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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

THURSDAY, 26 MARCH 2009

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

Thursday, 26 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, Joyce, 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.

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Committee met at 9.01 am

CHAIR (Senator Bishop)—I declare open this public hearing of the Senate Standing Committee on Foreign Affairs, Defence and Trade into the economic and security challenges facing Papua New Guinea 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, of course, also be made at any other time.

[9.02 am]

MOORE, Professor Clive Robert, Private Capacity

CHAIR—I now welcome Professor Moore. Professor Moore will speak to two submissions. He will first represent the Australian Association for the Advancement of Pacific Studies and the Papua New Guinea Association of Australia. He will then give evidence on behalf of the University of Queensland Consortium on Community Building and Responsible Resource Development. Do you wish to add anything about the capacity in which you appear today?

Prof. Moore—I am a professor of Pacific and Australian history at the University of Queensland. I am also President of the Australian Association for the Advancement of Pacific Studies, which was formed in 2006.

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

Prof. Moore—No questions.

CHAIR—The committee has before it submission No. 3 from the Australian Association for the Advancement of Pacific Studies and the Papua New Guinea Association of Australia and submission No. 6 from the University of Queensland Consortium on Community Building and Responsible Resource Development. They are public documents. Do you wish to make any amendments to your submissions?

Prof. Moore—No amendments.

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

Prof. Moore—Thank you. The first submission for a Pacific regional training institute was made on behalf of myself and Keith Jackson when he was President of the Papua New Guinea Association of Australia. He is no longer the president but he was when it was made. I would also like to say that what I have suggested is not endorsed by the University of Queensland, QUT, the TAFE system or the Queensland government, so they really are independent submissions and I am not speaking on behalf of those institutions.

I have had more than 30 years experience and knowledge of working in the Pacific. I first went to the Solomon Islands in 1976. I worked in Papua New Guinea at the University of Papua New Guinea between 1981 and 1987, and I have had a constant relationship particularly with those areas but also with other areas in the Pacific. So I have been observing for a long time.

The proposal for a training institute came out of things that had been puzzling me during that time, particularly about the public service and the level of public service training in the Pacific and about the problems relating to agriculture in the Pacific, both subsistence and cash crop and also commercial agriculture on a larger scale. I am aware of the large amount of money that

Australia gives as development assistance to the Pacific. I have often been frustrated in thinking that some areas of it are not very well spent and I have tried to rethink how Australia could be better involved.

I know that Australia has fairly recently set up an Australia-Pacific Technical College based in Fiji with a couple of different campuses, and that is a very good initiative. What Keith Jackson and I have suggested comes from knowledge of history, of the past and knowledge of ASOPA, the Australian School of Pacific Administration, which existed for a long period of time and then turned into the International Training Institute. Keith Jackson was the deputy principal of the International Training Institute. Nobody would want to recreate ASOPA, but there were many good things about the concept because it trained government officers to work in the Northern Territory and Papua New Guinea. The International Training Institute, which replaced it and then was killed off, had a broader brief, which was to train in Australia international public servants from different parts of the world.

Keith and I think there is an advantage in training from an Australian base rather than in the Pacific. It would not replace training in the Pacific but people—and I am not talking about junior public servants but about middle to higher public servants in the Pacific—have to see an operating bureaucracy that is not their own. I think that a state bureaucracy is probably the best one to use as, apart from defence and foreign policy, it is fairly close to the model in the Pacific. We think that it is better to have exposure to the operations of a bureaucracy, of development agencies, training institutions, and information systems too, in Australia than trying to do that in the Pacific and that it needs also a combination of Pacific peoples coming to train as public servants in short courses in Australia and also Australians and possibly New Zealanders or other Pacific islanders who are going to work in countries other than their own in the Pacific. There is a big difference in sending a Samoan to, say, Papua New Guinea or the Solomon Islands. They have to learn a lot of things as well as how to behave differently even in a public service. So the concept was Australian based, it was public service training based. Probably the thing which puzzles me most about it, and probably the weakness, and it probably needs splitting apart, is we suggested public service but also agricultural at the same time. It may be those two things do not fit together, because the weakness we identified was in public service and administration, running a modern system with the limitations that it has in the Pacific.

The other thing is that agriculture will continue to be the mainstay of the Pacific. Ninety per cent of people in some areas are still totally involved in subsistence agriculture and then in some cash cropping. We are not talking about commercial plantation agriculture but how to improve the way that ordinary village people practise their agriculture. I think that needs bases in the Pacific but it could be tacked on to something like the Gatton campus of the University of Queensland, which is an agricultural campus in the Lockyer Valley. The climate is not quite Pacific climate but it is the closest one could get in Australia in a large agricultural college. That also is part of the submission we have made. Now, you might say they are two different things, but when we put the submission together we thought it would be possible to combine them.

Now, I have had my five minutes or over it. That is probably enough as an introduction.

CHAIR—Who wants to lead off?

Senator TROOD—I am happy to start. Good to see you again, Professor Moore. Before we deal with your specific proposal, can I just tap into your vast experience of the Pacific—

Prof. Moore—If you like. I can try.

Senator TROOD—because you are a valuable resource to the committee, I think. I am particularly interested to explore with you the state of Pacific studies in Australia. You are the president of the association. I would just like to get a sense of how we are in the 21st century, or 2009, compared to the extent of people studying the Pacific and the extent of the cultural dimensions of the Pacific, apart from the more specific studies that might go on in relation to Pacific agriculture, et cetera. Could you just give us an overview of that, please?

Prof. Moore—I can, and you are asking at exactly the right time because we have just finished the draft of a national report on Pacific studies in Australia. It will certainly be out by the middle of the year. It may be out within about, say, six weeks. It is about 90,000 words.

Senator TROOD—This is the association?

Prof. Moore—This is the association. Part of its brief was to do a national report on all aspects of Pacific studies in Australia. Certainly all parliamentarians and members of this committee will get a copy.

If I can try to answer you, the state of Pacific studies is quite poor. It depends how you measure it. If you measure it in, say, undergraduate teaching, there are very few institutions in Australia that still teach courses which are totally Pacific history, Pacific politics, even Pacific literature. If you go back to, say, the 1970s and 1980s, which were probably the heyday of teaching about the Pacific, even at an undergraduate level, that sort of concentration of Pacific expertise is no longer there in the university system.

There is a generation above me that is sort of the Hank Nelson generation of older people who have now retired. Then there is a group in their 50s who have expertise. There really is no younger generation following through. At a postgraduate level, I did an analysis of statistics from about the 1960s to 2006 of theses produced on the Pacific in Australia as well as we could manage to gather them together, and Australia is now on a par with New Zealand, a country about one-fifth of the size of Australia. The rate of Pacific study at a postgraduate level in Australia is no greater than it is in New Zealand. So it is fallen off quite dramatically. It goes in little peaks. When the Pacific nations were becoming independent there was interest from lots of people about how to transition from colonial status into independence and in the 1960s and 1970s it went up and in the 1990s started to go up again when there were political difficulties in various areas of the Pacific. But, overall, all I can say is there is a decline in undergraduate teaching. There is, I think, an embarrassing lack of particular expertise at a postgraduate level, and it is not feeding into the academic system any more. Australia has now ramped up its spending in the Pacific to a very large amount of money but the expertise one might expect to flow into government departments from some sort of Pacific training is just not there. A lot of money is going out, and I think that is part of the reason that some of it is not being directed in the best way. The expertise is not there, and there is no sign that it is coming.

Our recommendations obviously will be that universities need to increase the number of courses on the Pacific. In the environment of a modern university, the number of courses we have on the books have been reduced. The Pacific can be used in all sorts of ways. It could be in architecture looking at cyclone-proof housing or just one component in a course. The course does not have to say it is about Pacific studies. Universities have squeezed the Pacific out of undergraduate courses because of student numbers. I used to teach a Pacific history course. I do not any more because I could get only 20 or 25 undergraduates and it became unfinancial to continue, so I dropped it.

Senator TROOD—How do we explain this precipitous decline from what was obviously a very substantial degree of knowledge and focus?

Prof. Moore—I think part of it is there are key periods when the Pacific gets more interesting. In the 1970s when there was a transition to independence lots of people began to look at the Pacific in different ways. There is a sign that it has started again, and I will tread carefully here, but the emphasis is on Asian studies. If the word Pacific is used, it is attached to Asia with a hyphen. It always makes Pacific studies educators bristle because we know that when it comes to finances and things like that, the Asian section does very well while the Pacific does fairly poorly.

They are our neighbours and increasingly are going to be important. Twenty years down the track it is possible that Papua New Guinea will have a population of about 10 million people. It is about 5.5 million now. The Solomon Islands has half a million people but that will undoubtedly grow to a million. The population of Vanuatu will go up to about half a million. In the same period Australia's population will not increase hugely. It is 21 million now but I do not know what the estimates are what it will be in 20 years time. Let us just say that there will be 10 million people living quite close to Australia at that stage. If there are significant problems, worse than what we have today, they will cross borders certainly from Papua New Guinea and come across the Torres Strait. There will be environmental problems and more political blow-ups in the Pacific. How will we cope with so many more neighbours?

Senator TROOD—That is very helpful, thank you. Just leading into your institute proposal, you outline on page 5 of your submission the status of ASOPA and then merging into the International Training Institute. You chart this history for us and then refer to the ITI as being disestablished in 2001. Is the proposed institute a kind of replacement for that kind of activity? To some degree it recovers the kind of expertise that has been lost as a result of those things disappearing? Is that right?

Prof. Moore—Yes, ASOPA was to train Australians to work in a colonial situation, whether that was in the Northern Territory or Papua New Guinea. The world has moved on from that, but I think the International Training Institute idea was much closer to what we are proposing now because that included Australians who worked overseas but it brought in people from overseas as well. We have suggested that it should comprise just the Pacific, but think of Timor as part of the Pacific because a lot of development assistance is also going into Timor, and to leave Timor out of something like that I think would seem a bit foolish.

I wrote this up to start with as something for the Solomon Islands, and when I showed it to Keith he said, 'What happened to Papua New Guinea?' So we combined the two of them. The

beauty of it to me is that Australians, and perhaps New Zealanders, going out would work with Pacific people at the same time, who would be learning and culturally they would react with each other, so Australians would not then go out cold into the Pacific. They do not quite go cold but they go out sometimes with a very small level of sort of orientation. It is too small. The Pacific people coming in, I am suggesting, might do a certificate course. I do not know whether the Australians would also do a certificate course or a shorter course. I am not talking about degree courses but concentrated short courses.

I have seen many Australians go out to work in the Pacific. They are admirably qualified in Australia in the Australian public service but they do not know what they are doing when they hit a country like the Solomon Islands. They theoretically know what they are doing, but when things start to malfunction and when they realise that people culturally are skirting around them and not dealing with them directly, they do not really know how to behave and how to deal with that situation. They retreat into their own group of Australian-seconded public servants. So you end up with a lot of Australians at the level of, say, deputy secretaries of a department who communicate with each other but do not necessarily communicate the way they should through the permanent secretary or with equivalent Pacific island peoples.

Senator TROOD—Was it a mistake, do you think, to disestablish ITI? Did we lose an important function there that we really need for our engagement with the Pacific?

Prof. Moore—I think so. Now, I do not know which government that was in office in 2001.

Senator TROOD—It was the Howard government.

Prof. Moore—That was the Howard government at that stage. I think it was a mistake. The ITI was at South Head in Sydney, an old territory that they had out there for a long time. I do not know why it was disestablished. I think it was a valuable institution that should have continued. My interest is in the Pacific, and this inquiry is about the Pacific, but we also send people off to lots of parts of the world where I do not believe they are satisfactorily trained to cope with local circumstances. If they could interact with people from those countries in Australia before they left, they would establish relationships. Middle-level public servants from Australia and from, say, the Pacific, would establish relationships which may go on for 20 years while both lots become more senior in the public service. It has happened in the army for a long time. Ted Diro, who was head of the Papua New Guinea Defence Force and then Deputy Prime Minister, was trained at Portsea. His contacts with the Australian armed forces were very useful in lots of ways. So the armed forces probably reach out like that very well, I think.

Senator TROOD—Do your observations about being poorly prepared apply to AusAID people going into the Pacific?

Prof. Moore—It is unfair of me to generalise over the whole lot. Some people who are sent out have a very good knowledge level. I have seen people in the Solomon Islands working off the Lonely Planet guide as their bible for how to get around. It applies to all. I do not know if I could differentiate. The main ones, I would say, are those who are seconded from, say, Treasury, or seconded from a department to go into a line position. It probably would not apply quite as much to some of the AusAID people, many of whom are consultants. AusAID hires consultants who have been working in these areas for a long period of time.

Senator TROOD—I wanted to ask you about those Treasury kinds of programs because they seem to have become something of a substitute for other means of developing capacity in the Pacific. That is to say, federal government departments seconding some of their people or individuals from departments in the Pacific coming and spending time in Treasury, for example. Yesterday we heard of the engagement of APRA in this area. Do you think they are useful means or adequate substitutes for your proposal or are we dealing with different kinds of things?

Prof. Moore—There is lots of movement backwards and forwards. It is hard to chart because lots of smaller programs are going on as well. I think there is an advantage in running public servants through the one institution. In some cases you might say people have to go out more quickly than is possible. If somebody gets sick, somebody else has to be found to replace them in the field. They get two weeks notice and off they go. But that is not an ideal way to operate. It is better that they go through a substantial training. That will cost money. I would not like to put an estimate on how much inefficiency there is in that billion dollars, but in the long run you will get more bang for your bucks basically by putting people through a more rigorous regular training system.

Senator TROOD—Now, this is at the stage of a conceptual proposal. Have you advanced it any further than that? Have you taken it up with anybody in Canberra at all?

Prof. Moore—Keith and I talked to Duncan Kerr about it, so no further than that. He said that he thought that it was premature and that lots of other things had to be put in place first before something like this could be instituted.

Senator TROOD—I see.

Prof. Moore—So we got a fairly negative response.

CHAIR—Have you finished your line of questioning, Senator?

Senator TROOD—No, but I am happy to yield to others for the time being.

CHAIR—Are you going to concentrate on the proposal of the Pacific institute or—

Senator TROOD—I was going to ask some more questions about that, yes.

CHAIR—Why not finish off that line of questions. I want to go to some of the other issues.

Senator TROOD—I wanted to know, Professor Moore, what size would the institute be in your view in terms of numbers of people, what sort of qualifications, if any, would be required as a foundation for entry and have you done any calculations of the likely cost?

Prof. Moore—We have not attempted to do a costing. It really is an initial idea proposal. I have discussed it with my executive dean, but that is a long way down the university hierarchy. It has not been put to either university, and you might say that Sydney and not Brisbane is the place to put something like this. Because Brisbane is the gateway for so many international flights from the Pacific, I think there is an advantage to situating it in Brisbane. The Gatton idea came up because Gatton has the land to do it if anything had to be constructed. The other thing,

of course, is that QUT has a spare campus at the moment, which is the Carseldine campus. There have been full-page ads in the *Courier-Mail* trying to flog off that unused university campus. I do not know exactly how big it would be and where to get the expertise. I have just said that there is not enough Pacific expertise available, but there has been a growth in expertise in, say, the past five or 10 years, so I suspect it is there in the younger generation.

A school at a university these days in a combination of departments usually has between 30 and 60 staff; I think it would be smaller than that with support staff as well. You can teach a very good program. It would depend whether it included agriculture or whether it was just a public service oriented program, how much you brought in work placements in, say, Queensland government and how much you used the TAFE system too. A lot of people who were not core employed staff would probably teach into it, so the actual core that ran it would be probably quite small. You would use the expertise available in the TAFE system, in various universities and in state governments. I am not quite answering you, but neither am I evading the issue. It would be a small core reaching out to use the expertise of casuals.

Senator TROOD—Just one last question and then I will allow my colleagues to ask questions. Have you had any discussion yet with the state government about this proposal?

Prof. Moore—Not at this stage, no. Partly I was waiting until after the election.

Senator TROOD—Yes.

Prof. Moore—Now that is stable again, now would be the time when we might do this.

Senator TROOD—Thank you. I am happy to pass on to others.

CHAIR—All right, then. Senator Forshaw.

Senator FORSHAW—I apologise; I had to duck out for a moment. Just to go back to your opening remarks and answers to the questions from Senator Trood about the decline in students teaching undergraduate courses on Pacific island issues, are you able to tell us which universities or how many actually have some focus on the Pacific? They all have departments of history, and you talk about the increasing focus on Asia, but a number of universities now offer specific schools, courses and have centres on Middle Eastern and Islamic studies. I am not being critical of that, but I was concerned to hear what you said about the Pacific. How many are actually doing it?

Prof. Moore—The ANU is still supreme in what is going on because it has the research school. The ANU is the only one that is trying to develop what you would call an undergraduate major, I suppose, in Pacific studies. In the other universities, QUT in its humanities areas has done quite well in terms of Pacific history, but it has just abolished that. Monash, for instance, has Pacific law, the University of Queensland has Pacific law, Wollongong has Pacific literature and at, say, the University of Sydney you will find Pacific anthropology. You will find elements scattered around.

Senator FORSHAW—Yes, but not centres, if you like to use that term.

Prof. Moore—Not centres. You will find centres at a research level but they are usually not just Pacific; they will be Asia-Pacific or Pacific Rim or something like that. Only the ANU has made a move to consolidate its undergraduate teaching again in the Pacific, and that is great.

Senator FORSHAW—The ANU has the CDI, the Centre for Democratic Institutions. It has a lot to do with the Pacific, I know. It is not so much teaching courses as providing, I understand, field work and training in situ.

Prof. Moore—Yes.

Senator FORSHAW—That sort of narrow focus. Thanks, Professor.

CHAIR—Thank you. Thanks, Senator. Professor, we have now had, as you can imagine, three, four or five days of public hearing and we have probably heard from the best part of 30 or 40, if not more, groups, sets of individuals and government departments. We are coming to the end of our time. They have suggested to us that there are a heap of problems right across Papua New Guinea and the Solomon Islands, some of them almost intractable for a range of reasons which I will not go into. If you had to identify the three or four critical problems in both Papua New Guinea and SI, what are they? Secondly, are they capable of government attention and redress and, if so, how are we doing? Cut down right to the chase.

Prof. Moore—Thanks, Senator Bishop, for a very easy question.

CHAIR—As I used to say in opposition, ‘We’re here to help.’

Senator FERGUSON—You still can.

CHAIR—That is what I am particularly interested in.

Prof. Moore—In both the nations that you mention, 80 or 90 per cent of the people are still involved in subsistence agriculture. That is not going to change. Neither will they change their land tenure system. Other parts of the world have surrendered their communal land tenure system but no Pacific nation is really going to do that. When you say things like this to people from other parts of the world they say, ‘It has to happen.’ But that is intractable, at the moment anyway, and I think it will be for a generation or so. I suspect it will continue to erode, so that there are people who produce their own food on communal land that has not yet been alienated. When it does get alienated, though, it will be alienated in individual—

CHAIR—Lots.

Prof. Moore—names. There will be a chairman of the board basically of a communal landowning group. A generation along the chairman of that landowning group will become the owner of the land and, therefore, become a member of the richest family and will no longer distribute the money, but that is about a generation away. You can predict that. So, the first thing I would say is that the key thing about maintaining the Pacific is maintaining subsistence agriculture with cash cropping on the side which provides the smaller amount of cash that the people actually need to live. That is the crucial thing which must be maintained. If it is not and

80 or 90 per cent of 10 million people are using subsistence agriculture, if that falls apart in any way, Australia has got a large problem on its doorstep. That would be the first thing I would say.

CHAIR—Let us stop there before we go to the other two. Implicit, if not explicit, in your remarks is that the land tenure system is going to change. You say the change will be generational and you have outlined the model by which it will occur—traditional with a lot of communal groups right around the world going to the big fellow, and him becoming the baron, if you like.

Prof. Moore—Yes.

CHAIR—I suspect you are right on that. If that is going to occur, is it proper or necessary for the Australian government to be involved in assisting, encouraging and bringing forward that development?

Prof. Moore—There are ways to distribute royalties safely from mining. Mining is an area where it is happening more quickly. A large amount of money flows into the community from the Gold Ridge mine in Guadalcanal—it happens in Papua New Guinea all the time—and you get an acceleration of the same thing that is going to happen with agriculture. At the mining royalty level a lot of advice needs to be given to Pacific governments about how to involve the community in that distribution. The same will apply with changes to the agricultural tenure system that I think must come. Australia should be putting more effort into advising them how to deal with customary land tenure. The trouble is you cannot obviously tell a Pacific nation that you are planning for a generation ahead when the big feudal baron will have taken over the communal assets, but that is what is going to happen.

CHAIR—So our role should be in giving advice, assistance and direction to prepare the governments for the necessary change?

Prof. Moore—For them to be quite clear in their minds about what they are trying to achieve and how much of it is just political presentation—‘We will preserve all of our languages; we will preserve all of our land tenure systems’—and the reality of what they must know will happen in a generation or so. I think it is our role to talk to them. We do not need to preach to them about it, but we really do need to put in front of them what has happened with the rest of the world.

CHAIR—We are not perfect. We are facing currently the same issues in the Northern Territory, and it is going to happen in North Queensland and northern Western Australia soon. We are not perfect. So that is the first issue. Thank you for that. The second issue?

Prof. Moore—The second issue is inefficiency in the public service. I think I have refined the art of dealing with Pacific public servants over many years, but it can be incredibly frustrating. You get some people who are just as efficient as a public servant and think like an international public servant. Most do not. But you can work with them in their own way. You have to put up with an incredible amount of what we would see as inefficiency and frustration. You might have a plan of the way things are supposed to work but they do not actually work that way at all. The clue is to find out how the circuit of information actually does work in a government department.

The other thing is technology. We now depend on pretty sophisticated data systems. The Solomon Islands subdepartment of statistics, for instance, really does not have a clue what is going on or how to collect the data. Neither does it have equipment that does not break down. When a bank of computers breaks down or a single computer breaks down, often there is not the money available to replace them. It is a bit like plugging an American appliance on a lower voltage into a 240 volt system and you wonder why it blows up.

The system does work in its own way, and you have to allow for a greater degree of inefficiency. There is always going to be a lower technical level, which has to be acceptable. When electronic systems break down in Australia we fix them. When they break down in the Pacific you may just scratch your head and try and work out how to get on without the computers for two weeks or for a much longer period. Therefore, you have to have a different mindset about how you store information and being able to maintain it. Air-conditioning systems break down in the Pacific constantly. If you are trying to preserve equipment in a certain way, it will eventually deteriorate. I am really talking about the towns and cities. If you take a computer out to the bush and leave it there for six months you will find that it has corroded in the salt air and falls apart. You can have a very good Australian or New Zealand functioning public service system, but we now require a level of technical sophistication that is not only very expensive but also hard to maintain if you do not have the technicians. For instance, bring in computers. If you do not train technicians to go with the computers, when the overseas technicians go the system crashes. There are a lot of dead computers out in the Pacific.

CHAIR—But that applies to all levels of capital equipment. It can apply to patrol boats or trucks or four-wheel drives or air-conditioners, as you say, or anything.

Prof. Moore—It does, but you have to design a public service that works not less efficiently but works in a different way. You have to see which key parts have to function in a rigorous way and what parts might allow you to think about how to create a public service that in Australia might seem old fashioned in the way that it operates but it is on a system which is secure. It might not be digitally advanced, but it works.

CHAIR—And the third critical matter that needs to be addressed?

Prof. Moore—It is a hard one—involving women in public service and in politics—and they are not doing very well at it because there is an almost totally male elite. We know very well in the Papua New Guinea parliament there is one ex-Australian, Carol Kidu, holding the fort and they are trying to bring in a few others. Bougainville has legislated to bring in compulsorily about three women parliamentarians. The Solomon Islands will not even do that. The system runs on male patronage and male control, and women do not get a fair go. Women are permanent secretaries and things like that, but largely women do not have access to the top of the public service and have almost zero access to politics. That would be my third area. Saying that the land tenure system and the gender system must change are very big asks, but they must.

CHAIR—There must be a revolution. If you want to change the basis of how people receive income and sustenance, then change the nature of relationships. I asked the question, I got an answer.

I turn now to the submission from Esso, because it is remarkable. Esso makes a number of points. I will just put the key ones to you. In its hundred years in Australia it has invested A\$13 billion, about US\$10 billion. In its project in Papua New Guinea the benefits are these: for one project a total capital investment of more than US\$10 billion, so in one project in a briefer period in Papua New Guinea than in Australia's history; secondly, recurring operating expenditure of more than US\$195 million per year—a huge amount of money; doubling of Papua New Guinea's GDP; direct cash flow to government and landowners of more than US\$31 billion over the 30-year period; and direct employment of 7,500 people during construction and 850 during production.

The scale of that project is huge. No wonder people are interested in it. Can I ask you for some comments, if they are within your area of expertise. That sort of cash inflow and cash distribution to limited sets of people will have huge consequences on the value of the kina, inflation and distribution of a billion a year to either local landowners or government elites. Could you comment the on impact in terms of the Dutch effect on the currency; secondly, the consequential effects to other international trade sectors in terms of price; thirdly, the issue of training; fourthly, its relationship to SMEs as suppliers and contractors; and, finally, the role of either AusAID or our government in monitoring, observing and assisting this project? The scale of this development is a scale we have had in Western Australia, for example, over a 30-year period.

Prof. Moore—I have not read the Esso report yet. I have printed it out but I have not actually seen it, and I do not know that I am qualified to answer all of those questions.

CHAIR—Within your area of expertise.

Prof. Moore—That is the same level of money as a government system might be putting in. It is the same size.

CHAIR—Yes.

Prof. Moore—On the distribution of the money to landowners, they might think that it is going out to 200 people. In fact, it is not. It will be building a very rich elite rather than being distributed to the people they think they are distributing to. Some money will be distributed, but far more than they will ever realise will be being held by a small number of people. What this will be doing is building an ever richer and more powerful Papua New Guinea elite—creating a new one, too, because a lot of these projects are in rural areas. You will find that some local person's kids from Papua New Guinea are probably living in one of the buildings down on the river there and going to university here at the moment on the money which should be further distributed. I would say that at the start.

On training, perhaps in the commercial world, because they are doing the training for dollars, their training will be more efficient than a lot of the government-level training. It is not only technical training they are doing; they are doing the equivalent of a private public service training as well. It may be that they have actually worked out how to train people more efficiently for their purposes than the average public service training. The other problem is, of course, they pick the eyes out of the public service. It happens all the time. If you offer someone half as much again or double their salary, they will walk. People who have been sent overseas by

the government to train to come back to the public service might be bonded for two years or something, but after that they are free to go. They will move. You will end up with a less efficient public service because they will move out into industry, and I could not really blame them.

CHAIR—No.

Prof. Moore—It happens all the time. I do not know if I am really competent to answer most of your other questions relating to that.

CHAIR—All right, then. The consequences I have outlined are going to occur. This goes back to the tulip stuff in Holland 300 years ago. What role is there, if any, for AusAID or relevant Australian government departments to monitor, observe, assist?

Prof. Moore—The Australian government departments and AusAID see themselves as working with national governments largely, not with business, I think I would be correct to say. This is a huge example. On a much lower level you have got lots of NGOs too, which are in some ways more important to delivering services in the Pacific than the central government is.

CHAIR—Yes.

Prof. Moore—We think government to government; maybe what we do need to be thinking of in the Pacific is government to all sources of development there. The national governments in the Pacific do not like this idea, because they want all development aid to be funnelled through them and not to be diverted around them in other ways. The Esso example is huge and almost hard to answer because it is the size input of the Australian government in some ways. Smaller companies and also NGOs have to be considered as part of the development package that we are trying to get out into the Pacific. It is not just nation to nation.

CHAIR—The reason I asked the question is this, and I appreciate your response. Someone told us that we have given—I think it is probably an exaggeration—something in the order of \$55 billion of aid to the Pacific area in the past 40 or 50 years. Even if you cut that in half, it is a serious amount of money. Secondly, a whole range of groups have identified all these problems of education, public sector corruption, AIDS—issues you have identified. Some say there are crime syndicates running countries—a whole gamut of things. Income on this sort of scale is country-making over a sustained period of time. If it is going to be misused or misappropriated and not used wisely or spent on flash houses on the Brisbane River for sons and daughters, it brings into question the justification for Australia providing any aid at all if tens of billions of dollars are not used wisely. That is my thinking behind what role, if any, AusAID or Australian government departments have.

Prof. Moore—You are looking at a company situation. Its interest is profit, and if it can no longer make a profit in Papua New Guinea it will move somewhere else. Australia cannot move somewhere else.

CHAIR—We are here.

Prof. Moore—We are here and they are there. They are going to stay there. The inefficiencies, the corruption, the population growth, the problems with HIV-AIDS—all of these things will continue. Pacific governments also, after being fairly contained and almost subservient to the world order for a long period, can no longer be said to be that way. Let us just use the word volatile. They will continue to be fairly volatile.

I think Australia is probably putting aid into the Pacific at about the right level at the moment. If you think about it, about \$230 million or something like that is going into the Solomons, but that has risen very quickly, and presumably by 10 years we should be aiming to work out a way that that can eventually decline. In Papua New Guinea, depending on the period you are measuring, it is more like \$300 million getting up to about \$400 million or \$500 million if you look at it all. We have increasingly tied and project-controlled that aid in recent years, so that makes it harder to misuse that money.

I think we have an obligation, for our own selfish reasons also, in that we do not want unstable neighbours, and we have an obligation to see ourselves as part of the Pacific, not as a nation apart from the Pacific. The argument that I would put forward is that Australia is a Pacific nation and has to involve itself as one rather than see itself as a separate nation that happens to be next to the Pacific. Pacific islanders do not accept Australia as part of the Pacific as much as they do, for instance, New Zealand. It is a peculiar situation. New Zealand is better accepted as part of the Pacific than Australia, partly because it has a large Maori population, which is a migrant Austronesian-Polynesian population anyway, and it has so many migrants that have come out of the Cook Islands and—

CHAIR—They have labour exchange as well.

Prof. Moore—New Zealand has a larger indigenous Pacific population and a larger immigrant population for the size of the country than we have here, and I think it has had to come to terms with its relationship with the Pacific, whereas Australia really has not tried very hard to do so. We see ourselves as sort of a donor slightly separate from the Pacific, not as integrated into the Pacific. So I would say that \$1 billion a year, which is roughly what we are spending in aid at the moment, is a necessary investment in making Australia clearly part of the Pacific islands. I would also say that it is very hard to estimate what proportion of that aid is being what I would call wasted or inefficiently used.

CHAIR—I am not suggesting any is being wasted or is not being used properly. I am just saying that, out of the blue, Papua New Guinea is going to have such a huge increase in income to government and local landowners that it will be country-making and country-changing, and on that basis people are going to ask questions in a few years time: ‘Why are we spending money on setting up primary schools, doing sex education or funding AIDS projects’—or whatever it is—‘and these buggers have got tens of billions of dollars?’

Prof. Moore—Because Esso has no permanent relationship with Papua New Guinea. Esso can take itself off to South America or somewhere else.

CHAIR—Oh, it can. But I am not talking about Esso; I am talking about the role of the Australian government or its agencies in terms of the spending behaviour and priorities of the Papua New Guinea government as a result of the huge increase in income it receives.

Prof. Moore—I am not quite certain how to answer you there. I would just keep repeating that one is at a government-to-government level and the other one is at an industry and financial level, and to retract because industry has subsidised and provided money to a large extent seems to be not a sensible long-term practice.

CHAIR—Thank you.

Senator FERGUSON—Professor Moore, I apologise for my absence for the first 20 minutes but something cropped up that I could not avoid. I want to ask you just two questions about your conclusion, because you used what I think is a pretty general term. You say:

Just as Australia is coming to terms with finding its place in Asia, we must seek to obtain an appropriate relationship with the Pacific.

Would you like to expand on what you think is an appropriate relationship with the Pacific? You may have answered this when I was not here, and I apologise if you did.

Prof. Moore—That we see ourselves as part of the Pacific in a way that we will never see ourselves as part of Africa or part of Pakistan or something like that, because we share boundaries, we are in the immediate neighbourhood. Because of the nature of the history and settlement of Australia, we have ended up with a largely Caucasian population. It is changing fast, but it is still a largely Caucasian population. The way that Australia operated for the first 60 years, say, of the Commonwealth was based on racial exclusion. Coming out of that, even though that has gone now, there is a residual feeling, I think, in Australia that we are not part of the Pacific, that they are something next door to us.

Senator FERGUSON—Do you think that is the case? I have always been of the view that Australia, particularly because of the attitude of federal governments of either persuasion, in fact, does feel a responsibility as part of the Pacific to concentrate its efforts on helping our Pacific friends rather than those elsewhere in the world.

Prof. Moore—If that is the case, why did the last Prime Minister not even bother to go to about three of the forum meetings in a row? It does not show a great deal of sympathy and involvement in the Pacific.

Senator FERGUSON—Counter to that, we had a foreign minister who used to visit at least three countries every year of his 11 years, when his predecessor never visited the Pacific. It is all very well to pick out one aspect. Be that as it may, I think you are right about New Zealand. It does have a closer affinity, but, then again, it does not have much association with Papua New Guinea, for instance.

Prof. Moore—Well, they brokered the peace in Bougainville, not Australia.

Senator FERGUSON—Yes, I understand that, but as far as activity in Papua New Guinea—

Prof. Moore—No, that is quite true.

Senator FERGUSON—They concentrate on the smaller islands to their north. The other thing that you talk about which I believe is a good suggestion is developing the institutional access in Queensland, involving government, universities, technical and further education colleges. Which government are you talking about: the Queensland government or the federal government?

Prof. Moore—Both have agencies in—presumably we are talking about Brisbane?

Senator FERGUSON—Yes.

Prof. Moore—Largely the state, but there is also a federal bureaucracy here as well, so it would be possible to tap into both of them. Largely I was thinking of the state, because you are talking about agriculture departments, transport departments and fairly large departments that are running out of Brisbane. Where there is a large government infrastructure from the Commonwealth system in Brisbane, it could be connected to there as well, but I was more thinking of the state.

Senator FERGUSON—The only downside, of course, in state governments becoming too heavily involved is on a foreign affairs basis. That is why I was not here earlier. We have situations where state members—not state governments but individual state members—make comments on foreign policy issues, which can, quite frankly, only be determined by the Minister for Foreign Affairs, the foreign affairs department and those who sometimes have access to sensitive security and intelligence that is just simply not available to state governments.

CHAIR—We used to have resolutions to the Senate every second week on foreign policy matters, until we stopped that.

Senator FERGUSON—But I am saying that at state level—

Prof. Moore—This is about training of public servants. I am talking about a public service level of training. If you set up an institute like the Pacific training institute, you would use secondment or periods working in a public service. It has nothing to do with the parliamentarians. It is at a public service level.

Senator FERGUSON—A public service level.

Prof. Moore—I am not asking state members to take part in this.

Senator FERGUSON—One of the things that has been put in place in the past 18 months, as you may or may not be aware, is a so-called twinning arrangement. Each individual state parliament is twinned with a nation in the Pacific for the specific purpose of training clerks, new members of parliament and people like that, under the auspices of the Commonwealth Parliamentary Association. That can only be done by states, because the federal government cannot be seen to be favouring one over another.

Prof Moore—I knew through the Solomons that that was happening.

Senator FERGUSON—Thank you.

Senator McEWEN—Professor Moore, I just want to go back to your comments about women in politics in the Pacific islands in particular. You mentioned that Papua New Guinea was attempting to get some affirmative action positions up and that went down. Can you just elaborate on why you think that thing happened and why women cannot get ahead in—

CHAIR—It is the culture.

Senator McEWEN—Yes, I know it is the culture, but we have managed to change it here so maybe we could assist them to change it in Papua New Guinea as well. A number of submitters have made the point that things in Papua New Guinea in particular are a bit more stable because the Somare government has survived an election. Could you elaborate on why you think that situation has arisen as well?

Prof. Moore—The only way to get women into politics in a Melanesian country—it is a bit different in Polynesia because you can get chiefly women there—is to legislate, and then initially—

Senator McEWEN—That is what they tried to do in PNG.

Prof. Moore—That is what they tried to do and they did not manage to get it through. I think there have been about three women in the Papua New Guinea house over the years. Dame Carol has been there for ages, Nahau Rooney was there and Josephine Abaijah was there years ago. The system of leadership in a customary way is male, and women vote the way their menfolk vote. Also, the ballot process is not as confidential as we might hope it would be, so that men may very well know if the women vote against the candidates that they want to get up. Also, people also vote in a tribal group very often for some sort of a relative, so that if a group of 50,000 people puts up a candidate who is the second cousin twice removed, the group will vote for that person for a kinship reason. You are not really free to not vote for that person, because it would be wrong to do so. As I said, it is not as confidential as we might think it should be. The men will often probably be more educated in the modern world than the women and will instruct them on who is the most logical person to vote for. Did you have a second question?

Senator McEWEN—Perhaps you could go on from that. If a public service level training facility was established in Australia or elsewhere, would it try to target women to give them experience of another culture that they could take back and hopefully move further up the echelons of power? My other question was: what do you think contributed to the stability of the Somare government? Did Australia have a role in that? Is that something we should continue to do?

Prof. Moore—It would depend on the distribution of money that we know nothing about. I will behave myself here. You are dealing with quite a corrupt government system. When you get spills like that and motions of no confidence, how they vote depends who gets what financially. The stability may depend on where the money came from. Perhaps people in the embassy in Port Moresby know, but we will never know exactly what sums of money changed hands.

Senator McEWEN—But we have had other submitters saying that the notion of corruption is a bit overegged in Papua New Guinea.

Prof. Moore—I do not think so.

Senator McEWEN—Do you disagree with that?

Prof. Moore—I disagree with it.

CHAIR—The Business Council very coyly told us yesterday they were not aware of any corruption in Papua New Guinea.

Prof. Moore—Well, good for them.

CHAIR—That is right, yes. That is what they said: they were not aware of anything.

Senator McEWEN—My point about actively—

Prof. Moore—Encouraging women, yes, if there were some sort of institute like that, it would be crucial that it was not a male training system to allow them to climb to the top of the public service and leave the women at the bottom. You would want to be biased in favour of training women to progress in the public service, quite deliberately.

Senator FORSHAW—Professor, could I ask you just to expand on your comment about RAMSI, the Regional Assistance Mission to the Solomon Islands, on page 3 of your submission. RAMSI has been around for a few years now and inevitably questions arise about what is the future, what is the exit strategy, if I can use that term, although I am not sure that it is applicable in the same sense that it might be elsewhere. You quote the comments from the Prime Minister of the Solomons.

Prof. Moore—Derek Sikua.

Senator FORSHAW—Yes. I recall a speech given by, I believe, the foreign minister—I am sure they will contact me if I am wrong—two years ago at the UN, where the comment was made that Australia was an occupying country. I think it reflected more the occasion of the speech, but where do you think we should head with RAMSI? It is a difficult issue for us to deal with.

Prof. Moore—I think RAMSI has passed its use-by date. I certainly would not say that Australia should withdraw from RAMSI as a Pacific initiative or anything like that. RAMSI was quite a miraculous creation in 2003. Australia may have funded most of it, but it was a Pacific-wide initiative. It went in with the degree of force that was necessary to take away guns, and that was quite successful. There was no blueprint for it. There is not really a pattern that they could say, ‘Well, this is how we do it.’ They scratched their heads and said, ‘Well, what is stage 2 and stage 3 and stage 4?’ There is no clear exit strategy. They have not trained Solomon islanders well enough for them to take over from them. That is certainly the Solomons perspective. They are viewed too much as a sort of de facto government in the Solomons, which was never the intention. I would disband RAMSI, change its name and start some other forum based aid system which was more of a public service and economic development thing. I think the RAMSI organisation that is there now probably should go, but something else has to replace it. To walk out of the Solomons would be a terrible thing to do at the moment because one of the things we

did was to gut the police service. We took most of its senior personnel—for very good reasons—but to replace them with nationals would probably take about 10 years to get it strong enough again to take over without having outside assistance.

Senator FORSHAW—RAMSI is more than just Australia, but I tend to think at times, when we debate it and discuss it here, it is like Australia's presence in the Solomon Islands as distinct from Australia part of a regional mission, including New Zealand. Do you have a sense that we are looked upon more disfavouredly than RAMSI itself or the other participants? This comes back to this view about New Zealand. I would just add the comment that, between New Zealand and Asia, there is Australia. Geographically and historically, if there is some sort of a schizophrenia—and that is the wrong word—about Australia and Asia vis-a-vis the Pacific, that does not reflect itself in New Zealand's long history and geographical relationship to the Pacific more than ours. That is a meandering question, but I want to ask you another question in a moment about other Asian countries getting involved in the region. How do you change RAMSI? Australia just cannot do it on its own. It may be seen to be another big brother, paternalistic move.

Prof. Moore—We could be seen to be bullying, even if we change RAMSI. The relationship went very sour under Manasseh Sogavare as Prime Minister. We are better off without Sogavare as Prime Minister and without Alexander Downer as the Minister for Foreign Affairs, because the clash that occurred was very unfortunate.

Senator FORSHAW—Far be it from me to defend Alex, but there was a clash with the New Zealanders as well, but I understand.

Prof. Moore—The Sikua government is much more even and friendly than Sogavare's was ever going to be. Bad things happened almost monthly for about two years. It was just a disastrous situation, even down to Marcus Einfeld. He was appointed to head the commission of inquiry into the riots in Honiara and appeared to be a perfectly good person to head the inquiry, and then everything fell apart. There was a series of historical accidents and bad circumstances that have now cleared there.

I noticed that the new deputy coordinator of RAMSI is not a New Zealander. I do not know whether he is a New Zealand citizen or not, but I think he is a Tongan coming out of New Zealand or something like that. That might make an interesting difference. I have always wondered why we have hung onto the control of the coordinator's position rather than allow anybody else to coordinate RAMSI. There has never been a non-Australian coordinator of RAMSI. Why is that? Is nobody else capable of doing it? It is really that we control the amount of money that we put in to RAMSI. I think Australia should get a bit braver about taking a deputy's position and allowing the appointment of somebody else.

Senator FORSHAW—Deputy, not deputy sheriff.

Prof. Moore—No, not a deputy sheriff, a deputy coordinator. Australia should step back and show the Solomon Islands that it is not controlling them, that it really is a forum initiative. I would get rid of the name and try to reform it slightly.

Senator FORSHAW—Can I take you to the involvement of other countries in the region. I know Senator Ferguson raised a couple of days ago the increasing evidence of the involvement of China and Taiwan. Venezuela about a year or two ago was saying, ‘We will give you all this oil.’ A lot of the time it is cash upfront or huge parcels of aid which are delivered and not much else in terms of training or on-ground presence, but it may be related to getting support in the group of 55 or whatever it is in the UN and all the rest of it. Have you any comments about how that plays out on our position?

Prof. Moore—It is even Cuban doctors. The Solomons has now accepted Cuban medical aid, bringing their doctors in and training some Solomon doctors in Cuba. That is slightly sideways, but that is to do with a long-term relationship between Patterson Oti and Cuba in the Solomons. The real immediate problem, I suppose, is between Taiwan and mainland China. Taiwan values its diplomatic connections in the Pacific beyond price really, because it does not have many diplomatic connections around the world and it is where they can actually show themselves to be a significant player, even if it is a small field to play in. There are Malaysian or Korean loggers in Papua New Guinea, for instance, so other players are coming in as well. It is wrong to see the Pacific islands as just related to Australia and New Zealand. In the 21st century Asia is going to have much more influence in the Pacific, even if just for resource extraction reasons, for fairly selfish reasons or for diplomatic reasons, because you can buy the vote in the United Nations of a small Pacific country quite easily. I think that the nature of how the Pacific has operated in relation to outside powers will probably change fairly rapidly. You once had American Micronesia, the French in various areas and Australia and New Zealand. It is no longer sealed off like that, and Asia will be the change that comes in.

Senator FERGUSON—What about the European Union, or at least the French and even the European Union itself?

Prof. Moore—Yes, the European Union is a reasonably significant player even in terms of aid into the Pacific. I was talking to one of the British people who came through recently. Britain is very cloaked these days. You cannot largely differentiate what Britain does from what the EU does. The EU is interested in Pacific involvement, particularly in its resources, and it has residual interests through its historical colonial connections, but the EU has no geographic relationship. It has a historical relationship. I think it will be some of the big Asian players that will rival, say, Australian influence in the Pacific.

Senator FERGUSON—Thank you.

CHAIR—Senator Trood.

Senator TROOD—We have barely touched on the situation in Fiji, and we have received evidence over the last few days that Fiji, as a result of the global financial crisis, as a result of the floods that have occurred there, is quickly approaching a very serious economic crisis which, on the view of some, should precipitate at least a consideration of a change in direction in relation to Australian policy. I would be grateful if you could give us the benefit of your wisdom on the approach to Fiji and whether or not the present course we are embarked upon is one that is likely to result in the kind of change we are looking forward to.

Prof. Moore—I am not an expert on Fiji. I was there in December but only for a very short period for a conference. Australia is at loggerheads with the controlling powers in Fiji because of what we see as quite obvious breaches of democracy. Fiji has now had four coups if you go back all the way, and it looks as though military control, even if it backs off this time, will come again because Fiji has a very substantial set of armed forces. It is capable of happening. It has happened; therefore, the pattern is likely to repeat itself, even if it is calmed this time.

I think Australia has to be a little bit more amenable to accepting what is happening in Fiji. We do not like it because it is not a democratic system. For instance, the situation over the floods and things, I think that was a time when we should have been more generous immediately with aid to show that we differentiate between humanitarian and political things. We really stood back for a little while and sort of said: ‘Well, we are not talking to you. We are not going to help.’ If we had been smarter, we would have been generous, because that has nothing to do with politics; it is about helping people in trouble.

Do we accept that the government system in Fiji is never going to operate in the way that we want it to operate? If you look over what has been steadily happening over the past, say, 20 years, I do not think it is going to go back to a nice balanced democratic system. The Indo-Fijian part of the population will keep declining because any middle-class Indo-Fijian who can get out will, and that is another thing that is going to happen. Fiji will be left with the rural farmer level of Indo-Fijian, but it is to the advantage of Australia and New Zealand, and Canada in a sense, in terms of business and brain drain. That is where most of them have gone already and they will continue to go, so that in the long term you will get a government that is biased towards Fijian rights as opposed to Indo-Fijian rights and an economy which has to be run by indigenous Fijians with a reduced component of Indo-Fijian input.

Senator TROOD—So it is not in our interests to allow outside help—in other words, from China, Taiwan, Malaysia, anywhere you like—to go in there to the detriment of our interests?

Prof. Moore—It is in our interests to keep Fiji as friendly as possible with Australia, without totally accepting the way that their political system has developed. I do not think we have to. We have to see the reality of what has happened over the past 20 years.

Senator FERGUSON—Ever since Rabuka.

Senator TROOD—That does not give us many choices, does it?

CHAIR—Thank you very much, Professor Moore, for coming along for the past hour and a half. Thank you for your submissions and thank you for sharing your views on a range of issues.

Prof. Moore—Max Quanchi is sitting there waiting to contradict me now!

Proceedings suspended from 10.28 am to 10.50 am

QUANCHI, Dr Alan Maxwell, Private capacity

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

Dr Quanchi—I have no questions.

CHAIR—The committee has before it submission No. 24 from Dr Quanchi. It is a public document. Do you wish to make any amendments to your submission?

Dr Quanchi—Not at this time, thanks.

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

Dr Quanchi—Thank you. I have a few points I would like to make. One is that several things have happened since I made this submission in August last year which have made some of my comments a bit redundant. For example, I made a strong comment about the need for Australia strategically to work with France, and last year we signed an agreement with France over the use of New Caledonian naval bases, which is wonderful. So, in a sense, some of the things I had been arguing for have already occurred. I also mentioned the importance of guest worker schemes, and since I made that submission Australia now has a trial guest worker scheme. I also mentioned the importance of teaching about the Pacific in primary and secondary schools to increase Australia's understanding and knowledge of the Pacific, and I am pleased to say that the national curriculum framework has taken that on board and is now incorporating the Pacific into the national curriculum framework.

CHAIR—So you are a happy fellow and you can go home. You can claim them as victories.

Dr Quanchi—I can claim these as victories. I do not think they read my submission, but it is good to see that those things have happened.

Senator FORSHAW—You can blame the new government for that.

Dr Quanchi—Oh, well—

Senator FORSHAW—No, I do not expect you to comment.

Dr Quanchi—The other good thing that has happened is that the Australian Association for the Advancement of Pacific Studies, of which I am the secretary at the moment—and the previous witness, Professor Clive Moore, is the president, so we are well represented—is representing Pacific studies across Australia. Since I made my submission the association has published an electronic journal called *Pacific Currents* and is about to launch this beautiful document I have here of 200 pages which Professor Moore mentioned as well. It is an argument that Australia needs a national strategy for the development of Pacific teaching and research on

the Pacific islands. It is going to the printer soon, and all politicians in Australia will get one of those. So that is another thing that has happened since making the submission as well.

I would also like to mention something that happened in December last year. We ran a regional workshop in Fiji for high school history and social studies teachers, and they again repeated what they have been saying for the past 15 years: 'We would love to teach more about our own history but we do not have the teaching materials to do so.' So there they are, a bunch of enthusiastic young teachers all wanting to teach about their own national histories but they are stuck with New Zealand history, French history, American history and European history, because those are the textbooks and materials that they have, yet they want to teach about their own national histories. I should add that that workshop was funded by France, not by Australia, which should be funding that sort of program, and one of the things I have mentioned in the submission is that we should be funding some sort of a national history program for schools in the Pacific.

The next thing I would mention is something I read on coming in, in the Toowong free magazine that is dropped in your letterbox. I can hold it up to you. The second page has a wonderful feature story about Uli Latukefu, a Tongan actor. I mentioned that in my initial submission because one of the things I said in my submission was that we do not really pay enough attention to our own Pacific islander community in Australia. There are up to half a million Pacific islanders now in Australia, and we do not really pay much attention to them, yet their presence is increasing everywhere. Here is a feature story about an actor, a Tongan boy who has been performing in a play called *The Passion*. That, I just think, is a wonderful example of the increasing presence of Pacific islanders in Australia.

The last point I want to mention is about some little advertisements that have recently appeared in the paper. The first one calls for Australia to strengthen relations and promote mutual understanding between Australia and Thailand; the next advertisement said 'to enhance awareness, links and understanding between people and institutions in Australia and Malaysia'; the next one called for funding grants, 'applications for increased public awareness of Australia and the republic of Korea and the development of partnerships to areas of key interest to both countries'; and the last one pointed out that \$62.4 million was available over three years to help Australian students become familiar with Asian cultures and languages. My question is: where is the money for the Pacific?

Senator FORSHAW—Just for the record, those ads are Australian government ads, are they?

Dr Quanchi—These are all Australian government ads, yes, from the Australia-Thailand Institute, from the Australia-Malaysia Institute, from the Australia-Korea Foundation and from the National Asian Languages and Studies in Schools Program. My question is, of course, which I did not raise in the submission but I am going to raise it now if I can: what are we doing about the Pacific? The answer is: at this point, nothing. We do not have institutes, foundations or councils, we are not running programs that would help students in Australia, yet we are paying \$62.4 million over three years. Nine projects costing \$2.7 million over three years are identified in one of the appendices to my submission, and they would do a wonderful amount of work to increase Australians' understanding of the Pacific, yet we are giving the unbelievable figure of \$62 million—I cannot even get my head around the size of this amount—over three years to help Australians become more familiar with Asian languages and cultures. They are the things that I

would like to raise that I did not raise in my submission because I have only just become aware of them in recent times. Thank you.

CHAIR—Thank you, Dr Quanchi. Who wants to lead off?

Senator TROOD—It is good to see you again, Dr Quanchi, and thank you for your submission. It is a very interesting document. There are lots of things that I am sure my colleagues want to pick up and there are a couple that I will perhaps just begin with. They go to your opening statement. You heard Professor Moore's remarks about the state of Pacific studies in Australia, and I take it from your remarks now and the content of your submission that you endorse his assessment of the state of Australian Pacific studies. Is that correct?

Dr Quanchi—Teaching and research on the Pacific in Australia, and that should also include collections in museums, galleries and archives as well, because in those three cases we have fallen way behind. New Zealand is rapidly overtaking us, yet it is a small country. To give an example of that, last month I was in Tahiti at a big conference funded by France. Seven hundred people were there speaking about how Pacific island people are going to respond to global change. There were as many New Zealanders as there were Australians speaking about that question. I was a little embarrassed when people said, 'Oh, Max, there are not many Australians here.' I had to say: 'Well, look, Pacific studies in Australia is falling behind. We are hardly doing any teaching at undergraduate level and research is falling back in comparison with that being done elsewhere in the world. Some institutions, archives, galleries, museums and libraries in Australia have stopped collecting material on the Pacific.' This example of going to Tahiti to a conference just proved the point. I endorse everything that Professor Moore said. We have fallen behind, and that is why the AAAPS, the Australian Association for the Advancement of Pacific Studies, has put together a national report to try to convince the Australian government, because we think it is a government responsibility, that it needs to do something to invigorate teaching and research and collections in Australia.

Senator TROOD—It is always a matter of priorities, is it not, for universities, for governments, for businesses where they put their funds? One could make an argument saying, 'Well, the Pacific is a relatively small part of the world compared to the challenges we face in Asia,' or east Asia, anyway. So what in your view is the argument for expending more resources on the Pacific, educational resources and perhaps aid resources if you think that is necessary?

Dr Quanchi—I think there is a two-part answer to that question. One is that we have a debt to the Pacific. We were the colonial power over Nauru and Papua New Guinea. We have dominated the economies and lives of people in Fiji through our big companies that were in Fiji. We have a debt, in a sense, to the people of the Pacific. We have done well from our commerce and trade and our colonial experiences in the Pacific and I think now it is time to pay back that debt. I am really serious about that.

The other thing is that we are in the Pacific, we are not in Asia. We have tried desperately to become Asian and to become a part of the Asian bloc, but we are not getting anywhere there. We are part of Asia, but there are an enormous number of similarities between us and Pacific islanders: they speak English mostly, they have the same education systems and legal systems that we do, they trade with us, we holiday there, they come to Australia for study, half a million

of them are living here now. We are a Pacific island nation yet we do not acknowledge that, we do not admit to it. There are many reasons we could put forward for that, but we see ourselves, as we have in the past, being part of the British empire, we have tried to be friends with America and we have tried to become part of Asia. Every time we have done that we have ignored the Pacific.

This was brought home to me in an email last week from the head of the Catholic education system in Kiribati. I had written to her and said: 'I am busy. I am writing a report on Australia's relations with the Pacific and the need to have a national strategy.' She wrote back: 'Max, why are you bothering? Australia does not care.' That is a Pacific islander telling me, and I think that is true. Pacific islanders realise that in Australia we do not care, we are too busy trying to trade with Asia and too busy trying to be part of multinational organisations and governments and being a world player, yet we are in the Pacific. So there is the answer: we are in the Pacific but we will not acknowledge it. Therefore, we need now to do something to prove that we are in the Pacific, we are a Pacific nation.

Senator TROOD—We have spent a lot of money over a long period of time. A very substantial proportion of our aid budget has gone into the Pacific over a long period of time. We have, as you say, a lot of commercial interests, or Australian businesses have a lot of commercial interests in the Pacific. It could hardly be said that we have at one level neglected the Pacific. We used to do a lot more teaching of the Pacific. We had expertise in the Pacific. Has something occurred which has affected our response to the challenges of the Pacific more recently, do you think?

Dr Quanchi—We have given a lot of money to the Pacific but we all know that 85 per cent of aid money is spent in the country that gives the money, so Pacific islanders have not actually done that well out of our aid. We have given billions of dollars but a lot of Australian companies have made money out of that. We have given roads that are now potholed and unusable, we have built bridges that have been washed away in floods, we have given ships that cannot travel between islands because the docks are not big enough to take the ships; we have given a lot of money but it has not had much effect. Where we have had the best impact in the Pacific is at the personal level. Church groups from all over Australia are constantly going to the Pacific and putting a roof on a school, building a medical clinic, helping a women's group organise a local market. I would say that the money we have given has had little impact. The big impact has been in the non-government organisations, the church groups, the schools, the individual people who have gone out to the Pacific. A friend of mine is a doctor who regularly goes off as part of a bunch of doctors who have surgery clinics in the Pacific. We do lots of things like that. We are respected for that in the Pacific. Our government is not respected. Individually we are liked in the Pacific because we do good things at an individual, local level. Our government is not liked. Our government is a bully. Everything we do is bullying. We give advice that is not needed, we give advice that is relevant to our own situation in Australia but not relevant culturally to the people we are giving advice to. It is enigmatic, isn't it? We have a very strong relationship with the Pacific at a personal level but at a government level we have failed.

Senator TROOD—You are saying that is a view common across all governments; it is not just a function of any particular government; it is a reaction that Pacific islanders have towards Australia as a former colonial power, as you have said?

Dr Quanchi—I think so. You could make a long list. People always refer to and remember things like John Howard not going to meetings, but they refer to lots of other things as well, like the bullying to try to get an Australian to head up the Pacific forum, the sending of a warship to sail along the coast of Fiji during the coup as a sort of a gunboat bullyboy diplomacy act. Making Michael Somare take off his shoes off—everyone in Papua New Guinea mentions that, because that is a disgrace. He is a Prime Minister and we made him take his shoes off. Whether he did or he did not, the story you hear in Papua New Guinea is, ‘You made Michael Somare take his shoes off when he was coming into Australia.’ That is the level. You get that right across the Pacific.

have just been to Viwa and to Rabi, two small villages in Fiji. When you get there and you say, ‘What’s new?’ they will say: ‘Look, the Japanese have given us a water tank. The Canadians built our medical clinic.’ When you say, ‘What did Australia do?’ they say, ‘Nothing.’ All our money is in Suva for infrastructure development, going into government departments and governance building. Out in the villages, people are getting water tanks from Japan and Canadian medical clinics. We are not doing that, although we are doing it in some places. All of that means that out in the Pacific we are not particularly well liked as a nation, but we are liked as individuals. We need to work on that, I think.

Senator TROOD—It feeds into this question about security challenges, which is part of your submission. The inquiry is looking at the economic situation in the Pacific and, of course, the security side. We have had relatively little evidence on the security side, so I would be grateful if you could perhaps outline your assessment of the challenges that we face in the Pacific from a security perspective.

Dr Quanchi—In terms of security I think there are three things we can probably do. One is that we need to work much harder with New Zealand and France to create a common strategic policy to the Pacific. France is a big player in the Pacific, New Zealand is a big player in the Pacific, and we are. France still has colonies, in a sense. So that is one thing that we need to work on a great deal more.

Secondly, I think we need to break the nexus between failed states and terrorism dangers coming out of the Pacific. There is no evidence at all to show that anywhere in the Pacific there is going to be a complete breakdown of government and there will be anarchy that will turn into a turmoil which would endanger Australia. Theoretically you can posit that, but it has not happened. There has been no evidence over the past 25 years to show that it is going to happen. There have been some pretty serious issues in the Pacific such as the anarchy in the Solomon Islands and so on, but that was all internalised. I think we have got to stop thinking about the Pacific islands as a strategic danger. They are not a strategic danger. At the same time, it is in our national interest to protect our borders and protect the oceans that surround us, but we need to do that in cooperation with New Zealand and France at a far greater level than we do now, and we need probably to work with Pacific island nations better in terms of saying, ‘What are your strategic needs in terms of defending your own national borders and your own resources, ocean resources and things like that?’ We have to think more perhaps of strategy in terms of economic development, which is the point you have made. If we can create a safe environment, then nations can exploit their resources themselves.

I do not like reading AusAID material because if you go to their website and their documents, it always starts off by saying that everything we do is related to strategy and we have to create a safe environment to protect the region. But we are protecting the region in order to defend ourselves. That is not what Pacific islanders want. They want to know that we have a strategic plan, a security plan, for the Pacific which includes them, that we are actually working to protect Fiji and Tuvalu and the Marshall Islands and other nations of the Pacific. I do not think we are doing that yet. I think we are still focusing on that little phrase 'in our national interest', and Pacific islanders do not see that.

Senator FORSHAW—Can I just interrupt, only because my sense is not the one that you are suggesting, about Australia having to defend itself. I do not take anybody to be suggesting that Australia is subject to invasion but, rather, that having problem states, lack of governance and all the attendant problems in a number of Pacific islands raises security issues for us in the context of refugee issues. Ultimately we see ourselves having a responsibility, being the major nation in the region with the capacity to deal with these things, just as we got involved in East Timor and in the Solomons—whoever is right and whoever is wrong. It is that concept of security that I have, where we say it is in our national interest to have a peaceful Pacific.

Dr Quanchi—True.

Senator FORSHAW—It is in everyone's interest but particularly ours. Sorry to interrupt, Senator Trood, but I just—

Senator TROOD—I was going to take that point, but perhaps you would respond to Senator Forshaw first.

Dr Quanchi—It is a good point about the refugees, but I do not think any Pacific islanders that I have ever met want to come to Australia. They are not likely to—

CHAIR—Some do.

Dr Quanchi—They will come here and study and they will come and work and—

CHAIR—Dr Quanchi, they are living all over the place. We have tens of thousands of them in Perth.

Dr Quanchi—Five hundred thousand.

CHAIR—A million in—

Dr Quanchi—Five hundred thousand Pacific islanders, perhaps.

CHAIR—Dr Quanchi, in Perth, on the Indian Ocean, we now have tens and tens of thousands of Pacific islanders coming to live and stay. There are identifiable permanent communities of Pacific islanders. So they do want to come here.

Dr Quanchi—But the point is that they are not a problem. They are enhancing. Those 500,000 Pacific islanders in Australia are actually enhancing our multicultural nation. In a sense,

it is a bonus for us to have Pacific islanders living in Australia. I do not see Pacific islanders coming to live in Australia as a problem. I see that as a bonus.

Senator FORSHAW—Do not misunderstand when I mention refugees. I suppose it is the old sort of concern, if you like, that, if a country starts to collapse completely, then you do face potentially issues of what happens to the civilian population. I am not trying to raise the spectre of lots of boat people but simply that there are consequences that flow.

Dr Quanchi—There is one answer to that: no Pacific island nation is showing any signs of collapsing. We might say the Solomon Islands, but that was not really a collapse. Fiji has a bad economy. People burnt down the capital city of Nuku ‘alofa. There was the burning of Papeete a few years ago. These are localised incidents. There is no sense, I don’t think, that any nation in the Pacific is going to collapse and that, therefore, in 15 years time there will be some sort of refugee problem or some other problem. The one big problem we have in Australia and the one we never acknowledge is West Papua. We have ignored West Papua in Australia, partly because of our need to have good relationships with Indonesia.

CHAIR—West Papua is part of the sovereign state of Indonesia.

Dr Quanchi—It is part of the sovereign state of Indonesia, but they are Papuan people, just like the people on the other end of the island. If there is going to be a problem area, I think that will be it. What happens when the West Papuan freedom movement gets guns, let’s say, and starts flowing across the border into Papua New Guinea? What happens when there is so much violence in West Papua that it flows across the border into Papua New Guinea? What do we do then?

CHAIR—What are you suggesting we do now?

Dr Quanchi—I think we need to work more with Indonesia and to confront Indonesia and say—

CHAIR—We work constantly with Indonesia.

Dr Quanchi—We are constantly doing it with them but, in a sense, we have let Indonesia off the hook. There are a lot of things happening in West Papua that we could be a lot more vocal about.

CHAIR—That is not in our terms of reference.

Dr Quanchi—It is not in the terms of reference but it is a security matter.

CHAIR—No, our terms of reference are economic and security challenges in Papua New Guinea and the island states of the south-west Pacific.

Senator TROOD—The Pacific islands.

Dr Quanchi—Correct. It depends how you define the Pacific, doesn’t it?

CHAIR—Well, we do not define it as West Papua.

Dr Quanchi—We will leave West Papua out of the conversation, but if I could just add—

CHAIR—It might be a security issue—

Dr Quanchi—It is.

CHAIR—I am not arguing with you there.

Senator TROOD—We have a demarcation dispute.

CHAIR—I have made a ruling. We do not have a dispute at the moment.

Dr Quanchi—But it raises the issue, doesn't it: what do we see in Australia as the Pacific?

CHAIR—Dr Quanchi, it is a security issue but it is not germane to our terms of reference.

Dr Quanchi—Correct. But what if I raised a question about Palau?

CHAIR—We'll ask the questions!

Senator TROOD—Can I just take up Senator Forshaw's point, because I did want to put to you that you can see some security challenges. One that is said to be significant and that we have heard evidence on is the expansion of transnational criminal activity in the region, for example, so there is a question mark about that. There is a broad question about environmental security and, of course, the challenges of climate change and the extent to which that is a security challenge. It may produce the sort of refugee flows, for example, that Senator Forshaw has raised. Then, thirdly, there is the issue of the competition that exists in the Pacific in some places through outside powers, and in particular between China and Taiwan, for so-called international space. Do they constitute serious security challenges for the region, do you think?

Dr Quanchi—I think no. We are yet to see the impact of global change. Lots of hypotheses are being put forward. Seven hundred scientists in Tahiti a month ago could not agree on what is happening. Some people were claiming a 59-foot sea level change and other people were saying it would have a marginal effect. I think the question of environmental impact is yet to be confronted in the future. With regard to transnational crime, it is pretty easy to spot a criminal in the Pacific islands. We know that there have been attempts at gun smuggling. I think a few years there was attempted gun smuggling when a container of guns was found passing on a ship to Fiji, but I think that is not a big issue in the Pacific.

Senator TROOD—Does it have the potential to become more—

Dr Quanchi—I do not think so because Pacific island countries are very small and most have only one harbour. When a ship comes into a harbour, everyone knows what goes on and off that ship.

Senator TROOD—That does not apply to Papua New Guinea.

CHAIR—Papua New Guinea is a separate case because it is a massively big country with five or six million people and a large coastline. The potential in Papua New Guinea for international crime, transnational crime, is probably a question to be raised. More research needs to be done on that; that is for sure.

On the question of China and Taiwan and other Asian countries or other non-Pacific countries making the Pacific into something like the scramble for Africa when European powers fought for space, that is not really happening. We talk a lot about the increasing influence of the People's Republic of China and Taiwan in the Pacific. They are spending money, building consulates, paying for various activities, flying journalists to China to do media training, taking politicians off to Taiwan for goodwill meetings and things like that. Is that a danger to Australia in the sense of security? I do not think so. I think we have to acknowledge that the Pacific is a third of the world. We do not own it. It is not part of our background to have a controlling influence over it, so we should be supporting China and Taiwan and Venezuela if they want to be involved, or Chile, Indonesia, the European Union or other places. I do not think we should see the Pacific as a place in which we have a special interest. We are in the Pacific, but I think in terms of security we need to develop a better relationship with these other countries, because they are all definitely going to play a role in the Pacific. We should be negotiating with them to collaborate with them, not seeing them as, in a sense, an opposition.

Senator TROOD—We have had evidence that the way in which China and Taiwan are playing out their rivalry in the Pacific through aid moneys, for example, in most cases has almost no transparency. On one argument there is a corrupting dimension to that aid rivalry; on another it undermines the developmental priorities that are established by other aid givers from Europe, Australia and New Zealand et cetera. To the extent to which it undermines other aid priorities in relation to development, then it is inconsistent with what might be regarded as the developing economic prosperity of the region. Is that an issue about which you have some concern?

Dr Quanchi—We have a right to have development priorities and we have a right to declare how we should spend our aid and how it will be used in the Pacific, but do we have any authority to declare that our development priority is what the Pacific wants and has to have? How are we to determine the development priorities for Thailand, Japan and other countries? The presumption is that our development priorities are the good ones and theirs are the bad ones, that what China and Taiwan are trying to do is bad, why do they not do what we do, because what we do is good? But, if you ask the Pacific island people themselves, they say: 'Australia is going to give money, Taiwan is going to give money, China will give money—and a visit to Beijing will get us a new university. I will visit Australia and see if I get a new university.' They will not get one. They then say, 'I'll go to China and get one then.' Is that something we should be trying to monitor and police and control and prevent from happening?

Senator TROOD—You make the point in your submission about the need for greater cooperation between Australia, New Zealand and France in the region. That presumably is about trying to set aid priorities so that we are not all trying to do the same thing and that we direct the money or the aid in ways which will be most useful to the developmental goals that we all have for the region. Isn't there also an argument for expanding the cooperation that exists between that group of three to other outside parties—the European Union, perhaps China, perhaps Taiwan, if that is possible, or the United States, so that we are not all falling over ourselves? There is a lot of aid going in there, and we have had evidence that in some cases there are

conflicting priorities. We have also had evidence that there is so much aid that it is affecting the capacity of the smaller states of the region to manage it effectively, that it is putting a huge demand on the governance of these countries and on their capacity to be able to deliver aid in the most useful way it can.

Dr Quanchi—I agree completely. I think we should have a relationship with New Zealand, France, the United States and Indonesia, and I guess we have to include Chile in that as well because it has Rapa Nui, and there are small islands off the coast of Latin America, but we can leave those out of the argument. They are the big players which still have territorial possessions in the Pacific, and that is certainly one level of negotiation. Then there is, if you like, a second tier of negotiation, which is China, Japan, the European Union, which do not have territorial possessions in the Pacific but are players in the region. So are we doing that? That is the question. Are the Department of Foreign Affairs and Trade and AusAID thinking along the lines of having these negotiations at that level? At this point there is no evidence to say that we are moving in those directions.

Senator FORSHAW—There have been suggestions that maybe the agenda of APEC should be expanded to pick up security issues. Do you have a view about that? Some people tend to think that its economic agenda is established and there are other challenges that maybe APEC can look at.

Dr Quanchi—It goes back to the question of: do we want to see the Pacific as a single region; do we want to impose on the nations of the Pacific a single regional community? The answer to that is: I think we do not want to do that. Pacific islanders do not want to be part of a region. Therefore, if we impose an APEC on them or a—

Senator FORSHAW—No, the reason this is raised is because APEC includes the Pacific nations and Asian nations, and it is now expanding out to other countries, potentially India, and it is a forum where all of these countries, both at ministerial and at prime ministerial or presidential, head-of-state level get together to meet and, therefore, it is an organisational structure that currently exists that might pick up on looking at some of the regional security issues. There is a lot of debate to happen about that if it was ever pushed more than just as an idea, because it raises immediately the issue of China and Taiwan, for instance. I just wondered if you had a view, because it is an existing forum that includes some of those countries that have a major interest in the Pacific, such as China, Taiwan, Chile, Peru—well, not so much Peru—and it is broader than the Pacific forum.

Dr Quanchi—It again goes back to the question of regionalism. Do Pacific island nations see a benefit in acting as a bloc? That is the issue. What Australia thinks about this is one thing. The evidence over the past 40 years is that Pacific island nations individually do not want to be in a bloc. They are happy to be part of the forum and they will join SOPAC and SPREP and all the regional and interparliamentary organisations because there are some advantages that have been seen, but pretty much each Pacific island nation is an individual nation and wants to protect its individuality. There is no sign yet that Tongans are getting any cuddlier with Fijians or Samoans.

Senator FERGUSON—There is only one common denominator, and that is that none of them can survive without aid.

Dr Quanchi—That is correct. That is why it goes back to the earlier question. We should be negotiating with Chile and the countries that have territorial possessions to develop a cohesive plan about development assistance.

Senator FERGUSON—In actual fact you can have a cohesive plan but two of the countries, New Caledonia and Tahiti, ought to be treated separately because they have direct involvement in France. They have directly elected representatives in the French parliament, so, in fact, they are not like individual nations in the same way that all of the other islands of the Pacific are—

Dr Quanchi—Correct.

Senator FERGUSON—or most of the other islands are. When it comes to APEC, it would be a matter of joining an organisation that deals with countries with millions of people with economies that can stand on their own two feet. They actually have nothing in common with APEC. I cannot see that as a solution.

Dr Quanchi—It goes back to the problem of geography, doesn't it. Papua New Guinea has six million people, it is a rich country, it has good growth rates and a booming economy, and then you have little places like Tuvalu with 5,000 or 6,000 people and Nauru with 10,000 people. They are nations as well. It is very hard to think of 'the Pacific'. I do not think in Australia we have grappled very well with the idea of what all these nations are. We say, 'Oh, the Pacific,' but there is not a place called 'the Pacific' really.

Senator FERGUSON—We tend to talk about 'the Pacific community', but it is not actually a community.

Dr Quanchi—Not at all. The differences between the countries are so amazingly huge. As you have pointed out, some of them are parts of France, some are parts of Indonesia and some are parts of Chile.

Senator FERGUSON—American Samoa.

Dr Quanchi—American Samoa. Several territories in the Pacific are unincorporated or incorporated territories of the United States. It is a complex web, and I do not think we have really grappled with that.

Senator FERGUSON—I noticed in the opening paragraphs of your submission about understanding the Pacific that you list a heap of negatives, some of which I do not agree with, I must say. I know we are not allowed to talk about anything outside our terms of reference, but I wonder how you would interpret a late arrival in Timor as influencing the Pacific. For one, I dispute whether it was a late arrival. I was at the United Nations at the time it happened, and everybody marvelled at the speed with which we intervened in Timor, not the late arrival. I am just wondering why you interpret it as that or when you think that Australia could have been involved in Timor before it received the invitation to go there.

Dr Quanchi—Pacific islanders do not think Timor is part of the Pacific—

Senator FERGUSON—No, I understand that.

Dr Quanchi—but they often talk about how we have responded to issues in the neighbourhood. What are the two terms of reference? The two terms of reference are always RAMSI in the Solomon Islands more recently and before that Timor. Pacific islanders know that Timor is part of Asia and that the Timorese people are not Pacific islanders in that sense, but it is part of the way that Pacific islanders think about how Australia would react if something happened. Some people make the accusations that we got there too early and there were too many dead before we got there, why did we not react in the Solomon Islands beforehand—why did we wait until the third invitation to come to the Solomon Islands. So Pacific islanders are seeing not so much that Timor is part of the Pacific, they are seeing it as an example of how Australia reacts.

Senator FERGUSON—But is not one of the difficulties the dividing line between being paternalistic and being invited? In the case of Timor we had two options: we either invaded East Timor—

Dr Quanchi—True.

Senator FERGUSON—or waited until we had an invitation to be there, which is what happened. Not many Australians, certainly those in government, I do not think, would be in favour of invading the Solomon Islands.

CHAIR—The problem then was the Republic of Indonesia.

Dr Quanchi—It was, yes.

Senator FERGUSON—It was the Republic of Indonesia. It was impossible to get there any earlier, quite frankly, and in the Solomons it was a difficult decision: do you wait until you are invited or do you actually invade the Solomon Islands? You list things like the failure to act in support of West Papuans. There are lots of other issues to be taken into account.

The only final point that I wish to make is that Australia is a very large country and the views you express as a person living in Queensland or the emphasis you would place on the Pacific is probably different from the views of many people living in Senator Bishop's home town or in parts of Western Australia, whose interests are not the Pacific but Indonesia and Asia and places to the north. Senator Bishop, you can correct me if I am wrong—

CHAIR—No.

Senator FERGUSON—but I think that when we are developing an Australian position we have to be careful that we do not have a Queensland or a Western Australian position but one which suits Australia as such. I accept a lot of the things you say. I just think that as a Queenslander your proximity to the Pacific and the work that the Queensland universities and others have done with Pacific nations means that it is closer to their conscience than it is to lots of other parts. I am just wondering whether you might like to comment on that.

Dr Quanchi—I do not think there is a Queensland response or a New South Wales response. I do not think you can talk about the Pacific in terms of having a state response. Certainly it would

be true that while there are large numbers of Pacific islanders in Western Australia, the great majority are in Brisbane, Sydney, Canberra and Melbourne. There are differences.

Senator FERGUSON—I am from Adelaide, so I am in the middle! But that is true. That is correct.

Dr Quanchi—Yes. So I think we do need a national response. You might say that Brisbane should have some sort of preference in the way these things develop because it is closer. It is quicker to get from Brisbane to Noumea than it is a get to Perth.

Senator FERGUSON—That is right.

Dr Quanchi—The good thing about Australia is that we can have a national response, which Western Australians would take on board as much as Victorians or South Australians or Tasmanians. I think we do need a national response and that we would have responded far better to these issues when they came up if we had had a critical mass of expertise in Australia. This goes back to my point about the need to increase teaching and research and collections on the Pacific in Australia. If we had a body of scholars, a body of researchers who were working, we might have been able to pre-empt things that have happened in Papua New Guinea, like the Sandline controversy, for example, for which we were unprepared.

In a sense, we were unprepared for the Solomon Islands because we do not have a lot of scholars in Australia working on the Solomon Islands or a critical mass of scholarship on the Solomon Islands. If more work was being done in schools, universities and institutions in Australia we would have that critical mass, which would then enable us perhaps to be prepared for these events. In 1990 who would have ever thought the conflict in the Solomon Islands would happen? It was unbelievable. I remember being shocked back in the 1980s when Fiji had a coup. I had been going to Fiji on and off for 15 years and I could not believe that they had a coup, and they have had three more since. Are we prepared in Australia for these events? What level of preparation are we putting into place in DFAT, in AusAID, in all the institutions, in universities, across the board in Australia to make sure that Australians understand what is going on and, in a sense, are prepared for these crises when they occur? And more will occur. There may indeed be another Solomon Islands crisis in future years.

CHAIR—Senator McEwen.

Senator McEWEN—Thanks, Dr Quanchi. I just have one question about your submission. You mention:

The Australian High Commissioner to Papua New Guinea sadly noted that Papua New Guinea had sent only 135 scholarship holders to Australia in the last year ...

Is it that PNG only sent 135 or that Australia only funded 135?

Dr Quanchi—No. We would have taken many, many more. The High Commissioner for Fiji announced the other day that 60 Fijians had come to Australia on scholarships but that 120 scholarships had been available. The question to ask is: why are Fijians not taking up all these scholarships to come? We should be offering 10,000 scholarships to Pacific islanders to come to

Australia, not 120 to Fiji and a couple of hundred to Papua New Guinea. This is a serious problem. Why do Pacific islanders not want to come here any more? Do they want to go to America? Are they going off to Europe, the Middle East, to New Zealand? Why would you go to New Zealand? I am sorry, cut that out of *Hansard*!

Senator McEWEN—So these are Australian funded scholarships?

Dr Quanchi—These are Australian funded scholarships, and they are not being taken up.

Senator McEWEN—Why do you think that is?

Dr Quanchi—Because Australia is not a friend to the Pacific; it is not seen to be part of the Pacific, and maybe—

CHAIR—But, doctor, you have told us there are half a million living—

Dr Quanchi—I know.

CHAIR—on the east coast, for goodness' sake. We are a friend to them. They choose to come here to and live, to raise their families, to work, to earn income to send back as remittances. We are a great friend.

Dr Quanchi—But not many Pacific islanders—

CHAIR—It is their choice. Half a million—

Dr Quanchi—Relatively.

Senator FORSHAW—Chair, how many of them come via New Zealand?

CHAIR—They might.

Dr Quanchi—I think the problem is—

Senator FORSHAW—I am not sure that I agree with your analysis.

Dr Quanchi—The problem is that there is a chance to come to Australia. We are very generous. We give scholarships to Pacific Islanders to come for short courses and training, nurses come and we give PhD scholarships and so on, but they are not being taken up. We need to investigate that.

Senator FERGUSON—Well, it is quite possibly an economic choice to come here.

Dr Quanchi—It may be an economic choice. It may be that Australia is not seen as the best place to come any more for Pacific studies. I have a feeling that could be true. People are much happier to go to the University of Hawaii, which has emerged as a key centre in Pacific studies. If you get a Pacific studies scholarship to take up a PhD, why would you not go to Hawaii?

CHAIR—I went to a few building sites and did a little bit of ethnic investigation of the men earning \$2,000 a week. There would be a heap of Pacific islanders on them.

Dr Quanchi—But we did not offer them a scholarship to come.

CHAIR—No, we gave them an opportunity to work, to make a living.

Dr Quanchi—True.

CHAIR—To raise their families.

Senator FERGUSON—But for those who are settling here it is the economic way.

Senator FORSHAW—If you check out the security industry and other industries I do not think you will find that they are all coming here—

Dr Quanchi—And rugby league, do not forget, too!

Senator FORSHAW—for the educational opportunities or to work in the health industry.

Senator McEWEN—It is a disappointing result that there are only 135 scholarship holders in one year—

Dr Quanchi—I know.

Senator McEWEN—from Papua New Guinea coming to Australia. It is appalling.

Dr Quanchi—I think Professor Moore in his earlier submission and his comments made a very good point that in the past we had relied on Pacific islanders coming to Australia, doing their PhDs and masters degrees, becoming friends with their supervisors and their colleagues, going back home and later on becoming important in the bureaucracy and as politicians and running corporations, and they are ringing up and saying, ‘Max, what do I do about this?’ You develop a personal rapport with these people, who went back and became the elite in these emerging countries. That has gone because so few are coming now and we are losing that connection with the elite of the Pacific.

Senator FORSHAW—Dr Quanchi, is there data available, and maybe we can follow this up with the government departments, on the industries that Pacific islanders who come to Australia and are resident here are working in and their educational standards?

Dr Quanchi—We can track them down through education. That is easy because you can find where they are enrolled, what degrees they have and we know how many have PhDs. In terms of the work force, I am not sure about that. Maybe it depends how accurately our government departments keep those sorts of records.

Senator FORSHAW—I come from Sydney, and you would be aware that there are public perceptions about where a lot of the Pacific islanders and New Zealanders live and work and the types of industries they work in. I think it would be useful for us to follow that up, because I do

not deny that it is in the building industry, and we know it is in security and in a range of other industries.

CHAIR—Dr Quanchi, our time has expired. Thank you very much for your submission, for your contribution and our discussion this morning.

[11.38 am]

GRAHAM, Mr Peter M, Managing Director, Esso Highlands Ltd

PERKINS, Mrs Trisha M, Public Affairs Manager, ExxonMobil Australia Pty Ltd

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

Mrs Perkins—No.

CHAIR—The committee has before it submission No. 34 from Esso Australia; it is a public document. Do you wish to make any amendments to your submission?

Mr Graham—No.

CHAIR—I now invite you to make a brief opening statement and then we will proceed to questions. Thank you, Mr Graham.

Mr Graham—Thank you, Chairman and senators. I appreciate the opportunity to appear here today and for the time provided to share our views and answer any questions that you may have on Papua New Guinea. As you may be aware, ExxonMobil through its affiliated companies, Esso and Mobil, has been operating in the Australia and surrounding Pacific nations for more than 100 years. As background to my comments on today's topic, I would like to give you a snapshot of ExxonMobil's efforts to progress what, in our terms at least, is a significant LNG opportunity in Papua New Guinea.

Since April 2007, the PNG LNG project co-venturers have been working to develop the PNG LNG project based in the southern highlands of Papua New Guinea. We are currently undertaking front-end engineering and design and securing long-term LNG sales contracts and project financing. We are also consulting with the PNG government and communities on plans to address social and environmental impacts of the project in Papua New Guinea. Our plan is a final investment decision later this year, in the fourth quarter of 2009, and our target for first delivery of LNG cargoes is late in 2013 or perhaps early 2014.

We plan to execute the project in a way that will enhance the opportunities for the people of Papua New Guinea and the nation as a whole. ExxonMobil has a history of working with governments, partners and communities around the world to increase the value of hydrocarbon resources. That is the very nature of our business. We know that the true potential of PNG goes well beyond the oil and gas reserves that form the basis of our project. We hope that, as the largest private sector investment ever contemplated in PNG—and we are talking something in excess of US\$10 billion for the initial phase—the project will act as the catalyst in putting this nation on the pathway towards achieving its full potential. An economic impact assessment by independent economists ACIL Tasman found that the project has the potential to transform the economy of Papua New Guinea, potentially doubling the GDP, providing a major increase in government revenues and royalty payments to landowners and creating significant employment

opportunities. It could also act as the catalyst for further gas based industries in the general vicinity of our project.

The PNG government has been a very strong supporter of the project to date. ExxonMobil has been very grateful for this support, and it is conscious that while the PNG LNG project provides a great opportunity for economic and social improvement, it obviously poses significant challenges for prudential government. The requirements of the project—legislative, financial, commercial and just practical execution-type issues—are going to place a significant burden on the currently limited resources of the various levels of government. We believe that the PNG government will need to grow, both in size and in its governance capacity, if it is to properly provide the necessary oversight for the project and to truly reap the community rewards possible from such a major development like this.

Although the experience for ExxonMobil has shown that large resource projects generate large cash flows, it also shows that revenue transparency is a key component of good governance and that careful early planning by government is needed to ensure that the revenues translate into generalised wealth and economic prosperity in the host country. We believe that, as the largest bilateral donor to Papua New Guinea, the Australian government has the opportunities to significantly assist the PNG government in supporting the initial development of this project. This could be done, for example, through capacity building, partnerships and embedded consultants. By means of example, some relevant departments and agencies could include the LNG Coordination Office, a small agency of intergovernmental department officers that coordinates our interface with the various departments; Department of Petroleum and Energy; Department of Lands and Physical Planning; Department of Environment and Conservation; and I could keep on going—immigration, labour—a host of government departments.

CHAIR—Are they PNG departments or Australian?

Mr Graham—They are all PNG government departments. Early support for robust longer term macro and micro economic planning on how to best use the multibillion dollar project revenues will also pay significant economic dividends for PNG over the life of the project, given the likelihood that there will be competition for funding for more immediate needs.

Turning now to the more direct impacts of the project, ExxonMobil and PNG joint venturers have a commitment to provide long-term sustainable benefits to the community. We have put in place what we refer to as a national content plan—to our knowledge it is the first such plan in Papua New Guinea—which will focus on three key areas: firstly, workforce development, creating local jobs and training people in technical and professional skills that are needed during the construction phase of the project and then through the subsequent life of the operations for 30 years; secondly, supplier development, purchasing local goods and services, transferring knowledge and skills and increasing targeted local suppliers' capabilities to help them meet global standards and qualify the contracts with the PNG LNG project itself and also with other potential projects in Papua New Guinea or elsewhere; and, thirdly, strategic community investments, helping to improve living standards and build community capacity via support for target community investments focused on sustainable health, education and agriculture projects. ExxonMobil believes that there are significant opportunities for the Australian government to assist with the first two of these objectives in particular—that is, workforce development and supplier development. Therefore we were pleased to see the Australian government announce in

a joint Australian-PNG communique in November 2008 that it was keen to work with us to help PNG develop the vocational skills capacity required for the project.

To give one practical example: we plan to invest in training facilities in Port Moresby and in the southern highlands. We will train our construction and foundation crews. We have those plans progressing already in negotiations with the Port Moresby Technical College and other colleges in the country, and it will likely involve an investment of some US\$40 or US\$50 million. We want to leave a viable operating facility once we finish construction. It would be run on a public or commercial basis. We are working with the Queensland TAFE on this initiative at this point in time.

There are several examples of developing countries around the world where careful government planning and industry support has successfully grown local businesses' and industries' specialisation off the back of local oil and gas development, most notably in our experience Malaysia and Chad are two countries where we have had such developments. The Australian government can play an important role in facilitating successful developments in Papua New Guinea and helping ensure that economic gains translate into lasting economic and social benefits for all of the peoples of PNG.

In conclusion, ExxonMobil welcomes the Australian government's interest in economic growth as a means of promoting community development in PNG and across the south-west Pacific. I thank the Senate Standing Committee on Foreign Affairs, Defence and Trade for the opportunity to contribute this morning.

CHAIR—Thank you very much, Mr Graham, for that opening comment. Ms Perkins, do you have any additional comments?

Mrs Perkins—Nothing to add at this time, thank you.

CHAIR—Mr Graham, I have one or two issues I want to raise with you which arose from your submission, and they have been confirmed by your introductory remarks. I noticed in your submission the huge scale of the project and the revenues and direct cash flows to government and landowners over 30 years of more than US\$31 billion, and the capacity to double the size of GDP in PNG—so this is just huge. You note in your remarks that the Australian government can be of assistance through its agencies in workforce development and supplier development. Are there any negotiations being conducted at any level that you are aware of where the serious cash flow might be sequestered off country, a bit like they have done in Norway and East Timor, so that the huge flush of US dollars into a very basic economy does not just result in rampant inflation and price of the kina going through the roof? Is there anything going on at that level?

Mr Graham—I think there is an awareness that that is a significant issue. It was raised, and we have promoted that issue as being worthy of significant government work at this stage, but there is not a lot of take-up that is obvious to me at this point in time. We are quite concerned about the impact of Dutch disease. If we come into the country and hire some 15,000 people to build the project, and we are looking for thousands of welders and that sort of thing, we could potentially have an impact on other industries in PNG, and while this one goes up others go down.

CHAIR—Would it be appropriate for the Australian government, through its various agencies, to start pursuing discussions as to how it might assist the government of PNG avoid the potentially harmful consequences of the Dutch disease coming through?

Mr Graham—I think there is a genuine opportunity there to do that, to start some discussion around those impacts, and to start some meaningful debate about economic policy settings in the country. I am just not aware that that is happening at this point in time.

CHAIR—Secondly, you said in your submission, I think, 7,000 or 8,000 workers in construction; now you have said 15,000—

Mr Graham—It is more like 15,000 workers, at this stage.

CHAIR—Of semiskilled and skilled nature, or unskilled?

Mr Graham—Ranging from unskilled through to highly skilled people, like specialised welders and the like.

CHAIR—At the level that involves some significant level of skill, say two or three years trade training in Australia or the equivalent, will you be able to tap into sufficient local supply or will you have to bring in workers from elsewhere?

Mr Graham—Our estimate at this time—and it literally is an estimate because we are still dealing with contractors as to what their execution plans will be specifically—is that the opportunities for PNG citizens will be in the range of 3,500 to 5,000 positions of the 15,000, and that we are going to have to draw significantly from other nations to bring in third country nationals to support the execution of the project.

CHAIR—So you are just going to be tapping into a sort of worldwide pool for that heavily skilled construction—

Mr Graham—There are some very specialised skills; welding pipe, for example, is a very specialised expertise when you are talking about gas pipe that is 34 inches in diameter. It is not something that you put a plate welder on so you just have a spot welder.

CHAIR—I know from Western Australia about the price of skilled labour in terms of some of these projects over there, let alone getting people up to PNG. So, you are just going to be tapping into the already limited supply?

Mr Graham—We will be tapping into the limited supply, but we are in dialogue with numerous departments, including the department of labour, to try to get them to start thinking through their manpower plans for the country. As I said in my opening comments, we are setting up two training institutions to fast track development of skills in country, so that we try to mitigate some of the adverse effects on the national workforce. The plan at Port Moresby Technical College, for example, is to turn out 750 graduates a year. That is not fully trade trained people, this is people with specialised skills—for example, steel fixers, welders, concreters, painters, trades assistants and the like, but 750 people a year from the Port Moresby Technical

College, and we are building another college in the southern highlands which will turn out about 100 people a year and will support the construction of the gas plant in the highlands.

Senator FERGUSON—Whereabouts?

Mr Graham—Just near Hides, near Tari, if you are familiar with the southern highlands. That is where the gas fields are, so we build a gas conditioning plant in the highlands, and the LNG plant is down just outside of Port Moresby, which is why we have the Port Moresby Technical College training facility for the construction workforce.

CHAIR—Senator Forshaw asked me this, and I will ask you: how come you have revised the labour at the construction stage from 7,000 up to 15,000?

Mr Graham—It has a lot to do with the way you plan to execute the project; how much is modularised, for example. Can you bring in modules, pre-built in shipyards, in large chunks and then just assemble the chunks? It also has to do with decisions about the scheduling of people and what the rotation is; if there are more third country nationals coming in, they will rotate, so you may need up to two people for every job. That is the sort of thing that can multiply those numbers very quickly.

Senator FORSHAW—Okay, so you have obviously done a lot of work on that since you put this submission in?

Mr Graham—Correct. That was in September of last year, which was about four or five months after we started our front-end engineering and design.

CHAIR—Have you signed off yet on the royalty payments to government and the local communities, or are you still in negotiations?

Mr Graham—We have signed off on fiscal terms with the government, which is the part that we have responsibility for. It is the government's responsibility to negotiate benefits including royalty payments to landowners. We are not a party to that agreement.

CHAIR—Right. So you pay the total—

Mr Graham—We pay the money, but we are not a party to the agreement. The royalty payments are prescribed by law; it is two per cent of wellhead value, which is basically the value of the gas netted back to the wellhead. So the landowners are entitled to two per cent of that wellhead value.

CHAIR—Do they get that from the government or from you?

Mr Graham—It comes from us, and we are dealing with the government now on how it gets routed to the landowners, because our concern is that it needs to get directly to the true landowners who have an entitlement to that payment.

CHAIR—Right, so you do not get touched up halfway through the project for another—

Mr Graham—Or it does not get stuck in the system somewhere or other, and just sit in an account and get delayed.

CHAIR—Whatever.

Mr Graham—Whatever happens, but our objective is to try to make sure that we can get those payments through the government system to the appropriate parties in the field.

CHAIR—And you are still in negotiations with the government to give effect to that desire?

Mr Graham—We are. While we are not party to the agreement on royalties, development levies and equity dividends, we are an active participant in that to try to make sure we influence as best we can the direction in which that process occurs. The actual negotiations have not yet started in the field. They are anticipated to start with the selection of representatives within a week or so, and then the actual negotiations with the landowner representatives will go on for about probably two or three months.

CHAIR—I would imagine they would have an intense interest in the size of the flow in due course?

Mr Graham—It is obviously of great interest to people. This is a royalty stream that they will receive for 30-odd years, so it is not insignificant amounts of money, particularly in the context of incomes in PNG.

CHAIR—You say that whatever the eventual levy to be paid to the government is, the government will distribute a portion back to landowners. What is the in-principle decision as to how much the government will keep for its own general revenue purposes, and how much goes back to the local people?

Mr Graham—The two per cent goes back to the landowners. The government does not take a piece of the two per cent.

CHAIR—Are there two lots of two per cent?

Mr Graham—There are two lots of two per cent. In fact, there are three: royalty is two per cent of wellhead value that goes to landowners; there is another two per cent called the development levy, which goes to provincial government; and there is a third piece which is two per cent equity in the project which is free carried by the state, so those dividend returns from that investment also flow back to the landowners.

CHAIR—I see.

Senator McEWEN—Is that legislated? Is that the Oil and Gas Act (1998), PNG?

Mr Graham—It is the Oil and Gas Act that actually prescribes these obligations, and the negotiation really is around the landowners in recent times pressing for more equity, for example.

Senator TROOD—Is the two per cent that goes to provincial governance distributed amongst all Papua New Guineans?

Mr Graham—No.

Senator TROOD—Just the ones that are affected by the project?

Mr Graham—Correct.

Senator TROOD—How many provincial governments are affected?

Mr Graham—We have the southern highlands, the western province, gulf province and central province—a total of four. Then, of course, there is the income tax which is a very significant stream of money that goes to the national government.

CHAIR—Paid by workers.

Mr Graham—And by the company.

CHAIR—You also said in your opening remarks that there was the potential for a range of other similar projects. Can you just tell us a bit about that?

Mr Graham—For years, maybe 20 years, PNG has been trying to commercialise the gas in the southern highlands. Unfortunately it is a long way from the coast; the gas fields are about 300 kilometres from the coast. Today there is not much manufacturing industry or other industry in PNG that would use that gas. We tried to bring the gas to Australia, the PNG Gas Pipeline Project, but we could not make that work economically. Over the years there have been various proposals brought forward. ExxonMobil is the operator of the LNG project, which includes a long pipeline to transport the gas, in which there may be some capacity to transport third party gas to near Port Moresby. Various other industries could potentially spring up, such as fertiliser plants and aluminium smelters—it is really about access to cheap power, DME methanol plants. The Japanese and others have expressed interest in those sorts of ventures. I think they are just going to have to take their time and come on the back of this project.

This is a foundation project, but I think once it gets started, it will make life a lot easier for the next guy to come through, because you are really talking about large capital investment, and it is expensive to shift gas 700 kilometres to where the market is. Those industries that I mentioned rely on cheap feedstock gas. If the pipeline is built and if the pipeline has some surplus capacity, in our fiscal negotiations, we have agreed on principles for third party access to the pipeline, then perhaps there can be commercial negotiations about others bringing their gas down to the same general area.

Senator FORSHAW—What is the market for the LNG ultimately?

Mr Graham—It is Asia.

Senator FORSHAW—I assumed it would be.

Mr Graham—We have targeted customers in China, Taiwan, Korea, Japan and India. We believe that the demand is there; the challenge we have today is negotiating 20-year contracts in the middle of a very difficult economic climate.

Senator FORSHAW—It would be shipped out of where?

Mr Graham—The LNG plant will be built about 20 kilometres outside of Port Moresby, so we will build a marine facility there, about a two-kilometre long jetty, so we can bring in 220,000 cubic metre LNG tankers to load there.

Senator FERGUSON—I am just trying to visualise what is going to take place up there. I presume a lot of the employment that you are generating will be in and around Port Moresby, if you are going to build your plant there?

Mr Graham—That is the biggest hub of employment.

Senator FERGUSON—What about those who do have to go up into the highlands and to the western highlands; do you intend building accommodation, having in fly-in, fly-out?

Mr Graham—Yes.

Senator FERGUSON—To where?

Mr Graham—To a camp that will be built adjacent to the gas treatment facility which is up in the southern highlands.

Senator FERGUSON—And in the off period, only back to Port Moresby or to wherever they come from?

Mr Graham—It will depend. If they are PNG citizens, it will be back to their home base, Port Moresby or somewhere other else, but if they are third country nationals—TCNs—then it could be back to the Philippines or Thailand or wherever. Typically they would not rotate out of country every six weeks or something like that. If you look at, say, an LNG plant being built in Qatar, the Pakistanis or Indians who work there may go home once a year.

Senator FERGUSON—I have a friend who is working in Angola, and he flies home at the end of every shift, and then back to Angola. I think it is four weeks and two weeks or something like that.

Mr Graham—I think that would be true for professional staff, if they were Australians. They would like to rotate out back to their home base.

Senator FERGUSON—Are you anticipating getting most of the non-PNG employees from other Asian countries?

Mr Graham—Yes.

Senator TROOD—You say you are awaiting final approval on the project. You have obviously done a lot of work so far and it seems by all accounts that you are likely to proceed with the project. Is that right?

Mr Graham—I think that is a fair assumption. It is not over until we are through that final decision. If I had to say what are the critical things we are dealing with now, it is signing up the marketing agreements, the sales and purchase agreements, for the LNG; it is concluding the financing—it is the biggest financing in the history of the oil and gas industry, with \$11 billion of project financing to be borrowed; and the benefit sharing agreement, which is the agreement between the government and the landowners on distribution of benefits. They are the three themes that we just have to get through that are critical to that final decision.

Senator TROOD—I was going to ask you, primarily in relation to the project financing, whether or not the global financial situation has affected your assessment of the viability of the project?

Mr Graham—At this stage, no. We targeted seven export credit agencies around the world. We flew 80 representatives from the export credit agencies and their technical advisers to Port Moresby in January of this year, and we had the government set up to do presentations to all of these visiting lenders. We took them up to the highlands and out to the LNG plant site, and their reaction was enormously favourable. The PNG ministers did an outstanding job in telling the story about how they support the project and how critical it is for PNG. We are in those negotiations now of the terms of those borrowings, and whether the capacity is in the market today to allow that financing to occur. I think our sense is that, with a combination of export credit agencies and the bond issue, which we are also working on with the three major rating agencies, the capacity will be there. Of course, ExxonMobil, given its size internationally, does make that task a little easier if we stand in the financing as well.

Senator TROOD—You did not mention environmental matters. I take it that those matters have been resolved—the environmental impacts?

Mr Graham—We have spent two years now developing our environmental impact statement, the physical environment and the social impact assessment. That was submitted on 23 January this year, so it is now with the Department of Environment and Conservation for review. It is quite a massive document, with some 5,000 pages and 36 independent studies.

Mrs Perkins—To give you an idea, if you think of a binder around 10 centimetres thick, I believe it is 30 or so binders, so it is a huge document.

Mr Graham—And that is the sort of thing I mean when I talk about capacity building—the capacity of the Department of Environment and Conservation to work through a submission of that complexity. It is important for us, because the lenders obviously look very critically at how that has been assessed and whether the issues have been appropriately addressed.

Senator FERGUSON—I wonder how thick the binder was for Ok Tedi.

Mrs Perkins—I think very much smaller in those days.

Senator TROOD—That raises the question as to whether or not there has been any environmental opposition to the project at all?

Mr Graham—Touch wood, no. We have been as open and transparent as we can in inviting NGOs that are represented in PNG today to come along to briefings on the EIS. It is published on our website. We have an obligation to make copies available—hard copies and soft copies—to basically anyone who wants to log on and get them. Touch wood, at this point in time, no. The issues have been comprehensively addressed in the document, we believe. The next step is the management plans to manage those issues once we get the indications from the government as to how they would like us to proceed.

Mrs Perkins—It is also because there has been oil and gas production in this area in the southern highlands for some time, so it is not completely new. People are aware of it, but we absolutely understand how significant it is. We have taken considerable time, around two years, to prepare this material, and that is, we think, one of the areas where the Australian government, which has an outstanding record in this area, would be able to perhaps provide some support to environmental colleagues in the Papua New Guinea government to help them work through some of the complexities of a project of this size.

CHAIR—Can you quickly identify the areas of capacity building on which the Australian government might be able to provide assistance to the PNG government?

Mr Graham—The ones that stand out to me are environment and conservation—that department has in recent times gone out and hired some independent consultants to bolster their internal capacity, but potentially somebody from the Australian government could step in and help; and the Department of Petroleum and Energy. Their legislation is not significantly different from Australian oil and gas legislation.

CHAIR—That is our Department of Resources, Energy and Tourism?

Mr Graham—Right. They have a huge challenge coming their way. We have 26 licence applications that we have to submit this year, and more commonly they would be dealing with several. The Department of Petroleum and Energy also has responsibility for leading this benefit-sharing agreement negotiation, which is a significant piece of work, with representatives of 50,000 landowners. I think the Australian government is already supporting the departments of immigration and labour. When I deal with those departments today, I see Australian faces working with them, but processing visa applications for 10,000 TCNs from all over the place is going to be hugely challenging. It is quarantine and immigration. We will be importing 550,000 tonnes of steel pipe, and bringing that across the wharves in PNG. That is going to be challenging. It is planning in most departments like that.

CHAIR—I have one final question. You have quoted the ACIL Tasman report on Dutch disease, and we addressed it briefly at the beginning. Is sufficient attention being paid to those potential harmful consequences at PNG government level and at Australian government level, in your company's mind?

Mr Graham—I think it is very early days in terms of addressing those issues. As I said earlier on, there is an awareness of the issues, in terms of a response to the issues. I cannot speak to

where the government is up to on addressing the issues. There may well be an opportunity for the Australian government to engage with PNG Treasury officials or others to start looking at the policy settings that exist.

Senator FERGUSON—You said you had to make 26 licence applications; is that just for this particular project?

Mr Graham—Yes.

Senator FERGUSON—In what areas?

Mr Graham—Each major segment of pipeline requires a separate licence. This is not one large reservoir of gas; while it is 10 trillion cubic feet of gas, it is split into four or five different licence areas. So each licence requires a separate application.

Senator FERGUSON—To be dealt with by the national government?

Mr Graham—Yes. The LNG plant itself requires a facilities licence. In total, when you add all those up, it is 26 separate licences.

Mrs Perkins—Just to put this into perspective, that is not that dissimilar to the situation here in Australia. For the Gorgon gas project, for example, another large LNG project, which is progressing over in Western Australia, I think they required in total approximately 80 applications for that one.

CHAIR—Yes—if not more.

Mrs Perkins—For our Bass Strait operations down off the southern coast of Australia—and this year is the 40th anniversary of the start of oil and gas operations—again we have a number of different licence applications that you do initially and then you do as an update every few years.

Senator TROOD—For how long has this resource been discovered?

Mr Graham—I think the earliest discovery was around at Hides, which is the cornerstone reserve, and it is probably 20 years or thereabouts. That is not atypical for a stranded gas resource, as it is referred to. It can take a very long time to develop.

Senator FORSHAW—Going back to the employment of 15,000, could you please clarify this: I think you said there were opportunities for about 3,500—

Mr Graham—From 3,500 to 5,000 PNG citizens, we believe, at this stage.

Senator FORSHAW—Okay. Then you mentioned recruiting from all over the place, and particularly Asia, I think you said. What about opportunities for workers from other Pacific islands; are there opportunities there?

Mr Graham—There may be. I must say that at this point in time we have not looked around to see where those skills might come from. If they built a project just like this in Irian Jaya, they can almost pick up the skilled workforce and move it en masse. As we have not selected those contractors yet, it is not clear to us precisely where the workforce will come from. There may be opportunities there for that to occur.

Senator FORSHAW—So you will be going out to tender for the civil construction companies and mechanical and engineering construction companies?

Mr Graham—Correct. Those invitations to tender go out in the next week or so.

Senator FORSHAW—So you have a package for the LNG plant?

Mr Graham—For the offshore pipeline and other work scope.

Senator FORSHAW—For the pipeline and the LNG plant, and the port facilities?

Mr Graham—Yes.

Mrs Perkins—I could give you one specific example. In the US at some of our Gulf Coast refineries, we use a labour workforce that comes out of the Philippines. They have the very specialised technical welding capability. So that obviously would be one place we would be looking at.

Senator FORSHAW—I am not aware obviously of what the skill base is or may exist within other Pacific island states that could be available. You specifically mentioned Asia, and I am aware of a number of Asian countries that can supply that labour force.

Mr Graham—The labour department in PNG has recently issued new guidelines, and they have categorised different job types. Some must be local citizens, others can be recruited externally, provided you have advertised, and others are open to general recruitment.

Senator FORSHAW—They may come from Australia too.

Mr Graham—They could well do, yes.

Senator McEWEN—During the course of this inquiry, people have made comments about the system of land tenure in PNG—in particular, customary land tenure. One of the other submitters said that, in their belief, the situation under the Oil and Gas Act was okay in terms of land tenure. Is that your opinion as well? Was it problematic for you, or could you suggest any change?

Mr Graham—It would be simpler if it were different, but it is not. The traditional land ownership covers about 96 per cent of the total land mass in Papua New Guinea. The way to work through that is pretty well defined. We do not necessarily acquire the land; we acquire access to the land. So for the pipeline route we have access rather than purchasing a strip of land. The LNG plant is a bit different. If you are going to spend \$6 billion on a plot of land, you want absolutely certainty about title and access to it and so on. There are procedures for the state to

compulsorily acquire that land from the traditional landowners, and then lease it to us. It is a system that is not uncommon around the world. It would be easier if you could just purchase the land as freehold tenure, but that is not the way it is. It is a system that we have learnt to work with in PNG.

Senator McEWEN—You mentioned before that the pipeline—and I presume that is the Santos gas pipeline—was uneconomic if they did proceed.

Mr Graham—They were not participants in the project.

Senator McEWEN—But it is on hold, I think.

Mr Graham—We ceased to work on the PNG pipeline to Australia project in late 2006.

Senator McEWEN—Was that uneconomic because it was gas going to Australia, or because of some other reason? What I am getting at is: will your project fail for the same reason?

Mr Graham—No. There were fundamentally two reasons why that project failed—or maybe three. One reason was that gas prices in Australia, particularly in Queensland, are significantly influenced by coal being the alternative fuel. So the gas prices are relatively low. Secondly, we were on an upturn in costs on the project, and the cost of the pipeline rose from our initial estimates by about 90 per cent during the course of design. Thirdly, just the geographic dispersion of the customers was such that it was necessary to build about 3,000 kilometres of pipe in Australia to distribute the gas to Gove, Gladstone and down to the Santos plant. It was a very challenged project from the outset. It was a serious effort to try to commercialise the gas, but it did not work out. LNG prices for gas are on a completely different basis. They are linked to oil price. The LNG price is a factor of the Japanese crude cocktail plus a constant for shipping costs. As the oil price goes up and down, so does the price for LNG, unlike what we have in Queensland.

Senator McEWEN—Does the pipeline go anywhere near the Kokoda Track?

Mr Graham—No. We are a long, long way from the Kokoda Track.

Senator McEWEN—Okay. I am mindful of what has happened with other developments around the Kokoda Track.

Senator FERGUSON—This question may be outside of your remit, but one of the things that I would question is the extent to which the wealth that is going to be generated from this natural resource within Papua New Guinea can be redistributed either through community infrastructure or to individual Papua New Guineans—in a way that does not seem to have happened with any wealth that has been generated from their previous oil discoveries or production. It will generate a lot of wealth. Have you any idea how this will affect the lives of everyday Papua New Guineans?

Mr Graham—I think it can have a material impact, obviously, on the wealth of Papua New Guineans generally. The challenge for the government is to deliver the infrastructure projects to open up the country. It is not that the country does not have wealth from the gold operations and

the oil operations and so on. The challenge for the PNG government is to be able to apply that money to projects and get things built. To that end, what happens in the oil industry, and it has happened for years, is that the government recognises it is challenged, for example, in building roads, so it will look to the developer of the oil and gas field to build the road and then recoup the costs through tax credit. I think we will continue to see that sort of model being applied as a way of opening up the infrastructure. But that only opens up the infrastructure on the project corridor; it does not look at the rest of the country. I think the government does have to look to that capacity elsewhere in the country to in fact build the infrastructure. If that is done, I think other opportunities and businesses will grow.

We are putting a lot of effort into trying to nurture the establishment of sustainable businesses that are not tied exclusively for their life to the gas project, which is not the right model to be used. We have brought in auditors—not auditors in the commercial sense, but people to come in independently and assess the companies that we deal with to give them a scorecard and identify the deficiencies they have had. Our plan is to set up an enterprise centre that will then provide coaches and mentors for these companies to help them develop business plans. We are starting discussions with banks represented in PNG for micro-finance loans and other forms of financing to step in and support the growth of those companies, provided there is a realistic business plan that stands behind the proposal. I think we can do quite a bit to stimulate some of that development and see the money move through the economy. But the state also has its role to play.

CHAIR—Thank you very much, Mr Graham and Mrs Perkins. Your submission has been most useful and we have benefited from the discussion this morning.

Mr Graham—Thank you.

Mrs Perkins—Thank you very much.

Proceedings suspended from 12.19 pm to 12.33 pm

NOAKES, Mr Steven Arthur, Pacific Asia Tourism Pty Ltd

CHAIR—I welcome Mr Noakes from Pacific Asia Tourism Pty Ltd to this hearing. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

Mr Noakes—No.

CHAIR—The committee has before it submission no. 31 from Pacific Asia Tourism Pty Ltd. It is a public document. Do you wish to make any amendments to your submission?

Mr Noakes—No, thank you.

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

Mr Noakes—Thank you. My submission to the inquiry is all about strengthening assistance to a productive sector of the Pacific islands economy, which is the tourism sector. It is about introducing to your committee an opportunity for Australia to work smarter and perhaps a little bit harder to ensure that its development assistance results can demonstrate better outcomes for a very important component of the economies of all the Pacific islands.

In the history of its international development in using tourism as one of its tools to achieve its agenda, Australia does not show the engagement that many other OECD economies have illustrated over many decades in many parts of the world. For example, in our part of the world, the Pacific, the New Zealand government over many decades has been very proactive in supporting the development of what we now call sustainable tourism type interventions or assistance in the Pacific islands, and more so in those islands geographically closer to New Zealand. As you get further away from New Zealand, it sort of drops off.

We have also seen that the European Union has been a major contributor, over 20-odd years, to the Pacific islands in developing tourism. That may mean infrastructure such as seaports and airports, training institutions, marketing support or small business development support—a whole range of opportunities. We have seen some activity by different Australian governments, but it has been relatively fragmented and ad hoc and certainly not part of the strategic agenda for Australia's engagement.

While the United States, in its aid program, does not get directly involved in the Pacific to the extent that Australia and New Zealand would—apart from the Millennium Challenge Corporation's activities in Vanuatu—the US government has a global development alliance concept known as the Global Sustainable Tourism Alliance, which includes a tourism component and which has been quite successful as a strategy, in tourism-specific projects to assist targeted countries that USAID is addressing. The models that the Americans have developed, in particular USAID, are models that we have established in the South Pacific. When I say 'we', this is an alliance based on the US model that involves the private sector, research university sectors and NGOs. As an example, we have formed what we call the Oceania Sustainable

Tourism Alliance. In this case, the private sector operation is Pacific Asia Tourism Pty Ltd, the research institutions are Victoria University in Australia and the University of South Pacific based out of Fiji, and the NGO is the Foundation of the Peoples of the South Pacific International, a very large NGO across all the islands of the Pacific. The fourth partner is a Washington DC based large NGO called Counterpart International, which had its origins in the South Pacific 40-odd years ago. That model is an opportunity to have a mechanism to deliver the full suite of services and outcomes that development agencies require to having market based activities on the end. So, we have tourism activities occurring which have connection to a market to sustain with ongoing business, rather than just do a project, finish the report and walk away. That particular mechanism has been successful in helping with research issues on climate change impacts in the Pacific islands for tourism and a couple of other initiatives which we have underway.

In my written proposal to the inquiry, I have outlined an introduction to the role that tourism has played in international development agendas around the world. It is a history that really started after the Second World War. Here in Australia we have been a little bit slow to grasp this as well as many other OECD economies have. The Europeans, particularly the British, French, Germans, Austrians and Dutch, the Japanese in our part of the world, the Americans, the Canadians and the New Zealanders are far ahead of Australia in this field. There is a significant body of knowledge now available on planet earth—a little bit weak here in Australia—on the role that tourism can play in contributing to achieving the Millennium Development Goals in the developing world. There is a growing understanding out of Australia—catching up with our colleagues in the Northern Hemisphere—of how sustainable tourism can be a tool to assist in the reduction of poverty in the developing world. We know a fair bit about tourism in the Pacific islands, through various research activities and experiences on the ground, collectively here in Australia. We have an enormous collective capacity to assist and do more in the Pacific islands than we have done here in Australia. At the end of our proposal, section 5, I have listed 13 recommendations, which the committee may wish to have a look at. I am not sure if I should go through each of those individually, but if there are points there with which your members have issues, perhaps I could respond to those.

CHAIR—I think we are interested in your comments by way of overview, Mr Noakes. If people want to pursue individual aspects of your submission, they will do so. I think you should go down that path, or alternatively highlight the key aspects of your submission.

Mr Noakes—Perhaps I might use those recommendations as prompters for comments. If we make the assumption that the security, governance and peace of the Pacific islands will be best achieved if there are strong economies and jobs for people and then ask, ‘What can create employment opportunities for them?’ then certainly the tourism industry comes in there as a player. Already we know that in many of the island economies tourism is the major or a very significant component of the local economy and we know that in every economy it is probably the most highly integrated component. A whole range of goods and services that are produced or traded in those economies are stimulated by more visitor expenditure. There are wonderful opportunities for what we call ‘agritourism’ of getting engagement with the production of agricultural products into the supply chains for the industry, whether that is food, growing crops that can end up in restaurants and hotels, or the production of other things on farms that can be applied into the tourism sector.

For many years New Zealand has been a very active and key player in the development of tourism for the islands through its aid program, as I mentioned. There has been a change in policy in New Zealand with the change of government there. The previous pro-poor focus seems to be shifting to another direction. There may well be a gap emerging in this part of the world for a more of a pro-poor tourism approach and commitment from agencies from Australia and the islands.

CHAIR—Did you say ‘pro-poor’?

Mr Noakes—Yes. The language is about approaches and techniques designed to create net benefits for those deemed to be at or below a poverty line, so there are techniques and approaches which are generically known as ‘pro-poor’ approaches.

CHAIR—Right.

Mr Noakes—Pro-poor tourism approaches have been really emerging probably in the last 10 years in the research and the language of the World Bank and a whole range of United Nations and international development agencies. We have had a situation in Australia—and I refer specifically to AusAID, I guess—where we think there is an opportunity for AusAID to play a more proactive role in getting tourism as a core targeted sector to assist it achieve its agenda in the Pacific islands. As I said before, it has been ad hoc from time to time. There have been tourism related projects, but they are certainly not strategic and they are not encapsulated within any core program of AusAID. If you look at the AusAID website or if you knock on the door of AusAID in Canberra and you talk tourism, there is just nobody at home. It does not fit. It is a hard thing, for many economists particularly—with due respect to any economists amongst here today—because they cannot put it in a box. If you look at tables of economies, you do not find a table for tourism, because it draws from a whole range of other sectors, unless you have some sort of satellite accounting system set up which can draw from all the other elements and measure it. It can be a bit of a challenge, and that makes it difficult for many government agencies and funding agencies such as the AusAIDs of the world.

One of the key issues with the South Pacific is this issue of labour mobility which is all about capacity building, too. There are skills that need to be developed for the tourism sector in the islands which the islanders can learn in places like Australia. Sometimes there are needs in the Australian industry that South Pacific islands can fulfil, and the dual benefit of that is, of course, they are getting skills which hopefully they can take back to their own areas also. So, expansion of unskilled, temporary migration opportunities for Pacific islanders to work in the tourist and hospitality sector in Australia would be desirable. There can be mechanism where communities take responsibility for ensuring that those people come back and make a contribution to their communities. We raise this issue of the number of visas granted for skilled workers from Pacific islands who seek to work within the Australian tourism, travel and hospitality sectors.

The issue of climate change in tourism is a very important one in the Pacific islands, given the vulnerability of many of the island locations. The key attributes of tourism in the Pacific, apart from the cultural, are to do with the sun and the seas and the beaches, so that environmental aspect is critical to the sustainability and the future prosperity of the tourism sector. So, clean energy programs and helping communities on the islands move into renewable energy sources is an area that is vital to the people of the Pacific.

The Australian government has funded vocational and technical colleges in the Pacific. In those countries where those colleges exist, when I have been there talking with islanders in those nations, there does seem to be some confusion or duplication of their understanding actually why they are there, and why those resources could not be used to build their own institutions and their own capacities. We think that the Australian vocational technical colleges in the Pacific, particularly the tourism and hospitality components, may be worth a review in terms of whether they are actually meeting the needs of the islanders, and where are they actually sitting in relation to existing institutions within those countries? Certainly at a personal level, when I am in country, I do get the message informally that there is a sense that the big guys are bringing in their ideas and their resources, and what happened to our investment in our place and our need for vocational education and training?

Australia is a rich country, of course. We have certain capacities in terms of our agricultural production which often times can undercut the opportunities of small markets such as the Pacific islands have, particularly for cash crops, and these all impact on the ultimate cost of tourism goods and services in the Pacific islands. We think that there may be an opportunity for something like a Pacific island sustainable tourism growth and opportunity strategy from the Australian government which identifies and addresses key barriers to tourism and trade in the Pacific islands. We make the comment that market access for the Pacific islands should be seen as a development policy rather than as a trade policy.

In relation to foreign investment, the opportunity for some form of Pacific regional tourism investment agreement to boost Australian investment in appropriate forms of culturally and environmentally sensitive tourism products is available to us, and also to resource local South Pacific leadership in an international effort to identify and reform policies that allow foreign direct investment in tourism infrastructure or services such that they are designed and implemented not to cause harm to communities and island economies. We have seen examples in the last 20 or 30 years—and I have been involved in the islands in tourism where there have been forms of development by Australian operators and investors which are certainly not compatible with the communities, and in some cases they have paid dearly for that lack of appropriate engagement, planning and implementation.

The issue of land ownership and private sector development applies throughout the Pacific islands, from PNG all the way through, and as I was sitting here, I noticed that the previous speaker made reference to land issues in Papua New Guinea. These traditional society resource ownership issues, which are very fundamental as we all know to island nations' character and society, can be understood and they can be worked through. We think there is some benefit in foreign investors from countries such as Australia being given some assistance in developing an understanding of traditional practices and local authority structures and loyalties, land ownership and land use. Tourism by its very nature, especially in a country like Australia, is very competitive, and we have some very sharp entrepreneurs who are always looking for business opportunities, and that is great, but sometimes a little bit of assistance for them understanding more the realities on the ground of making things happen and surviving in the long-term could be of benefit to all parties.

There is also a need to resource the local community engagement in the development of strategies to initiate marketplace mechanisms to attract investors and operators which enable the sharing of the benefits of sustainable tourism to those areas that receive few tourists. One of the

benefits of the tourism sector is that it does not have to be in urban centres. It allows wonderful opportunities for regional and rural development in outer island economic activities. We think that is a significant benefit of boosting of the sector.

The South Pacific has a number of regional organisations which touch on tourism or get involved in tourism. They may be tourism specific marketing bodies, the major one being the South Pacific Tourism Organisation. It had its core funding for its first 10 years of life from the European Union, and during that development phase, in the 1980s, because it was European-tied money, all the consultants used in that were from Europe, so we had a lot of consultants from Denmark, Sweden and Norway coming down for three or four years at a time planning tourism in the tropical South Pacific, and there was no Australian involvement in that whatsoever. At least we know where the tropics are and we have a latitude link. Then, in the last 10 years or so, there has been continued European Union funding, but as a marketing organisation, to create demand for the destination, a critical role, that organisation has struggled to do what it has to do for the islands.

In terms of generating demand for the product in the region, we would support any opportunity for that organisation to get into some sort of five-year rolling commitment in support for the very key role that it plays. We suggest that, if the Australian government had a closer look at how the USAID has structured and how it has used its global sustainable tourism alliance to achieve its objectives, we may be able to amend or adopt or adjust some of their approaches to do some good work in the Pacific islands.

One of the key areas for the Pacific islands is risk management in tourism. There are no real contingency funds available for unforeseen circumstances and disasters which have major impacts on tourism economies of the Pacific islands in a regional sense. They are subject to a whole range of shocks, whether they be political or natural environmental, as we have seen in recent times. Australia plays key roles in a number of multilateral organisations which have activities in the Pacific—the World Bank, International Finance Corporation, Asian Development Bank, the United Nations World Tourism Organisation, the United Nations Environment Program, the South Pacific Regional Environment Program and so on, there is a whole range of them—but once again, tourism is an add-on or a small part, and not a core. Nobody really has a focus on it. We think that there is a need in those multilateral agencies to help the voice of the Pacific islands. Particularly where it is Asia Pacific, the Asian destinations which usually have bigger budgets and more voice, drown out the islanders. I am involved in a number of forums in Asia Pacific, and keeping the Pacific name up there is very difficult, particularly in tourism, when you have big budgets and big voices from Thailand, China and India, and then you have Niue trying to get a voice around the table. It is a battle for these people in those sorts of multilateral forums.

In relation specifically to Fiji, we appreciate the circumstances of formal relationships between countries like Australia, New Zealand and the current Fiji government, but from a tourism industry point of view, Fiji is still the biggest player. When Fiji tourism hurts, Pacific island tourism hurts. So some form of support for what we have called a return to democracy strategy for Fiji tourism to impact on the marketplace and encourage more foreign direct investment at an appropriate time, when policy and relationships are harmonised, to use that language, we see as an advantage for the islands. Our intention of putting this submission to your inquiry was really to ensure that this sector of tourism appeared on the agenda, and that it was

not yet again another forgotten component of Australia's engagement and future planning for the Pacific islands. I would obviously be delighted to take any questions.

CHAIR—Thank you, Mr Noakes. I have one issue that I want to pursue with you. In your submission you have a set of references to USAID and their set of alliances around the world, their websites and how they have managed to use development of tourism essentially as a method of development of a less well off parts of the world. Are you aware of any relationship between AusAID and USAID for tourism?

Mr Noakes—There is none.

CHAIR—There is no relationship at all?

Mr Noakes—No. I have had meetings with AusAID and introduced them to the USAID people responsible. I work more closely with USAID in tourism than I do in Australia—and USAID is very happy to share the knowledge with AusAID in Australia. So there is an opportunity there for partnerships between AusAID and USAID in terms of sustainable tourism.

CHAIR—But it has not yet been taken advantage of?

Mr Noakes—No.

CHAIR—Of course, the Department of Resources, Energy and Tourism here in Australia relates to Australian tourism. It works to encourage tourists to come to Australia and spend time in Australia.

Mr Noakes—That is the function of Tourism Australia, as opposed to the department. The Australian government is a member of the United Nations World Tourism Organisation. Because it is part of the UN system, the World Tourism Organisation is the peak intergovernmental body for tourism on the planet. Because it is a UN agency, it requires a resolution of the parliament to take out a membership. Its core function as a UN agency is to do things to help achieve the Millennium Development Goals. So which part of government does that? That is given to the Department of Resources, Energy and Tourism. It is a bit hard for them to get their head around, because the focus and the history of the Australian government's involvement in tourism has been about bringing tourism in and developing our industry. So guys in the department say, 'What do we actually do to help achieve the Millennium Development Goals for tourism as part of our commitment?' because the Australian parliament has become a member of the UN World Tourism Organisation, and it has never really figured out where it should be. It is probably a hybrid between the Department of Resources, Energy and Tourism and the Department of Foreign Affairs and Trade foreign affairs. That whole issue has not really found a home yet in Canberra. It is a good question that you ask.

Senator FORSHAW—You just touched upon building up and sustaining our own tourism industry in Australia. Your recommendation is for foreign investment to boost Australian investment in appropriate forms, culturally and environmentally sensitive of tourism products in the Pacific islands. But what about the actual investment ownership locally of tourism within Pacific islands? Again, I suppose my knowledge of this is just general. The advertising seems to be increasing for tourism to Pacific islands, whether it is cruises or fly in and stay at an island

resort for a week or whatever. Is there much local ownership of the tourism? Or is it more that they get employment and other economic benefits but the ownership of the industry is largely international?

Mr Noakes—Certainly at the top end, let us talk four or five star, you would obviously get more engagement with international investors, although there are certainly some local investors in Papua New Guinea, a little bit in the Solomons, a bit more in Vanuatu, a lot more in Fiji and so on. Often times a local investor will partner with an international investor for a significant one. As you come down the line into the guest houses, the fales and the smaller motels, you get a lot more local ownership. So the higher the capital cost of developing, the more you have reliance on international investment. However, the bigger they are the more likely they are going to employ locals. So a four- or five-star hotel in Fiji might employ 300, 400 or 500 locals, who may support 300, 400 or 500 families.

In terms of the ownership of the infrastructure or the operations—and it may be a tour company or a visitor information service—that microfinance level of assistance is where you can really get a lot of bang for the buck, and \$20,000 or \$50,000 goes a long way. It has been a challenge for AusAID to find mechanisms to fund the private sector. It is trying very hard with the AusAID Enterprise Challenge Fund. But I think only two of the first 30-odd applications got across the line. So there is something wrong with the mechanism when some very good applications which could have had a lot of benefit in communities just did not get up. AusAID is still coming to terms, I think, with mechanisms to help stimulate and assist the private sector. But it has not quite got there yet.

Senator FORSHAW—You mentioned Papua New Guinea a moment ago. For some time it has been a thought in my mind that maybe one of the lost opportunities for New Guinea was adventure tourism and ecotourism. We now have companies attracting or promoting adventure tourism and ecotourism in all parts of the world—in Asia, South America and so on. With the benefit of hindsight, there has always been this great place up there that probably had the capacity to do it—and I have not done it myself! Given the state of PNG for many years, is there scope for that? Is it just that it has never been tried, or is it all just seen as too hard and unstable and violent or whatever? People go to South America to go up the Amazon or they go to places in Thailand and all sorts of other places in Asia that have only opened up, in many cases, in the last 10 or 15 years or so. New Guinea seems to me to be there for the same thing.

Mr Noakes—The short answer is yes, there is enormous potential. With Papua New Guinea and tourism, ‘potential’ is the great weight on the shoulders. I have been involved in tourism for 25 years in PNG, and we gave up about 20 years ago trying to sell product to Australians. All of our business comes out of North America and Europe.

Senator FORSHAW—Why?

Mr Noakes—Perception. In fact, my wife is in Papua New Guinea now. We have a group of 16 alumni from Harvard University circumnavigating the island. They have just finished the highlands and the Sepik. She has done five of those trips a year for the last 22 years. They are Americans; we do not get Australians on those trips. It is all about marketplace perceptions—and the reality.

Senator FORSHAW—What is the perception—that it is lawless and dangerous?

Mr Noakes—The perception is that is dangerous and it is negative.

Senator FORSHAW—But so is the Amazon. So are lots of other parts of places.

Mr Noakes—Yes. I can show you parts of Brisbane that I would not walk in at night! It is ingrained. It has happened over many decades of perception. And the reality is that, certainly in some parts of Port Moresby, you would not want to be out at midnight. I think what is happening is that the younger generation of Australians have been particularly stimulated by Kokoda. We have seen the rapid growth there in the last number of years. We were running Kokoda trips 20 years ago, for small groups, and we were getting a total of 100 or 200 people a year; now you are talking about 5,000 or 6,000, and they are mainly Australians. That has been wonderful. A number of high schools in Australia now have Kokoda programs, and they want to get their folks to come with them. So there is a bit of a breakthrough on things like that. The adventure and the cultural aspects of Papua New Guinea tourism are just marvellous. In world terms, they are extremely competitive.

The national tourism office of Papua New Guinea tries very hard and is working closely with some AusAID related instruments currently—for example, the Australian volunteers program, which I partner with. Just last week we called for five Australian international volunteer people to be appointed to go on five different tourism related projects in PNG working with the national tourism office. Once again, that is a great initiative, but it is ad hoc. It is not part of a grander strategy by AusAID in terms of the long-term sustainable development of tourism in Papua New Guinea or the Pacific islands. But it is a good little one-off program with one AusAID-funded instrument—in this case, volunteers. If you could package it all together and be more strategic in the planning and support for places like PNG, we could perhaps leverage off the very good results that have occurred from Kokoda, in terms of numbers. There is a whole range of other issues in terms of making sure some of those benefits go back to the communities on that path, but that is manageable with proper planning and commitment.

Senator FERGUSON—Since writing your report, which was in August last year, there has been a significant downturn in tourism in the Pacific in some of the islands. I think we were told that in Fiji it was down 30 per cent. But that was not the most significant factor; the most significant factor was that the profit margin had completely gone because people were marketing discounted trips in order just to keep alive and to keep people employed. Do you see some dangers in people relying too heavily on tourism? I notice that nearly 50 per cent of the income of the Cook Islands and Palau comes from tourism. Apparently it is still quite strong in the Cook Islands, but I wonder what it is like in Palau. Is this downturn going to hit that seriously on the economies of all of the islands in the Pacific?

Mr Noakes—I had some colleagues from Vanuatu with me last week, and I looked at the figures. Vanuatu is significantly up this year, with a 20-plus per cent increase in arrivals in Vanuatu this year.

Senator FERGUSON—But arrivals do not tell the whole story, do they?

Mr Noakes—No, exactly. There are three things to look at: arrivals, length of stay and expenditure. I only looked at arrivals for Vanuatu, which was at a very high level. But my colleague, in partnership with a Pacific islander, owns and operates a hotel in Port Vila, and they have not dropped their rates. Port Vila is a bit different, because you get a lot of corporate and government type traffic there, which helps to keep up the yield on accommodation. Places like Palau rely largely on the American dive market—and if that hurts, Palau hurts. And they rely on the ‘expedition ship’ market rather than the big cruise ship market—that is, vessels that carry up to 100 people. Certainly the US market is soft this year. My wife is currently running a trip in PNG. She would normally run about 35 or 36 passengers, but this year she has 18—and these are rich, older Americans. It has halved—so we have vacancies! In any economy, whether it is a big place like Australia or a little island, you do not want to be reliant on one sector; that is not a good strategy. If you can diversify your sectors, that is desirable. The reality is that you have to determine which industries have the most chance to grow and develop in the Pacific islands and which ones can give the biggest multiplier impact from export dollars. As an Australian tourist, I can go across there and spend \$100 in a guesthouse or a hotel. If they feed me, they are buying the tomatoes and the vegies from a local farmer. If I buy bandaids at their pharmacy, that pharmacy is getting my visitor expenditure—and so forth. Because tourism is such a highly integrated component of local economies—you need bricklayers, you need bricks, you need electricity, you need roads, you need water et cetera—you can filter those funds through the economy probably a lot faster than you can in a number of other industries.

Senator FERGUSON—Cruise ship passenger tourists to these islands buy no accommodation and they usually buy no morning or evening meal; in fact, they usually only go on a tour of some sort. Do you know what percentage of visitors to these islands are actually cruise ship passengers as opposed to people who will occupy bed nights?

Mr Noakes—Yes, those figures are available. I do not have them with me currently.

Senator FERGUSON—Do you know roughly what it would be—20 per cent?

Mr Noakes—I am sure they are on the website of the South Pacific Tourism Organisation. If not, certainly that office in Suva could give those figures to you. But one of the good things about the cruise ship industry is that you can measure it statistically. One of the good things about South Pacific tourism is that you can measure it.

Senator JOYCE—Where is the South Pacific Tourism Organisation based?

Mr Noakes—Suva. The data is available. I am sorry I do not have it with me at the present time. I actually led a project a couple of years ago to do what is the current Fiji tourism master plan. We developed that over 10 months, with three governments, when change was going on, and we managed to keep the contract going and deliver it to the third and current regime in Fiji. We have a fairly rigorous section on the cruise ship industry there. Once again, Fiji is the big-ticket item. As I said before, if tourism is hurt in Fiji, tourism is hurt for the Pacific islands.

Senator FERGUSON—You also say in your recommendation that at some time Fiji will return to democratically electing a national government and rejoin the international community. From some of the evidence that we have heard in the past few days, that does not seem to be a

short-term prospect. If it is not a short-term prospect, how much will this damage tourism throughout the whole region?

Mr Noakes—It is a serious issue for the whole of the South Pacific, given the importance of Fiji as an aviation hub for the region. When you look at South Pacific tourism and you look at the number of commercial beds that are available, Fiji dominates. When you look at the trends for visitation to the South Pacific over many decades, Fiji dominates. So, the sooner Fiji can get back into being part of the international community and getting into those linkages and relationships that are part of the fabric of tourism and its organisations, the better. Australia and New Zealand are the key markets, so Fiji needs the Australian and New Zealand markets. However, Fiji does draw from North America and Europe also, and they are relatively high-yielding markets. The consumer is not necessarily as sensitive to government relationships and policies as governments are.

Senator JOYCE—What percentage is North America?

Mr Noakes—I do not have it. Once again, that information would be available on the South Pacific Tourism Organisation's tourism statistics database. I do not know the actual number, but it is small. Australia and New Zealand together dominate, with well over one-half of the market.

Senator FORSHAW—Senator Ferguson asked you about the impact of cruise ships. As you described, they do not need accommodation et cetera on shore, but do they purchase much product as they cruise around from island to island? I would guess that they probably do not. Do they actually purchase many supplies on the islands, or is it all purchased in Australia or wherever before they leave?

Mr Noakes—They are carrying a lot on board with them. In many of the places where they drop anchor and do sightseeing—for example, Tanna Island in Vanuatu—there is no capacity to purchase anything.

Senator FORSHAW—That is why I am trying to get a sense of—as distinct from the passengers going ashore and spending their money on tax-free items.

Mr Noakes—There is a South Pacific cruise strategy, which was finalised maybe two years ago. Once again, I do not have it in my head currently. A study was done on the cruise ship industry, and that is probably only about two years old. I am sure that it has some economic impact assessment in it.

Senator FORSHAW—When cruise ships and US warships come into Sydney, they purchase a lot of stuff—but that is because they are doing long journeys.

Mr Noakes—The big ports in the South Pacific include Port Moresby—

Senator FORSHAW—By the sound of it, they do not purchase much.

Mr Noakes—No, not much.

Senator FERGUSON—I understand that cruise ships will be pulling in to Norfolk Island as well. Will that be this year?

Mr Noakes—I think so. There are cruise ships operating out of Australia, and there are the smaller expedition vessels operating too. Often times they are overlooked, but they can have a better impact because they get to smaller locations and spread the dollars around more to the islands.

Senator FERGUSON—There is no wharf at Norfolk Island, so they will be offloading by lighters.

Senator McEWEN—Mr Noakes, in your opening statement you spoke about foreign investment in tourism. You mentioned that you had come across some investments that were inappropriate and failed as a result. Can you elaborate why they were inappropriate and why they failed.

Mr Noakes—It was largely because of a lack of understanding of local cultural issues, particularly land ownership, and the nature of the political processes in those countries. They took a very Western approach to doing business, without due regard for the sensitivities of local tribal groups and people's backgrounds.

Senator McEWEN—What sorts of tourist ventures were they?

Mr Noakes—They were resorts—and the tensions and conflicts got to the stage where they would burn them down.

Senator JOYCE—Such as where?

Mr Noakes—Solomon Islands.

Senator McEWEN—In terms of capacity building, you mentioned Pacific islanders in particular working in hospitality. Australia runs a working holiday visa scheme that is well utilised by European backpackers to work in the hospitality industry over here. Is that open to Pacific islanders—assuming they could afford to come here?

Mr Noakes—I do not know, but I would assume that it would be—unless there is some preferred arrangement with Europeans.

Senator McEWEN—You are not aware of it being used? It is a great way for people to learn skills.

Mr Noakes—I think so.

Senator FERGUSON—I am not sure that that is the case. I think normally there has to be an agreement between governments. I do not know that it has been put in place for the Pacific islands. I do not think it has.

Mr Noakes—I do not think it has, either; that might be right.

CHAIR—We will make some investigations on that point.

Senator TROOD—You draw these parallels with USAID and AusAID in your submission. I am just not entirely clear how AusAID deals with tourism. It is inadequate from your perspective, but is it because there is no commitment or priority to sustainable tourism, as you call it, or is it just that tourism is there but it is in a disaggregated series of buckets rather than being given the kind of prominence that you think it should have?

Mr Noakes—It is a challenge as an industry to measure and put into classic economics. Economists have always had great difficulty with it, although Australia has advanced a considerable way with tourism satellite accounting, setting off and drawing from impacts it has across other aspects of the economy. Also, there is a perception that it is a very private sector driven activity, and AusAID historically has been challenged in putting programs in place to help private sector development. But tourism is all about a system. The private sector does not work without the public sector; they have to work together. If I am in an island economy, I need bilateral arrangements for aviation, I need visas and I need quarantine and customs. These are all public sector activities, and tourism needs them. You need to look at the whole system of tourism, including the private sector activities and the public sector activities—and many of them are just inseparable. The system does not work unless they all come together. For some government agencies, getting their heads around that concept can be a bit of a challenge. They see it purely as: ‘Tourism is a resort and the private sector can do it; we do not need to know about it.’ But you cannot manage that resort over there in a place without a whole range of government engagement—on infrastructure, visas et cetera. There are very few functions of government that do not have some impact on tourism and that are not required in order to make tourism work. So it is not just a private sector thing. The biggest challenge is in getting Australian government officials—and this happens globally—and the private sector to understand that the tourism system is all interconnected and that the whole system has to move together to get the best outcome.

Senator TROOD—What is it about the USAID approach that particularly recommends itself to you?

Mr Noakes—Well, it works. I have seen it on the ground.

Senator TROOD—Is that a function of size and how much money they pitch in?

Mr Noakes—No, I think they have a history or research going back decades and decades, probably since the 1950s, on what tourism can do for protected areas, national parks and so forth in the US. They then took that into the environmental component of the international development agenda over time and, when the Millennium Development Goals came along, they could see how they could adapt that into helping tourism could make a contribution to the eight Millennium Development Goals. They are just far more advanced. In the USA, for example, probably for the last 20 years, universities have been pumping out masters and PhDs on things to do with international sustainable tourism development. In Australia, we do not have one postgraduate program on international tourism and development. We just do not yet have the body of knowledge to help drive the agenda which helps move government policy in this area.

Senator JOYCE—James Cook University does not do anything?

Mr Noakes—No, there is none in Australia.

CHAIR—Mr Noakes, thank you for your submission and for your contribution this afternoon; it has been most useful.

Mr Noakes—Thank you.

[1.24 pm]

PACHECO, Dr Vladimir, Senior Training Coordination and Research Fellow, Foundation for Development Cooperation

CHAIR—I welcome Dr Vladimir Pacheco from the Foundation for Development Cooperation to this hearing. A copy of today's opening statement has been provided to you. Do you have any questions regarding that document?

Dr Pacheco—No.

CHAIR—The committee has before it submission No. 53 from the Foundation for Development Cooperation. It is a public document. Do you wish to make any amendments to your submission?

Dr Pacheco—I would like to make an addition.

CHAIR—All right. I ask you to make a brief opening statement, and then we will proceed to questions.

Dr Pacheco—As part of its mandate to conduct policy oriented research, foster public awareness and mobilise broader Australian and overseas development cooperation, the Foundation for Development Cooperation made a submission to this inquiry on 24 October 2008. This submission highlights the benefits of labour mobility, remittances and microfinance as part of a broader program to strengthen the economies of Australia's nearest neighbours.

In relation to the pilot seasonal labour migration program for Pacific workers in Australia, we see provision of regional employment opportunities as a key part of meeting economic challenges for Papua New Guinea, the Solomon Islands, Vanuatu and Fiji. FDC commends the Australian government for pursuing this initiative and would like to add that, should the initial pilot scheme be successful and a fully fledged seasonal program be implemented, more emphasis should be given to recruiting workers from Melanesia.

There are two important reasons for this. One is that, unlike Micronesia and Polynesia, Melanesia does not have any significant immigration outlets. The other reason is that Melanesian countries such as PNG, the Solomon Islands and others in the region such as Timor-Leste have suffered both socially and economically as a result of armed conflicts and need to find ways of maintaining local economies and improving livelihoods. A fully fledged seasonal labour program, even if it increases tenfold in terms of workers allowed into Australia, will not resolve the serious unemployment situation in Timor-Leste and the Pacific, where the highest rates internationally of youth unemployment persist. But it will go a long way in supporting an overall strategy to stabilise the political situation in those areas that have suffered recent armed conflict.

In relation to remittances and microfinance, we would also like to take this opportunity to present a few points that were not covered in our original submission. An important point to add as part of our submission is that, for the last three years, the foundation have been supporting an

innovative approach amongst governments in the Pacific region and beyond to include microfinance and other financial services for the poor as an agenda item in the portfolio of each country's finance minister. This new approach is in line with a movement towards financial inclusion which encompasses not just microfinance but all other associated poverty alleviation instruments. This initiative departs radically from the traditional approach that narrowly and unhelpfully associates microfinance with the social welfare sector of Pacific and other economies. We have seen, for instance, well-meaning ministries with no expertise in financial development appropriate microfinance programs to then face problems of implementation that discourage them from pursuing these programs effectively. FDC has promoted the financial inclusion approach in several regional international fora such as the Pacific forum economic ministers meeting in Honiara in July 2006, the Microfinance Pasifika Network and, most recently, the APEC finance ministers' process through its business advisory council. FDC hopes that the Australian government will support the proposed financial inclusion initiatives and recognise these as part of a broader strategy to strengthen the economies of its neighbours. FDC would thereby like to provide additional material to this inquiry to support the original submission made in October 2008.

CHAIR—Thank you, Dr Pacheco. We will admit that additional document. Does that conclude your opening remarks?

Dr Pacheco—Yes.

CHAIR—Okay, we will turn to questions.

Senator McEWEN—Thanks very much, Dr Pacheco, for your submission and additional information. Some of the submitters to this inquiry have said that there has been—to paraphrase them—too much aid given to our Pacific neighbours and that has prevented them from developing economies that are sustainable. Also we have had one commentator, Dr Helen Hughes, say that, in terms of remittances from Pacific island workers who go overseas and send their money back home again, that money has contributed to the rise of things like diabetes and inappropriate diets et cetera. Can you comment on those two aspects?

Dr Pacheco—I am familiar with some of Dr Hughes's arguments.

Senator McEWEN—I am sure you are.

Dr Pacheco—I do not know whether there is a direct correlation with remittances as causes of diabetes. I know that the causes of diabetes are more in relation to poor diets, transitional diets—in other words, a mixture of modern manufactured foods with local traditional diets, and the people do not know how to mix them. They eat too much sugar, for instance, and too much fat, resulting in those high levels, but I do not see the relationship with remittances. I was expecting the bad side effect of remittances to be that they contribute to a certain extent to expenditure in consumable goods, things such as TVs and things that do not increase economic development; they just increase the purchasing power of these people, which means that the money then goes out of the country again. But that argument is novel to me.

Senator McEWEN—And the issue about there having been too much aid that has not delivered adequate results?

Dr Pacheco—I think that the aid in some instances has created dependency. I think many governments in the Pacific are not sufficiently strong on the ground to be able to deliver some of the programs that they are supposed to deliver. But I think there are areas in which aid will certainly contribute to economic development. For instance, many of the programs that the Australian government provides are too blunt an instrument, and I think we need to do more research to be able to find out, for instance, what form of aid is more effective than others.

I can tell you that, in some of the areas that the FDC is working in relation to governance, many governance programs that are being funded through donor agencies in the Pacific are directed to people who are already in leadership positions. These people are known in the Pacific as being in the circle of leaders. Lots of people believe that that is money wasted, because these people already have a certain leadership style and they will not change through more education. What we are doing at FDC is trying to implement a program that is bottom up—in other words, it provides leadership skills and knowledge to those people who have not had a turn, who are young or who live in remote areas and have no idea of how to start. This is just an example. We have a little money, so we can do it.

I believe that these claims are too general. I think there are areas in which aid does help. In our submission, we made some recommendations as to how Australian government and donors can help in particular instances. I do not think that that money will be wasted; it will be very effective.

Senator TROOD—Your submission alludes to the Pacific guest worker scheme, and you express a range of concerns, drawn in part from the Canadian experience, as I understand it. Are you just drawing our attention to the potential for abuses—as some might call them—or at least shortcomings in the scheme, or are you anxious that the way the scheme is set up here might open itself for these concerns particularly?

Dr Pacheco—I just mean the potential. In other words, I do not know enough about the program and how it is being implemented to be able to make comments that it is not being run well. In fact, I think all indications are that many of the good things—some of the things that we have submitted there—are actually being taken into consideration, which means that the Australian government is listening to a lot of people in implementing this program. It remains to be seen what happens, but the potential is there. I think the problem, at least with the Canadian program, is that the employers are able to take advantage of some instances, such as the workers not being able to have access to union representation, and are therefore able to make shortcuts and that sort of thing. But that does not mean that the same will happen here. In fact, I have read some of the other submissions from the unions, and they make it clear that there will be some kind of union representation. I was just echoing some of the concerns.

Senator FERGUSON—You have quite a detailed part of your submission dealing with microfinance. How effective is microfinance and how much is it sought after by the peoples of the Pacific Island states?

Dr Pacheco—If we compare with Asia, it is nowhere near as mature as in the Asian countries. But in the additional material that I have given you we have given you some examples of success stories, and I would like you to have a look at it. One of the main problems that exist in the Pacific—I do not know whether it is a problem—is that we still have the formal financial

sector on the one hand, some of which is quite well developed, and the subsistence economy on the other hand. There is a missing middle. For instance, there is no informal sector to speak of, or it is not very vibrant. This is where a lot of microfinance happens, in this sector. When you have a non-monetised economy, the focus should not be on microfinance or microcredit per se; it should be on financial inclusion—in other words, include those people that are outside of the monetised economy in all sorts of financial services. People in the country areas, in remote areas, are bound by two things: one is the fact that they can survive without money and the other is that they sometimes require money, cash, to pay for things that are outside of their economy—they might get sick or they might have to fly somewhere and they require money for that. If they did not need to do the things that require cash, they would be fine but, because they need those things, that is where microfinance services can be of benefit. To answer your question, the people do not require it as much but, when they do, it is because they actually need it.

Senator FERGUSON—I think Grameen Bank was probably the first to put microcredit or microfinance on the agenda—was it in Bangladesh?

Dr Pacheco—Yes.

Senator FERGUSON—But in most cases it was to set up people in their own small businesses so that they could then build a business in order to provide the cash they required for themselves. In most cases, when it started off, I think it was \$10 or something like that. It was a very small amount.

Dr Pacheco—Yes.

Senator FERGUSON—Is it the culture of South Pacific island peoples to wish to become small business people to start with? I get the impression that many of them were subsistence livers, that business did not play a role in their life at all and that it was day-to-day subsistence rather than planned subsistence. What I really want to find out is whether you have a receptive audience to microcredit as opposed to our saying: ‘We will offer you microcredit. You guys should get yourselves involved in small business.’ What is the culture?

Dr Pacheco—The relationship with money is completely different to our perception. It is almost like a necessary evil—and here it is as well. The culture is that you access finance, you access money, only for things that lie beyond your local economy, such as school fees, visits to the doctor or transportation outside. Of course, every one of these small towns will have a market where some exchange happens, so they do handle money.

Senator FERGUSON—But do they want to move from being at a small market just as subsistence farmers? Is it their nature to want to move on to run a shop?

Dr Pacheco—No.

Senator FERGUSON—That is the point.

Dr Pacheco—No, it is not. That is why I guess I am trying to explain that it is only when needed. A shop is usually a form of secondary income, but if your subsistence is enough without the second income then it is not a way out of their condition. In Asia, wanting to be a small stall

holder is because it means a way out. But no, the same does not happen. It only happens maybe in some of the urban centres, when people come from the remote areas to live in the capital cities and they find themselves without a job. Then they might set up a stall.

Senator FERGUSON—So what do they want microfinance for?

Dr Pacheco—For those other things that I mentioned to you.

Senator FERGUSON—But, if it is only going to provide them with the ability to purchase fares or provide some health requirement, there is no capacity to pay the money back anyway.

Dr Pacheco—There is. I do not want to underemphasise the fact that they live in a limbo situation. They do not want to become small stall owners, but they do want to have money to pay for those things that they cannot use cash for. They might need to work or they might need to save. One important aspect of this microfinance as opposed to microcredit is that we are making an emphasis on the savings side more than on the credit side.

Senator FERGUSON—But that assumes they are working for money anyway, doesn't it? If they are going to have savings, you are assuming that they have a job and they are working for monetary return. They are not just subsistence?

Dr Pacheco—Yes. Let us say that in a village a proportion of its members are employed in the monetised economy. A lot of the families will rely on the people who have the cash to be able to pay for those services that require cash. So they are still reliant on money for those services. These people might be employed in government or they might have a stall in the market, so they are not completely non-monetised; they still rely on money, but not to the same extent that we do here in Australia or in some other place.

Senator FERGUSON—I am sorry to dwell on this, but what you are saying is that there is a far greater need for microfinance than for microcredit?

Dr Pacheco—Yes. You will probably see in the additional material—

Senator FERGUSON—I have had a quick look through it.

Dr Pacheco—that instead of this emphasis for giving credit, we should be emphasising more the savings side, and also that there are other services such as microinsurance, and just being able to access, for instance, a payment system—a way to pay for school fees or a way to pay for hospital visits. That does not mean that they have to have credit; it means that they have to have the cash and the facilities to be able to pay for that.

Senator FERGUSON—What is an example of microinsurance?

Dr Pacheco—It is basically when a provider gives the facility to, say, a stallholder to be able to make contributions as a safety net. So they might provide, say, a dollar over a month in case this person suffers an illness. The company then provides—

Senator FERGUSON—Okay, like micro health insurance or something like that?

Dr Pacheco—Yes. Also to provide insurance for capital goods.

Senator FERGUSON—I will read this supplementary submission with interest, because I just had a glance through it and there are some quite interesting statistics in it.

CHAIR—As there are no further questions, thank you for your attendance this afternoon, Dr Pacheco. Your contribution has been most interesting.

Dr Pacheco—Thank you.

Committee adjourned at 1.48 pm