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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

**Reference: Australia's relationship with Papua New Guinea and Pacific island
nations**

THURSDAY, 27 MARCH 2003

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Thursday, 27 March 2003

Members: Senator Cook (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Hogg, Johnston, Marshall and Ridgeway

Participating members: Senators Abetz, Boswell, Brandis, Carr, Chapman, Collins, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Knowles, Lees, Lightfoot, Mackay, Mason, McGauran, Murphy, Nettle, Payne, Santoro, Stott Despoja, Tchen, Tierney and Watson

Senators in attendance: Senators Cook, Hogg, Johnston and Marshall

Terms of reference for the inquiry:

To inquire into and report on:

Australia's relationship with Papua New Guinea and the island states of the south-west Pacific (known as Oceania or the South Pacific), with particular reference to:

- (a) the current state of political relations between regional states and Australia and New Zealand;
- (b) economic relations, including trade, tourism and investment;
- (c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- (d) the implications for Australia of political, economic and security developments in the region.

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CALLAGHAN, Mr David Neill, Manager Government Affairs, Qantas Airways Ltd

WILLIAMS, Mr Rodney Peter, General Manager Alliances, Qantas Airways Ltd

CHAIR—I declare open this meeting of the Senate Foreign Affairs and Trade References Committee. I call the committee to order. Today is the sixth of the committee's public hearings into Australia's relationship with Papua New Guinea and a number of Pacific island countries. The terms of reference set by the Senate are available from secretariat staff, and copies have been placed near the entrance to the room. Copies of submissions from today's witnesses that have been published by the committee are also available. This afternoon's hearing is open to the public. This could change if the committee decides to take any evidence in private. This hearing will conclude no later than seven o'clock tonight.

Welcome. Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege. It is important for witnesses to be aware that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. If at any stage a witness wishes to give part of their evidence in camera, they should make that request to me as chair, and the committee will consider the request. Should a witness expect to present evidence to the committee that reflects adversely on a person, the witness should give consideration to that evidence being given in camera. The committee is obliged to draw to the attention of a person any evidence which in the committee's view reflects adversely on that person and to offer that person an opportunity to respond. Witnesses will be invited to make brief opening statements to the committee before the committee embarks on its questions. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, officers may be asked to explain government policy, to describe how it differs from alternative policies and to provide information on the process by which particular policies were arrived at.

I also take this opportunity to announce, as chair of the committee, that the committee has recently been granted approval from the Prime Minister and the Minister for Foreign Affairs and the presiding officers of the parliament to travel as an additional parliamentary delegation to Papua New Guinea and a number of other Pacific island nations, which are yet to be decided, in the context of this inquiry. The committee has had a longstanding request to travel to the region in the context of this inquiry but, as this is not standard practice for Senate committees, the committee was required to seek the approval of the Prime Minister and the Minister for Foreign Affairs, who have welcomed the committee's interest in the region. Given the many and varied important issues facing many of the nations in the region, it will be most valuable for the committee to see things first-hand and to have the opportunity to talk with local communities. The committee is pleased to have this opportunity. That concludes my formal statement, and I would like to move right along as we have a shortage of time and I want to give as much time as possible to the witnesses. Gentlemen, the floor is yours. You have provided us with a submission, and we thank you for that. If you wish to address us on it, please proceed.

Mr Callaghan—Thank you. I will make a short opening statement. Qantas thanks the committee for this opportunity to appear before it and to provide some commentary on the submission we made last July. In making our written submission, we concentrated on our area of interest, the aviation industry, which is vital to Papua New Guinea and to the island nations

of the Pacific. The submission was not optimistic regarding the general economic health and outlook of much of the aviation sector, and the past few months have provided little evidence of improvement in the general state of regional airlines. The carriers that were identified as successful, Air Pacific, Aircalin and Air Tahiti Nui, continue to be the regional standard bearers, while difficulties continue to be experienced by many of the others.

The conclusion of our submission sought government consideration of aid that is targeted not so much at the airlines as at supporting the maintenance and improvement of aviation infrastructure and personnel training, which are vital ingredients in the maintenance of safety and security. Committee members are probably aware of the recent difficulties identified by Australia in relation to Papua New Guinea's oversight of aviation safety. Papua New Guinea was put on notice that Australian airspace would be closed to all PNG registered aircraft unless immediate and urgent improvements were made. This action would curtail all existing commercial operations between Port Moresby and Cairns and would leave Air Niugini's New Zealand registered Boeing 767 as the only link by air between the two countries. It would have a direct effect on Qantas, as we code share on all Air Niugini's F28 services between Cairns and Port Moresby. We note that Mr Doug Roser, who has been overseeing AusAID's Balus aviation support program, has been appointed to head the project to restructure the Office of Civil Aviation into a commercially oriented civil aviation authority. Ongoing Australian commitments to the Balus program and to much needed funding to support improvements to airports and airport facilities are essential if the local aviation industry is to remain viable.

The situation of various small regional airlines outside Papua New Guinea has not improved. Air Nauru's very survival is, not for the first time, threatened by an inability to maintain its aircraft lease payments. The Tongan government has entered into an arrangement to lease a Boeing 757 jet from Brunei, despite being unable to economically operate jet aircraft smaller than the Boeing 757 on at least two past occasions. Ongoing instability in the Solomon Islands has done nothing to assist the parlous state of Solomon Islands Airways, which now relies on Air Vanuatu's aircraft to fly its international routes.

The prospect of regional cooperation would seem as remote as ever. Closer relationships through equity links are, to our knowledge, not under contemplation by any players in the region. However, cooperation through alignment of schedules between airlines at larger regional hubs is an area where progress may be possible. But it is not easy to facilitate such hub and spoke arrangements, due to the low frequency of operations between most points in the region and the needs of aircraft scheduling to provide optimum flying for the small airlines that would participate. Unless passengers are able to make appropriate connections with the minimum of waiting time between services, the hub will be ineffective. Qantas will continue to maintain code sharing arrangements with partners considered appropriate in terms of safety and service standards. We would now be glad to answer any questions the committee has for us.

CHAIR—Thank you very much. An area that is economically imploding, as much of this region that we are looking at is, does not make a good aviation market. That is essentially what you have said, I think. Can you give us your view about whether there is a sustainable aviation future for this region, particularly, on the one hand, for the Pacific, and, on the other, for Papua New Guinea? What are the dimensions of the problem?

Mr Callaghan—Where you have a market that can support the operation of modern aircraft, the future is reasonable. A good case in point is Fiji. It has bounced back from the difficult days

following the coup in 2000. Air Pacific lost heavily in the year following that, as tourist numbers dropped off drastically, but it has clawed back market share, particularly from Australians and New Zealanders. Fiji is seen now as something of a safe haven, especially in the aftermath of Bali last year, and Air Pacific is carrying excellent loads, and record tourist numbers are now going into Fiji. So that is a success story.

It is no secret that Aircalin in Noumea and Air Tahiti Nui in Tahiti are subsidised by the French government, which has enabled them to buy modern state-of-the-art aircraft. New Caledonia is a place that has a very strong resource base and quite a wealthy population, and it can also sustain reasonable levels of service. The other island nations are not in such fortunate situations. The routes are thin, the population centres are small, the distances are great and operating modern aircraft takes a great deal of skill, training and capital. These are elements that are missing from the countries that try to operate airlines in the area.

CHAIR—Sorry to cut in on you, but I might ask you if this is the correct understanding of what you are putting, if I can put it in colloquial terms. There are two sides to this: the technical ability to run an airline—and not having the supply of the necessary skills and quality work force is an impediment to running an efficient air service—and the market or demand for services, which keeps the box office ticking over. Are both the issue or is it just the technical ability to keep the airline running? I know this is probably getting into an area that is somewhat vague, but do you have any reflections on how you weight the obstacles here? Is it technical in the main or is it economic in the main?

Mr Callaghan—For the smaller island nations, it is both—possibly the economic being the main problem in the inability to attract loads all the time. There are seasonal demands and there are directional load problems. There are problems with trying to attract a market that can afford to pay higher fares; there is limited amount of business travel throughout the area. A lot of the markets to places like Tonga and Samoa tend to be driven by VFR—visiting friends and relatives—traffic, which is a very low-yielding type of traffic where people want the cheapest deal possible. Because they are visiting friends and relatives, they are doing it on a very strict budgetary basis. It is very hard for the airlines to do anything about putting the fares up. Another problem we have is that a lot of these people want to travel in the prime holiday times. Where they might be getting better yields from Australian tourists or New Zealand tourists, the space is not there on the aircraft at the most desirable times. So there are all sorts of problems in those areas.

The island nations that have a closer relationship with New Zealand—like Tonga, Samoa and the Cook Islands—I think are reasonably well served from the technical side. It is more across in the Melanesian side where I think we find the technical side falling down very badly, and Papua New Guinea is the prime instance. There are considerable concerns with the state of the industry up there at the moment. As I said in the opening statement, CASA in fact has them on notice that it will close Australian airspace to all New Guinea registered aircraft unless there are very swift remediations undertaken in terms of safety oversight in that country.

CHAIR—If that did occur, would PNG be without a regular air service?

Mr Callaghan—The only aircraft that could operate to Australia would be the Boeing 767, which is currently on the New Zealand register, maintained by Air New Zealand and subject to New Zealand regulatory oversight. Certainly all the services currently operating between Port

Moresby and Cairns would be grounded, because they are the ageing F28 aircraft, which are on the New Guinea register. There are various other small non-scheduled carriers that operate on a fairly regular basis between Papua New Guinea and Queensland, which would also no longer be able to operate.

Senator HOGG—That has implications for cargo as well as passenger travel, I would imagine.

Mr Callaghan—That is correct.

Senator HOGG—Significant?

Mr Callaghan—Yes.

Mr Williams—A number of these smaller island nations depend on the air link to bring in a lot of perishable cargo items, as well.

Senator HOGG—What proportion of the aircraft would be devoted to cargo as opposed to being devoted to passenger travel? Can we think of it that way?

Mr Callaghan—Smaller aircraft, such as F28s and Boeing 737 types, which Air Vanuatu et cetera operate, do not have palletised cargo space in their hulls; it is only loose cargo space. They are already very restricted in terms of the amount of cargo they can carry. There have been operators who have had 727 freighter aircraft that have operated into and out of various places where they have been able to put cold storage facilities and carry palletised cargo, which has helped with tuna exports and fresh food deliveries of that sort. But the 737 type aircraft cannot do that. The only aircraft between Papua New Guinea and Australia which does have sufficient belly hull space to carry that sort of cargo is the 767. I am sorry; I am not aware of what sort of cargo carriage they do. We can find that out for you if you wish.

Senator HOGG—It might be interesting.

Mr Williams—I think the 767 has a cargo tonnage of around 11, and I think that could all be used on the route to New Guinea: there would not be any fuel or other payload restrictions because of the distance. There are other carriers—or private freight operations—that go into the islands, but they do not operate on a regular basis; they are virtually on a charter basis, so far as I am aware.

Senator HOGG—So the need for a commercial airline system going into these areas is very great indeed, not just in terms of tourism but in terms of the regular supply of goods and also the export of goods from those places back to Australia or other sites—other nations?

Mr Callaghan—Very much so. It is also important for the internal integrity of countries like these, where you have widely spread islands making up the countries themselves. In Papua New Guinea, you have a very poor road system as well as many outlying islands, and so air services are absolutely vital to ongoing economic health there.

Senator MARSHALL—Does tourism provide a critical mass for the airlines?

Mr Williams—It depends which marketplace you look at. If you look at Fiji, you see that the greatest volume there would be tourism, and Vanuatu would probably be the same. If you look at New Guinea, you see that the business market supplies a rather large segment of the traffic flowing to and from New Guinea.

Mr Callaghan—Law and order issues and lack of infrastructure have long made New Guinea a fairly unattractive tourist destination, regrettably. It is a wonderful and beautiful place, but it has too many problems for us to see the mass market going there. There are too many stories in the newspapers about the breakdown of law and order et cetera; that does not attract people to go there in any large numbers.

Senator MARSHALL—The committee heard from Mr Ian Kennedy, who has had some 40 years involvement in tourism in the region. He told the committee that one of the very practical things Australia could do for the region and the subregional areas is assist them with the development of a short-, medium- and long-term strategic tourism plan. He drew our attention to the fact that Fiji have had one of these in place for many years. He said that had helped them overcome some of their difficulties over recent years—they have actually recovered very quickly. In other areas where tourism operations on different islands and in different countries are inextricably linked with airlines, the lack of such a plan means that these things are happening separately. If they were happening together through a strategic plan, both would benefit from each other. I am wondering whether you agree that the lack of such a plan is a disadvantage? Would you be supportive of that sort of proposal?

Mr Callaghan—Such a plan is most certainly lacking, and I believe it would take a great deal of political will across a wide spectrum of countries to get such a thing up and running. The concept of some sort of regional cooperation, and perhaps even regional equity in a single carrier, is something that has been widely discussed in the South Pacific for many years. It has never come to fruition, but in theory it is an excellent idea.

Senator MARSHALL—Why has it never come to fruition? Is that due to political differences?

Mr Callaghan—I think there are regional jealousies. There has been the requirement for every country to have their own flag carrier et cetera. That is something they have seen as paramount, and there has been an unwillingness to go into an arrangement with a neighbouring carrier and risk having their own airline become subservient or not locally controlled. Air Pacific used to be Fiji Airways; it changed its name to Air Pacific in 1972, with the idea of going more regional—but it never happened.

Senator HOGG—We are distracted by the red flashing light on the clock, which means that there is a division. Unfortunately, none of us are paired.

Proceedings suspended from 4.30 p.m. to 4.40 p.m.

CHAIR—I have to apologise for the vicissitudes of parliamentary life, but—

Senator HOGG—people will call divisions.

Senator MARSHALL—Where we left off, I was asking about the impediments to getting a single regional type airline or a single strategic plan for the region, and I think you had just about finished your answer.

Mr Callaghan—I think I had. The political fragmentation and the inability to work together have been discussed extensively at Pacific forum meetings over many years. Even though the solution seems obvious, it seems as distant as ever.

CHAIR—I have a triple-barrelled set of questions to clear up some of the things we would like input from Qantas on. On page 2 of your submission you make references to the desirability of a regional approach and the provision of a regulatory incentive for greater cooperation. You state:

Forum member nations have proposed an initiative to create a regional open skies multilateral approach to air service arrangements.

Could you expand on that and explain why neither of the two initiatives has been successful despite what looks like an obvious case? That is the first point. The business councils of the region have mentioned a blueprint for an airline that flew many flags with more code sharing and more joint ownership. Could you give us your views about that? Finally, what assistance, if any, could Qantas provide in developing the Pacific's aviation sector given the circumstances the sector is now in?

Mr Callaghan—Firstly the regional open skies multilateral approach is something that has been endorsed by the forum governments. It is then a matter of each government entering into an agreement with its neighbours to give that force. The Australian government enters bilateral negotiations with the South Pacific nations offering them pretty generous access to Australia and offering them rights between other South Pacific countries and Australia as well, so there is no impediment from our end to this sort of thing occurring. The regional jealousies and the amount of distrust they have that their own airline might be overwhelmed by a bigger neighbour has been the main impediment to this. It just has not grown legs at this stage. Whether or not this can come forward in the future is a good question.

The business councils' proposal of an airline of many flags is one that I perhaps addressed in my response to Senator Marshall in that, again, there is not the regional will to move ahead in this direction. More than 30 years ago Air Pacific changed its name to Air Pacific with just that prospect in mind, but it never got off the ground. Even the small amounts of equity that were put into Air Pacific at that time by a couple of the other island nation governments have since disappeared and they have gone their own way. It has gone nowhere. Could you repeat the third part of your question?

CHAIR—What does Qantas believe it can do to help the aviation sector?

Mr Callaghan—I might defer to Mr Williams on this, because he is our alliance expert and it is really the commercial alliances which put the power of Qantas's sales and distribution system behind these small carriers, and not us flying in opposition to them, that is the key. We have as many agreements along those lines as we can, given the difficulties of not being able to go into the Solomon Islands and some markets like the Cook Islands and Kiribati being too small, but Mr Williams could enlarge on that, I am sure.

Mr Williams—Qantas currently has code share agreements and other agreements with six of the carriers within the South Pacific, from Air Tahiti Nui across to Air Niugini. We also have Air Vanuatu, Air Pacific, Polynesian Airlines and Aircalin in Noumea. The main focus is through the distribution centre. Qantas's world reach can sell those island destinations from many parts of the world, as well as from Australia. As they fly here, those individual carriers can do very focused marketing to get tourism, in the main, into those areas.

Apart from the code sharing, Qantas is also involved with a number of the carriers in maintaining their fleets. Qantas maintains Air Vanuatu's aircraft. We maintain Air Nauru's aircraft, although we have no code share arrangement. Aircalin have made fleet choices based on what Qantas has done. They have bought the A330s. Qantas has also purchased two of those aircraft, again through the maintenance side there. A number of the airlines use Qantas's facility for tech crew training and cabin crew training as well. I am not too sure whether there are any programs on the engineering side. Obviously with Air Pacific there is a very deep involvement as Qantas owns just over 46 per cent of Air Pacific. If you were to train up the ground engineers or flying crews, once the skills are there, they are a global skill and they can move anywhere within the world with those skill sets. Qantas, over the years has assisted in those areas.

CHAIR—Does Qantas regard this market in purely commercial terms, or is it regarded as a market that ought to cross-subsidise from its other activities?

Mr Callaghan—These are done on commercial terms. We are a publicly listed company, and we have to put a business case that is supportable for any sort of activities we undertake. There has to be a supportable business case for every one of these activities.

CHAIR—I think it is also the case that the government has a golden share in Qantas.

Mr Callaghan—No, it does not.

CHAIR—So national interest priorities are not expressed on the board; it is a straight-out commercial board?

Mr Callaghan—Yes.

Mr Williams—They are reviewed every six months: is the profitability there in the route; shall we continue the code share? The review is done from that perspective.

Senator HOGG—Following on from that, in terms of our relationship as a part of South-East Asia and the Pacific region, is there a need for us to maintain our relationships with some of these countries in spite of their inability to be able to meet the maintenance of an international airline, as it would have to be? How should we go about that? Is the answer some form of subsidisation through government—I suppose that is the only way it would happen—to maintain links with some of these places?

Mr Callaghan—I guess it is a difficulty. If you have been throwing subsidy money at airlines that do not have a commercial basis to ever run profitably, you will put yourself in a position where you are throwing good money after bad, so to speak, and it is a never-ending process. It is a great conundrum: how do you fix the problem of this very vital and very basic industry that the area needs because of its very nature? I wish we could throw up solutions. I do not think

subsidies are the way to go. Certainly I know Australian aid is limited. Australian aid has many very specific targets relating to the very basics of life in these countries that it has to support, and it is not an endlessly growing pie. There have been aviation support elements in the program, especially in Papua New Guinea, but you are battling local forces, which makes it very hard for even the aid money that is being put in to make the sort of difference that we would like to see.

Senator JOHNSTON—Forgive me if you have already dealt with this issue—I have been in and out of the room. As a Western Australian, I can relate to the idea that services may be valuable to a community while being unprofitable for an airline. The broad thrust of your submission is that you want a proportion of the aid to countries such as the Solomon Islands to be targeted to underwrite or assist the provision of vital air transport services into those countries. Correct me if I am wrong, but I think that is what you are leading to in this submission, although it is between the lines to some extent. My question is this: have you discussed this approach with them? After all, it is their aid. I think your priority is right, by the way; I am not criticising it at all. But do they share your priority in terms of the necessity of having a transport connection or conduit? Are they willing to look at hiving off a proportion of the aid they get to underwrite on ground engineering and other services, to facilitate a single airline such as Qantas? The reason I ask the question is that I see that the Boeing 737 leased to the Solomon Islands has been discontinued. As a corollary to the question I have asked, can you tell us what happened there?

Mr Callaghan—Our security assessment of the Solomon Islands is that the conditions are not sufficiently stable or safe for us to operate there, and so we will not.

Senator JOHNSTON—Is that why it was stopped?

Mr Callaghan—Yes. Sadly, we have seen no reason to go back in there. Solomon Islands Airways exists as an entity. They currently use Air Vanuatu's aircraft: they lease that, and it comes through there. I do not know what insurance arrangements they have. I am sure they are not cheap. Our assessment is that the situation would not support a Qantas aircraft going back in there at this time.

Senator JOHNSTON—In the last paragraph of your submission, you talk about aid. Am I wrong in the assessment I am making of your submission? Is Air Niugini the issue?

Mr Callaghan—The arrangement we have with Air Niugini is a commercial one, but it is one that appeared to us to have all the win-win type outcomes you would hope to get in this sort of situation. It enabled them to divest themselves of their ageing A310 aircraft, which was no longer suitable for carrying people in the current environment. It enabled them to get a much newer aircraft which was much more compatible with Qantas' fleet—namely the 767-300, which was ex-Air New Zealand and is still on the New Zealand register. We pulled our direct services off and said that we would buy a certain number of seats on that aircraft, using a code share arrangement. That meant that they did not have direct competition from Qantas, and the fact that they had guaranteed support for their services from Qantas and had to put more services on to Australia meant that they were getting more flying out of their aircraft, and the more flying you get out of an aircraft the more economical it is to run. In those terms that was of direct assistance to them, but it was done on commercial lines. That is the only sort of arrangement we can come at in terms of our agreements with these airlines. We look very

strictly at what the commercial outcomes are. We look at the service standards and the safety standards, and we will not go into an arrangement with another carrier unless those are met to our satisfaction.

Senator JOHNSTON—I think that is a very good example, and I am pleased we discussed that. How receptive are other Pacific countries to those sorts of commercial solutions?

Mr Williams—I think a number of them would be.

Senator JOHNSTON—Are we working hard at doing that sort of thing?

Mr Williams—Air Pacific seems to be the main one, particularly when you get to the training side of things. They do have a maintenance facility in Nadi itself and, both for Air Pacific's own benefit and for the benefit of the other carrier, if they can do some training there, particularly in onground engineering, that might be of benefit. The two French carriers are in a different category. Air Vanuatu is a single aircraft fleet, and Polynesian Airways have two aircraft. They are in the process of determining what they will be flying on their second aircraft, which has been in the Qantas fleet for the past 18 months. Solomon Islands Airways was also a single aircraft fleet. With single aircraft fleets, it is very difficult to put infrastructure on the ground in the home country, for the maintenance of the aircraft and training et cetera.

Mr Callaghan—The economies of scale just are not there.

Mr Williams—The other thing, which David alluded to in relation to Air Niugini, is that one of the main factors is getting the utilisation of the fleet up. I think, for instance, that for approximately half the time Air Nauru's aircraft is leased out to another airline to operate. So getting utilisation up is important, but you will never get to the stage where these airlines will be able to put a second or third aircraft into their fleets. There was an example in a South Pacific aviation magazine just this month. In that magazine it said that if a market were growing at around five per cent it would take 14 years before an airline would reach a stage where they could purchase a second aircraft. So within the South Pacific it becomes very much a question of cooperation; the airlines need to work together, as Air Vanuatu and Solomon Islands Airlines are currently doing, to try to increase that utilisation.

Senator JOHNSTON—I have one more question. I note that Air Niugini has a connection to Tokyo. What is that all about? Who is coming from Tokyo to Port Moresby? Is that viable and how long has it been running? What is going on?

Mr Williams—The route started about five months ago, I think. From my understanding, talking with Air Niugini—and Air Niugini could answer the question—they believe there is a market. They see that as dividing into two segments. One is made up of people who want to come and see an area which is part of the history of Japan, and the other is made up of people who want to participate in a lot of diving and other soft adventure kinds of activities, which is an area they are trying to tap into. Additionally, from their fishing industry they were transporting a number of the tuna caught in the area across to Singapore on the twice weekly Singapore services; those tuna were carried onward from Singapore to Japan, but I think the new flight is also servicing that market directly with that cargo.

CHAIR—Thank you very much, gentlemen. I appreciate that our time with you has been interrupted. If there are other questions that occur to members of this committee, would you be available to answer them on notice?

Mr Callaghan—Indeed.

CHAIR—Thank you both very much.

[4.59 p.m.]

MATHESON, Mr Alan, International Officer, Australian Council of Trade Unions

CHAIR—Welcome, Mr Matheson. I have not seen you for a very long time, but you look exactly the same as the last time I saw you, only a little greyer, just like me.

Mr Matheson—Getting younger though.

CHAIR—I am pleased to hear that. I am not sure I am. You have the floor. If you would like to address your submission, we would welcome an oral presentation before we go to questions.

Mr Matheson—Thank you. The ACTU very much appreciates the opportunity to appear before the committee and welcomes this inquiry. We believe the situation to the north of Australia is significant, critical and important for every party, whether government or non-government. We made a submission in June 2002 and have provided you with an additional, supplementary submission. It is the supplementary submission I would like to take you through very briefly.

We believe unions are uniquely placed to play a role in Australia's relationship because, given the situation in the Pacific, we believe unions are institutions that cross gender, age, racial, cultural and religious lines. That makes them the kind of institution that can pull the community together. In paragraph 2 of our supplementary submission, we provide a brief map of the activities of unions in the region generally. It sets out the directions and the sweep of involvement within the region. In paragraph 3 of our supplementary submission there is some detail about the involvement of Australian unions in the region.

I particularly want to draw your attention to a couple of issues, and I would direct you to paragraph 3.4. At the bottom of 3.4, there is a reference to Tuvalu and Kiribati. It is not well known, but a significant proportion of the GDP of Tuvalu and Kiribati comes from the employment of seafarers in the German merchant navy. That has come about thanks to an agreement worked out between the Maritime Union of Australia working with the International Transport Federation and the German unions. That agreement, which enables Kiribati and Tuvalu seafarers to work in the German merchant navy, is under pressure. German merchant owners are under very heavy pressure from a large pool of unemployed German seafarers. Each 12 months when that agreement comes up it becomes more difficult to put in place.

The second thing I would like to draw the committee's attention to is paragraph 3 of our supplementary submission. Paragraph 3.6 refers to a HIV-AIDS initiative. The Australian Council of Trade Unions is—apart from in the Philippines—the only organisation with expertise, experience and skills in combating HIV-AIDS in the workplace, and we believe we have a significant role to play within the region in combating HIV-AIDS.

Paragraph 3.7 looks at the very recent emergence of flag of convenience ships in the Pacific, with flag of convenience registers in Tonga and the Solomons. That development is becoming a considerable concern in terms of both the broad issues of terrorism and the wages and working conditions of Pacific islander and South Asian seafarers.

Paragraph 3.8 refers to an initiative which is very much at a preliminary and very initial stage. A proposal was brought to the ACTU by the Fiji-Australia Foundation, which had been in discussion with a number of growers in the fruit-picking area of Victoria. Growers were having incredible difficulties getting workers for fruit picking, and it was proposed to us that, given the high unemployment in Fiji, we should put together a pilot project and see whether or not we could put in place a project very similar to one operating in England at the moment drawing on final year university students from what used to be called Eastern Europe.

Paragraph 4 discusses ILO involvement. We encourage the committee to re-examine the role the ILO can play, not only because of the technical assistance it can bring but also because it provides a framework for collaboration and cooperation between governments, employers and unions. What the Pacific needs, apart from anything else, is a whole range of collaborative and creative strategies from the people who make up the institutional framework.

Paragraph 5.1 of our supplementary submission raises a critical issue with regard to the processes of globalised trade arrangements being put in place. Whether these are put in place through the WTO, or GATS, or even within PICTA and PACER, civil society, including unions, does not have a clue what is happening. In discussions with Foreign Affairs and Trade negotiators, we asked them to what degree Foreign Affairs and Trade was providing assistance to the Pacific island nations, in developing skills and resources to enable them to participate effectively in the processes. We were informed that they were doing very little; they had run a seminar or two. In terms of civil society and in terms of unions, there is a critical need there for some resources and skills.

We put the issue of HIV-AIDS under the heading of 'development' to draw your attention to some assessments being made in Papua New Guinea at the moment. Should that epidemic take off, one scenario is that 13 per cent of the working population would be lost by 2020. The kind of impact that would have on the GPD would be a fall of about seven or eight per cent. You have only to look at the economic impact that such an epidemic has had on places such as Zimbabwe and South Africa to see what could happen if that situation occurred in PNG.

I would like to draw your attention to four recommendations at the conclusion of our supplementary submission. The first recommendation relates to a mechanism whereby the Australian government has the potential and capacity to use the National Labour Consultative Council to provide the resources and opportunities for the three parties—governments, unions and employers—to gather to examine their own roles within the Pacific to see whether or not we could together develop a strategy with our counterparts in the region.

The second recommendation emphasises the whole issue of the trade processes again, and the need for assistance and encouragement in providing resources in the region. The third recommendation relates to work based programs. The Australian government is putting substantive amounts of money into combating HIV-AIDS in the region, but none of it is going into work based programs. All of the experience in Africa would show that the workplace is one of the integral parts of a strategy. The fourth recommendation refers to the fact that, for the first time, the Pacific islands structures are themselves open to civil society, and we would hope that the Australian government, as an active part of the communities forum, would encourage the involvement of civil society in the non-government sector, including unions, within their processes.

CHAIR—On a new topic, one of the things that we are looking at in this inquiry is the possibility of access to Australia, through the Pacific islands or PNG, for drug trafficking and so forth. This question is not directly on that point, but you mentioned the experience that Australian unions have in fighting HIV and AIDS in the workplace, and you made recommendations about that. Do you have any programs, particularly for young people, that deal with drugs and so forth? Do you have any expertise in that area as well that might be applicable here or not?

Mr Matheson—Certainly in the HIV-AIDS programs that have been auspiced by our own program in Zimbabwe and in South Africa—we have had programs in Cambodia and Vietnam, particularly with respect to teachers in Vietnam—the whole issue of combating HIV-AIDS in young people is just one dimension. Our skills and expertise are in the workplace—young workers, young women. Young people within the workplace are a part of the strategies that have been picked up both in Asia and in Africa.

CHAIR—But in terms of drugs, do you have any programs that you are associated with in countering—

Mr Matheson—Our experience is not specifically within the drug area.

CHAIR—I go to your recommendations—and I thought you made quite a valid point, particularly in recommendation 2, about the support necessary for small economies with less developed civil societies to grapple with the impact of international trade changes, given that there is now currently a WTO round on opening markets further. The Australian government, I think, has contributed quite handsomely to the WTO for it to distribute funds for capacity building in developing countries. Do you know to what extent Pacific island countries or PNG have taken advantage of those programs?

Mr Matheson—Our understanding is that certainly some officials from the forum countries are participating in that. Our information is that, at the civil society level, there is no access or involvement. Our rounds of discussion with our union colleagues in the Pacific is that they are scrambling to find what the implications are. They are small economies, but both the regional trading agreements were put in place without any consultation with or any involvement of civil society. They were put together out of Caledonia and Fiji with the support of administrators and the governments without any involvement of civil society. At the moment the pressure for involvement on the forum to involve non-government agencies is coming out of Europe, through the Cotonou agreement and through EU funding arrangements. I do not believe the same kind of pressure comes from Australia in terms of its aid program to involve the non-government sector in industrial, economic or trade developments within the Pacific.

CHAIR—As an update to your earlier submission, lodged in July, I think you were applying for \$70,000 from the International Labour Organisation in relation to the women in unions project—did that money come through?

Mr Matheson—I am glad you asked that question, because we would be seeking your assistance. I take you back to paragraph 3.2 of our supplementary submission. We have had some difficulty with the ILO in accessing that funding. That funding was finally made available to a project. The project was then sent back to the Australian government for approval. It is currently with the Department of Employment and Workplace Relations for their final tick. It

has been approved by the ILO in Geneva, but it is now with the minister for his final approval. We would hope that with the good offices of the committee you might be supporting the proposal coming out of the ILO. It was money originally given under the previous Labor government for assistance to the union movement in PNG. Finally—after a fairly difficult birth, I might say—the project is there. It is now sitting with the minister for his final approval and has been for the past two or three months.

CHAIR—Are you saying that a government tick at national level in Australia will trigger the release of funds from the International Labour Organisation?

Mr Matheson—Yes.

Senator MARSHALL—When the business councils in relation to Fiji saw us in Melbourne, they told us that they have got a very good relationship with the ACTU but the relationship with the Fiji unions and the opposition parties in Fiji had broken down. They believe that they were creating instability for political purposes instead of looking after economic development. If my memory serves me correctly, they said that Sharan Burrow supports their position on that. I was wondering whether you, as an officer of the ACTU, might be able to give me some clarification on your view of the unions in Fiji, in particular.

Mr Matheson—The general proposition with all of our involvement with the Pacific is that the Pacific economies, the Pacific industrial relations systems, can only be solved and creatively developed when there is collaboration, when there is negotiation. The systems in place in Australia or New Zealand are not appropriate; there has to be an industrial relations system that is appropriate to the small economies. It is one of the reasons why we mapped the involvement of the Pacific unions. One of the dilemmas they face is their isolation and their marginalisation. If they were exposed to the wider debates of the regional and international union movement, perhaps in those discussions we can persuade them that collaboration, negotiation around the table is a far better and more productive and positive way forward in terms of contributing to their wellbeing.

So our point would be to encourage our unions to participate in the economic and political development, but there has to be an equality of the partnership in that. From a union end, we have worked hard. One of our recommendations in terms of the ILO is to try and encourage employer involvement from this end into collaborative arrangements. The ILO can provide that framework of bringing together the three parties—they are critical. Fiji has come out of a coup in the last 18 months that set it back another 10 years virtually. There was a lot of hurt, a lot of fractured relationships that will need addressing. From our end, we would be encouraging that.

Senator MARSHALL—Taking you to the issue of aid generally, you said in your original submission that there has been some general criticism about the boomerang nature of our aid, even though it is still welcomed. It goes to the question, you say, of overpaid, underqualified consultants. You are not the Lone Ranger in that view; many of the submissions have said that as well. What are your views on how our aid might be better distributed and more useful for the development of local economies?

Mr Matheson—Certainly we would be supporting an increased aid budget—it is at its lowest ever—but we also believe that it should be better distributed. It is an incomprehensible policy decision to have three major commercial agencies each receiving more money than all of the

non-government sector put together. If a committee is talking about relationships, they should contrast the non-transparency of commercial operations with the NGO sector. The NGO sector has a commitment. The Australian unions have been involved with the Pacific unions for 40 years; we are there for the long haul. Commercial sector aid moves in and out. So there is a disparity and a disjunction when talking about relationships and then becoming almost totally dependent upon commercial operators that you do not know and we do not know in terms of what they are delivering, how they are delivering and whether or not they are contributing to long-term beneficial relationships between Australia and the Pacific. So from our end, we certainly would want to be strengthening one part of that tripartite dimension of economic and industrial development, but we would hope that within agencies and organisations such as the ILO there would be the possibility and the potential to be strengthening the other parts of that tripartite approach to economic and industrial development—namely, government and employers. That does not happen at present.

Senator JOHNSTON—Firstly, I am very pleased with your submission. Taking you back to paragraph 3.2 of your supplementary submission, please explain to me what capacity-building programs entail, what you have put to the ILO, what was previously funded, how much of that funding was from the Australia government and what you are looking to achieve from the current proposal.

Mr Matheson—The current proposal is about \$US40,000. We have a trade union council of about 50,000 members. We have two major public sector unions—the teachers union and the public sector, or civil service, union. They face a number of challenges. One is the economic situation, in terms of what they are going to do with their public sector. They are confronted with 50,000 young people coming on to the market each year just in the formalised sector and there are issues about their capacity to negotiate and defend their own rights within a system which is fragile, where governance has many questions. There is the capacity of the unions to organise, to train, to negotiate, to appear before the legal industrial courts and to provide the training and education program. One part of that will be an HIV-AIDS program which will be funded out of the union movement which will be complementary to the capacity building—the skills, experience, training and legal and industrial negotiating. Also, there are the port workers, who are participating, for example, in the regional shipping arrangements and strategy.

Senator JOHNSTON—What about the police? Are they public sector?

Mr Matheson—They would be a part of the public sector.

Senator JOHNSTON—So they would be included in your program?

Mr Matheson—I do not have the details. I could take that on notice.

Senator JOHNSTON—Thank you. I think that is important. So it is \$US40,000?

Mr Matheson—Yes.

Senator JOHNSTON—What was put in to make the submission initially? You say that the Australian government had previously funded it. How much had they invested in the project?

Mr Matheson—There was considerable discussion near the end of the previous Labor government about assisting the industrial partners within the region. There were programs running in the Pacific, there were programs running in Asia, a large program was developed which ran \$5 million or \$6 million into Indonesia, and this one was a part of the Papua New Guinea one.

Senator JOHNSTON—How much ILO money will you get if there is a tick from us?

Mr Matheson—We will get \$US40,000. This is Australian money that was given to the ILO for use in the PNG trade unions.

Senator JOHNSTON—You are just waiting on—

Mr Matheson—a tick from Minister Abbott.

CHAIR—We have to adjourn briefly, because it appears a division has been called in the Senate. My apologies. We will be back shortly. We are, unfortunately, not paired at the moment.

Proceedings suspended from 5.21 p.m. to 5.31 p.m.

CHAIR—Order! The committee will resume. Senator Johnston—

Senator JOHNSTON—I have no further questions.

CHAIR—Had you completed your answer, Mr Matheson?

Mr Matheson—Yes, thank you.

CHAIR—Mr Matheson, would you like to make any concluding statements, or are you happy?

Mr Matheson—I am happy.

CHAIR—Thank you very much. The committee does appreciate the effort that you and the ACTU have put into preparing the initial submission and the addendum.

[5.31 p.m.]

BARNES, Mr Chris, Law Enforcement Cooperation Program Manager Pacific Region, Australian Federal Police

CASTLES, Federal Agent Shane, General Manager International, Australian Federal Police

CHAIR—Welcome.

Federal Agent Castles—Federal Agent Ian Atkinson, who was to have appeared with us today, has been called away on an operational issue in the Pacific.

CHAIR—I guess that does happen if you are in fact a coordinator for the Pacific islands region. We have received your submission and now invite you to speak to it before we proceed with questions.

Federal Agent Castles—Thank you. In relation to the Australian Federal Police today, Australian law enforcement confronts a global criminal environment that is increasingly complex, fluid and without boundaries. Transnational criminal organisations exploit this environment at local, national and international levels. The perception that the Pacific region is immune from this environment has been dismissed by the recent seizures of large quantities of illicit drugs in recent years in Fiji, Tonga and New Caledonia.

The fight against transnational criminal organisations in the Pacific environment is characterised by continued instability in the Melanesian states and a low level of law enforcement capacity across the region. It presents unique challenges to the Australian Federal Police that require the implementation of innovative and adaptable strategies. The expansion of the AFP's international network into the Pacific region together with the expansion of the Law Enforcement Cooperation Program under the 2001 Melanesia cabinet decision have been key strategies in fighting transnational crime in the Pacific region. The AFP is now represented in Papua New Guinea, the Solomon Islands, Vanuatu and Fiji.

Since its establishment, the Law Enforcement Cooperation Program has provided unprecedented flexibility and capacity for the AFP's efforts to combat transnational crime offshore. The aim of the LECP is to improve the levels of cooperation and capacity of overseas law enforcement agencies and to provide the assistance necessary for the AFP to develop law enforcement intelligence leading to the identification of transnational organised crime groups that impact on our regional interests. Without exception, the AFP's international network has strongly indicated that the LECP has significantly enhanced its capabilities to work cooperatively and collaboratively with partner law enforcement agencies, resulting in significant outcomes for law enforcement in the Pacific region.

The Law Enforcement Cooperation Program activities generally are directed at combating transnational crime, which implies that a higher level of law enforcement skill is required by partner agencies. While LECP will continue to support capacity-building projects for partner law enforcement agencies, donor organisations such as AusAID will need to address the lack of

fundamental law enforcement skills that are essential in the foundation and development of an effective law enforcement agency. Currently, a whole-of-government Pacific regional policing initiative is being developed by AusAID to raise the capacity levels of Pacific policing services. The AFP is a key partner in this initiative.

On the issue of funding, as a result of the 2001 Melanesia cabinet decision, the AFP was provided with a total of \$10.274 million over three years from January 2002 to expand its international network and the Law Enforcement Cooperation Program in the Pacific region. This component—that is, LECP—received \$2.791 million out of that total of \$10.274 million.

The AFP, particularly through the Law Enforcement Cooperation Program, is addressing issues of regional security, law enforcement and transnational crime through the following key initiatives. First, a Pacific regional strategic law enforcement intelligence transnational crime threat assessment was conducted in November 2001 and was instrumental in the compilation of the AFP's Pacific business plan, which provided a conceptual framework for interventions in intelligence, operations and capacity building for the Pacific region. The Pacific region is vulnerable to transnational crime, and the possibility of terrorist groups exploiting that vulnerability cannot be discounted. Porous border controls, inadequate law enforcement capabilities, isolated islands and the presence of soft Western targets could present Pacific island countries as an attractive target or operational base for terrorism. Whilst there is no definitive information available at this time, to help gain a better understanding of any trends, the AFP in conjunction with some Pacific island regional intelligence teams is conducting a separate assessment on that issue.

Second, there is the establishment of transnational crime teams in Pacific island countries. These teams also act as law enforcement intelligence units and have been established in Fiji and Samoa, with plans to establish additional teams in Tonga, Papua New Guinea and Vanuatu. Third, there is the establishment of a centrally located Pacific regional transnational crime team. This team will have a major regional law enforcement intelligence role and function and was a major outcome of the Pacific transnational crime workshop held in Tonga in November 2002.

Fourth, there is the installation of a secure communications network for the exchange of law enforcement information and intelligence. The South Pacific law enforcement Xtra-net has been installed by the AFP across all Pacific island countries, except Guam and Saipan, and will be a major communications link for the transnational crime teams. Fifth, there is continued delivery of a broad range of training programs, including law enforcement intelligence, financial investigation, border control training, surveillance training, crime scene training and management of serious crime.

Sixth, there was the establishment of a law enforcement training coordination officer in the Pacific Islands Forum Secretariat as of 17 February this year for a period of two years. It is anticipated that that position will, firstly, coordinate donor and recipient law enforcement training across the Pacific region and, secondly, design, develop and introduce a sustainable package of law enforcement studies applicable to Pacific island countries that is certified and accredited through recognised regional training institutions. The law enforcement training coordination officer position complements the regional policing initiative currently being undertaken by AusAID. That concludes my opening address.

CHAIR—Thank you, Federal Agent Castles. Mr Barnes, do you have any additional remarks?

Mr Barnes—No.

CHAIR—I have read carefully your submission in chief and now your additional submissions, and it is fair to say that you have given us a very good overview of regional cooperation arrangements, what the AFP can do in bringing its expertise to bear to assist law enforcement agencies throughout the region, how it monitors activities, what the funding arrangements are and so forth. I would find it very useful—if you were in a position to do this—if you could give us an idea of what you are combating. Is the transnational crime problem in the Pacific getting worse or is it getting better? If it is not getting better, what are the main areas that you are most concerned about? Perhaps, I should ask these questions one at a time. What is the proportionality? Is it a small problem or a giant problem? Does it threaten to become a much bigger problem?

Federal Agent Castles—Transnational crime is an increasing problem. It is getting larger. The more work that we do with our colleagues in law enforcement in the Pacific, the more we get out there, the more engagement that we have, the more we recognise that either the trend is that transnational crime and organised crime in the region is increasing or we are just getting a better understanding of the problem. It is not a small problem, we believe.

CHAIR—So are we talking about well organised international networks that are efficient in delivering their product?

Federal Agent Castles—Yes. In some cases, there are quite sophisticated organised crime groups operating, say, from South-East Asia. There have been some pretty graphic examples over recent years of precisely that. I have some examples of that, if you would like to hear them. To answer your question, yes, there are some good examples of organised transnational groups targeting the Pacific to establish a base for the delivery of illicit drugs into the Australian market and other world markets and that type of thing.

CHAIR—I certainly would like to hear about them, although I am not sure we can go through them in the time available. It might also be something that we ought to hear in camera if there are any matters of confidentiality involved.

Federal Agent Castles—There are a couple of matters already on the public record with the information available. It is public. They are historical issues that have already been dealt with by the courts.

CHAIR—Can we just hold that thought and come back to it later, because I wish to exhaust for a moment my effort to get some sense of how difficult the problem is that you are involved with. Is it a reasonable statement to say—and I am talking deliberately in general terms here—that, in some cases, organised crime is able to corrupt the administration of particular island nation states? Is that too bold a statement, or is it a reasonable one?

Federal Agent Castles—I would say that it is a reasonable statement.

CHAIR—I think you said this, but I want to be very careful before I make any conclusions about it. I think you said that this problem is getting worse; it is not getting better.

Federal Agent Castles—Correct.

CHAIR—Is it getting worse rapidly?

Federal Agent Castles—Our increased involvement or addition of resources into the Pacific has only been since about 2000-01. Leading up to that period, certainly during the late eighties and nineties, there was intelligence which suggested that there was an organised crime problem, a transnational crime problem. We have now invested, through government funding, into the Pacific with additional liaison officers. We are getting more information and better intelligence, so we are learning more about the existing problem—that is the first point. The second part of your question was: is it getting worse? I would say that it is certainly not getting any better from our perspective.

CHAIR—I want to come in a minute to domestic law enforcement and any observations you might be able to make on any of the states, because one of the problems that we are looking at is how there can be sustainable economic growth that can provide, if you like, the infrastructure of a modern society—that is, health, education services, policing and so forth. One of the areas where we have had very strong submissions has been that law enforcement is a key area that is ‘out of control’—they are my words—and that, unless it is brought under control, people will not invest in these economies.

The committee now has to break for a division in the Senate, but I want to come back to that when I return. The other thing I want to talk about is the potential for international terrorism, because submissions have been made to us that, for example, the border between PNG and West Papua is porous and that could be an avenue for international terrorism. We will break now and come back shortly.

Proceedings suspended from 5.46 p.m. to 5.55 p.m.

CHAIR—The committee will now resume. I am sorry that I left you with a number of questions, all of them quite important in our minds, hanging in the air.

Federal Agent Castles—One of your questions related to the issue of resources, the level of investment and those types of arrangements in the Pacific.

CHAIR—I was making an observation that one of the things that deters investment in economic growth in micro economies and in economies like Papua New Guinea’s is the perceived lawlessness of life, the threat to human life as well as to investment. That is particularly true of tourism, which is a possible growth route for these economies. I had about four questions all wrapped up into one, but I was asking you to comment on any observations you had for us about bringing those sorts of difficulties with domestic lawlessness under control.

Federal Agent Castles—If I understand your question correctly, as it relates to law enforcement in the Pacific, in a general sense their capacity to be able to demonstrate that they can maintain law and order and serve the communities that they are sworn to protect has a direct relationship with the economics and with all those things. Generally, police services in the

Pacific are underresourced. I would say that they come second to funding the military in the Pacific. They are underresourced, their education standards are low, there are inadequate recruitment processes and there are inadequate wages and conditions of service—which tie into the point I think you made earlier about corruption. We say that those things are fundamental and pretty much tied together.

There is a basic lack of infrastructure for the police, and they are inadequately financed. They have highly inadequate financial management practices, inadequate effective leadership and management, inadequate fundamental policing skills and stagnant demographics. Cultural issues also have a significant bearing on the way the respective countries and their law enforcement services operate and interrelate with each other. We have already touched on integrity and corruption. There is donor fatigue, particularly in relation to training. There is a lack of effective legislation to combat transnational crime. There are inadequate communications, and the geographic remoteness from major centres is also, we would say, an attractive issue for organised transnational crime groups.

Senator MARSHALL—In fact you listed 17 reasons why those police forces would be underskilled, but there are only a very few that we can do anything about. They are really matters for the government of the day. In your view, do governments recognise those as the issues that are holding back their law enforcement; and, if so, is there a political will to actually do something about it and are any of them doing anything about it?

Federal Agent Castles—I can only speak from a law enforcement perspective. There is an increasing recognition of these issues amongst law enforcement officers at the CEO level and a will to seek assistance from countries like Australia—from the AFP—to address them within the law enforcement environment. We have seen that through forums such as the South Pacific Chiefs of Police Forum, where these issues are discussed. I think it ties back into some of the work we are doing through the Law Enforcement Cooperation Program to address some of the communication problems between the countries and to at least provide a basic, secure mechanism and network by which they can transfer and talk to each other about criminal intelligence issues and to share that with us.

CHAIR—Do you rate the threat to Australia by international criminal organisations that operate through these areas on drugs or other smuggling, prostitution rackets or whatever? Does the Department of Foreign Affairs and Trade say what the level of risk is for Australian travellers abroad? Do you have a scale by which you assess the level of risk to Australian law and order because of the operation of international criminal cartels in this part of the world?

Federal Agent Castles—No, we do not specifically have a scale.

CHAIR—How would you describe it?

Federal Agent Castles—I would describe the threat as significant; certainly not as insignificant. I base that on some recent operational history. We have seen examples of illicit drug trafficking through the Pacific. There are many examples and credible intelligence in terms of the flow of South American cocaine travelling through Pacific island nations to Australia, and South-East Asian heroin is the same. It is a growing problem.

CHAIR—On the subject of terrorism, do you have observations directly? In the same way we have just described criminal activity, can you give us a picture of how serious a problem it is or how serious the potential is for it to become a problem?

Federal Agent Castles—It is very difficult to pinpoint precisely whether it is low, medium, high, or whatever scale you would choose. I will answer that by saying that the Pacific offers certain safe haven refuge, from which terrorists could maintain an operational base, just because of the sheer geographic nature of the environment—the low populations in some locations and the somewhat inadequate border controls in most of the island nations. I would also make another comment in an attempt to answer your question. We saw it through the 1990s, and we continue to see it now. Organised crime—illicit drug crime groups—is targeting the Pacific as a place to stockpile drugs and then drip-feed those illicit drugs into the world markets. They have traditionally done that by making investment into these countries—it might be an import-export business or some other way of establishing a legitimate front for business. In my view, there is no reason whatsoever that terrorists or terrorist organisations could not do the same thing successfully.

CHAIR—Before we were called away for the last division I commented that we had received some information that there were concerns about the border of Papua New Guinea and the ease of access by which people cross it. Is that an area you are concerned about?

Federal Agent Castles—Yes, it is, but probably no more or no less than the border controls and mechanisms to control borders and barriers in most of the Pacific island nations.

Senator JOHNSTON—Federal Agent Castles, you mentioned in your submission that there is a tangible relationship between the Australian Federal Police and AusAID, and I note that you go to a number of functions where you mix with law enforcement officials from Papua New Guinea and from the Pacific generally. In making an evaluation, as inevitably you must, as to the level of infrastructure, training and expertise of the law enforcement agencies you meet along the way, do you communicate your evaluation to AusAID, do they listen to what you say and are there any tangible results from the previous change in AusAID's application of money into these regions that you have seen in the last two or three years?

Federal Agent Castles—Yes, we communicate our views to AusAID. I think they are listening more to the AFP.

Senator JOHNSTON—Could they listen even more than they do now?

Federal Agent Castles—I really think we are getting there, Senator, and that is emerging in the current police project. I might just say that the AFP's strong view is that, to actually address a lot of the fundamental law enforcement issues in the Pacific, you would need to go back to basics—almost right back to basics in terms of recruitment, service, service to the community and ethical training. Some of these have already been picked up and have been addressed quite adequately, I would say, during previous AusAID programs. But our experience, not right across the board but certainly in a general sense, is that when we go into the Pacific on operational issues the level of competency, skills and training to actually meet a highly organised criminal threat is, in most cases, not there.

Senator JOHNSTON—I know the focus is on the transnational aspect, but I am also interested in the domestic law and order issues. I see that we have a vested interest in having stability in these communities. How are they handling that in terms of training?

Federal Agent Castles—I would agree with that 100 per cent: domestic violence, incest and these types of issues are prevalent. When I mentioned the need to get back to basics, I think it is about coming up with programs and delivering programs, perhaps in a whole-of-government approach, to address these basic issues. The remuneration for law enforcement officers in the Pacific varies considerably, but on the whole I would say that it is well below standard, well below par. It is very difficult to expect a police officer who works 12 or more hours a day, on station, with very little access to resources and no effective communication and who is not being paid very well at all, not to look the other way, for example, when something comes along. It will happen.

Senator JOHNSTON—Without being too provocative, are you satisfied with the will of governments in the Pacific region to maintain a high level of law and order?

Federal Agent Castles—I think the will is there, yes. Certainly from a law enforcement perspective, we see evidence of that. They have the will, but the hard part is that they need the resources—

Senator JOHNSTON—So it is the resource priority selection, and law and order is on the bottom of the list to some extent?

Federal Agent Castles—to actually make the communities safe and for the police to serve those communities in an effective manner.

Senator JOHNSTON—Is it fair to say that training, recruitment and the basic issues are a common thread through most of these Pacific island communities?

Federal Agent Castles—Yes.

Senator JOHNSTON—How much does the AFP spend on interacting and passing on its expertise? I am not sure whether you spend any money on training, but can you give me a bit of a snapshot on the investment the AFP makes from within its budget? Did you mention that in your submission? I might have missed it.

Federal Agent Castles—The AFP invests about 40 per cent of its funding in training.

Senator JOHNSTON—I meant in terms of interacting with these communities. You attend the functions of the senior police officers from the region. What other expenses do you incur in keeping the relationship at the top of the table? How much do you spend a year? Could you spend more? What is the situation with that?

Federal Agent Castles—I gave some figures during my opening address. I can expand on those a little, which may go some way to addressing your question. The AFP is currently funded to the tune of \$10.247 million, from 2001-02, to expand our liaison officer network in the Law Enforcement Cooperation Program. That overall figure included a component of \$2.7 million

for LECP. Some of the projects that are being undertaken with those funds are the conduct of law enforcement intelligent threat assessment and the establishment of intelligence cells. We also conducted two border control training courses in Fiji and, in PNG, a cross-border intelligence assessment and the installation of the secure communications network, which I referred to earlier.

Senator JOHNSTON—What is the total annual budget of the AFP?

Federal Agent Castles—I do not have that precise figure with me, but it is in the order of \$560 million.

CHAIR—If it is not possible to answer this question, please do not, but who are we talking about when we talk about international criminal organisations? Are we talking about the American Mafia, the Russian Mafia, the Chinese Tongs or the Japanese Yakuza? Are we talking about all of them, some of them or some newer entity that is springing up to fill the void?

Federal Agent Castles—It is an interesting question, and one we grapple with on a daily or weekly basis. To define transnational crime groups is very difficult. They operate differently in different sections or regions of the world. Let me take South-East Asian illicit drug trafficking as an example. Some will be formed on ethnic lines; others will be opportunistic in that investors will come together for a particular venture. They might be known to each other by virtue of an association or a previous association. They come together, invest in and fund illicit activity and then disperse and use their profits to invest in other forms of crime or even in legitimate business. So there are different ways in which groups come together. I think you mentioned the Italian Mafia. No, we do not see that in terms of the context of the Pacific at all. Terrorism is a different issue again.

CHAIR—Can you identify any organisations? Is it a reasonable question to ask you to identify terrorist organisations?

Federal Agent Castles—On the information available to us at the moment, it is very difficult to identify in the context of the Pacific.

CHAIR—I think you said you could give us some examples on the record of the types of criminal activity that we are talking about. I think we will have to break at this point for a division and come back, so this may be the last question. The committee would be interested to hear about anything you could give us confidentially, that does not impinge on operational matters, so we can inform our minds before we frame our recommendations.

Proceedings suspended from 6.15 p.m. to 6.24 p.m.

CHAIR—It is very unlikely we will be interrupted between now and 6.30, and after 6.30 the Senate will adjourn for dinner. So we will not take much longer with you, but there were a couple of examples that you were going to put on the record for us.

Federal Agent Castles—The first example is the seizure of 350 kilograms of heroin in a multinational operation culminating in Fiji during October 2000.

Senator JOHNSTON—That is about the total amount we seize in Australia annually, isn't it? I thought I read the other day that it was 400 kilograms.

Federal Agent Castles—It is a significant amount of heroin. It was an investigation identified through AFP intelligence and development. It was the first time that the AFP had operated offshore—for want of a better term—in cooperation and collaboration with the Fiji Police, the Royal Canadian Mounted Police, the United States Drug Enforcement Administration, the National Crime Authority and the Australian Customs Service. It was a graphic opportunity to demonstrate and expose the vulnerability of Pacific island countries to this and other types of transnational crime.

I would like to take that back to the comments I made earlier. This matter has been before the courts and has been resolved in Fiji, and I add that, because of the laws, the main offender in Fiji received the maximum penalty, which is eight years imprisonment. In Australia, before our courts, the maximum would be life imprisonment. That particular gentleman and his associates established a business—an Asian restaurant business—in downtown Suva. He was closely associated with and had previously been associated with significant and known South-East Asian heroin traffickers operating out of Hong Kong and other locations. That stockpile of heroin was being used to supply the Australian market and the North American and Canadian markets.

Senator JOHNSTON—What was its origin?

Federal Agent Castles—It came from Myanmar. It was shipped out of Rangoon to Fiji via New Zealand. The second example is a 90-kilogram seizure of cocaine in 2001 which transited the Pacific by way of a small pleasure craft from South America through New Caledonia. That set a precedent in joint AFP operations with the French authorities in the Pacific, and I am glad to say that that excellent cooperation with the French authorities, with whom we have regular dialogue, continues today.

There is another matter, which is currently before the courts here in Australia and in Tonga. It relates to the seizure of 100 kilograms of cocaine by Tongan law enforcement in 2001. That also set somewhat of a precedent for the AFP in their providing investigative advice, equipment and support to the Tongan police for that seizure. It probably goes without saying that without doubt that would be the largest ever seizure of illicit drugs in Tonga. Up until that point, there had been somewhat of a tenuous relationship between Tongan law enforcement and the Fijian authorities. That shipment had connections to Fiji as well, and I am glad to say that after that seizure, and as a result of that, the Tongan and Fijian police met and for the first time discussed ways in which they might collaborate. Does that sufficiently address your question?

CHAIR—Yes, it does. Thank you. We are going to have to terminate things at this point, but I reiterate that if you were available we might like to have an in camera session with you and deal with some matters which it might not be appropriate to put on the public record. We are obviously concerned, because one of the terms of reference that the Senate wants us to report on is to do with any national interest considerations about international crime and/or terrorism. Your submission has been welcomed by the inquiry, but it does raise some questions in our minds when we come to think about the recommendations we should make. We will come back to you and, through the secretariat, discuss whether it is possible to proceed that way. Thank you very much. It is agreed that we authorise the publication of your supplementary submission, and it is so ordered.

[6.30 p.m.]

DANIELS, Ms Yole, Assistant Secretary, Offshore Asylum Seeker Processing Branch, Department of Immigration and Multicultural and Indigenous Affairs

McMAHON, Mr Vince, Executive Coordinator, Offshore Centre Management and Infrastructure Division, Department of Immigration and Multicultural and Indigenous Affairs

RIZVI, Mr Abul Khair, First Assistant Secretary, Migration and Temporary Entry Division, Department of Immigration and Multicultural and Indigenous Affairs

CHAIR—We have been proceeding under some difficulty because these hearings are being held when the Senate is sitting and we are not paired for divisions, but the Senate has now risen for dinner and we can be confident that the next half hour at least is yours. Welcome to the inquiry. You are looking at me searchingly, Mr McMahon; are you going to lead off?

Mr McMahon—Yes, I am. We do not have any opening statement to make, so we have been alerted to a number of areas that you want to question us on and we have tried to prepare in respect of those.

CHAIR—In the 2002-03 budget, \$430 million was allocated over the next four years for offshore processing centres in the Pacific. Can you indicate where the funding for the Pacific solution is drawn from and provide a breakdown of this overall figure?

Mr McMahon—Appropriation Bill (No.1) is funding it. The money is appropriated directly to our department. I would need to check the level of funds that you quoted, but they sound basically correct. So it is just the normal appropriation process directly to the Department of Immigration and Multicultural and Indigenous Affairs.

CHAIR—Can you provide us with a breakdown of how that money is disbursed? You may not be able to provide it now; it may be a matter that you need to take on notice.

Mr McMahon—Certainly. What I am able to tell you is that, if we look at the actual expenditure in 2001-02, we spent about \$48 million in Nauru and about \$29 million on Manus, which gave us a total of close to \$78 million when you take into account the decimal points et cetera. Of that roughly \$78 million, about \$55 million would be direct payments to the International Organisation for Migration. The International Organisation for Migration runs the centres and undertakes some work for us such as some infrastructure projects that we are doing on Manus.

CHAIR—What about the remaining \$23 million?

Mr McMahon—That is the total amount that was expended in respect of the third country offshore processing centres in 2001-02.

CHAIR—That is \$55 million of the—

Mr McMahon—It is \$48.4 million and \$29.4 million, which totals \$77.8 million.

CHAIR—I have got that. But then I thought you were saying that \$55 million of that \$78 million was being spent by the International Organisation for Migration, then you elaborated on what those funds were effectively for. So if \$55 million of the \$78 million goes that way, where does the remaining \$23 million go?

Mr McMahon—There is a variety. It goes down to much smaller denominations, but it meets the department's own costs. For example, we were sending refugee teams there. We had people stationed—and still do—on Nauru. We had them stationed on Manus and Nauru at the time. It includes the costs which are met by APS, so we pay APS for its services. But that is the bulk of the payments. We also met some costs, particularly in 2001-02, in respect of UNHCR.

CHAIR—So what I am looking at here is, rounded up, \$78 million, which is for the offshore processing centres in the Pacific disbursed in the manner in which you have described to the committee?

Mr McMahon—Yes.

CHAIR—Are you able to say what the per capita cost is to the budget of processing a refugee or an asylum seeker in Australia compared with the cost per capita of processing a refugee or an asylum seeker under the Pacific solution?

Mr McMahon—We could certainly do some calculations. I cannot give you the numbers off the top of my head. But I would say that the cost for offshore includes the cost of the infrastructure so, as we have been going along, we have expensed the offshore infrastructure. Onshore there is the issue of the size and capacity of our detention centres. In terms of a per unit cost, I would have to go away and do a calculation on that. It is pretty clear that the major cost for offshore is in keeping the centres actually running, so it is much less sensitive to changes in volume than onshore, where the detention services contract is basically largely on a per unit basis.

CHAIR—What I am asking for is an apples to apples comparison. I would be interested in the figures that you have foreshadowed. Are you able to say whether offshore processing under the Pacific solution is more expensive or less expensive per capita than routine onshore processing?

Mr McMahon—It is a difficult question, because of what surrounds it. I would suspect that, if you simply divide the recurrent cost by the number of detainees onshore and the people in processing centres offshore, at the moment it would be more expensive offshore than onshore simply because of the way in which the arrangements are structured.

CHAIR—That seems logical to me.

Mr McMahon—If the offshore centres became full or if the onshore centres became full and we needed greater capacity, then the nature of those calculations could change.

CHAIR—Sticking with the first part of that answer, have you any idea or can you give us a sense of dimension on how much more expensive it may be to detain and process people offshore under the Pacific solution than it is routinely onshore?

Mr McMahon—No, I cannot, mainly because we simply have not done that calculation. In the very early stages we may have played around with a number, but not for a long time.

CHAIR—I think that Australia has stated its intention to maintain the Pacific solution for the next four years. Is that the case?

Mr McMahon—There is budget provision for it for the next four years. The government has given no indication that it will not persist with this strategy. At the level of the individual countries, we do not have agreements that go four years forward.

CHAIR—I see.

Mr McMahon—But I think it is pretty clear that the government position at the moment is that there is no end in sight in respect of those arrangements.

CHAIR—And that is understood in Nauru and PNG? I guess the question is: has that been communicated to their governments?

Mr McMahon—I do not think it has, in the way that you indicate, because the government has simply made a commitment to third-country processing. It has not indicated, for example, that it expects to run for three years on Manus, although it might, or for three years in Nauru, although it might. Essentially, it would take the negotiations as they arise. In respect of Nauru, we are reaching the end of the current agreement—the current agreement takes us to the end of June 2003—and there would then be an expectation for the memorandum of understanding to be extended. To be fair, I think there is a pretty clear understanding in Nauru that the Australian government's position would be that there would be a continuation of our wish to use the centres.

CHAIR—A number of organisations that have made submissions to this inquiry—Oxfam and the National Council of Churches, for example—have raised concerns that funding for the Pacific solution has impacted upon general funding for development assistance by reducing the budget for development assistance, thereby distorting the overall program. Is that true? Can you confirm that?

Mr McMahon—Obviously, the overseas budget is not my area of expertise, but I would be surprised by that. The funding that we have received has certainly been additional to the aid budget. As I understand it, the funding that was received by AusAID was additional to its existing budget. I cannot conclusively confirm that—and that is really a question that would have to be addressed to AusAID—but it would surprise me.

CHAIR—It would surprise you?

Mr McMahon—Yes.

CHAIR—I think you are right: it is a question that we should address to AusAID—or perhaps to the Minister for Finance and Administration, who allocates these funds between departments or portfolios. What I understand you to be saying is that, while you do not have a perfect knowledge of this—and that is an understandable qualifier—you do not believe that no development assistance funding has been reallocated to finance the Pacific solution.

Mr McMahon—Correct. Certainly none of the funding received by our department—which is the great bulk of it—has been on the back of reductions to the aid budget.

CHAIR—I think you have answered reasonably within your ability to answer. Can you just check your answer and let us know if there is a variation?

Mr McMahon—Yes.

CHAIR—Pacific leaders, including the Secretary-General of the Pacific Islands Forum, have indicated their concerns regarding the Pacific solution as indicative of the manner in which Australia views the Pacific—I am sure you have heard that type of criticism—and establishing a negative precedent for engagement. Do you have any observations to make about that view?

Mr McMahon—No, I have not. It is not something I have discussed within government. Like many other people, I have heard the comments, but it is certainly well outside our capacity to comment. Essentially, we have a largely bilateral focus in respect of the operation of these centres and no capacity to comment on the wider relationship issues.

CHAIR—Did your department negotiate the establishment of these centres with the host governments?

Mr McMahon—No. The Department of Foreign Affairs and Trade did. That did not mean that we did not have some level of involvement, but the agreements were not signed by us. I would regard them as falling within the purview of the Department of Foreign Affairs and Trade, but certainly we were there in the background in respect of some of them. Probably in general, from a more practical point of view, for example, while the discussions were going on we were looking at where a centre may be able to be established. That was in respect of Manus. In Nauru, I think it was handled completely away from us.

CHAIR—Are you saying that you were not part of the formal negotiating team but that you were advisers to the negotiators? Is that how I should understand it?

Mr McMahon—I think in respect of PNG we were regarded as part of the negotiating team, but in respect of Nauru I do not believe we were.

CHAIR—But, in the case of Nauru you would have, nonetheless, advised the lead agency, in this case being DFAT, of what your requirements were—how many people you would hope to settle and so forth?

Mr McMahon—We slipped into gear relatively early, in terms of trying to devise means by which the infrastructure could be erected, and it was done in a fairly cooperative manner. In other words, we were not exclusively trying to do it, as we might, for example, when building a

facility onshore, which we would in general take full responsibility for. In this case, as you would know, there were defence engineers who were directly building some of the infrastructure on Nauru. In respect of Manus, we used IOM, I think, substantially in the end to actually put the infrastructure in place.

CHAIR—Coming to the Manus matter where you were formally part of the negotiating team, how was it determined what financial compensation was to be offered to PNG to accept this facility?

Mr McMahan—I was not there at that time, but I do not believe we were ever party to discussions in respect of aid. What we were party to were discussions in respect of, firstly, how we would meet any cost incurred by the PNG government, and in respect of that a \$1 million trust fund was set up. Secondly, we were fairly directly involved in the establishment of a legacy agreement. Essentially, the legacy agreement was that, to the extent that there was a common interest in respect of running the centre and local interest, we would try to fix infrastructure or leave some legacy. A good example of the sort of legacy we are talking about is that the Manus Province had uncertain electricity supply, and there was an undertaking to try to do something about its long-term stability, which is obviously in our interest as well. We ended up spending about \$1½ million on a generator for the province. Similarly, we did work in respect of water reticulation and sewerage on the naval base centre itself. Obviously, we were using it, but we were also enhancing it at the same time.

CHAIR—So you are not able to inform me of how the calculation was arrived at in the Manus negotiations as to how much to offer PNG in compensation—re aid—for the ability to take a detention centre?

Mr McMahan—That is correct. I simply do not know the answer to that question, nor could I attempt to answer it.

CHAIR—Was that something that came from the Department of Foreign Affairs and Trade?

Mr McMahan—Yes. I had understood, to be quite frank, that there was no additional aid provided to PNG and that the only additional funds were through the trust fund and the legacy projects which we are responsible for.

CHAIR—Are we offering, therefore, the same amount of support to PNG as we are offering to Nauru for taking a detention centre?

Mr McMahan—The arrangements are very differently structured. In Nauru, there was an agreement which had aid attached to it. In PNG, to my knowledge, there has never been any concept of compensation per se, depending on how you view the legacy project. Basically, there was a clear understanding that the way it was going to be progressed in the Manus Province was that there would have to be some level of mutual benefit. The \$1 million trust fund is about meeting their cost in respect of the agreement, and that \$1 million trust fund for its life has not yet been expended, although it is getting to the last \$100,000 or so. In respect of their legacy projects, depending on how you view those, that is the only amount of local benefit arising from the agreement to provide the facility for us.

CHAIR—I accept what you say that the Nauru and PNG agreements were differently structured. Are you able to make an assessment as to whether the compensation offered is, per capita, about the same in both places or different in both places?

Mr McMahan—When you say ‘per capita’, do you mean the number of people who are accommodated at the centres?

CHAIR—Yes.

Mr McMahan—I think it is fairly clear that the total level of benefit, if you like, arising from the agreements would be less in PNG than in Nauru.

CHAIR—Do you know why that is?

Mr McMahan—I believe that PNG came to the table with a clear view that it was seeking to resolve a regional problem. It did not seek any direct compensation but simply wanted its costs met. Then it looked for areas in which there could be some mutual benefit in the way that we were going around the operation of the centre. In respect of Nauru, I really cannot comment; we were not part of that process.

CHAIR—Were you informed, as part of the negotiating team, that there may be some controversy over the constitutionality of PNG doing this deal with Australia?

Mr McMahan—I would have to take that on notice, but I do not believe that the issue of constitutionality arose in respect of the original negotiations. I am quite aware of the legal action that has been taken over a period of some 12 months off and on by Powes Parkop in respect of the constitutionality of it, although I think that court case has now moved to the question of compensation rather than challenging its constitutionality.

CHAIR—In the negotiations, was there any suggestion put on the Australian side that, if PNG dickered about accepting on Manus Island a detention centre, it may have repercussions for our consideration of its general aid budget?

Mr McMahan—I have no knowledge of that, and it is not really a question that I believe Immigration could answer.

CHAIR—I am asking you because Immigration did participate in the negotiations, as you have said.

Mr McMahan—Yes. I have no knowledge of any such thing being put.

CHAIR—Thank you.

Senator JOHNSTON—I am probably asking a question that has already been asked. Excuse me if I am, but I was out of the room briefly. On page 35 of your submission, there are some figures on the number of people detained. You state that, on 28 June 2002, there were 340 people on Manus and 1,084 at Nauru. Have you got an update on their current status?

Mr McMahon—There are 462 people in total between the two centres; 455 of those are on Nauru.

Senator JOHNSTON—Is there any further breakdown of who they were by nationality and where they have gone?

Mr McMahon—Yes. We certainly have that information. Do you want us to submit that to you as a table?

Senator JOHNSTON—I think you have given us good information here but it is out of date. If you could update it, that would be useful.

Mr McMahon—We are happy to do that.

Senator JOHNSTON—There is another thing I want to raise with you, because I was quite surprised about one of your statistics at the back of your submission. On page 54, one statistic is the number of ‘Pacific settler arrivals for combined subclasses’, and I note that there has been quite an amazing drop in 2000-01. What is the explanation for that? Samoa has dropped quite dramatically.

Mr Rizvi—We would have to take on notice why that one has gone down.

Senator JOHNSTON—They all appear to have gone down, when you look at those figures.

Mr Rizvi—I am aware of some difficulties that the ABS had with passenger cards during 2000-01. There may be some link to that. If we could take that on notice, we will get back to you.

Senator JOHNSTON—Thank you.

CHAIR—I think Tonga has put forward the proposal that there should be a guest worker scheme for low-skilled workers. You have stated in your submission that Australia does not have a guest worker scheme or support any type of guest worker scheme that brings unskilled foreign workers into Australia. We have had a number of submissions on the subject of guest workers. The Australia-PNG Business Council last month gave evidence that they believe guest worker schemes do not rob source countries of particular skilled labour, because there is always a high level of unemployment, but they may mean that, through remittances, the economy of those countries can be helped. What is the attitude of the government to guest worker schemes, and why do they hold that view?

Mr Rizvi—I can provide the view of the Department of Immigration and Multicultural and Indigenous Affairs. There are other departments that also have views on this. In particular, the Department of Employment and Workplace Relations has fairly consistently advised against guest worker schemes on various grounds. From a department of immigration perspective, it is certainly true that Australia has had a longstanding policy of not entering into low-skilled guest worker schemes. There are a number of reasons for this. One reason is that experience with low-skilled guest worker schemes in other countries has generally not been good. Many people point to the German guest worker scheme example and some others where the research has pointed to

a range of difficulties. A second point is that unemployment levels amongst low-skilled Australians are a major concern to government. Unemployment levels amongst highly skilled Australians are well below the national average, while for low-skilled Australians they are well above the national average. That is a factor that has to be taken into account. A low-skilled guest worker scheme would effectively mean that low-skilled Australians would face increased competition for jobs.

As Australia has strong minimum wage laws—and it has them for very good reasons—a possible result of a low-skilled guest worker scheme is an increase in unemployment rates amongst low-skilled Australians. Low-skilled migrants who currently enter Australia via non-economic categories, most particularly the humanitarian program, face very significant unemployment levels. Any guest worker entrants would compete for jobs with these low-skilled migrants. The risk of low-skilled guest workers being exploited, as they are in other places, is quite high. Very strong regulation and enforcement would be needed. Our suspicion is that that would be quite expensive. Overstay issues associated with low-skilled guest worker schemes also cannot be underestimated, given the experience in other places. It is certainly true that overstay rates, non-return rates and the rates of protection visa applications from visitors from the South Pacific are quite high. They would be amongst the factors that we would need to take into account in considering any guest worker scheme proposals.

CHAIR—I think I am right making the statement that European backpackers are among the largest group of overstayers that we have.

Mr Rizvi—I was not aware of that.

CHAIR—Are you not aware of it because you are not familiar with the statistics or—

Mr Rizvi—Certainly the statistics do not highlight that.

CHAIR—They do not say that?

Mr Rizvi—No.

CHAIR—My understanding is that one of the largest groups of overstayers is British subjects and that a large group of overstayers consists of the typical European backpacker, who is, if you like, less identifiable in the Australian community than someone from another ethnic group who may not be the typical Anglo-Saxon.

Mr Rizvi—In that regard, we need to make a distinction between what are known as overstay rates and the stock of overstayers. We are measuring two very different things. It is certainly true that the stock of overstayers from the United Kingdom is the largest group. However, if we look at it against the number of people movements—that is, visitors from the United Kingdom—the overstay rate is, in fact, quite low.

CHAIR—Yes?

Mr Rizvi—My understanding is that your original question related to overstay rates. My understanding, from the statistics that I have here, is that the overstay rates of visitors, for example, from the United Kingdom, or indeed from Western Europe, are in fact very low.

CHAIR—Is it the view of the department then that if the stock of overstayers as a proportion of the rate of visitors is low from a particular source—albeit that the stock is higher compared with other sources—it is not regarded as a particular problem by the department?

Mr Rizvi—The department views all overstayers as a problem and seeks to minimise overstay rates wherever it can. However, when assessing risk, the rate is more important than the stock.

CHAIR—The business council put to us that in their eyes—and, they believed, in the eyes of residents of Pacific island countries—they believed it to be incongruous that European backpackers, who had a higher overstay incidence than other groups, could come to Australia and obtain work here but people from the region of the Pacific could not and that, in relation to seeking out a regional relationship priority, the region needed the work opportunities more than perhaps European backpackers did. Does DIMIA have any comment to make on that submission that was put to us by the business council?

Mr Rizvi—I understand the arguments, and I can see the positive points that they are making. It is a matter of balancing them against the potential risks and coming to a conclusion. Traditionally, the Australian government has concluded that the risks are too great. It is also worth highlighting that the volume of people movements from the Pacific, whilst lower than the United Kingdom, is still quite substantial. For example, in the eight months to the end of February this financial year, we have had over 11,500 visitor arrivals from Fiji. Last year we had over 2,500 permanent residents from Fiji. So the level of people movements from the Pacific islands is not small. It is certainly smaller than the level from the United Kingdom, but relative to many western European countries it is actually quite comparable.

CHAIR—In economic terms, to compare this region with western Europe or the United Kingdom, it is a depressed economic area, so it is not surprising that people from that region should seek entry to Australia. I take it from all that has been said that what you are putting to us is that, for all the reasons you gave earlier, the department does not support what the business council is proposing about a guest worker scheme or a more lenient entry provision for people seeking work from Pacific islands. It is as simple as that.

Mr Rizvi—I cannot be unequivocal about it. It is certainly something that we constantly keep under review. New arrangements are developed all the time, and as long as we can find ways that deal with the risks that I have identified it may well be that the government may wish to enter into such an arrangement. At this stage, however, it would appear that the risks outweigh the benefits.

CHAIR—Do you think Australia runs the risk of being seen as expressing a racial preference for Europeans vis-a-vis Pacific islanders?

Mr Rizvi—I do not believe that is a correct conclusion to come to. If the question was about, for example, the development of electronic travel authority arrangements or things such as working holiday-maker arrangements, we have those from all parts of the world. I do not

believe the arrangements that are in place relate in any way to issues of race; they relate to issues of the actual performance in compliance with immigration conditions that is associated with the people coming to Australia from those countries.

CHAIR—Page 48 of your submission states:

As a close neighbour of the South Pacific, Australia has a strong interest in political and security transformations in the region. Social upheaval or environmental change are catalysts that might compel South Pacific people to seek refuge in Australia.

Are you familiar with that part of the submission?

Mr Rizvi—Yes.

CHAIR—What kinds of environmental change are you referring to here?

Mr McMahan—I think there is a reference elsewhere in the submission to conditions such as global warming, rising water levels and so on. Although that is given as an example, I do not think the submission actually tries to deal with that exhaustively; it is simply a watch on the region and an understanding that, as the largest economy in the region, people in the Pacific will probably look to us in respect of particular events.

CHAIR—I think that is a reasonable observation to make and it is quite appropriate for inclusion in your submission. If you are living on a Pacific island where the sea level is rising and your habitat is threatened then you cannot live there, obviously, and your long-term future not propitious, so you will seek access to some other place of more secure residence. What do we do in that case? Do we identify environmental refugees?

Mr McMahan—I think that governments over periods of time have dealt with situations as they have emerged. In respect of representations about rising sea levels, there is nothing of prospect in any of the countries—in other words, although it is a genuine fear in those countries, it has not yet got to the point where you would need to act on it. There would be a situation of humanitarian response in those cases and it would be up to the government of the day to actually deal with that.

CHAIR—I understand that, two years ago, Tuvalu approached Australia and New Zealand, and I notice that you are nodding your agreement, to recognise the existence of the category of environmental refugee—my understanding is that we declined it and New Zealand accepted it—should Tuvalu become uninhabitable due to sea level rise. But, when the Pacific solution came around, the Tuvaluans declined Australia an offshore processing centre. Was there a tit-for-tat situation there, or not?

Mr McMahan—There was absolutely no link whatsoever. The main issue is that the Tuvalu situation, if it emerges, is some 30 or 40 years away or even longer. That is a very long-term issue on anyone's understanding. Although there may have been a general approach in the region and a number of countries may have been asked whether or not they would be prepared to host a processing centre, many of the countries probably had no suitable facilities anyway.

CHAIR—It seems to me that you could take this view. Tuvalu has a problem of sea level rise, which will impact on them, as you put it, in 30 to 40 years' time—nonetheless, it is a problem. We have a problem, or at least the government has one, about where you put refugees in conformity with the Pacific solution. Both of us have separate problems. Was there any consideration given to a trade-off—that, if we respect the request of Tuvalu about environmental refugees, they might respect our request for a Pacific solution?

Mr McMahan—Certainly not to my knowledge.

CHAIR—Do you see any inconsistency in asking them for a favour when we have rejected their request on a recognisable problem?

Mr McMahan—I do not believe so. A key element of the government's approach was a recognition that this was a regional problem and that people should move together within the region in respect of a problem that could affect any of the states in the area, which is people-smuggling. That was the basis on which it was taken forward.

CHAIR—I see. The New Zealand government's Pacific access category, established in July last year by their Department of Labour and the New Zealand Immigration Service, allows 375 Pacific people, from Tonga, Tuvalu and Kiribati, via a ballot system. Would we consider such an arrangement?

Mr Rizvi—My understanding is that the Pacific access strategy is, to all intents and purposes, a guest workers scheme. I suspect the government would take into account the range of considerations that I mentioned earlier if it were approached on such a matter.

CHAIR—You state in your submission:

Studies show that migrant remittance—

repatriation of income earned to the source country—

is central to local economies, particularly smaller South Pacific states such as Samoa, where remittance increases disposable income and often forms a central element in the formulation of plans for national development.

That seems to be quite a reasonable observation. I think the second biggest source of exports for the Philippines is remittance by its nationals earning income overseas. Isn't that a factor that ought to carry weight in our considerations, given the quite parlous state that some economies in the South Pacific are in at the moment?

Mr Rizvi—I would agree with you that that would be a relevant consideration when a whole-of-government approach is taken into account in looking at these matters.

CHAIR—But it is not enough to swing the decision to a yes.

Mr Rizvi—As a representative from the department of immigration, I cannot comment on a whole-of-government weighing up of those sorts of matters.

CHAIR—Of course. Was this an issue identified by the department as a matter that the government should consider?

Mr Rizvi—It is certainly a consideration that has been raised every time these sorts of issues have come up.

CHAIR—Do you know why it was passed over?

Mr Rizvi—I think it is a balancing of a range of factors, one of which is this one. But also important are the range of factors I mentioned earlier, including considerations about employment opportunities for low-skilled Australians.

CHAIR—Thank you.

Committee adjourned at 7.12 p.m.