Joyce**—Yes, it is. It is a Catholic agency. It is a lay agency, so it is run independently from the bishops, but we do have strong networks within the church. Again our strong networks within the church are where a lot of our support in Papua New Guinea and other places comes from.

**Senator McEWEN**—Do you confine yourself to the Catholic areas of Papua New Guinea?

**Mr Joyce**—No. Our volunteers are diverse and our placements are diverse. There are a majority of placements within the Catholic Church, because they are the networks we have best established. But only a few days ago we sent a volunteer to work on a secular education project in Bougainville. We have had numerous volunteers there and the same in East Timor. Other churches have also requested our volunteers.

**Senator TROOD**—I want to take up this question you raise about education, which I see from your submission you regard as obviously very important. Raising the levels of literacy and numeracy are clearly important. I would be grateful if you would just clarify precisely what you mean. You seem to be making an argument that the approach that is taken to teaching and education is inappropriate for many of these societies. I confess I have trouble with this idea. At present education in Papua New Guinea is heavily teacher-centric, for example. I would be interested to know what sort of education system you would have which was not teacher-centric in some way or other, and perhaps you could explain that to me. You seem to be concerned about the model that is being used at least in Papua New Guinea. Are you making a case for saying that the approach to teaching throughout the south-west Pacific is inappropriate?

**Mr Joyce**—When I say teacher-centric, the idea of active learning versus rote learning, for example, is probably the contrast I am making. I base this partly on my experience as a teacher in Bougainville. There were a number of teachers who would teach the class for the lesson time without actually involving the class. I guess that is just differences in education theory. Some people want to hark back to the days of rote learning in Australian schools, but I think with that sort of model teachers are not engaging with their students enough to recognise always where a student is having a particular difficulty and help them get through that difficulty. As such, the teacher might go through a list of facts and the students memorise those facts, but they are not learning the analytical or application skills they would need if they went into the public service

or into private business. A lot of the issues that I discussed were not just in the public service; they were about getting through a queue in a bank or the airport or other areas as well. As to the focus on education, I think if I were to call it anything it would be sort of jumping through hoops or ticking boxes and moving on. I think they call it tick-and-flick sometimes. I think that is actually ingrained in a lot of systems in Papua New Guinea. I do not think it is just in relation to education at high school level. I think it also becomes the way sometimes on-the-job training is done as well and people become adept at satisfying what looks like the things they have to do, but because the person working with them is not in close relationship with them they come in and check things. They have only got a day to check out the work of the person and then they leave. The person has got all their files.

**Senator TROOD**—I am not sure those characteristics might not be found in some education systems around this country.

**Mr Joyce**—I would not be sure they would not, either.

**Senator TROOD**—But the important question surely is whether or not, leaving aside the pedagogical effectiveness of them, but for our purposes are you making the case that this is a consequence of aid policy? That this kind of system of delivering education is a consequence of not necessarily Australian aid policy but generally external aid policy?

**Mr Joyce**—No, I would not say it is a consequence of aid policy. I would say the systems we are trying to improve in Papua New Guinea, such as governance, education, for example, are relatively new to the Papua New Guinean culture and they are Western models a lot of the time. They are models based on the Westminster system or based on English and Australian education systems originally—Australian I guess predominantly in terms of Papua New Guinea's education system. Where they have been applied and there was need for great capacity building early on, perhaps that was not always done. I would not say it was a consequence of aid policy but there is a potential for aid workers to reform the methods that are taken sometimes and that is not just by aid workers. That is also internally with instructors there. I guess train the trainer techniques would be useful as an example of a skill that could be passed on from those who do know what they are doing and are quite competent. Obviously many Papua New Guineans are quite competent. I would hate to imply that I was suggesting otherwise. Also able to pass less—

**CHAIR**—We have been told that not all but most education, particularly at primary level, in PNG is done by a range of church groups and organisations because the government has had insufficient capital to develop the system there and so various churches have filled the void. That being the case, one of the lead teaching agencies in PNG is the Catholic Church through its various lay and religious organisations. If your complaint is to the type of teaching—the pedagogical skills that are used to transmit knowledge—shouldn't your complaint be taken up with the Uniting Church, the Catholic Church, the Anglican Church and the various American churches that are there?

**Mr Joyce**—I would not call it a complaint so much—

**CHAIR**—From your observation then?

**Mr Joyce**—I am sure it should, yes. I was stating more for the inquiry that this is part of the ingrained problem and I do believe there needs to be change at those levels, and churches probably in many cases are the ones to change that. In terms of training at higher levels as well—

**CHAIR**—Are you saying the method of instruction of your church and other churches is flawed and needs to be changed?

**Mr Joyce**—It is funny; I feel like a politician at the moment. As to the method of instruction of my church—I will not use those words—I think I am speaking more of individual teachers I guess, but within the structures that exist. Yes, it is not perfect. It needs work.

**CHAIR**—You do not say that it is less than perfect. You have quite specific hard-hitting criticisms in paragraphs one and two on page seven of your submission.

**Senator TROOD**—You make a contrast between what you call—perhaps it is just a weakness in expression—but the contrast between—

**CHAIR**—Exam focused testing—

**Mr Joyce**—The exam focused testing is not a Catholic decision. That is run by the PNG education department. The Catholic or the Uniting or the Seventh Day Adventist or the government schools are all preparing their students to jump through the hoops of the government set exams. As to the government set exams, students in grade 10, for example, in Bougainville at least needed to be in the top 50 per cent of English, maths, science and social science to progress. There is a shortage; there are bottle-necks in the education system. The exams are 40 multiple choice questions and 10 short answer questions, the short answer questions being one word. It is not encouraging analytical skills. In any context, teachers will prepare their students to go on to the next grade. The students and the parents of the students want their students to go onto the next grade. Because of the context and because of the way the examinations are done, the teachers will do what needs to be done to get their students to grade 11. Teachers can be improved in their training, but I think that perhaps even the system which provides such a narrow measure of success is what needs to be challenged more.

**Senator KROGER**—Your submission seems to be focusing on governance issues in relation to all these areas, including education. We have heard extraordinarily concerning figures in relation to education participation, particularly at primary school level. What surprises me in your submission is that there is little focus on the following. I would think that one of the biggest concerns would be firstly overcoming the barriers, whether they are cultural or economic, to ensure that all children have an opportunity to be educated, firstly at a primary school level, which will then flow on through the system to the secondary and tertiary level, but in particular overcome the cultural issues that are being faced on the ground in terms of an extraordinarily discriminatory cultural approach to gender and representation of girls in those schools; so few girls have gone through the education process. In addition to overall governance and whether it is a Westminster style model of education or not, what concerns me more is lack of participation and encouragement of kids going to school and even more a lack of gender representation in those numbers.

**Mr Joyce**—I think they are major concerns. I guess the scope of our submission was quite narrow, because we do not have the time to produce it. We would love to have produced one the size of Oxfam's, but we are a small NGO with very limited resources. I will be going from here trying to raise donations rather than writing my next submission. I do think gender is a major issue in Papua New Guinea, particularly gender equity and access to education is something that I would hope continues to be a focus of Australian policy in aid and development. I know it is. I hope that it does remain so.

**Senator KROGER**—My follow-on response to that is that I am just very mindful that, particularly in your executive summary, it was essentially governance issues that were covered as the most critical elements I presume of what you saw as the issues in the area. The former foreign minister's interest in the area, as Senator Ferguson commented on, was because he thought the area had been neglected and required some strong, active, personal interest. I am surprised that has been interpreted as misuse of the aid program as a political tool to increase Australia's regional influence. We should be mindful that we ourselves do not turn this into a political argument as opposed to one that furthers the interests of these island states.

**Mr Joyce**—As to the first point you made, I would not say that governance needs to be the major focus of the aid program. We address ideas of governance specifically in this because we believed that it was the major focus of the aid program. I am all for more of the aid going to the grassroots support of training of people in health services and education services. As for the former Prime Minister's interest in the area or characterisation that Australia was pursuing regional ambitions, this is reflected by the partners we have in these countries. It is also reflected by some of the academic literature that informed the inquiry as well.

**Senator TROOD**—Usually regional ambitions are all about trying to improve and encourage development—

**Mr Joyce**—I am not sure they are all about that.

**CHAIR**—Thank you for your attendance this morning and thank you for your submission. It has been most thought provoking.

**Proceedings suspended from 10.38 am to 10.52 am**

**REDDEN, Mr Jim, Senior Lecturer and Director of Programs (Pacific), Institute for International Trade, University of Adelaide**

*Evidence was taken via teleconference—*

**CHAIR**—A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Mr Redden**—No.

**CHAIR**—The committee has before it submission No. 20 from the Institute for International Trade. It is a public document. Do you wish to make any amendments to your submission?

**Mr Redden**—No, that is fine.

**CHAIR**—Do you want to make a brief opening statement? Then we will proceed to questions.

**Mr Redden**—Thank you very much for the opportunity to appear and speak with you. The Institute for International Trade undertook the initial research study on the benefits, challenges and ways forward for a PACER-Plus regional economic and trade agreement between Australia, New Zealand and the Pacific islands. That was quite a comprehensive report that has since been disseminated around the Pacific and was completed on June 2008. I would certainly be happy to answer any questions about that. Can I just ask whether you have a copy of that report?

**CHAIR**—No, we do not have a copy of it here, but we will obtain a copy and bring ourselves up to date with the background, because the background of PACER-Plus is quite important obviously.

**Mr Redden**—There are some 40 recommendations in that report that might be of use to your committee. I can easily email that over to whomever and would obviously be happy to do so.

**CHAIR**—That would be much appreciated. Was that report commissioned by the Australian government?

**Mr Redden**—Yes, it was and commissioned through AusAID and the Department of Foreign Affairs and Trade. I managed the report, but it was undertaken by a range of academics and businesspeople across the Pacific islands, from the University of South Pacific, Adelaide University of course, ANU and various Pacific experts. It was not just an Australian study. It was a combined effort.

**CHAIR**—Was that for PACER-Plus or the original PACER?

**Mr Redden**—No, it was for PACER-Plus. It was looking at the potential challenges and the potential benefits of what might come out of the new regional PACER-Plus agreements.

**CHAIR**—One of the criticisms we have had from a range of NGOs and church groups and the like is that Australia, to put it nicely, still has somewhat of a bullying approach in the south-west Pacific and PNG; that its negotiation approach is too commercially focused on outcomes that benefit Australia and that there is a lack of serious capacity on the part of the officials on the other side of the table to engage in equal negotiation or equal dialog because they have neither the capacity nor the skills. Do you have any observations to make on that set of assertions?

**Mr Redden**—I will just finish the point I was going to make and then I will come to answering that question. After the research report, we were then commissioned again by the Australian government to run a series of training modules for Pacific island officials. That is in progress now. I just thought the committee might like to know that as well. Together with Australian trade experts and experienced trade negotiators along with Pacific trade experts from Samoa and Fiji and all around the Pacific I have brought together a team of trade experts to work with Pacific island officials over a series of training modules that run into the middle of next year. They come here to Adelaide University for one week every six weeks and we have representatives from all of the Pacific islands undertaking this trade capacity building training program. I am letting you know that partly out of interest but also because it is giving the Institute for International Trade regular contact with Pacific island officials and their views on PACER-Plus and their views on what is happening with trade and economic reform in the Pacific. I just thought it might be useful to let you know that as well as part of the introductory statement.

To answer your question, I think that in the past Australia has been driven naturally by national interest and immediate economic interest and perhaps at times has become impatient and wanted things to move more quickly in terms of developing either a trade agreement or economic agreements with the Pacific islands, and that has been interpreted by some in the Pacific as being a bullying approach. I think there certainly has been that perception in the past. I think recently there has been a lot of goodwill and cooperation expressed by New Zealand, Australia and the Pacific islands. I think that there has been a lack of commitment perhaps to long-term capacity building in the Pacific islands and therefore they have felt that if they are to negotiate whether it be an economic or trade agreement they would be at some disadvantage. In response, AusAID and the Australian government have put in place courses such as the one we are running where we are bringing in Customs experts and trade experts from the Pacific islands as well as Australian and New Zealand experts to work with Pacific island officials. Most of the trainees are medium to senior Foreign Affairs and Trade officials from the Pacific islands. We are trying to work with them through issues, trying to increase their trade policy knowledge. My executive director here, Andrew Stoler, ex Deputy Director of the WTO, and others are working with them to improve and increase their negotiation skills. I think we are trying to address that issue of capacity building at the moment.

**CHAIR**—Does that conclude your opening statement?

**Mr Redden**—I suppose the other main point I wanted to make is that there are some very good and positive examples from around the Pacific of change, and developments that are very positive. Sometimes in these reviews we can tend to focus on the problems and the challenges, but if I may I have two quick stories. One, a young person in their early twenties in the Cook Islands recently was able to get some training and is developing his computer skills and his IT skills. He has set up a small business in the Cook Islands repairing computers and then started to

develop programs for computers and has basically developed a trouble-shooting IT program. He was then able to train other young people who are unemployed in the Cook Islands and, to cut a long story short, they have now set up a subsidiary in Auckland, New Zealand, to service the Cook Island community there to train more young people. They are now servicing the ordinary general public in New Zealand as well. It is a tremendous success story, but it began when the New Zealand government worked with the Cook Island government to assist him with some initial training to develop his computer skills. That is one story.

The other brief story is about the Vanuatu beef industry. They have a good beef industry there but were having great problems getting access to the markets of Australia and New Zealand. The Vanuatuan government, Australian government and New Zealand government sat down and worked on how to enable Vanuatu's beef industry to meet quarantine standards in Australia and New Zealand. The result of that, again to cut a long story short, is that Vanuatu beef is now exported across the Pacific to Australia, New Zealand and even to Japan. There are things happening. There are a lot of positive things happening. I think the plea of my submission to your committee is that, in spite of the current global financial crisis we are in, we need to stick to building the fundamentals of reform, the fundamentals of competitive productivity, of increasing the education and training and the capacity building commitments to the Pacific islands. That is the way forward and we are already seeing some good examples of success.

**CHAIR**—Are you familiar with the progress of the Pacific Partnerships for Development?

**Mr Redden**—Not in detail. I am aware of the Pacific Partnerships for Development, but I do not know the detail of that program.

**CHAIR**—I was going to ask you to comment on whether there is any role for trade or trade enhancement or capacity building from the trade perspective within those agreements or do you think there should be?

**Mr Redden**—There already is a significant commitment for what they call aid for trade in AusAID's program towards the Pacific. Obviously the training program and some of the research we have done is part of that commitment. But AusAID, for example, has made funds available to each Pacific island to undertake further research on what are the challenges and benefits of entering agreements like the PACER-Plus agreement—that is, where are the issues, where are the potential advantages for Pacific islands? My plea would be that we maintain that commitment even in difficult times to aid for trade. I am personally a believer that there is a hierarchy of need. In terms of Australia's commitment to the Pacific islands, we have to assist them to meet immediate need such as the problem of HIV-AIDS and basic social services. I think that always comes first. The second highest priority is that we have to assist the Pacific islands to build the fundamentals of reform to build the engine of growth, which is going to come through education, training and assisting them to understand how to grow their economies. One of the key engines of driving economic growth is of course trade and international trade.

I have recently returned from an OECD meeting in Paris on aid for trade. What it demonstrated is that OECD nations generally remain committed to increasing the amount of aid for trade because what they are finding is that it is like if you give a man a fishing rod instead of a fish; if you can actually give developing nations, especially small island developing nations, the capacity to be able to do the fishing themselves then you can move them ahead more quickly.

There is an increasing commitment globally despite the financial crisis to maintain the commitment to aid for trade. I think it is vital and, given my interaction regularly with Pacific island officials, they clearly want more support. There is a terrific thirst for knowledge. They want to understand how they can drive reform and increase productivity so that they can be more independent and self-reliant.

**CHAIR**—In terms of the desire of EU countries to continue in the practice of aid for trade, do they tend to concentrate excessively on tied aid and as a consequence tied trade where the grants they make are tied back to purchasing and the like from their own country or are they more liberal?

**Mr Redden**—More liberal. There is a strong move away from tied aid. There were 22 OECD countries represented at the meeting and the general trend was to move away from tied to untied and to be driven by the demand imperatives of the developing countries in question. Basically, there is a global survey asking each developing country in receipt of aid for trade to work through their poverty reduction programs, their economic growth programs and look at what are the priorities if they are going to increase trade and be able to drive their export capacity into the future. They are coming up with a list of priorities, sitting down with the OECD representatives and then coming up with a series of priorities, whether it be infrastructure, whether it be gaining market access by better understanding quarantine standards or whether it be by educating and training trade negotiators; they will come up with a list of priorities which are then agreed and funded. It is demand driven rather than anything to do with tied funding.

**CHAIR**—As to the discussion you led with at the beginning about serious capacity building one week in every six for a whole range of PI countries, is that the package that was announced by the minister at the forum trade ministers meeting on 22 July 2008, the trade fellowship program?

**Mr Redden**—That is the one announced by the parliamentary secretary, Bob McMullan? Is that the one?

**CHAIR**—The notes prepared for this meeting say that there was a forum trade ministers meeting on 22 July 2008. Australia announced a trade fellowship program—

**Mr Redden**—Yes, that is the one. It was Bob McMullan who announced that.

**CHAIR**—That is in place. That is good.

**Mr Redden**—That is the one I was talking about where we have 20 officials arriving next week again for module three. Originally we catered for 14 representatives, one from each of the 14 Pacific islands forum countries. Since then the demands have been so great they want extra officials to come along to attend the training, so we are stretching the AusAID budget, but we are now up to 20 officials and they are still asking for more representation. It shows the thirst for knowledge and the desire of Pacific island officials to receive this sort of training. They are extremely bright and enthusiastic and pick up the fundamentals of negotiation and are very keen to look after the interests of their people. It has been a really valuable exercise and very good interaction.

**CHAIR**—It sounds like a very serious capacity building exercise to me.

**Mr Redden**—It has been, yes. It has been very good. There is also one AusAID official who is new to the trade debate who is doing the training program. There has been a pretty good, relaxed spirit. They are very open about their concerns. We have had open discussions about whether Australia is bullying and addressed related issues. What is in it for Australia? What is in it for the Pacific islands? It has been a very good capacity building program for exchanges and very honest opinions.

**Senator TROOD**—I wanted to direct your attention to the point you make about regional economic integration. I wanted to ask you what we might expect from that. I put it in the context that we have received a lot of evidence—and you have made the same points I think in a way—about the need to lift health standards, lift literacy and numeracy standards, and improve capacity building within government. Other witnesses have emphasised the significance of land tenure reform in some places around the Pacific. Most of these things focus on national priorities for reform rather than things that might necessarily follow from regional economic integration. Perhaps you could answer two questions for me. Firstly, what can we expect from regional economic integration? Secondly, which aspects of integration do you think are the most important?

**Mr Redden**—They are good questions. I will do my best. The fundamental answer is that regional economic integration requires cooperation and political will. If I talk about the PACER-Plus agreement, for example, it is not just about one Pacific island country needing to undertake reform and increase productivity. If it is to find a niche market for its exports, if it is to build capacity it needs cooperation from Australia and New Zealand, hence that earlier example I gave of quarantine standards. The ability to get into the Australian market is very important.

I am just diverting slightly, but if you look at the list of major export markets for Pacific island countries, if you combine all of the Pacific islands, the No. 1 most important market is Australia, followed by Japan and then China, and a little further down the list is New Zealand. Given we are the major export destination, the importance of regional integration—by which I mean, firstly, we are assisting them with capacity building but, secondly, perhaps even more importantly, we are enabling them to enter our markets and we are enabling business from Australia to more easily do business in the Pacific islands and increase investment into the Pacific islands—is vital. To me, that is what I am talking about when I mean regional integration: it is easier for an Australian company to go and set up in the Pacific islands through a joint venture or whatever; it is easier for Pacific exporters to get market access into Australia. I should also mention the importance of labour mobility. Obviously that is a key issue for many Pacific islands. We have labour schemes running now with Tonga and Vanuatu in Australia. The importance of that for some of the Pacific islands cannot be understated. Despite the global recession at the moment, I think that in the future we are going to continue to need to fill shortages especially in some of the services areas and agricultural areas in Australia. It is of prime importance to the Pacific islands to continue to be part of the seasonal labour schemes. The World Bank has said that the impact of the global financial crisis on remittances as a result of temporary labour mobility could drop by zero point nine per cent to as much as six per cent. In the immediate future there could be a small drop in remittances from Pacific islanders back to their country, which has an extremely important effect on them. Therefore, what we need to do in the future is I think keep those markets open for Pacific islanders, whether they are from

Papua New Guinea, Tonga, Vanuatu or wherever. I think that is going to be a very valuable supply of income and revenue for Pacific Islanders, especially if they can use those remittances wisely in growing their own economies.

To come back to your key question, when I talk about regional integration I am talking about market access, labour mobility, capacity building and mutual cooperation. We are a long way from talking about a common currency, but I think an integrated region is going to strengthen the Pacific islands and increase stability and growth in those islands because of their integration with business and investment in Australia and New Zealand. I hope I have indicated some of the priorities, but please come back if I have not.

**Senator TROOD**—That is helpful, thank you. In your view, we are largely talking about the opening of the Australian and New Zealand markets to island countries rather than opening opportunities for greater intra-island investment, et cetera?

**Mr Redden**—I think that is the major emphasis. I think it is good to have greater intra-island trade flows as well, but they are fairly limited and given the similar structure in some of the Pacific island economies often they export similar crops, for example, root crops, so there is less trade between the Pacific islands than of course there is between the Pacific islands, New Zealand and Australia. I think, though, the intra Pacific Island trade agreement is a useful stepping stone in terms of encouraging reform, but the major benefits of regional integration are going to come from a regional trade agreement that includes Australia and New Zealand, where we can bring our resources to bear on the issue and assist them much more in building their economies. As I said, Australia is a major export market for many of the Pacific island countries.

**Senator TROOD**—In relation to the programs you are running you obviously see Pacific islanders on a pretty regular basis. In that context is there a measure of anxiety that, because the relationship between Australia and New Zealand and island states is so asymmetrical, this is likely to prove to be a very unbalanced kind of integration and the consequences will be adverse to the island states? Is that a worry that is frequently expressed to you?

**Mr Redden**—It is a worry that is expressed and certainly we have talked about that with them. I think as the discussion continues there is less concern about the balance of the relationship. I think more and more the Pacific island officials we are working with see opportunities. Rather than fearing that Australian investment interests might subsume Pacific interests, I think they are seeing it more as an issue to attract investment to their countries, productive investment and well regulated investment but nevertheless investment. They are now seeing that there are important opportunities. If they can have easier access and make it easier for Australian business to do business in the Pacific islands, they can work that to their advantage. They want to encourage greater investment in tourism and ecotourism. Vanuatu recently opened up its telecommunications industry to foreign competition and, as a result, has been able to bring down the cost of telecommunications in Vanuatu, increasing access to telecommunications to the rural areas and the disadvantaged. It has been one of the major success stories.

In fact, an Irish company, Digicel, has invested there. The Vanatuans are very proud of that. Again, more and more they are seeing that, if they can attract Australian or foreign investment, if

they can integrate through such things as the labour mobility schemes with Australia, the advantages outweigh any threats of an unbalanced terms of trade.

**Senator TROOD**—From an economist's perspective, how severe are the impediments to access to the Australian market for these economies?

**Mr Redden**—The main impediments we see are particularly around quarantine and high SPS standards. I think the answer to that is the example I gave at the start, that is, extra training and capacity building. Australia and New Zealand have managed to cooperate more and more on this issue, but of course there are still some issues around exports of apples and so on that the New Zealanders have concerns with. But for the Pacific islands the main issue is that Australia has some excellent trainers in our Customs department and they can work with the Pacific islanders to meet the standards we have here. That is one of them. If we could do more work with the Pacific islands in that area that will help tremendously.

The other impediments come back to how to market their goods in Australia. There is the wonderful example in Papua New Guinea of a group of women who have developed a niche market for spices into Australia. How to be able to market those spices, how to have a joint venture with an honest, reliable Australian company that will pay fair wages back there or pay fair dividends to them is the question. It is working through all the marketing and joint venturing strategies, overcoming SPS or our quarantine barriers in Australia—if we can work together more on those issues then we can overcome a lot of the impediments at the moment.

**Senator TROOD**—When you talk about labour mobility, are you talking about a free market in labour or something like an expansion of the guest worker program?

**Mr Redden**—The latter. In a trade agreement you can make provision for the temporary movement of what they call natural persons, or the temporary movement of labour, such as under our seasonal labour schemes. As part of PACER-Plus there have been initial discussions just in these informal early stages that there could be some firm commitments made to regular seasonal labour programs that would be of tremendous benefit to the Pacific islands. It is not a completely open slather free market, but within a trade agreement you can then establish that there will be a commitment to allowing the temporary movement of Pacific islanders to come and work in Australia for a limited period of time and you commit to that. You could put a number on that. You could, for example, put a figure on the number of Pacific labourers you will take in each year, or there are various ways of quantifying it or limiting numbers. But at this stage labour is what the Pacific islanders are wanting and that is what I hope we are able to deliver, so long as companies or government provide good quality training, hold pre-departure briefings and all the things that go with making these labour schemes successful.

**Senator FERGUSON**—I think you said that the impact on remittances is likely to only be between point nine and six per cent; is that right?

**Mr Redden**—That is right, yes.

**Senator FERGUSON**—The guest worker or seasonal labour scheme has been in operation for New Zealand now for much longer than in Australia. Is it anticipated that the scheme in New Zealand will not be affected very much?

**Mr Redden**—By the financial crisis?

**Senator FERGUSON**—By the financial crisis, yes.

**Mr Redden**—Let me answer this way. I was fortunate enough to be able to go to New Zealand and Tonga and do a review of that scheme. I have to say that I reviewed it after its first year of operation and it was very successful both from the point of view of the New Zealand farmers as well as the Tongan agricultural labourers. It was a very useful lesson for Australia to learn from and we picked up some points about how we can better manage these schemes. The World Bank has estimated—and we are quite pleased by these estimations—that remittances might only fall by zero point nine or, let us call that, one per cent. We thought it could be much worse, although they have said that in the worst case scenario it could be as much as six per cent. Even the worst case scenario, though, is not as bad as what we thought might happen. I guess a danger is that countries such as Australia will panic and close off these schemes, which I think would have a damaging effect short term but also a more damaging effect long term. I personally believe—it is not an institute opinion—that the recession will not mean that Australians will be madly running around trying to pick up abattoir jobs and a lot of the service industry jobs that we cannot fill at the moment and I think, therefore, it is useful to keep these labour schemes open.

The experience of the New Zealand labour scheme has been that the farmers in New Zealand have been able to increase productivity in their own export of fruits and certain vegetable crops and so the RSE scheme has been mutually beneficial; Tongans have added value to the New Zealand economy as well as assisting Tongans to remit to their own economy. My plea to your committee would be to keep those seasonal labour schemes open and maintained despite the current recession.

**Senator FERGUSON**—I am surprised the figures are so low, but I am also surprised that in your submission you talk about the continuing need for skilled and unskilled labour across the economy. You talk about transport services. In regard to horticultural, I agree with you; there is always going to be a need there. As to mining, I would have thought there will not be the same demand that there is at present. As to health care services, are you talking about nurses, or what sorts of workers in health care services?

**Mr Redden**—Some would be nurses, but nurse's aides, the aged care sector, some of the disability and special health care services. My experience is that in places around South Australia that I have visited and down in Victor Harbour quite a number of the people who work in aged care services there are from the Philippines, Pacific islands and—

**Senator FERGUSON**—That is true.

**Mr Redden**—If you go there they talk about it being very difficult to get staff. Whether the current recession is starting to make a difference there I do not know, but certainly in those sorts of areas I have heard they have tried to get either skilled in some sectors or unskilled in others to work in the country. That is one area. Mining has obviously changed recently and is more a high skilled area, as you would well know. But for places such as Nauru and Papua New Guinea one would hope in the future that there would be significant training and upskilling of the workers in those countries where perhaps some labour mobility would be useful as well.

**Senator FERGUSON**—You listed four major areas. You also talked about the investment in the agricultural and services sectors. I can understand the services sector investment with the development of education, health and tourist services. But outside of Vanuatu, and to some extent Papua New Guinea, where are there likely to be opportunities in agriculture?

**Mr Redden**—Across the Pacific generally?

**Senator FERGUSON**—Yes.

**Mr Redden**—A general way of answering that is that a lot of the Pacific islands are putting more emphasis on trying to develop their tourist service industries—and actually not just tourism but also health and education services. One example is Niue, which has a tiny population of 2,000. It has an extremely modern and well equipped hospital, partly as a result of its cooperation with New Zealand. They are trying to attract more health tourists there, including aged care clients, and those who are recuperating from various illnesses, to come to a more relaxed Pacific island. Consistent with this emphasis that Pacific Islands themselves are putting on developing services and tourist services and related health services, et cetera, is that they would like to be able to increase their own agricultural sustainability not only for food security purposes at home but also as a way of reducing their reliance on the imports of food. If they can begin to offer good-quality food to foreigners, tourists and people undertaking health care in these countries, there is an area where I think Australia can help in the development of their agricultural productivity by assisting them to meet not just tourist demand but local demand and assist them to reduce their reliance on the imports of food. Hence the emphasis and that link between agricultural development and services development. Does that answer your question?

**Senator FERGUSON**—Thank you. Yes, it does.

**CHAIR**—I wanted to follow up an issue that was raised by the Australian Fair Trade and Investment Network this morning. They were critical of the necessity to remove tariffs in the Pacific. They said there had been a recent report that a number of countries could lose up to \$10 million per year in government revenues due to tariff liberalisation. They singled out Fiji, PNG, Samoa and Vanuatu. Firstly, do you agree with that figure of \$10 million in tariff revenues, if the tariffs were removed? Secondly, governments obviously need revenue up there to carry out their basic services. What suggestions are there from your organisation to compensate governments for that loss of tariff revenues if the tariffs should come to be reduced?

**Mr Redden**—Having done quite a lot of work in the last few years on statistics in the Pacific, they tend to vary. It could be of the order of \$10 million. It might be a little less. There is no point focusing too much on that because sometimes the statistics of exports and imports in the region are not as reliable as we would like. But let us say there could be a significant loss of tariff revenue in some of the Pacific islands. In response to that issue, a number of the Pacific islands are already aware that this is likely to happen in the future either through preference erosion with the European Union or as a result of more and more Pacific islands joining the World Trade Organisation, and most of them will likely join a PACER-Plus agreement. There is an inevitability about it. Many of the governments are putting in place alternative revenue raising mechanisms, such as GSTs or VATs or other alternative consumption taxes. The biggest problem that some of them are having is the implementation of those new—let us call it GST, because we are familiar with it—schemes. In Tonga, for example, they have been reasonably

successful at implementing new alternatives GST schemes—alternatives to import tariffs, that is—but in other cases they still need more help on the implementation of those schemes. Specific revenue collection schemes and assistance from Australia in that regard would be very useful.

But also a number of the Pacific island officials I have talked to about this issue do make this point—and there are two parts to it. Point A is that, because of the high price of food recently, a number of the Pacific islands have been cutting tariffs and duties on food imports anyway so that it makes it more affordable for their consumers. Point B is that you need to be careful in making a blanket statement about just removing tariffs, because sometimes they are being used to support inefficient industries that prop up a degree of collusion that may occur in some Pacific islands. Do we want to keep propping up inefficient industries with Pacific island taxpayer money? Or do you want to see that money better used by encouraging more efficient and competitive industries? We have to be careful in how we consider this equation.

The last point I would want to make is this: my view, therefore, is you do not suddenly remove all tariff revenue because it creates too much of an external shock; you need to phase it in. You will see in the report on PACER-Plus we talk about the concept of strategic liberalisation whereby Pacific island countries can determine the pace of liberalisation and those countries in particular that will be most affected by tariff loss have a chance to phase in tariff reduction. Secondly, we also talk in our report about the potential of a small tariff compensation fund for those who will experience an immediate impact. There are a couple of ways to deal with it, but my overall point is that we have to work with Pacific islands to look at how we can better encourage non-protected industries, ween them off some of the tariff protection that has in fact led to some of the corruption that we do not want to see and I doubt that other NGO groups would want to see as well. It is complex, but I think the answers are being put in place.

**CHAIR**—Thank you very much for your submission and for making yourself available this morning and for making the very useful suggestions you have. On a personal note, I hope I am able to see you some time again when I am in Adelaide.

**Mr Redden**—Thank you, and all the best to all of you in your deliberations.

[11.33 am]

**CRUMLIN, Mr Paddy, National Secretary, Maritime Union of Australia**

**PICKETTE, Mr Rod, Policy Executive Officer, Maritime Union of Australia**

**REYNOLDS, Ms Zoe, Media and Communications Officer, Maritime Union of Australia**

**CHAIR**—I welcome Mr Crumlin, Mr Pickette and Ms Reynolds from the Maritime Union of Australia to this hearing. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Mr Crumlin**—No.

**CHAIR**—The committee has before it submission No. 52 from the MUA. It is a public document. Do you wish to make any amendments to your submission?

**Mr Crumlin**—No.

**CHAIR**—I now invite you to make a brief opening statement and then we will proceed to questions.

**Mr Crumlin**—The Maritime Union of Australia has been involved for a very long time in the region. The role of the merchant navy in the region itself was essential to the security. We played a strong role in Australia's intervention in the Timor independence in terms of supply. We have a long history of involvement, and we have included East Timor in our submission. While it was technically not in the region, we took a line through 2020 to say that the issues were so integrated that there were similar messages. Our understanding was that that was acceptable to the committee. I guess we are not moving too far away. I was on that particular area that dealt with Australia's future security and prosperity in a rapidly changing region and world, and many of our submissions reinforce the outcomes from the 2020 Summit about closer economic and political integration, rights based labour mobility, new leadership in global governance, the importance of Australia's mentoring in that area, deeper institutional engagement to nation and peace building and also the broader concept of security meaning security of food, water, energy and basic community—securing these communities in a rapidly changing world.

We believe that building capacity of trade unions is essential to building the overall capacity of these communities and nations to be able to deal with the tremendous challenges facing the region. In particular, we have a lot of hands-on expertise of building a communication network that was leading to an engagement with infrastructure. When Santos had the pipeline quite well advanced between Papua New Guinea and Australia we were vertically and horizontally integrated in many of the planning stages. That is not only the correlation of Australian Indigenous rights and PNG Indigenous rights, building a communication network in that area, but also facilitating an understanding with some of the corporations and industries that were involved in that project. We are now seeing an LNG project being developed for export in Papua New Guinea that offers similar opportunities. That is why I think the Timor-Leste experience is

so important. We were part of the facilitation of a meeting in Timor-Leste only a week ago with the resource owners. At that seminar were the Timor-Leste government, Timor-Leste unions, Australian unions and the various hydrocarbon companies that are exploiting the reserves in that particular region coming together in an integrated plan that develops very important factors such as employment, skills and training; integrate those needs into the various local conditions and environments in those countries; and assisting those countries to understand the essential conventions of the International Maritime Organisation and International Labour Organisation so that we can ensure that as we build the capacity of these businesses we are also building a governance capacity within those countries that is commensurate with the internal strengthening of their democracies and independence.

That also flows on to issues of maritime safety. We have seen the outcome in North Queensland with what happens if you have poor risk management. There is a failure to communicate or to build structures. There is an impact environmentally on their communities and our communities because we are in the same region. There are the issues of occupational health and safety in these big industrial projects. If people are injured, not safely trained and competent, then there is the flow on effects to their family, the burden on the community, the ongoing burden on their medical systems and social security systems, which is enormous. We have the training institutions to capably support them in an integrated and focused way into sectors. The MUA contends that it is not about a broad approach or a paternalistic approach to funding. It is about mentoring in sectoral areas around our expertise and particularly around engagement with industries that are able to nation build.

Finally, the Maritime Union has been involved in Tuvalu, for example, in building the credit union movement, building financial institutions and community based institutions. We think there is a great ability to continue to consolidate the strengths so that if we can engage with wealth creation through the various industry and commercial mechanisms we can also translate that into an ability so that we can have those communities managing the wealth generation and making sure that the money stays in there.

From a maritime perspective, these are maritime nations. They almost wholly rely on trade in and out. We think there is a capacity. For example, my role as the vice-president of International Transport Workers is to help facilitate Kiribati to negotiate agreements with the big German ship owners so that there are employment opportunities, income opportunities through the use of their flag. In fact, Tonga is a flag of convenience. Many of these countries actually use red ship registration as a way to gain income. We cannot see why that cannot be taken a step further to train these communities that have maritime skills as their foundation skills in a way that relieves the international shortage of seafarers and also has an ability that they return to their communities.

Shipping and the maritime industry is quite unique in that fashion. You are not talking about bringing people to Australia or importing that labour. You are assisting in placing them in the maritime industry where they do their time, have the remuneration and the various things that come along with that, and then return to their communities to assist rebuilding.

That may not be a short introduction, but that goes to the core of our commitment to this region and also how we see we can practically assist. Certainly, there is some of the work that Senator McMullan is doing and also assisted by the Hon. Duncan Kerr. We think that the

government needs to establish clearly focused mechanisms, perhaps development councils that can engineer outcomes or assist and mentor. We need to be very careful about paternalism in the region, of course. We could mentor outcomes through our developed nation status, which will be very important to the long-term survival of these communities.

**CHAIR**—Thank you. I wanted to ask you a brief question on the Pacific Worker Mobility Scheme and then I will turn to the proposal of yours on international seafarer training. At the time of your submission you expressed support for a seasonal worker scheme, and my understanding is that the negotiations have been concluded and we are in the implementation phase. With the changing nature of employment deriving from the GFC in this country, does the union still express support for the pilot scheme?

**Mr Crumlin**—I cannot say that we are that close. Broadly speaking, it is a matter for other unions to comment on that. We can really only speak with some authority about our own industry. We have prosecuted a case all the way along the line that any consideration of a pilot scheme should take into account this concept of integrating those people into the maritime industry.

As you know, there is a review of Australian shipping internationally and domestically. Rather than adopting a generic approach to what may or may not work, we believe that we are well equipped to make a comment on our own area of expertise, and we think that shipping itself should be part of an integrated component of the pilot scheme.

**CHAIR**—I was intrigued by your submission. This is the first time that I have become aware of the seafarer labour shortage in Australia and the region, to which you referred. I was not aware that there was a shortage of available labour to work on ships. How serious is the shortage and can you put some more meat on the bones about your proposition for integrating labour from the Pacific island countries as a source base to go into this area?

**Mr Crumlin**—There is a shortage of labour. I will try to be bipartisan in my comments. There has been a long period where perhaps the shipping industry was not the highest priority of the previous government and there had not been wholly rounded and concrete policies to develop some of the opportunities. We saw an explosion in the terms of trade, which is something that we could all do a bit more of at the moment, but for 10 or 15 years we saw the opportunities really explode—if that is the right way to put it—combined with the development of the hydrocarbon industry and the great blow-out in the price of a barrel of oil and gas. You had the compounding effects of the terms of trade and Australia being a commodity based economy, together with the important development work in not only discovery but construction of our hydrocarbon resources, and of course that competed mightily with the requirement for labour.

That is why the Timor Gap is such a good indicator. That did not necessarily translate immediately into job opportunities for Timor-Leste, Papua New Guinean or even Indonesian workers; it was a laissez-faire market, with people going in there and exploiting those reserves for their own commercial value but without regional guidance or a regional goal in terms of developing skills. Of course there are big challenges, including literacy, but there is no doubt that the work is there and will continue to be there. If you extend it out, Australia has the fourth largest shipping task in the world because of our enormous reserves of iron oil, coal—all our natural wealth. Why do we not have the capacity to be able to identify those industries and

trading partners under long-term contracts? We call shipping the pipelines and conveyor belts. It is the basic infrastructure. Why aren't there opportunities in the development of shipping policies that open up regional opportunities for work?

At the top end there are officers. Again, there is a capacity through our internal training mechanisms to add value and climb up to their vocational level. There is an international shortage of officers. Even at the semi-skilled level there is a shortage and an opportunity for workers if we are able to combine it with regional policies and an integrated shipping policy. We have been very keen, with the last government and with this government, to explore opportunities so that those communities can be integrated into, if you like, the conveyor belts and the pipelines of our international exports in a way that benefits their communities. These are big political and industrial questions for our union, but they are areas that we wish to engage in because that really will secure the long-term needs of both them and us.

**CHAIR**—In terms of accessing a potential labour source out of Pacific island countries—and you refer to them all as maritime nations—are you engaged in any discussions or negotiations with the current government to develop such a scheme to facilitate that end?

**Mr Crumlin**—Certainly, we have been prosecuting a very strong case. Why should we be negotiating via the International Transport Workers the ability of Kiribati seafarers to work in German flagged second register vessels when there is a possibility to develop a shipping policy that they could work in the export of iron ore or coal in and out of our countries? We have been saying that we are, again, with a view of encouraging broader bipartisan support for our ideas, not just a shipper nation as has been contended recently. We are a shipping nation, and the importance of that shipping nation goes far beyond the interests of Australian nationals or residents.

There is a great opportunity in these Pacific islands with their maritime skills under integrated shipping policies to be able to utilise and assist them in their training needs and other needs, and even with the facilitation of communication between employers and the opportunity for them to find work. All we have to do is put it into a realistic framework.

Yes, we have been advocating it. The terms of reference of the parliamentary committee into coastal shipping was a little narrow. It was only really dealing with the coastal shipping industry. We sought to broaden that out and it had bipartisan support. Dr Stone was also on that committee. There was bipartisan support that people can see that internationally there are real opportunities.

As I said, from the Maritime Union of Australia's perspective, that is not just about Australian seafarers, it is the opportunity for these seafarers in the region to be able to have real jobs. They are not jobs that are just going to go away in the short term, and they are not jobs that are going to bring them here to Australia. There is nothing wrong with that. They are jobs that are going to return them back into their communities.

**CHAIR**—Thank you.

**Senator FORSHAW**—I have a couple of questions about the Pacific islands, but I would like to pick up on your submission and comments about Timor-Leste. I had some involvement many

years back when the first Timor Gap treaty was being negotiated, which at that time was with Indonesia. My recollection was that there were agreements reached about manning on, say, oil rigs in the gap and in the areas outside of the gap—the disputed area—in terms of oil and gas exploration. My recollection was that there was an understanding of sharing the employment, say, on oil drilling rigs between Australian, Indonesia and then other relevant countries. That was pre-independence. What is the position now? I think you said it is sort of laissez faire. Are there opportunities mandated or guaranteed for certain numbers of people working on oilrigs to be non-Australian crew?

**Mr Crumlin**—The law has moved on somewhat.

**Senator FORSHAW**—I appreciate this does not just extend to your union. My old union had an involvement, as you would know.

**Mr Crumlin**—In those days it was arguable who owned the resources, so there was a sharing. I think that has been clarified.

**Senator FORSHAW**—That has been resolved now.

**Mr Crumlin**—Our position basically is to support the employment of those in Timor-Leste. We are not seeking to put Australians in those areas. There are no understandings. They have been importing labour from wherever and it has not translated into any jobs, or very few jobs, for those people. It is quite achievable, even in the semi-skilled area, with a minimum of training, to be able to place those people aboard those various facilities and platforms. One of the reasons that we were part of the facilitation of the meeting the other day was to develop the connection so that the Timor-Leste working men and women could have that opportunity to go out and work there as a priority.

It takes some work, as anyone would know who has had anything to do with Timor-Leste. I am on the record here in saying that it is not as functional as it probably could be from a governance point of view and continues to need a fair bit of assistance. We need to really work hard to make sure those connections are properly made.

**Senator FORSHAW**—Is the issue of the point of engagement significant in that respect, say, if they are hiring out of Darwin, Dili or out of Moresby? That was often a problem.

**Mr Crumlin**—They are hiring out of the Philippines, China or Vietnam. This is the whole point. It is a declassified or a deregulated labour market because there is not any governance focus. There are no people talking about opportunities. There is not that level of engagement between, say, the Australian government and the Timor-Leste government to be able to develop those skills and to do it in an appropriate fashion so that whatever the environment is there the level of literacy can be addressed as a primary purpose.

As I said, the same opportunities are there with Papua New Guinea with the LNG project and pipeline. As these projects come up we need to be very clear in our thinking about how we can practically assist, both from a commercial point of view because of those entrepreneurs and businesses that are going in there—it is in their best interests to have good governance sitting behind this—and, of course, for the communities themselves. I do not believe it takes a lot of

work, but it certainly needs a commitment by all the stakeholders, including the trade unions, fortunately, so that we can help build that sustainable capacity.

**Senator FORSHAW**—I have a question more focused on the Pacific islands. Can you give me some observations and comments about the cruise ship industry and particularly the opportunities, if any, that exist for islanders to get employment associated with that? I am not an expert on this, but it seems to me that is a substantial element of the tourism industry. You have only got to pick up the papers to see the advertising going on all the time. I would assume there are lots of people employed in some capacity either on the ships or associated with their operations in country. I was taking your earlier comments and your submissions as maybe more directed at the shipping trade.

**Mr Crumlin**—You can only influence employment practices if the employers are in some way connected with our national identity. Cruise ships are not. The cruise ship industry is largely deregulated, flag of convenience vessels. They tend to be based out of places like Miami. Having a genuine Australian connection would be difficult. There is no Australian money in there. Certainly, there are opportunities, but the ability for us to prevail upon those employers to employ more is more limited than with, say, Rio Tinto, BHP, LNG exporters and having those people that have a link and are part of our economy in part of our region that moves through these areas that are increasingly insecure through piracy.

**Senator FORSHAW**—How do these companies crew these ships? Your answer was what I expected, but I am just interested as to how the various ships are crewed that call into this country, go off on tours and come back to Australia.

**Mr Crumlin**—At the moment it is laissez faire. They leave it up to the market. They leave it up to the buyers to providing the shipping. There are two ways that you can provide the delivery of your product. You can be part of the delivery yourself and be part of the ownership of that pipeline and conveyor belt, if you look at long-term delivery of coal and iron ore, or you can let the buyers do it. That is one of the big issues confronting Australia in their terms of trade. Who is controlling this basic infrastructure of shipping?

**Senator FORSHAW**—I was concerned more about the cruise ships.

**Mr Crumlin**—As I said, there are not any Australian operators that have capital directed into cruise ships. They are mainly American, some British and European. That is where the big capital is. All they do is flag their vessels in places such as the Bahamas or Panama because there are tax and other advantages. It would be very hard for us to go and persuade an American cruise ship owner that it was in their best interests to employ people from Vanuatu. It might be a bit easier to persuade some of the French cruise ship owners, but there are not a lot. It is about having a genuine economic and national link that then translates into employment and broader regional policy.

**Senator FORSHAW**—Thank you.

**Mr Pickette**—They normally use a crewing agent from a developing nation to crew up their vessel.

**Senator FORSHAW**—That is not something that I have really thought about until this inquiry.

**CHAIR**—Senator Kroger.

**Senator KROGER**—Thank you for your submission. I was particularly interested in the balanced way in which you have presented it. Notwithstanding that, I would have to point out that the former coalition government would suggest that they were very interested in shipping, and in particular the former minister, Peter Reith, was. Putting that aside, previous witnesses today have concerned me; they have not been similar to yourself in the positive way in which you put this but have been concerned about a potential perception that Australia has ‘colonial ambitions’. That disturbs me greatly. Firstly, how does one integrate effectively, as you were saying through particularly shipping and industries? How do you get over those cultural differences that we should be respectful of but need to work through in order to achieve a better economic outcome for them on the ground essentially?

**Mr Crumlin**—From my perspective, I have never had any problems going to Fiji, Tonga, Papua New Guinea or Kiribati. They have not had any problems with my going to Kiribati, but I have had a few problems in getting there and getting out. It is about long-term demonstrable commitment and engagement. From a trade union point of view, we assisted in the development of trade unions in Fiji, Tonga and Papua New Guinea, and of course they continue to be important parts of community building.

The key to that question is consistency. That is why I was so careful about bipartisan policy. I only wish that Mr Reith was more interested in having MUA members employed in aspects of shipping. That was probably the difference in interests. I do not deny that there was great interest there; there was not too much interest in having us employed, though. That was the only bit of a problem there.

Hopefully we have reached the stage that we can have a sustainable and bipartisan relationship. The partisanship in many of these areas has proven problematic in terms of re-establishing new relationships and having that trust. There is no Trojan horse. This is not about our self-interest. This is genuinely about providing opportunities for these people under community standards of employment—ILO minimum, perhaps international standards—and not interfering in how they do things other than to support their capacity building.

I believe that trust comes from a multi-stakeholding. When governments, unions, companies and NGOs come into these areas and there is a clear communication and focus in their integrated approach that tends to dumb down on the cynicism that perhaps it is just another round of paternalism. Unfortunately, areas of the South Pacific in the region see us in those terms, as does Indonesia and the Philippines. Again, that may be because some of our policies tend to be partisan, do change and we have not had the consistency. Also, there is this idea that we are very keen on sectoral investment. We go in and we dump a whole truckload of money in there, feel good, they build the infrastructure, hospitals and roads, and there is no more money for the maintenance, skills, training or the development of the business. It has been a haphazard business. Of course, with the shortage of resources in places such as PNG there is a whole lot of reasons why we can take a more holistic approach over the long term. I am not sure how much

investment there is. There would be plenty of corporate investment, as long as we facilitate it and we stick to our guns. I think that is the big thing.

**Senator KROGER**—The key word that you have used throughout your submission is the integration of all these aspects. You mentioned the union movement in Timor-Leste. You just mentioned it in PNG and Fiji. I personally would not have thought there was a strong union movement certainly in Fiji, just from the nature of the political system. What sort of engagement is on the ground? Is it a secure political ambition to hold in these areas if you are a member of the union movement?

**Mr Crumlin**—Trade unionism is basically, at its best—I won't say what it is at its worst—a process of cooperative action. You are dealing with communities under great duress that come from cultures where cooperation is intrinsic. Of course, there is a lot of tribalism and there can be separation of interests. There is great subjectivity and there are challenges for any community or cooperative building in these areas, but trade unionism is relatively strong. The failure is with industry. You have to have industry to have effective trade unions, otherwise what are people organising around? They are organising around unemployment or they are organising around poverty or social dislocation. That is one of the reasons that many of the civil institutions in, say, Papua New Guinea are fragmented. It is not limited. Trade unions are holding their own, because basically the concept is sound, and assist people in their ability to have better lives.

Again, it is quite remarkable in places like Fiji. You tend to see the trade unions out the front taking great risks in the various phases of their movement towards democracy. They are quite strong and they have respect, as I indicated before. But they are not pervasive because there is no industry or any reason workers need to come together in their own self-interest to prosecute their case.

**Senator KROGER**—You referred to a number of ships flying under the flag of Tonga because it enabled them to trade. For a non-shipping expert, could you explain that?

**Mr Crumlin**—It is a flag of convenience. Unfortunately, this is where you need regional policy. Mongolia is a flag of convenience. Mongolia has not even got a coastline. Liberia is another one. It would be a good day in Liberia if electricity was on for 24 hours. But they have tonnage a third of the world's ships because of tax avoidance, avoidance of statutory regulations and safety regulations. Unfortunately, Tonga tumbled in, to use the vernacular, and had a terrible reputation for gun running, smuggling and institutionalised corruption in its flag. Of course, the flag had nothing to do with the country. The flag was a \$2 company in Geneva that just paid an amount of money into the Tongan economy to have the flag on the stern.

Again, to have governance and to assist these people in developing their maritime opportunities, but do so in a considered way there are great opportunities. If they are prepared to sell out to the gangsters, what would they do with a country that was prepared to mentor them and assist them through? I think they will welcome us with open arms.

**Senator KROGER**—Is that currently being addressed?

**Mr Crumlin**—They got such a notorious reputation that no-one would flag there anymore, because there was no administration. It is a bit like Liberia. Liberia has set up big government

corporations in New York to at least give some administration to the flag, but what could you do in Tonga to a vessel that never went there with a \$2 company where no-one knew who owned them? It was just an impossibility to apply any standards and, of course, Tonga became the worst example of flag of convenience. As to the case I am putting to you, with our assistance they could be part of a regional approach to shipping where they could be part of the best of what we do, not the worst.

**Senator KROGER**—Thank you.

**CHAIR**—Senator Ferguson.

**Senator FERGUSON**—I was interested in your comments about labour mobility and getting people of the Pacific island states involved. Traditionally, the countries with the most influence in the area have been Australia, New Zealand, UK, France and, to a lesser extent, the US, with a small interest there. In recent times we have seen the entry of China, Taiwan, Malaysia, the European Union and a heap of others. The first five countries I mentioned all maintain an adherence to ILO standards, at least to a certain degree, but some of these other countries do not. What are the chances of their getting in first, for want of a better phrase, before you guys and others have a chance to put what you propose into practice?

**Mr Crumlin**—I actually thought it would be you guys.

**Senator FERGUSON**—The point is we can only do so much.

**Mr Crumlin**—ILO standards are a bit like UN standards. It is a bit like UNCLOS, the law of the sea; if you do not maintain standards, then something gives. As the global economic crisis highlights, if you do not regulate and maintain proper standards of due diligence and governance, institutionalised corruption or negligence is introduced and we all pay the price.

My view is that we are now moving into a new area of governance, and not just for banks. There is going to be more of an adherence to ensuring the social aspect and the community are maintained because we are looking the devil in the eye now. I think the days of going out and exploiting workforces just because they are there may be limited. This is an area in our region where we have the capacity to go out and build administration and to build awareness and a comprehension about what the options are.

It is a ferocious world out there, as we know in shipping, but I thought that was the whole point of the Rudd and in fact Australian regional policy, that this is our region and we have special responsibilities to assist them along the line. I am sure they are closer to us than they are to the United States. I am not sure whether everybody is a global warming sceptic or a believer, but certainly when you go to those islands they are looking right down the gun barrel of very small increases in the sea level meaning horrific changes to their future, and from that point of view exploitation is right down their list of priorities.

**Senator FERGUSON**—We have had significant influence in the past, but that influence has been watered down a bit by the influx of these countries coming into those island states. We never saw them there before.

**Mr Crumlin**—Again, I will use this as perhaps my last opportunity to prosecute my case for shipping. One thing about shipping is that we are never going to move away from international trade. We are going to go back. There might be some brakes put on from time to time, but international trade is here to stay, and shipping is fundamental. They are not going to do it in planes or by rocket ships. They are going to do that with ships. When you look at the logistics, the population of these areas and the demands for labour in that particular industry, there is more than enough opportunity for these people as long as we help them place ourselves collectively in a framework to realise those opportunities as they come along.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—You mentioned piracy in the region. Can you elaborate on whether you think there has been an increase in piracy and what we could do to prevent it?

**Mr Crumlin**—It goes hand in hand with poverty. Unfortunately, anywhere that you have countries that are in an extremely dysfunctional state people will do whatever they are going to do to survive. That has been proven in areas of Indonesia, the Philippines and Somalia notoriously. The thing about the Pacific islands is that other than in cruise ships they are not in those sorts of areas. Of course, there is a slightly different background to the whole nature of these communities as well. The only one that has ever sunk a ship in the South Pacific since the Second World War have been the French in Auckland Harbour.

We do not have a long history in that part of the region of that militia that you see. We know what Somalia is and what Indonesia has been, and some of the problems in the Philippines. I think you are really talking about a much larger political and demographic difference than the South Pacific. Certainly, security is a real issue, because wherever you have endemic poverty and hopelessness you are going to have opportunities for terrorism. That is one part of security, but I also like to think of security as securing these communities against the future. I guess that is the flipside of it.

**CHAIR**—Senator Trood.

**Senator TROOD**—On the matter of climate change and the possible consequences for some of these island states, is it your union's view that Australia has if not an obligation then an opportunity and a need to respond to those environmental challenges by perhaps facilitating the movement of the people on those affected islands to Australia in some way or another?

**Mr Crumlin**—That is their decision. Our primary responsibility is to make sure that we have a carbon trading scheme that stops global warming and helps them to secure their communities, because I genuinely believe that within a relatively short time, whatever that may be—50 or 100 years—there will not be any community, so there will be no choice if we do not turn around our policies. People would rather live in decent communities in their Indigenous communities than come down and live in the slums of some urban society in which they were not brought up. From that perspective, we are more interested in securing their communities and assisting them to stay.

**Senator TROOD**—That is probably the preference of all of us, but if they were faced with the need to relocate the question then is, if it is not an international obligation that Australia may

have, is the union open minded about the opportunities that might be made available to those people to come and immigrate to Australia under some way or other or are you not sympathetic to that?

**Mr Crumlin**—Absolutely. I am part of a Diaspora myself, from Ireland. I often say when I go back and drive the English ship owners mad—one of my responsibilities—‘The problem was you didn’t send us far enough away. You couldn’t foresee the creation of the aviation industry. Now we’re back creating more trouble than we did 300 years ago.’ The reality is, of course, we are a country of immigrants. Also, these people are indigenous. Part of our submission is to make that connection between the wealth of indigenous cultures, not only our own but their own. I have no doubt that if they came to our country they would add value, just as every other race that has come to this country as genuine immigrants has.

**Senator TROOD**—Your submission and your remarks are making this point about the opportunities that might exist to engage in training and activities in the region. I was not clear about whether or not the maritime union is particularly active in training activities in relation to maritime seafaring. Do you have any programs or networks that currently exist?

**Mr Crumlin**—We have had a couple of pilot programs. You need the engagement of the employers. It is very essential to have a relationship between trade unions and the employers. It does not have to be adversarial and should not be. We have had pilot programs in East Timor where young East Timorese trainees have come down and integrated. We have trained them up and they have returned to meaningful jobs. Again, we need a structure.

**Senator TROOD**—You are arguing the case for government structures to be put in place so that these opportunities can be explored?

**Mr Crumlin**—Absolutely, and the facilitation of policy. I do not think it is about handouts anymore. It is about realising opportunities. Everyone knows that we are an intelligent country. We rely on education to maintain the nexus of innovation, creativity and all the things that make us so special. Why should we not use that educational and training infrastructure to assist these communities, on East Timor, Papua New Guinea and the South Pacific, so that they can add value to their lives and their communities as well?

Again, they are quite simple policies, but we have to think about them in a thorough fashion. Maybe 2020 might be a bit too far away for some of these communities, particularly Papua New Guinea, which is a country in great crisis but also has great commercial opportunities in front of it and will need commercial, governance and cooperative assistance. That is what your committee is charged with, to come up with some of those solutions.

**CHAIR**—I am going to have to bring this session to a close.

**Senator TROOD**—I have one further question.

**CHAIR**—All right.

**Senator TROOD**—Your submission was a very interesting one, but in part it was interesting for what was not in it and what I might have expected to be in it, which is some observations

about maritime infrastructure around the region and the extent to which you see opportunities for expansion of maritime transport activities. Are you able to say anything on those two questions?

**Mr Crumlin**—I have an understanding of the market, like yourself. A lot of that is based on investment policy and the willingness of putting money in there. To do that, you have to have very strong administration and governance. I am not sure of all of the reasons why the pipeline did not go forward, but some of them may have been risk management, that perhaps Papua New Guinea was not at a level of governance to be able to ensure the viability of the long-term project. When you talk infrastructure in these countries you are really talking about creating commercial opportunity. That should be our primary business, to create that opportunity and also translate that into better and more decent jobs. We have enough trouble maintaining our own infrastructure here in Australia.

**Mr Pickette**—The regulatory and policy framework that we expect to come out of the House of Representatives inquiry into shipping will take that a number of steps further, which should provide the new framework in which the sorts of things that you have alluded to can happen.

**Mr Crumlin**—You can have a fiscal framework for international shipping in this country that attracts investment that is already there into regional shipping in a way that can provide job opportunities at ILO or better than ILO for people in these communities. We can assist in the whole process of training and building the infrastructure. That is there to be done now because it is happening now. These ships are coming in and out now but without that type of holistic plan. The big challenge for the Rudd government and in fact for parliament, given the makeup, is whether or not we want to realise those policy opportunities.

**CHAIR**—Thank you for your attendance, your submission and your contribution to our inquiry.

[12.25 am]

**GASKELL, Mr Chris, Head, International Relations, Australian Prudential Regulation Authority**

**CHAIR**—I welcome Mr Gaskell from the Australian Prudential Regulatory Authority to this hearing. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Mr Gaskell**—No.

**CHAIR**—The committee has before it submission No. 27 from APRA. It is a public document. Do you wish to make any amendments to your submission?

**Mr Gaskell**—I can expand on the submission today. I can make some introductory remarks that will help the committee in its questions.

**CHAIR**—I now invite you to make a brief opening statement or introductory remarks and then we will proceed to questions.

**Mr Gaskell**—As I mentioned, APRA is Australia's prudential regulator. We oversee banks, credit unions, building societies, general insurance and reinsurance companies and pension funds. In that context, we are an integrated regulator that looks to the stability of the whole financial system. On the technical assistance side, this is not a core business activity of APRA. APRA is aware that its technical assistance activities have lots of benefits for itself and Australia, in terms of assisting stability in the region, but the bottom line is that it is subsidiary to our core business activities. We have two main programs in the region with Indonesia and the Pacific. These were initiated as part of all-of-government activities. We are engaged with both of those regions, to some extent, with the government's moves to engage at an all-of-government level. Another point is that APRA believes that it is not appropriate for APRA funds to be used for technical assistance work. Therefore, we look primarily to external funding to cover the work that we do.

APRA has made a decision, from a technical assistance point of view, that it will limit its resource usage, or the opportunity cost of its work, to a cap of three full-time equivalent staff per year. APRA has around 580 staff, so that is around 0.5 per cent of our resources. In fact, the reality is that it would fall short of that, on average, over the last few years since that policy was established.

As I mentioned, we have the formal programs funded by AusAID. In the Pacific there are two programs. We also provide support through speakers at regional conferences—for example, the Financial Stability Institute of the BIS and the APEC Study Centre in Melbourne, which does a lot of work with the region, including the Pacific. Then there is the Association of Financial Supervisors of Pacific Countries that we support through providing speakers. There is a range of other regional bodies, including SEANZA and SEACEN, to which we provide speakers. There are often people from the Pacific that attend those and get the benefits of that work.

We occasionally sponsor a conference in Australia, providing facilities and speakers, and sometimes we have ad hoc internships where people from the region come and spend time with APRA. There are also the various delegations, many from developing countries, and of course a number of those are from the Pacific.

There are two key programs that we offer in the Pacific funded by AusAID. There is an intern program where we have people identified by the prudential regulators in the Pacific who come to APRA for periods from four to 17 weeks. They are often embedded in frontline units at APRA and they are instructed in the process of prudential regulation as conducted by APRA with the objective of taking or adapting those principles to take back and apply in their own jobs.

Over the last four years we have had a total of 24 interns that have attended from the Pacific. Most of those have been from the Bank of Papua New Guinea, with which we have had a fairly active relationship. Others have been Fiji, Micronesia, Vanuatu, Cook Islands and Samoa. It is quite a contrast for some of those folk coming from, for example, the Cook Islands to Sydney. It takes them a little while to settle down with the scale of the building, the speed of life and so on.

Last year, with the global financial problems that we have been subject to, APRA's core business had to take priority and we currently have suspended that intern program. That was from August of last year. But we will be looking from time to time at whether things have stabilised sufficiently—there is clearly quite a resource commitment in having people embedded in frontline units—to commence the intern program again this year. We have funding for that program through AusAID.

The companion to this intern program is an on-site supervision program that we conduct in various countries in the region. There are three hosting jurisdictions at this point. Papua New Guinea is one in addition to Fiji and the Solomon Islands. The basic situation there is that we have an APRA expert in the particular industry that is the subject of the visit. They attend in the country and provide training assistance to go through the whole process of the on-site visit. That is the pre-preparation, the assessment of the particular focal points of the visit, the actual on-site itself, and then the preparation of the reports back to the senior management of the hosting central bank. It is important that the visited institutions do not see the APRA person there as leading the delegation. They are definitely there as a trainer and advisor. It is very clear that there is not to be any interruption to the relationship between the regulator and the regulated institution. The first two years of that program we were in Papua New Guinea and focused on the superannuation industry there. If I recall correctly, there were eight trips.

Subsequent to that, we decided to expand both the industry focus of that on-site training and to expand also to some other countries in the region. Fiji was one of the obvious ones. We tend to focus on the jurisdictions that have institutions of an appropriate size to accept a delegation. The way this is done is that the hosting jurisdiction has three or four participants and then we also draw a number of participants from other agencies in the region, and they also are assigned roles in the on-site review.

In this program there have been something like 18 individual on-sites conducted and there have been 134 times that regional supervisors have actually been into institutions. Many of them have done that two, three or more times, and that is part of the deepening of the experience to have repetition. Around 70 staff all-up in the region have been involved in those on-sites.

We thought that the multi-regional approach was a useful way of emphasising the principles that should apply in on-site supervisory approaches. It has been very good for building the regulatory networks in the Pacific, because they have also done a number of on-sites, organised separately themselves, and have invited other regulators to go on-site. One of the key objectives of this work has come to fruition. In terms of the cost to AusAID's budget, on average these two programs have totalled about A\$300,000 a year. Gearing up was a bit slow so earlier the amounts were lower. The peak actual spend in 2007 was about \$470,000. This current period the amount is a bit less because we have suspended one of the programs. The amount budgeted for this current year is about \$600,000, but it would be rare for us to spend the entire amount allocated because what tends to happen is that you ask all of the jurisdictions about how many people they would like to send and they give indications, but come the time their core business activities mean that they cannot take advantage of the opportunity. We are overfunding, to a certain extent, from that point of view.

Some of the sorts of issues that we observe from this work are that inevitably these jurisdictions are very resource constrained. Despite the fact that we are often dealing with the central banks and monetary authorities in the region, you would have to say that due to their prestige in these economies they are the agencies that can access the best of the best in their recruiting. Despite the reputational benefits of being able to get the best of the available pool of resources, they are still usually very short staffed. The tendency is for parliaments to give an expanding remit and then there is always a struggle to get resources to fulfil the objectives that parliament has set for them.

You will be very familiar with the infrastructure, power and computer problems that these jurisdictions routinely have to put up with in their daily operations. There are limits to how much technical assistance, TA, can actually be absorbed by these jurisdictions as well. If you have an authority that only has half a dozen staff in the prudential function, you can only afford to have one or two of them away at any one time. There is quite a lot of technical assistance being organised for these jurisdictions, so there is always that issue, too. There are limits to how much can be usefully spent to try to increase capacity.

There are many problems in the financial sectors that we get some insights into. Some of the main problems they deal with would be that in smaller institutions, in particular, that are locally owned and often cooperative institutions it is always very hard to get appropriately qualified senior staff on boards. The board and senior management governance problems that they have are often quite severe.

Then, of course, there are the reporting problems that they have with the institutions providing late and inaccurate data. External audit is also often a major problem, especially in some of these smaller regional institutions that are away from the main urban centres. The legal infrastructure is also often quite lacking. To get things to court and to enforce things through courts is often subject to huge delays. If the subject of the enforcement issue wishes, there are lots of legal ways to slow that process down quite dramatically.

We do have dealings with all of these regulators from the point of view of where Australian firms are active in these jurisdictions—Australian banks and insurers in particular. Whenever there is a need for information sharing on that, APRA is always very happy to hear from the

prudential supervisors and has the power to share information with them to assist them to do their functions.

I mentioned earlier that there is a lot of TA in the region and it is important for us to liaise with the other agencies that are active. The IMF has quite a bit to do in the region. PFTAC is funded by the IMF and is set up in Fiji. It has a number of sector experts that are involved heavily in the region and we liaise quite closely with them because they often coordinate the technical expertise that is coming from the IMF with prudential regulators from the US. OSFI, the prudential regulator from Canada, is also involved and has very active technical assistance program throughout the world and has activities in the Pacific. Then there is the World Bank, the Asian Development Bank, and a number of others that also provide assistance in some aspects of technical assistance in the Pacific. I thought a brief overview like that would give you some thoughts on other things you might like to look into.

**CHAIR**—Thank you for that rather lengthy overview. Our time is somewhat limited so I am going to be a little arbitrary and ask senators to indicate who has questions and then limit them to one or two each. Senator Trood.

**Senator TROOD**—Are these programs an initiative that you began or did AusAID come to you in the first place saying, ‘We think there’s a need in this area’?

**Mr Gaskell**—The programs themselves were effectively initiated by APRA in consultation with the agencies that we deal with in the Pacific. We identified those needs in consultation with them, but we were encouraged to commence this engagement through this all-of-government approach.

To give you a little further background, I have been involved with the region for a long time. I was formerly with the Reserve Bank and spent time in Papua New Guinea, for example, in the seventies and then subsequently when I joined APRA it was to be there to help set-up the technical assistance activities of APRA. It was a deliberate effort on APRA’s behalf.

**Senator TROOD**—Are the individuals that you are training in each of these programs different on each occasion or are you trying to expand the skills of particular identified people? Are you deepening the capacity of individuals to manage these challenges or are you trying to expand the number of people with this experience?

**Mr Gaskell**—It is both. The programs are designed such that—and we tell the counterpart agencies over the period that we are working—we would like people to do at least two or three of these on-sites, because you learn a certain amount the first time, but then you can build on that through subsequent experiences. That is part of the design. I mentioned the interns. They are also going back and being involved in the on-site work that our staff are involved in. When it comes down to it, we are talking about a pool of just over 100 prudential supervisors in the entire region. I mentioned we had about 70 people who have taken part in that on-site program, but of course there will have been some who have left. We are getting a reasonably good coverage of people who have at least had exposure to some of the principles of supervision that we have been teaching them.

**Senator TROOD**—From what you said, I gather the potential to expand these programs is limited both by your limited capacity to make staff available for the training activities and by the capacity in the island states. Is that right?

**Mr Gaskell**—Yes, it is.

**Senator TROOD**—Am I right in saying that these two programs are just about at the extent of their ability to deal with particular individuals?

**Mr Gaskell**—There are always new prudential supervisors joining the agencies, and some leaving, although it is fair to say that the turnover is way less than we experience here in APRA. There is a natural limit to how much more of this work we can do, but it can be done at these sorts of levels for several more years yet. Bear in mind that this is only one feature of the whole prudential process. It is possible, for example, that other programs could be looked at in the future. It may be policies and procedures. Also, bear in mind that the roles of these agencies are expanding all the time. Whilst they are very comfortable with deposit-taking institutions, for example, because they have had those responsibilities for many years, insurance is a very new area for their responsibility. They are starting from a much lower level of proficiency in a number of these other industries, so there will always be room for deepening in some of these newer areas of responsibility.

**Senator TROOD**—Thank you.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—Are the people who participate in the program tertiary educated and, if so, where do they get their tertiary education from?

**Mr Gaskell**—The University of South Pacific is in Papua New Guinea, but it also has a number of campuses around other parts of the region. Some of them have been to Australian universities and have local degrees from here. It is fair to say that they are all tertiary educated. For the intern program we insist that people have some experience, so we are not having people down here their first year in. They have three or four years experience minimum. We also insist that they have done a couple of on-site visits in their home jurisdiction. We are getting people who we hope can absorb better the lessons that we can show when they come here.

**Senator McEWEN**—Are there men and women?

**Mr Gaskell**—Yes. When I did a quick count it was about a third of the people that have been on the on-sites that would be women. That is representative of the general male-female ratio in the institutions.

**Senator FORSHAW**—What other countries are doing similar programs and how do we compare to them if they are doing that?

**Mr Gaskell**—This is a unique program in the Pacific. Our assessment is that hands-on teaching is often not something that is commonly done by agencies that are helping to train. Often it is classroom teaching, whereas this is very practical.

**Senator FORSHAW**—Does the UNDP do any of this sort of work or sponsor this sort of work?

**Mr Gaskell**—I have not heard of their doing it.

**Senator FORSHAW**—The United Nations Development Programs.

**Mr Gaskell**—I am not aware of their being active.

**Senator FORSHAW**—They tend to work with aid agencies such as AusAID. You are not aware of their involvement?

**Mr Gaskell**—I am not aware of their being active in the financial sector in the Pacific.

**CHAIR**—In your remarks you said that one of the programs was suspended. Which one and why?

**Mr Gaskell**—That is the intern program, where we have the staff from the agencies come down and spend time embedded in frontline units, in particular, in APRA. The decision there was that in the current circumstances APRA's staff have a lot of material concerns of their own. In particular, last year there were great concerns over the liquidity of markets in Australia and how effectively they were working, and there was a lot of work being done by APRA staff. To be fair, there is always a certain diversion of effort when we have interns embedded in a unit.

**CHAIR**—Your organisation had other priorities.

**Mr Gaskell**—Indeed.

**CHAIR**—Thank you. We are going to have to curtail this conversation.

**Proceedings suspended from 12.55 pm to 1.51 pm**

**ANDERSON, Mr Brian Francis, President, Australia Fiji Business Council**

**HODGSON, Mr Reginald Gordon, Executive Member and Treasurer, Australia Pacific Islands Business Council**

**CLARKE, Mr Ian Chatfield, President, Australia Papua New Guinea Business Council**

**YOURN, Mr Francis Alric, Executive Director, Australia Papua New Guinea Business Council, Australia Fiji Business Council, Australia Pacific Islands Business Council**

**CHAIR**—I welcome officers from the Australian Pacific Business Council, the Australia Fiji Business Council and the Australia Papua New Guinea Business Council to this hearing. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

**Mr Clarke**—No.

**Mr Hodgson**—No.

**CHAIR**—The committee has before it submission Nos 58, 60 and 70 from each council respectively. They are public documents. Do you wish to make any amendments to those submissions?

**Mr Clarke**—No.

**CHAIR**—I now invite each of you to make a brief opening statement and then we will proceed to questions, which will be directed to you collectively.

**Mr Clarke**—I am speaking as President of the Australia PNG Business Council. It is the oldest of the three councils and was formed in 1980. Looking at the topic of the day, economic and security challenges facing PNG, I look forward to some discussion around the matters that we have put in the paper. PNG is blessed with significant natural resources that provide an opportunity and a vehicle to deal with a number of the critical issues that PNG has at the moment. A critical issue is youth unemployment. A lot of PNG's problems revolve around youth unemployment. We need to help PNG find jobs for that next generation, otherwise there is a very dislocated generation coming upon us. It is about job opportunities and building an SME class. With all these major projects coming into PNG the business council feels passionate that we need to help PNG build an SME class of privately owned companies that can contract to, and deal with, those projects. They are not just in the resource sector, they are in agriculture and a number of other places.

Land continues to be a fascinating topic in PNG. I have been involved with PNG for quite some time. I think sometimes it is overstated. The vast majority of the country is under customary land. It is not under government tenure. That sometimes has taken up too much. Investors want the certainty of tenure, but at the end of the day you still have to work with the

traditional owners, regardless of whether or not there is a title. There are some quite good models where it is working, especially the Oil and Gas Act.

We think it critical to work closely with AusAID, and there was a very good platform to do that at the Madang Joint Ministerial Forum last year. Senior ministers from both Australia and PNG agreed that the business council should meet formally twice a year around the forum so that we could get an agenda going with the government officials, and that seems to be a good platform.

I would like to finish with two other quick comments. One of PNG's great problems is having the institutional capacity/bureaucracy to be able to deal with all these issues that these major projects press. Institutional strengthening for me and for the council is a must. The Strongim Gavman Program, which is a pidgin expression that replaced the ECP program, we heartily endorse. PNG needs to have a strong and independent bureaucracy and a strong and independent judiciary. The Strong in Government program can assist in that regard.

Finally, an issue that is emerging in the Pacific and in PNG is PACER-Plus. We have had a lot of dialogue with both government in Canberra and the private sector in PNG. That is going to be a complex issue, but we certainly support PNG coming into a broader trading relationship with Australia. It will take time, though.

**Mr Anderson**—The Australia Fiji Business Council has been active in the bilateral relationships with Fiji since 1986, so we are a little bit younger than the PNG council. I have personally been involved in Fiji for the last 15 to 20 years. The economic and security challenges facing the Pacific is almost like 'how long is a piece of string?' Unfortunately, Fiji's economy is in freefall. The political landscape is a quagmire at the moment and we are seeing once one of the strongest economies in the region, after four coup d'état in 20 years, with the economic toll being significant. Independent analysis of the Fiji economy suggests it is now dire and faces imminent collapse. There are signs that law and order are breaking down, and that is on the back of a high employment rate, especially with school leavers, which is a problem facing everybody. We have billions of dollars of Australian investment in Fiji that could be at risk, as are the livelihoods of the people in the country, where already in excess of 30 per cent are below the poverty line. Some Australian owned businesses are reporting a 50 per cent reduction in income and staff employment over the last two years.

Whilst we recognise it takes two to tango, we believe the Australian government's policy towards Fiji is unhelpful in resolving the problem. Primarily the travel bans eliminate the ability of people to serve in the Fijian bureaucracy. People tend not to want to get involved because it may preclude their entry into Australia and/or New Zealand. Therefore, for want of a better word, the Fiji bureaucracy in government has been dumbed down, which means that the advice going through to the interim Prime Minister may not be the best.

Certainly, we do not condone anything that the Fiji government has done—the overthrow of the legitimate government—but the Fiji government will not resolve this. I think it is in the hands of Australia. We need to find a way to minimise the damage done to the people of Fiji and protect our investments in Fiji. This may be by way of infrastructure. Fiji has just been hit by fairly significant floods that have impacted again on their economy. Perhaps more tightly

focused travel sanctions might work to allow better qualified people to serve with the government.

I think we need to remember that the bilateral relationship belongs to the people and not the governments, and we need to nurture that and grow it. We have a very close association with Fiji going well over 150 years. We run the risk of pushing Fiji into the arms of less honourable friends to Australia's north should we continue the way we are going.

We have also been part of the PACER-Plus talks as part of the broader Pacific, and we certainly endorse the concept of it. We hope to maintain Fiji as an active member of it, but it is obviously subject to their staying part of the forum and still being engaged with the Australian government.

**CHAIR**—Mr Hodgson.

**Mr Hodgson**—I am pleased to have this opportunity today to talk to the committee about its inquiry. I am representing the President of our Council, Sylvain Pons, who is overseas on company business. The Australia Pacific Islands Business Council is the youngest of the three councils. We were formed in 2000. Many of the council members have had more than 100 years experience in the Pacific. There is a tremendous amount of knowledge of the marketplace out there. I have personally been involved in business in the Pacific islands for more than 30 years.

The first thing to say about Pacific island countries, as you would be aware, is that contrary to what the average Australian might think it is not an homogeneous area. At best, it breaks down to three subregions, Polynesian, Melanesian and Micronesian. Even that is misleading, because within each of those subgroups, of course, there are many divisions in the various countries that they comprise. There cannot be a one-size-fits-all approach in dealing with 14 independent Pacific island countries.

Many of the things that my colleagues have mentioned are also being suffered in the South Pacific islands. We do have under-resourced education systems. We do have declining capabilities in the health area. We have large numbers of young people entering into the employment market with very few prospects of employment and that has caused some social issues in some of the countries, which it will continue to do.

The extent to which each of these problems exist in each country varies. The most important underlying assistance that Australia can provide is to ensure that support is given to each country to develop a positive and sustainable business and to offer employment growth for youth, and at the same time, of course, supporting the health and education services. PACER-Plus may be the most important economic opportunity that the Pacific islands have ever had. PACER-Plus offers the opportunity for Pacific island countries to enter into an economic relationship with Australia and New Zealand, which may even turn out to be something like the Australia-New Zealand relationship. Many of the islanders have said, 'Why can't we have a similar sort of relationship?'

The PACER-Plus concept offers challenges and the Pacific island leaders themselves have to step up to some of these challenges. It is not going to be easy, and it has not been easy, for some of them to accept and understand fully the benefits of PACER-Plus. I think communication of those benefits is going to assist in getting agreement in the islands.

I should, at this stage, acknowledge the policy initiative of the Rudd government in commencing the pilot scheme for seasonal labour market access. That is terribly important. There are a lot of very small countries out there that have virtually no natural resources. With the best goodwill in the world you are never going to create a sustainable group of industries there for employment. Having the opportunity to come to Australia under a labour market scheme allows remittances to go back to those islands. They have virtually no other sources of generating revenue outside aid. You have to hopefully try to balance aid with the ability to generate resources. There are several countries, including Tuvalu, Niue and Tokelau, which are essentially tiny atolls where there really are very few possibilities.

**CHAIR**—Mr Yourn.

**Mr Yourn**—I do not wish to add to those opening statements.

**CHAIR**—I might start off with a brief discussion about the GFC. Can you inform the committee about the effects of the global financial crisis in terms of your respective countries? We can start off in the same order.

**Mr Clarke**—PNG has been to date somewhat sheltered from it. In the last 12 months or so PNG has seen a really significant cost of living increase and quite a jump in inflation. That has nothing to do with the GFC. It has got everything to do with the fact that a couple of very big projects are pouring resources into the country. In that sense, it has been a little sheltered from it. Some of those companies that are working on these very large projects are obviously funded and are not going back to the market, so in that sense PNG has not felt it. The cost of living in Moresby, Lae and Mount Hagen now is horrific, which is a real issue that PNG is going to have to deal with quickly. It has rampant inflation. To date, I suspect the PNG government has not really seen a hit on its revenues and royalties, so it has probably been somewhat sheltered.

**CHAIR**—Mr Anderson.

**Mr Anderson**—As I said earlier, Fiji's economy was already in strife before the global impact. One thing we are seeing now is liquidity in Fiji with banks and everybody else tightening up. It is going to have a huge impact. There will not be money there for projects that may have been promised or were going to happen. There certainly will not be the money there.

**CHAIR**—Does that normally come through FDI or loans?

**Mr Anderson**—The banks carry a lot of that. We are talking about commercial enterprises here. Government may come through FDI, but as I said when you talk to the banks now there is very little liquidity available in Fiji and the people that have committed to start or finalise projects may not have that money available to them.

**CHAIR**—You are affected?

**Mr Anderson**—Very much so.

**CHAIR**—Pacific islands, Mr Hodgson?

**Mr Hodgson**—It is somewhat the same. It varies with 14 different countries. If you look at New Caledonia, a lot of the impact has been shielded by the French subsidies that go in there each year. I think it is \$1.4 billion Australian this year.

**CHAIR**—Million?

**Mr Hodgson**—Billion.

**CHAIR**—Australian dollars?

**Mr Hodgson**—Yes.

**CHAIR**—One hundred and one billion?

**Mr Hodgson**—No, \$1.4 billion. I would shift there if it was that much. Whilst the nickel prices have fallen down, the way in which the government has been handling the revenues from nickel has created the cushion for that loss of revenue. They are going along very nicely. I was up there recently and if you look at the very expensive and very new cars that are on the market and people out at restaurants it does not seem to be affecting them. The other countries are a little bit different.

From a Cook Islands point of view, which is so reliant on tourism, they do not seem to be affected by it at this stage. Tourism numbers are still maintaining themselves as much as last year, and that is essentially the source of their income. Remittances are maintaining themselves into Samoa with a small amount of tourism, so they are going along all right. Tonga has always had its ups and downs, but does not seem to be seriously affected. It is much the same with Vanuatu. Vanuatu's economy is not too bad at the moment. There is a reasonable level of tourism and, as you know, there is an interesting banking sector over there that seems to be toddling along quite nicely. Solomon Islands is its own individual case and, yes, that is being affected but by a lot of other matters besides the global financial issue.

**CHAIR**—Is it making existing matters worse?

**Mr Hodgson**—It is not going to help.

**Mr Yourn**—In the last three months I have visited Papua New Guinea, Solomon Islands, Vanuatu and Fiji—all of them briefly. My sense is that those countries that have a significant domestic subsistence economy are, to some extent, cushioned from the worst effects of the global economic crisis, because they are not so much linked to the international financial system. For countries such as Fiji, for example, which has a huge tourism industry, this is going to have a significant impact on their source markets. We are seeing that in Fiji now, where arrivals are down about 25 per cent currently on what they would be in a normal year and that is complicated by other factors in Fiji, including the floods in January. The last figure I saw was that there was a \$100 million hit on the economy from those floods. I think it varies a bit across the countries depending on what their key industries are. But as I said, if they have a big subsistence economy then it tends to provide a bit of cushioning. In the case of PNG, some of the projects have written large loans recently on the international financial market, which is encouraging. But of course there is a decline in royalties coming into the government because resource prices are down, so

the royalties flow is lower to the government. There is a range of effects there. It is good to visit some of the Pacific island countries and not find subprime loans all over the front page of the newspaper. There are different things going on.

**CHAIR**—I intend to work through the agenda that has been prepared by the secretariat and if any of my colleagues have questions or want to hop in on the issues then just catch my eye.

**Senator FERGUSON**—Mr Anderson, did I hear you say that there were travel bans to Fiji?

**Mr Anderson**—There are travel bans on people associated with the government by the Australian government—anybody associated with the current interim government or the military. We believe that they are not properly targeted. We had the instance where a 17-year-old kid was invited down to train with a Melbourne AFL team and was precluded because his father was a warrant officer in the army. We find that sort of thing does nothing for Australia. It creates the wrong impression with the people of Fiji. There are travel bans there for people associated with it.

**Senator FERGUSON**—The bans are from government to government.

**Mr Anderson**—It is government to government. It is basically anybody associated with the interim government and/or the military.

**Senator FERGUSON**—How long have they been in place?

**Mr Anderson**—Basically since the start of the military coup.

**Mr Youn**—It has been since December 2006. They are not really government to government. They are unilateral bans applied by the Australian and New Zealand governments. The Fiji government would prefer that they were not there.

**Senator FERGUSON**—As far as visitors to Fiji, it is just a travel advisory and not a ban? It is virtually like half the countries in the world; they have a travel advising not to undertake non-essential travel.

**Mr Anderson**—We are talking more about coming out of Fiji and travelling to Australia and/or New Zealand.

**CHAIR**—Senator Kroger.

**Senator KROGER**—Fiji's tourism dollar has been volatile for a little while now. Mr Youn mentioned that it was down 25 per cent. How has that reduction impacted on the ground to date?

**Mr Anderson**—The first thing you see is that the people who work in the hotels are getting one or two days work. That is the immediate effect. Fiji has put money into tourism, but unfortunately they have downgraded their product and are selling on price. Basically, they could say that their tourist numbers are up, but their revenue per room per day would be down. We all see the Sunday paper ads '\$1,000 five nights in Fiji, kids eat free'. There is not a lot of profit in

that and it is basically just to keep the hotels operating. As I said, the people who work in those hotels are affected significantly.

**Senator KROGER**—It is essentially employment, which then puts more pressure on the subsistence approach to survival?

**Mr Anderson**—It does. Fiji is very much family based. What one family member earns goes through the whole family and the extended family. If people are not earning money it is not just one family that suffers but several families that suffer.

**Senator KROGER**—Thank you.

**Mr Youn**—The figures last year suggested that a lot of the resorts in Fiji were running at about 30 per cent below their normal revenue levels as a result of discounting in the market. There would not be too many businesses that run at a 30 per cent profit margin so you would have to say that a lot of those businesses would be operating in the red and relying on their cash reserves or their bankers to keep them afloat. Obviously, that can only continue for a limited time. As Mr Anderson has said, with tourist numbers now declining a lot of the resorts are putting people on part-time work, trying to keep people in some form of employment, but their capacity to do that will depend on what business comes in and what revenue it brings. In Fiji, there tends to be a simple look at the tourist arrival numbers to determine how they think the tourist industry is going, but the underlying issue is what the revenue is. That revenue effect has been felt across other industries in Fiji that are linked to the tourism industry, for example, retail.

**Senator KROGER**—That begs a follow-on question. With that drop in revenue and profit, is there an observance of a reduction in further investment as in infrastructure and so on? Has there been a discernible flow on effect yet?

**Mr Youn**—Yes, I believe there has. Certainly, foreign investment has slowed right down to very low levels at the moment. Refurbishment of properties and anything that requires capital is being deferred.

**CHAIR**—We might switch to economic growth. As to male, youth and female unemployment, can you give us a picture of what is going on in the principal countries that you are familiar with—the size of the problem and what the government is doing, if anything, in respect of countries to address the issue and the consequences in your mind if it is not attended to?

**Mr Anderson**—That is easy with Fiji. There is no growth and the Fijian government is doing nothing. There is very little that they can do. The confidence in the country and the investment that usually stimulates growth for them just is not there. There are no new buildings and hotels. There are no new resorts. There are no new projects. There is some infrastructure that is being built, but it is being built basically by Chinese contractors who are supplying Chinese equipment and in some cases with Chinese workers. There is really nothing on the horizon there.

**CHAIR**—Is that causing problems with the Indian-Fijians and the Indigenous Fijians, the presence of Chinese labour?

**Mr Anderson**—The Fijians and the Indians are fairly passive people. I think it is accepted that these things are happening. I certainly have not seen anything to suggest that there was any ill will. I suppose underlying there must be, but nothing has manifested itself.

**CHAIR**—How big is the problem of unemployment in Fiji?

**Mr Anderson**—It is growing. The main concern is the unemployment of the youth. We are starting to see a breakdown in the hierarchal respect. Previously with Fijians you always had respect for your elders and the chiefs carried a lot of weight. That has been a little bit undermined, if not a lot, by the government's marginalising of the chief system and the tribal system. This is the major problem that Fiji faces, unemployed youth with too much time of their hands. As I said, petty crime is on the rise and it bodes ill for Fiji. We need to find work for them.

**CHAIR**—Is this a problem only in the major urban centres or is it across-the-board in the outlying islands and country areas?

**Mr Anderson**—I have not had that much to do with the outlying areas. I tend to deal in the major centres of Nadi, Latoka and Suva, because that is where the predominant parts of business are. However, I do not think it would change in the countryside. Obviously, if you have unemployed youth with time on their hands and nothing else to do that usually leads to problems.

**Mr Youn**—I can put some numbers around those comments. It is conservatively estimated that there are 12,000 school leavers a year coming out of the education system in Fiji and job creation at the moment is nil. Even over the last couple of years it has been pretty low, with less than 2,000 new jobs a year. You have a big gap between the number of school leavers coming on to the market and the number of jobs available for them. That is the scale.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—Are school retention rates declining because people cannot see any purpose in going to school?

**Mr Youn**—I have not seen any numbers on that.

**CHAIR**—We had some dire evidence from Professor Helen Hughes about PNG. Her basic argument was that there was absolutely massive male unemployment, that the informal economy was not providing work for males and for boys, that those males and boys were increasingly resorting to criminal activity as a way of life, and now significant penetration of all levels of criminal activity spreading over to the more general economy of Chinese triad gangs. Her view was, short of major intervention, the size of the crime problem and the infiltration of Chinese triad gangs was so bad that PNG was almost dysfunctional. Do you have a view or a comment that you can make regarding her analysis?

**Mr Clarke**—I do not have knowledge of some of those matters. I think that is an excessive view and one that I do not subscribe to. We have to step back and have a look at PNG. Despite all its issues, it has largely met its obligation as a country since independence. There are

significant problems with unemployment, but PNG is in the fortunate position that it has the resources and the projects that could absorb a lot of this youth.

We have recently met with AusAID. They are doing another study. PNG needs to get some technical colleges going with our assistance. In Australia we have probably taken a lot of PNG's very good engineers. They are probably working in Kalgoorlie. There has probably been a bit of a brain drain. I think there is a great awareness in industry that we need to build up the technical colleges. It is going to take some time. I do not subscribe to the view that it is hopeless and not fixable.

You have touched on the Chinese issue. I do not have any knowledge of the triad infiltration, but certainly there is a lot of Chinese investment coming into PNG and China does have a different approach. Australian investors tend to negotiate with government in a fairly formal and transparent sense. There are some very large Chinese projects in PNG and anecdotally one hears that there are a lot of workers there.

**CHAIR**—Chinese workers?

**Mr Clarke**—Chinese workers in Madang Province. I do not know the extent to which they are all there with visas, if that is where you are going. I do not have knowledge of that. There are certainly a lot of workers.

**CHAIR**—You have hundreds of thousands of unemployed men and boys with a growing population coming out of school or even not going into school, and you are importing unskilled and semi-skilled labour in major projects.

**Mr Clarke**—With some of those projects there is initially going to be a need to bring in skilled labour, because PNG does not have the technical workers—the welders and the plumbers. One hopes that they will very soon. AusAID and the Australian government are all over the need to increase technical training. Initially with some of these projects there just is not the skill set there, which is a problem. I do not believe that problem is irreversible. I believe it is significant and needs a huge amount of focus, but I do not agree with Helen Hughes that it is terminal. We cannot afford to take that view, anyway. PNG has six million people to our immediate north, and we need to work on it. I do not accept that we cannot work with it. It is significant. The resource industry, in particular, has done a blueprint of what it sees going forward for the next five or 10 years, what they think they will need in terms of employment, and all of those are very good models around which you could build some tertiary institutions.

**CHAIR**—Who would build and fund those technical colleges?

**Mr Clarke**—PNG has never had any problem in securing funding. PNG has had a problem in executing projects. Funding has never, ever been an issue for PNG from all the multilateral agencies. It is the process of executing them. That is why I mentioned earlier this Strongim Gavman Program. I think Australia should continue to support that by putting in advisers and line bureaucrats to help the PNG bureaucracy to rebuild the Department of Education and the Department of Health. That is where we should really focus.

**CHAIR**—Mr Hodgson.

**Mr Hodgson**—I am trying to reflect on how I put 14 different countries into this story. I will take the easy ones first. With the very small ones that I mentioned before the children get a basic education and then they go back to the village and become subsistence farmers, fishermen and do what they like. Employment is not really a matter of question. They live well. They eat well and they are not hungry. These are terribly small village communities on very small islands. When you get to the larger places, such as the Cook Islands, which is doing very well with tourism, it is a lower level of tourism. It is two and three-star type tourism, but they get a lot of people there. As is quite common on most of the islands, the employment opportunities are either in bureaucracy or working in the hotels as cleaners, waiters or whatever the case may be. I am aware that last year with some renovations that a number of the hotels wanted to undertake they had to import some labour. That seems to be reasonably well handled. Recalling, of course, that similar with Samoa, the Cook Islanders move easily and freely backwards and forwards from New Zealand. If it is not available in the Cook Islands or Samoa then they go to New Zealand, and tertiary education is undertaken in New Zealand by students from both of those countries.

Samoa is more complex and a little bit different. There is a major wiring loom plant there that is a huge employer of people in proportion to the population. They are building their tourism and doing quite well out of it. I also mentioned Vanuatu. There is reasonable unemployment there. Again, it is the students that are coming through from secondary school at best into a vacuum of employment. I should have mentioned this in the Cook Islands and Samoan group. The Tongans go to New Zealand for their tertiary education, if that is what they want, or they just move freely into New Zealand. That sort of cushions the issues there.

In all of those countries there is not really a social problem of unemployment. It is when you get to Vanuatu. It is the Melanesian countries, more particularly, one of which has been mentioned—Fiji. It is the Solomon Islands and Vanuatu, where you do have very significant numbers of unemployed youth, but that is in the urbanised areas of the islands. These are chains of islands. It is only really around Honiara where there is a social problem with unemployed youth and the school there. The vast majority of people that live in the villages on all the other dozens of islands that are inhabited there are feeding themselves and eating, and it is not really a problem. Education is not all that great.

Kiribati is unique. It has a maritime college there and that educates a lot of their youth to work on fishing and commercial vessels right around the world. Remittances, as I mentioned before, are a very important part of their business. There is an unemployment issue, but it is not really at a level that is likely to risk social disruption. I am sorry to mention so many.

**Senator FERGUSON**—Does your council have contact or dealings with the other smaller islands such as Niue, Tokelau, and Palau?

**Mr Hodgson**—No. Arguably, we do not really have enough contact with even the larger of economies, such as the Cook Islands. We have had trade missions to some of them and we have some more planned this year, but not Tokelau, Niue or even Tuvalu.

**Senator FERGUSON**—Tuvalu is about 11,000. The others are all smaller. Is there any contact with Nauru?

**Mr Hodgson**—Yes, we do. They are mainly Melbourne based. I attend some of their functions in Melbourne.

**Senator FERGUSON**—They all have a seat at the forum.

**Mr Hodgson**—Yes.

**Mr Yourn**—They are all on the list of countries that we take an interest in, but realistically with our resources and the size of those countries, economies and markets, we do not spend too much time on them.

**Mr Hodgson**—We have an update for the Solomon Islands occurring this year. We had the Prime Minister out last year to the Solomon Islands. We had over 80 potential investors in Brisbane at a seminar. We are going to have a whole day update on that. It is the same with New Caledonia. We will have two a year with full-day updates in Brisbane. There is a mission being planned to go into Vanuatu. They are examples of the ways that we are getting into the communities.

**Senator FERGUSON**—New Caledonia is a different kettle of fish from the others. It has seats in the French parliament and has a stronger connection.

**Mr Hodgson**—It is. There is a fair bit of trade between Australia and it is growing. There is a heck of a lot of interest from Australian based companies in New Caledonia. The twice-yearly updates, which I mentioned, are standing room only.

**Senator KROGER**—Is a lot of that tourism related or resource based?

**Mr Hodgson**—It is resource based and IT services. There is not a lot of tourism, which is sad. I think New Caledonia is a beautiful place. I was there three weeks ago staying in a hotel with possibly 200 rooms, but only about 30 were occupied.

**Senator KROGER**—That is tragic really.

**Mr Hodgson**—They do not seem to chase tourism. I guess they feel they do not need it.

**CHAIR**—We might talk about SMEs. The three business councils in their submission recognise the key to employment growth being the development and sustainment of a viable SME sector. Mr Clarke, you made some reference into it feeding into the huge resource projects in PNG. What has been holding back the development of a small end SME class in more recent years? We can start with PNG.

**Mr Clarke**—Papua New Guineans are very good entrepreneurs and very good businessmen. There are plenty of opportunities to start them. All the major projects, be they in the agricultural or the resources sectors, have what are called domestic market obligations where they have to encourage local business. It is very hard for some of the smaller companies to contract with a major mine, because a major mine wants certainty of supply. Therefore, the PNG business has to have the financial wherewithal. Let us say it is a catering contract or painting or doing the security fencing. One of the problems is that the SME sector in PNG probably has not had access

to capital. Some of those companies will not quite fall within the minimum criteria to attract commercial bank loans, and so there is a dearth of equity capital—SME start-up capital.

AusAID has launched the Enterprise Challenge Fund. It is early days but a good idea in concept. There would be grants or soft loans to those businesses to get them going. Another complication in PNG is just the reality of the Melanesian way of doing business. There is a very strong and understandable loyalty to the family or to the line, which sometimes can cause quite difficult contradictions when you look at your duties as a director or a shareholder to the company. There is also a tension. PNG does not have a social security net like we do. There are no unemployment benefits. If a member of a family working in a small business is working, it is almost certain that person is going to have to support a very extended family group, as Mr Anderson mentioned. That puts a lot of tension and pressure on those SMEs. In other words, they are probably denuded of retained earnings to go to the line members. That said, Enterprise Challenge funds a good initiative. There is a thing called the Small Business Development Corporation. I think that is good. Governments are starting to take on transparency internationally, but it has been early days. It is very difficult for small companies to supply a major mine.

**CHAIR**—Is AusAID doing enough to foster the development of an SME?

**Mr Clarke**—Enterprise Challenge Fund is a significant start.

**CHAIR**—Is the minimum amount there \$100,000?

**Mr Clarke**—It is small beer. We have also talked about models where you might actually have development agencies co-funding SMEs with the banks. I can give you an example. Let us say that a business needed a line of capital and it employed 20 people, but it did not quite meet the bank criteria. What we have talked about with a number of agencies is some sort of joint risk sharing of that proposal. The bank would make the loan and would have a risk sharing arrangement with one of the agencies, so if there was a loss it could be shared between the bank and the agency. The advantage of that is you are bringing together a development cooperation between the agencies and the formal banking sector. The SME companies are then learning to make an application for a formal loan to comply with a commercial banking system. The banks could make the loans because they have a counter-indemnity from a multilateral agency. It is difficult for the banks because they have minimum capital requirements and regulations just as we have here. Some sort of joint twinning, partnering or funding would make some sense.

**CHAIR**—With these major projects that are going on there, how many of them are coming down the pipe?

**Mr Clarke**—PNG has been blessed. They just keep rolling on. You can go back to Bougainville copper, which is probably the first major one. That closed in 1989. Everyone thought, ‘What is going to happen now?’ Suddenly Ok Tedi came online and then Porgera. They have just rolled on. There is the Kutubu oilfields, and now they are moving from oil to gas. In contrast to my colleagues around me, PNG has had this stake that could fund, so PNG has no shortage of these projects going ahead.

The challenge is to use that wealth to redirect it into the parts of the economy that need it—to build a manufacturing base, to get the education going and get the roads going. The great conundrum is to convert that raw wealth into sustainable businesses and an independent public service. I can look back to 30 years ago when I first went to PNG. In those days the public service was largely independent. It was well run, well staffed and had resources. Unfortunately, it is lacking in those resources now. When you have a strong bureaucracy or a strong public service you get a much better deal done with foreign investors; otherwise investors get very frustrated that they cannot get their approvals through and then they invariably resort to a discussion with the minister of the day. When you have a discussion with the minister of the day you do not follow due process, and corners are cut. It chases its own tail.

**CHAIR**—With the sequence of huge projects that has occurred in PNG over the last 10 or 12 years, and the ones that we all know about—billion-dollar projects—which seem to get past the approvals stage and it is just the implementation stage, I would have thought that logically would lead to a development of a huge supplier class of small and medium sized businesses even at the most basic level. I am hearing you say that that does not appear to have been the case.

**Mr Clarke**—Not completely. The projects themselves are large employers.

**CHAIR**—I am not talking about the construction labour or the labour that operates the plant or the site when it is built. I know from my own state that every time they build a new mine out in the bush, which might be a multimillion-dollar mine with a 25-year life, there is huge interest with hundreds of firms in the west supplying all sorts of things; they get the business or the bulk of the business. That does not appear to be the case.

**Mr Clarke**—They certainly get the business, but there are exceptions. There are a number of privately owned companies that are successful, but we do not really have a significant middle class in PNG. We do not have a class of small business that we have in Australia with private wealth. It tends to either be at a subsistence level or at a very small scale. They have not had access to capital. They have not met the criteria of the formal banking sector. They fall between. It is also quite frustrating for a lot of the major projects, because it is good business to have local suppliers. It stabilises relations and it is good business. I think that is work in progress.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—In the small and medium sized enterprises is part of the problem that the wages that people earn when they are working on these big projects insufficient for them to want to go out and buy a television, a car, or to buy food instead of growing it? It seems to me when you see people working in those projects they are still very low income earners and basically village based. They are not like workers in the mines in Australia who will use their wages to go and buy lunch or go out for dinner.

**Mr Clarke**—I do not think we should underestimate it. There is a lot of wealth in those communities that are working around the mines. There is significant wealth there. They get it in a number of ways. Royalties of two per cent of value of the oil or the gas are paid to the landowners.

**CHAIR**—Is that two per cent?

**Mr Clarke**—Yes. The royalties are two per cent for the oil and gas sector, and another two per cent in development levies. They are significant amounts of money. There are landowner trusts established that are receiving those royalties that are very cashed up and are significant investors. They have probably invested quite a lot in commercial property in Moresby. They have taken stakes in PNG listed companies.

The skilled Papua New Guinean working in these projects is well paid. The gap that might have been there 10 or 15 years ago with expatriates is probably narrowing. You will have any number of PNG engineers working in Kalgoorlie in Western Australia. The wage levels are not too bad. Of course, there will be subsistence jobs. These projects generate a lot of wealth, but I am not sure where it all ends up.

**CHAIR**—Mr Anderson, would you like to talk about Fiji?

**Mr Anderson**—Fiji has its own unique problems. One is capital for people to build up a business. Fijians are very industrious, as are the Indians, so there are a lot of small businesses. You certainly would not call them SMEs. They do not have that size. Things like the mines and so on tend to source all of their products from known suppliers because they need continuity, so there is no real ability for companies to build anything that would resemble manufacturing over there.

The other problem we face is with the Fiji Islands Trade and Investments Review Board. It is the criteria for outsiders to actually come in and invest in Fiji, or to start up a new business. Mr Youn, do you have figures on that? It is something like \$200,000 that you have got to put in.

**Mr Youn**—Different classes of business have different arrangements as to the amount of capital that you have to bring in and the amount of local ownership that applies. There is a structure that specifies the business. I do not have access to that information here, but it is available from the Fiji Islands Trade and Investments Review Board website. It is in the regulations to the Foreign Investment Act. Some of those would be regarded as an impediment to foreign investment.

**Mr Anderson**—It is a problem. There is a lack of confidence. People are just not going to build businesses in Fiji at the moment. They have gone through four coups in 20 years and people are worried about putting a capital cost in a place like that where they may walk away and never get it back again.

**CHAIR**—Is there any suggestion that Fiji can turn into another Solomon Islands—just a total collapse?

**Mr Anderson**—That would certainly be a long way off and would have to be something fairly catastrophic. If you looked at the criteria for turning into a Solomon Islands, if you have a high unemployed disaffected youth or population that do not have anything and have nothing to lose, then obviously that can happen. I think Fiji is a long way off that and I would be surprised if it ever went that far.

**CHAIR**—I want to talk about land ownership and customary title. I would like to start with Mr Clarke. We had fairly dire evidence from Professor Hughes on the issue of customary title

with access to land. It was not only her evidence, but almost every witness group except one this morning has made the point that customary land title is a critical impediment to the growth in those countries where customary title is the norm. It is for the obvious reasons. If you cannot measure, value, price, sell or get credit on land then no-one is going to have security for an asset and they will not lend. I heard you say earlier that you did not regard it as a critical problem that the other witness groups have referred to it as. Can you give us your view on the significance of the issue?

**Mr Clarke**—It is an enormously complex issue. Clearly, if someone were going to build a major hotel, no-one would lend them the money to build it on customary land. You do need a secure title. However, I look at the experience in the resource sector that has evolved. We can track through a major gas project, for example. There is a process in the act whereby, firstly, the developer secures a title from the state. There is a mining lease or a prospecting lease of some sort. Before they can develop that they have to have a forum. There is a requirement for a detailed social mapping. There is a huge amount of work that goes into working out with customary lines fit where and then the title is eventually granted. It works. The issue is not just the title. The issue is also making sure that you have got, and you can work with, the customary owners. If you cannot get on with the customary owners then a government title is not going to fix it.

**CHAIR**—I do not quarrel that. If I am the equivalent of Caltex, Shell or Woodside and I am going to be putting in the best part of \$5 or \$10 billion to develop a gas field, oil field, mine or whatever, then I am going to be having hundreds of lawyers working for me, have the capacity to fund that sort of preparatory work, needs analysis and the social contract work, the same as all the Indigenous sites in Western Australia and Queensland. Big companies have the capacity. It is just a cost that has to be done. I am sure what you say in that respect is correct for the big projects and the big end of town, so to speak. I am talking more of a general proposition. Is customary title a problem for harnessing the intrinsic value of the asset base of the land as a means of expansion and growth in other areas of the economy? Is that a problem?

**Mr Clarke**—It is in certain areas. The larger projects, including agricultural ones, are big enough to look after themselves. They have been there for many years and probably do have titles of a sort. Not a Torrens title as you and I would understand it, but some sort of a grant from the state. Foreign investors are not going to do projects on customary land, because it is too difficult to work out.

With that said, I was in PNG three or four weeks ago and the Department of Lands is having a significant look at that issue. I do not see that being resolved quickly. Ninety per cent of PNG would be customary land. Around the main urban centres where you are likely to get the larger investments it is often 99-year state leasehold. It certainly is a problem for investors and bankers if you do not have a guaranteed title, but having a guaranteed title is a ticket to the game. You have still got to get on with it.

I think it is a problem. I do not know how it is going to eventually completely resolve itself. I do not want to harp back to the major projects, because they are not always good examples. The agricultural sector has a lot of small holdings that are surviving quite well on customary land, but major projects that require external bankers and investors demand a title. I understand that.

There are processes to get it. It is not as though the legislation is not there. PNG has actually got some very good laws. It is all about whether those laws are executed. There are just as good powers in the PNG legislation to compulsorily acquire land and pay compensation. They are very similar to the laws that you would find anywhere else. The laws are there and the machinery is there to do that. It is executing it and doing it.

**Mr Youn**—The areas where land is an issue and sometimes creates difficult management issues is in the development of national infrastructure, such as telecommunications, roads, bridges and so on where if you are a telecommunications company you have to negotiate with landowners to get a site to put a transmission tower on a hill. That can get quite complicated. Then, of course, you have to identify the land owning group and then other people will come along and say they are the land owning group.

There is a whole range of issues that has to be managed. That is just another component to it outside of the things that Mr Clarke has been talking about. The development of national infrastructure can become more complicated because of land issues. My view on land issues is that they are generally issues to be managed rather than issues that stop you doing things.

**Mr Clarke**—As I said once in a meeting, everyone in PNG is a landowner. You will get a very rye response to that. The most senior politician is a landowner and the small man in the street is a landowner. Everyone is a landowner. I think it is a question of managing it. It is not a lack of machinery or legislation. That is there. They have got that.

**CHAIR**—Is this an additional issue in Fiji?

**Mr Anderson**—I do not think it is as great as it was. If you go down the coast of Fiji now you will see freehold land for sale just about on every beach. Certainly all the resorts have managed to be built and managed. In a lot of cases the landowners become the recipients of the goodwill of that hotel. They provide the taxi service to the people in the hotel. I do not think it is the problem that it was years ago. Certainly, when the farmers want to buy land it is sometimes hard for them to get title to it, which is a problem, but from a commercial sense there is not a major problem.

**Mr Youn**—One of the big differences between Fiji and all the other countries in the Pacific is one of the colonial legacies left by the British in Fiji. It was an organisation called the Native Lands Trust Board. They have created a legislative framework for managing the access to traditional owned land by foreign investors. In Fiji, if you are a foreign investor, you do not negotiate directly with the landowners. You have to go through the Native Lands Trust Board, which acts like an agency for the landowners. It is like the estate agent that manages your house in Perth; they take a commission. It is a hefty commission and they are not always as efficient as they might be, but at least there is a framework and a structure there for managing access to land. You still have to have a relationship with the landowners and you need to nurture that relationship and keep it going for the whole life of whatever it is your business is on that land, but at least there is a framework that you can work within.

**CHAIR**—There is a structure to work within?

**Mr Youn**—Yes.

**Senator FERGUSON**—Are the Indian-Fijians allowed to own land now?

**Mr Anderson**—They can own land.

**Senator FERGUSON**—I was there 40-odd years ago and they could not.

**Senator KROGER**—That shows how old you are.

**Mr Youn**—About 10 per cent to 15 per cent of land in Fiji is either state owned land or private land. The rest is on native title. The Indo-Fijians cannot own native title land, but they can buy freehold land.

**CHAIR**—The ANZ Bank in its submission recognised a sensitivity of land ownership in the 11 countries that they operate, and they were reticent to comment. They did suggest that Australia could provide assistance to help PNG and other PI states to develop arbitration and mediation procedures for land disputes, which would make the administration of land more efficient. It is sort of a halfway house to the proposition you have just outlined, Mr Youn. Would it be of value for AusAID to start getting involved in that sort of approach, having a quick resolution of land ownership and land access issues?

**Mr Hodgson**—Yes, I believe it would. It desperately needs to be done. Custom land is an issue, apart from all the reasons that have been mentioned. I can give you some examples in the Solomon Islands where you are dealing with people who are trying to do something such as with the goldmine just outside the main centre that was set up. A group of people claimed to be the landowners on the top of the hill. There were some that were halfway down the hill. Some were at the bottom of the hill. There were yet more down on the flats where the river ran. They all wanted a piece of the pie. The difficulties arose because the Honiara Town Council believed that some of those people—I think were the ones on the flats—actually fell within their jurisdiction and so they were supporting the arguments for these people, whereas the government was trying to resolve the issue to let the goldmine go on. It is ongoing today, but we can go back years when that goldmine started.

It could be a role that RAMSI, which does much good work up there, could devote itself to really looking at this issue. It is not a matter of buying land. It is a matter of saying, ‘How can we set up an arbitration system that everyone is comfortable with?’ My colleagues have been saying that you are not going to beat it because land is God to most of these people. You have got to learn to work with them and manage the issues. It can get very frustrating in the Solomon Islands, particularly. There was a move a couple of years ago to try to develop some tourism opportunities in the western provinces and they looked like they were actually going to get off the ground. As things were getting to finality they ran into custom land issues. It is sad, because the thing never proceeded. People said, ‘Oops! Custom land issues’, and they walked away from it. Had there been an arbitration system people might have said, ‘Let’s go and talk about it. Let’s see if we can get to some form of agreement and get the parties in one room.’

**CHAIR**—How would the government of PNG, Fiji, Solomon Islands and the smaller states take to such a proposition that AusAID or a government agency provide assistance along the sorts of lines that the ANZ Bank suggested? Do they see that as an unwarranted infringement on their domestic sovereignty?

**Mr Clarke**—I do not think so. There is a lands board within the PNG Land Act. It comes back to my earlier comments. It is about revitalisation of the public service and making those departments work. They are all under-resourced. There probably is a lands board there. There probably is an independent person who should be appointed. There is probably a framework there already, but because of a lack of funding and a lack of execution it is just not working.

I thought AusAID was working on something like that in PNG at the moment. I may be wrong. I think it would be good. It would be positive. Who is going to go on the board? Is it coming from government? That is the issue. Otherwise it is just government-to-government.

**CHAIR**—We know from developments in this country over the last 15 years that resolution of those sorts of issues with customary land can be almost intractable. That is in this country, let alone a dozen other countries to our north. That is why I asked the question I did. Mr Anderson, can you tell us about Fiji?

**Mr Anderson**—They have a native title board. It works reasonably well. It may be slow in what it does. I think anything that would help strengthen that or help resolve it would be welcome. As I said, it works pretty well.

**CHAIR**—Mr Hodgson.

**Mr Hodgson**—I like the idea of an arbitration structure, because it brings a degree of formality to the quite casual way in which Solomon Islands matters are dealt with. I am not sure whether the government might think that we are sticking our nose into business. If it is handled well and diplomatically they may well see it as something that is helpful. I do not think anywhere near enough time has been devoted towards trying to work out a way in which customary land can be used as an asset to borrow against, lease or do what you like with it. I do not think enough time has been spent in that thinking process.

**CHAIR**—Mr Yourn.

**Mr Yourn**—There was a very good report prepared by AusAID and tabled last year. I suspect you might have had your attention drawn to it in your research. It was the result of a couple of years work by a working party that included people from Australia as well as representatives from a number of the Pacific Island countries which dealt with the issue of making economic use of traditional land. If that document has not been drawn to your attention then I would recommend that. It was done in a very consultative fashion with Pacific islanders and may well be a bit of a roadmap for a way forward. I cannot recall the specific recommendations that were in it, and whether they included this arbitration concept or not. The important thing about dealing with land is that whatever solutions there are they need to be owned in the Pacific island countries and not imposed externally.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—I would like to raise the issue that has been discussed by a number of submitters, and that is the perception that these states are corrupt. We had an interesting presentation this morning from an NGO who said:

Though one would protest being characterised in this way, it is the reality that many local people see little difference from the highly paid expatriates with comfortable lives and with whom they have little contact and the local politicians and public servants who use their positions of influence to improve their status locally.

What they are saying is that it is not so much corruption, it is just people behaving like we do. I would like you to share your thoughts about that and whether this perception of corruption is stifling investment in the Pacific islands?

**Mr Clarke**—I have no actual knowledge of corruption. Often what happens in the PNG context is that because the bureaucracy has not been able to cope with all these submissions and applications for investment and it does not get through the system there is a high level of suspicion and irritation and then the investor says, ‘I’d better go and speak to the minister.’ For me, that is a failed process. You want a strong independent bureaucracy, independent of the government of the day, analysing these projects.

Those two things often get confused. People think there is another agenda. People think there might be corruption. It might simply be bureaucratic inefficiency, too. There is press about widespread corruption in PNG, of course. I have no actual knowledge of it. I am sorry to harp on it, but I am quite passionate about the need to reinvigorate and assist the bureaucracy. That is what we should be rebuilding. The rest will look after itself.

**Mr Hodgson**—I support Mr Clarke’s view on that. I am aware on some of the islands where that frustration about not getting the decision that goes on month after month ends up with one of the senior people negotiating it going to the minister and saying, ‘What in the hell’s happening? I’m trying to help your economy. I’m trying to build a hotel in this place.’ Permission is granted very quickly and, of course, people make assumptions. They say, ‘There may be a brown paper bag passed under the table’ or something of this sort. They are simply assumptions. It does happen quite often that way where the bureaucratic process is just bogged down for one reason or another and people say, ‘I have a credit line here. I have to use it within a time zone’, and so they go up the tree.

**Senator McEWEN**—What about the issue that was raised with expatriate Australians in Papua New Guinea that drive around in Landcruisers and use them to pick up their friends from the airport and when mum and dad come to visit and so on, but when the locals working in the government, for example, do the same sort of thing and take the four-wheel drive out to pick up their wantoks to take them shopping or something, then that is frowned upon as an abuse?

**Mr Clarke**—I am not aware of that being a major issue. There are probably quite a lot of government cars used in Sydney on the weekend, too. In Moresby, Lae, Mount Hagen and Goroka the real problem is public transport. I am in a legal firm that has a business in PNG. Our people have got to get into town from quite outlying areas. There is a PMV passenger vehicle system that is chaotic. I think there is a lot of price gouging and a lot of undesirable activity and hassles that go on in that system. The whole transport issue is a big one. I am not aware that it is an alarming issue in the context that you mentioned.

I wish we could fix the public transport system and get these people to work. It is very difficult. In some cases they probably have to change their bus two or three times. They are

ripped off with fees on the PMVs. It is a problem. They have got to get home before dark otherwise the women get hassled. For me, that is a bigger issue.

**CHAIR**—Senator Trood.

**Senator TROOD**—Mr Clarke, just a moment ago in your answer to Senator McEwen you said that if you fix up the bureaucracy then everything else will take care of itself. That is paraphrasing you. Is that an observation about the need to focus our aid policy on questions of governance more than anything else?

**Mr Clarke**—Yes. The other piece I should add to that is that we must ensure that there is a strong and independent judiciary. One thing that has served PNG pretty well over the years has been a relatively strong and independent judiciary. I would be very concerned if that changed. Law and justice sector spending is very important. PNG needs some senior judges on the bench for a couple of years. It is healthy and good. It is, in a sense, about governments, but it is also retooling the public sector. Some of these people are working in departments where they probably do not even have a typewriter let alone a computer. The services to the building are in some disarray. It is a very negative work environment. I would like to see that. There are some very clever people in those bureaucracies. We should continue with twinning arrangements. We should be taking people out of the Department of Treasury down to Canberra. We have always done a lot of that which is healthy and good, so we should continue to do that. It is a whole top-to-bottom freshening up the bureaucracy.

**Senator TROOD**—It is easier to do that in Papua New Guinea because it is a larger country. There are more bureaucrats than there are in many of the other places. I would like a response from you gentlemen about whether or not that also applies to the Pacific islands, allowing that Fiji is in a rather unusual situation at the moment, but does that audit continue to be a priority?

**Mr Anderson**—The bureaucracy does need to be streamlined and strengthened. It is a roadblock in a lot of the cases. When Fiji was in the development phase and was going along well a lot of projects got held up because of lack of approvals and everything else. It is something that needs to be done.

One thing we do have to be careful about is trying to transpose, say, an Australian idea of bureaucracy to a smaller economy, because sometimes the model that gets put into some of these countries, which we have seen in Fiji, is that they try to model themselves on Australia or New Zealand and it is just too cumbersome. There is a need to strengthen it, but we need to make sure that it is not complicated.

**Mr Hodgson**—You can have a look at some of the reports that have come out from RAMSI and indeed look at the focus of RAMSI in the Solomon Islands. It has been very much on rebuilding the institutions of government because they were in a deplorable state. The comment has been made about the working conditions and not only in the Solomon Islands. Honestly, the conditions that a lot of these public servants have to work in most Australian public servants would not walk in the front door let alone sit there all day and try to do a job. That applies to a lot of the other islands. That is a reflection of the economy.

There are a lot of very intelligent and very committed people in the public service, but there is an inconsistency in the management of those institutions. That is where Australia can play a part, but it has to be a partnership and not a direction.

**CHAIR**—Senator McEwen.

**Senator McEWEN**—Are free trade zones still in Fiji? Are they still manufacturing clothing?

**Mr Anderson**—Yes.

**Senator McEWEN**—Is it still successful?

**Mr Anderson**—The garment industry was decimated in the coup before last. We saw it almost halved. We were talking to one of our members earlier. He originally had something like 1,500 workers, but it is now down to 700 and will probably go down to 200. We saw something like 20,000 to 30,000 people employed in the garment industry, which is now down below 10,000. The Fiji government is going down the path of minimum wage and unfortunately, in the textile industry—the TCF textile clothing and footwear—they are lowly paid workers wherever you go in the world. Even in Australia they are not necessarily well paid in relation to others. The push for minimum wages, maternity leave and so on starts to impose costs on them that they just cannot afford. It seems ridiculous, but when you talk to people that import garments they will say, ‘I can get this from China for \$2, but it’s going to cost me \$7 if I get it from Fiji.’ You might think that \$5 does not seem a lot if it is a quality garment such as a suit, but that is the competition that they are facing.

**CHAIR**—Thank you for your submission and attendance today and for answering our questions. You have given us a useful additional perspective.

**Committee adjourned at 3.09 pm**