



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

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

FRIDAY, 25 OCTOBER 2002

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SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE
Friday, 25 October 2002

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

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

Senators in attendance: Senators Cook and Hogg

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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Committee met at 8.34 a.m.

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade References Committee. There are a few remarks I need to make at the beginning of these proceedings. Today is the second 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 the submissions from today's witnesses have been published by the committee and are also available. Today's hearing is open to the public, but this may change if the committee decides to take any evidence in private. The committee has authorised the broadcasting of the public aspects of proceedings.

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 the 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.

An officer of a department of the Commonwealth should not be asked to give opinions on matters of policy. However, officers may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was arrived at. Witnesses will be invited to make a brief opening statement to the committee before the committee embarks on questions.

[8.37 a.m.]

FLETCHER, Mr Graham Hugh, Assistant Secretary, Pacific Islands Branch, Department of Foreign Affairs and Trade

OLIVER, Mr John Graham Weldon, Assistant Secretary, New Zealand and Papua New Guinea Branch, Department of Foreign Affairs and Trade

CHAIR—Welcome to the inquiry. I now invite you to make an opening statement, which we will follow up with questions.

Mr Oliver—I will lead off very briefly with some very short remarks to update the submission we provided you earlier in the year. Since then a number of things have happened in Papua New Guinea. While we can easily flesh these out in questions, it might be useful if I summarise them fairly briefly. The main thing is that since we wrote our submission PNG has completed its election. The National Alliance Party of Sir Michael Somare eventually defeated the party of Sir Mekere Morauta.

Somare himself was elected Prime Minister on about 5 August. His government faces, as its predecessor did, very serious and long-term economic difficulties. The new government has outlined measures to deal with the economic problems it faces. In a nutshell, the most vital problem it faces is a budget deficit which was looking like some seven to eight per cent of GDP. That is well beyond PNG's means to support. The government therefore introduced a supplementary budget towards the end of August which sought to address these problems, essentially by reducing the budget deficit and undertaking—in consultation with its partners, the World Bank and the IMF—to frame a budget for the year 2003 which would seek to give long-term solutions to the problems that PNG faces.

In terms of its initial activities, the new government met with our own Prime Minister on about 14 and 15 August. The PNG Treasurer has had consultations in Washington with the IMF and the World Bank. Our Treasurer has had discussions with his PNG counterpart. Mr Downer met his counterpart on a couple of occasions in September. Senior officials talks were held in the department the week before last, which rounds off, I think, a series of discussions aimed at both sides getting a better understanding—in our case, a better understanding of what PNG's problems really are and on PNG's part a better understanding of what the Australian government might or might not be able to do to assist PNG.

I think it is fair to say that the government here has reaffirmed its readiness to support the government of Sir Michael Somare. We would, I think, wish to see the process of economic and political reform in PNG continue. We would like to see PNG's engagement with the international financial institutions continue. We would like to see the process of defence force reform continue as well. On Bougainville, we would like to see the peace process come to an early conclusion, if that is possible. These were very much the sorts of policies which were in place with the previous government of Sir Mekere Morauta, so in many respects there is no particular change in the way we deal with the incoming government in Port Moresby. Having said that, I think that after a couple of months in office it is a bit too early for us to be drawing conclusions as to precisely what the government of Papua New Guinea may do to address some

of its longer term challenges. They still have quite a long way to go to hold consultations, not only with us but also with others, just to get a measure of what is achievable, what they feel they can do and what kind of assistance they can get from the international community and us. There is probably not too much more that I could add, other than to say that in questions we could probably take some of these matters a bit further. In a nutshell, things are off to a good start, but we probably have a little way to go before we get a good understanding of the precise measures the government of PNG is prepared to take to address its problems. I will leave it there for the moment.

CHAIR—Thank you, Mr Oliver. Mr Fletcher, do you have some supplementary comments?

Mr Fletcher—Yes, I do. I look after the island countries, except PNG, and also regional institutions—the Pacific Islands Forum and related matters. Since we finalised our submission in late June, the only development of real importance was the forum meeting in August in Fiji. That meeting considered and published a declaration known as the Nasanini Declaration—the name comes from the venue in which the meeting was held. That declaration takes up the efforts made over the past 10 years to develop cooperation between the countries in order to deal with transnational crime. In the light of September 11, it also focuses more attention on getting all the legislative requirements in place so that the Pacific countries have a good basis for dealing with transnational crime of all kinds, including terrorism.

There have been difficulties in getting legislation through, particularly with some of the smaller countries. This declaration is intended to give new momentum and new impetus to that process. We are hopeful that over the next 12 months Australia and New Zealand, with some help from the US, will be able to finish the process—begun some years back—of getting a suite of legislation which covers the whole region, so that if a problem occurs there are extradition arrangements and mutual assistance arrangements in place which can deal with it. That is the only significant policy development, so to speak, in the period.

CHAIR—I want to come to some questions, probably towards the end, about the topical issue on the mind of the nation at the moment—the terrorist threat—and the implications of that for this region that we are talking about. Before I do, I want to come to some of the remarks that you have made in your submission about the economic situation and the approach that Australia has adopted of encouraging economic development in this region.

Mr Oliver, could you give us a bit of a picture of the PNG economy? You talked this morning about the budget deficit being seven to eight per cent of GNP and an economic structure now being put in place, with the aid of the World Bank and the IMF, to resuscitate the economy, to lower the level of the deficit and, one hopes, to bring it into surplus. Can you give us some sort of idea of what the level of unemployment is, what the level of inflation is and what the ruling interest rate levels are and—if I may be so presumptuous—can you give us a clearer definition of the economic challenge facing PNG?

Mr Oliver—Perhaps I will start with the last bit first, because in some ways that sets the picture. At the time the new government came into office, our general feeling about Papua New Guinea was that a number of very serious problems were facing it. In general terms, one of those was a quite rapidly growing population. PNG's population has now gone over the five million mark. It is expected to double by about 2025 or 2030. The number of people in poverty in PNG is rising. Some 80 to 85 per cent of the population live in rural areas and work in the

informal economy. Having said that, the economic outlook for the non-resource sector of the economy—which is essentially forestry, fisheries, agriculture and tourism—is not especially promising. The weather forecasters' immediate prediction is that PNG is probably looking at a very dry year, so that will not assist in bringing those sectors on.

The resources sector is coming to the end of its life. That sector has traditionally underpinned the PNG economy and provided the wherewithal for government to fund successive budgets, but around 2012 or 2015 just about all the petroleum and mineral resource facilities in PNG will have come to the end of their working lives. A couple of gold mines may be working quite usefully, but there will be no continuation of the kind of long-term financial underpinnings and revenue streams coming to government from the resources sector.

CHAIR—This is a pretty bleak scenario you are giving us.

Mr Oliver—It is. It is a scenario which the PNG government would probably give you as well, although they might be a bit more optimistic about the investment opportunities.

CHAIR—I think national governments are meant to be up-beat about economic prospects, no matter what they are.

Mr Oliver—It is hard to be up-beat in PNG, except that traditionally PNG has been a source of foreign investment. Foreign companies have been very interested in its resources sector but, from what we can see, there is very little new investment going into PNG at the moment. Most of the resources companies are marking time. The resources sector outlook is in decline and will wind up, more or less, in about 10 to 15 years time. Given the lead times for most major projects, you would have to say that, without new investment, that outlook remains dismal. That is the nicest way to put it. In addition to that—

Senator HOGG—Can I just stop you there, because I understand that the great reluctance to invest on the resources sector side is because of security, pure and simple.

Mr Oliver—That is the view which many companies put to us—that a combination of law and order difficulties and corruption difficulties are major impediments to long-term substantial investment. That would be correct. It is one of the key reasons why PNG's investor and donor partners are urging it to take measures that will restore investor and donor confidence. Without that the outlook will not improve and without investment PNG's ability to survive long-term does not look too strong.

Senator HOGG—Security is paramount to getting their resources area to pick up—and their resources area is one of the prime areas in which they can bring the income of the nation back to a reasonable level—and yet the defence forces are being cut at the same time. I cannot get the two to gel together. We are assisting in the reduction of their defence forces, which they rely upon heavily because of lawlessness and 'insurrections' that occur within the country; on the other hand, they need investors to come in and invest heavily, in the mining sector in particular, if they are to start to have substantial returns back into the economy. How do you weigh up the competing factors there?

Mr Oliver—I think that in PNG the principal source of security to the resources sector is usually the police and their so-called mobile squads. Currently in the Southern Highlands it is the police mobile squads who are deployed to some of the petroleum and gas resources projects.

It is true to say that the defence force is being run down and that, to the extent that the defence force can be deployed in an emergency situation to protect resources projects, its resources are declining. The reasons for wanting to see the defence forces reduced are rather separate. PNG has traditionally underfunded and underresourced its police and defence forces, and in the case of the defence force the feeling was that it was not sustainable or affordable. The defence force would have to be reduced from about 3,500 people to a considerably smaller figure for PNG to be able to afford it. Instead of saying to PNG, ‘What kind of a force do you think is appropriate for your circumstances?’ the question had to be: ‘What force can you afford? What amount of money can you afford to put into your defence forces?’ The answer to that seemed to be that the money that would be available limited the force to about 2,000 people, and that is the figure to which it is being reduced. To come back to your earlier question, there is a catch-22 here: in trying to produce smaller and more affordable defence forces and police forces, those forces do have to be made more efficient so that they can undertake the job of protection that so often is needed.

But mining companies have become very good at working their way through some of these problems. While in the last few weeks we have seen considerable disruption in the Southern Highlands, we now seem to be coming out the other side of that. The mining companies, the local authorities and members of parliament do seem to be succeeding in quietening things down. Production at the Porgera mine has resumed. It is not good publicity for investors to see that these things can be disrupted so easily, but at the end of the day things have always been like that in PNG and it might just be getting a bit worse. I think the government is very conscious of that and wants to do something about it. The minister for provinces is a man called Sir Peter Barter, and he well understands the difficulties that PNG will face if it does not get law and order in the Southern Highlands under control. Investors will simply take their money elsewhere.

CHAIR—I suppose that, given the weakness in the global economy, it would be fair to say that gold is a countercyclical commodity and prices are high for gold. So there is a good return for goldminers, and therefore, given the present demand in the current economic circumstances they can afford the security costs that go with a rich vein of gold of the kind Papua New Guinea has. Perhaps we will get on to the other commodity lines later, but now I invite you to go back to the central core of your narrative.

Mr Oliver—One of the other difficulties that PNG faces is the fact that the essential infrastructure of the country has become run down over the years. Roads, bridges, communications, health services and schools are all in a state of not too good repair and they will require very considerable investment to get them going again. I think the incoming government is very keen to see basic infrastructure like roads and bridges rehabilitated and it will be asking countries like our own and others to assist in rebuilding some of those basic infrastructures. I dare say we will be able to assist.

The picture we are painting of the PNG economy is one which is particularly gloomy. There would be some other factors which PNG certainly will have to address. It has a very large public service which is neither sustainable nor affordable. That will need to be reduced. There

will need to be continued long-term technical assistance from countries like our own, providing capacity in some of the main budget and financial and treasury departments in PNG and assisting them to reduce their public service to more manageable levels. When you talk to them later on today our colleagues in AusAID will be able to outline some of the programs they have in place to assist in capacity building in PNG and to address law and order and corruption problems and general public service restructuring.

The picture is not a good one. Unemployment in a place like Port Moresby and in the major towns of Lae and Madang is very high indeed. It leads to a considerable amount of criminality and violence. All the rascal gangs are unemployed young people who have no job prospects and therefore do what unemployed young people in PNG do, which is to become violent and go onto the streets and become young criminals.

Having said all that, I think Sir Michael Somare's government are well and truly aware of the measures they need to take. We hope that the PNG government will agree to take those measures, but I guess that is not absolutely clear yet.

CHAIR—Is that what we are saying to them or is that what the World Bank and the IMF are saying to them—or are all three of us saying to them that, given this level of budget deficit and the parlous state not only of the budget but also the economy, they need to reduce their deficit by reducing the size of the public service, cutting back on their defence forces and reigning in their expenditure? Is that essentially the theme that has been put to them?

Mr Oliver—Yes, it is. I think the message which is probably new and may not have been there over the long term has been one that assistance from major donors like ourselves, the IMF and the World Bank, will be conditional upon PNG taking appropriate measures to address its problems. I think in the past there has always been a view that maybe we and others will be flexible and be able to bail PNG out. I think the time is probably coming where performance and benchmarks do have to be set, and I hope the PNG government will see these as not unreasonable. We would like to see economic reform measures continued, we would like to see engagement with the International Monetary Fund and World Bank continued and we would certainly like to see reform of the public sector undertaken.

CHAIR—'Reform' meaning more privatisation?

Mr Oliver—Essentially reducing the size of the public sector. We would also like to see the privatisation program continue. There is some uncertainty as to whether the present government wants to continue with privatisation. I think our feeling is that by instinct it probably does not want to but it may still have to.

CHAIR—I would like to ask you a few questions about that, because I think that is a seriously troubling problem. The mandate that Michael Somare has is really not to do the things that he is now being asked to do. He was elected on a mandate to actually expand the economy. These steps, if implemented, would cause the economy to contract even further. It is a typical IMF and World Bank approach and it is a typical approach of this government. I think it can fairly be said that it is probably a reasonable approach to take in more developed economic circumstances. But we saw these strictures applied to Indonesia after the Asian currency crisis in 1997, and I think the balance of economic opinion after the event—with the glorious advantage of hindsight—was that the outcome of all that was to fuel the further collapse of the

Indonesian economy. Some criticisms were raised at the time; I must admit I was one of those who was less up-front and more given to hindsight. If you look at the Indonesian economy now, it is the one that has not recovered very well; it is still wallowing terribly, whereas the Malaysian, Singaporean, Thai, Philippine and other economies, which were hit by the tidal wave of that currency crisis, are all back on deck, functioning reasonably well.

In an economy of this size, with this fragility, with no clear prospects of what it is that you build your private sector industry base around, reducing the size of the public sector means putting public servants out of work with no prospect of finding growth in any other sector of the economy to take up what is an essential skilled element of the economy. It will probably lead to them migrating to Australia or somewhere else. You are putting the economy on a global downward trend: that is the counter argument to what is being proposed, as best I can summarise it. What sort of economic analysis has the department or the government undertaken that leads them to believe that the pretty harsh economic medicine they are prescribing for PNG is the right medicine?

Mr Oliver—In terms of PNG, the bulk of the work we undertake is probably undertaken in AusAID because of the sorts of things we are asked to do. I would agree entirely that PNG does want to boost economic opportunities. It does want to see the agricultural sector—fisheries, forestry—all contribute more to national revenue. But behind all that, the sorts of things which the PNG government would like us to assist with come down to meeting expenditures for infrastructure construction and, if you like, supporting the running of the health and education systems. I suppose the theory is that, to the extent that we can assist in those areas of their budget, that will free up resources on their side to see the non resource sectors—and indeed the resource sectors—expand.

We are not yet clear precisely what it is we are going to be asked for. We have been asked to look at some reprioritisation of the aid budget, and we have been asked to look at rescheduling loan repayments. I do not think the PNG government has finally made up its mind yet about exactly what it will ask us for. We would properly expect that to become a bit clearer over the next few weeks. Indeed, there is a ministerial forum coming up in Port Moresby in November at which maybe some of these issues will be clarified. But, from an Australian government point of view, I guess the use to which the \$300 million of Australian aid is put and the question of what will happen to the loan moneys which have been provided are the issues. Can they be rescheduled to assist PNG? I would not want to rule anything out because I do not quite know what we are going to be asked to do or indeed what our response will be.

CHAIR—Sorry to interrupt you, Mr Oliver, and please insist on completing your presentation if you think this is an inopportune time, but you have just put your finger on the conundrum. If our aid bill is around \$300 million and at this point we are unaware precisely what PNG will be asking us to fund, have we made it a condition of our recommitting to \$300 million dollars and looking at further aid that they impose on themselves the economic structure that we are talking about here—the economic structure put forward by the World Bank, the IMF and the Australian government? Is that the situation that we are looking at?

Mr Oliver—There is a lot of give and take in all these things. I think our government understands very well that if you wish to see reform achieved in PNG there has to be a measure of flexibility. If you want reform, you have to allow it to occur. If you place too many conditions in the way of reform, you probably will not get it. So yes, there is a balance. I guess

the PNG side has yet to come up with a program of how it is going to frame its 2003 budget and what kind of assistance it wants to engage in with the World Bank and the IMF. I think a World Bank team is going to be in Port Moresby towards the end of this month. So there are a number of things in play.

We and the World Bank and IMF all wish to assist, but none of us is yet absolutely clear precisely what the nature of that assistance will be and how we and others might coordinate our efforts to make sure that PNG gets the assistance it needs but still takes the kinds of measures which we think will assist in its economic recovery. The PNG government may disagree with that. I guess we will have to see in further discussions to what extent they do not like the kinds of proposals and measures which might be put to them. However, I think the key issue for us at the end of the day would be the extent to which our aid budget can be used to assist in meeting some of the essential infrastructure and other payments which PNG needs to get its infrastructure going and the extent to which they want or seek some easing of the loan conditions for moneys which they were lent when Sir Mekere Morauta was in office.

CHAIR—Some of the developing country economists would say that the most shocking sight to see if your economy is in trouble is a rescue bid by the IMF to bail you out. They would say that based on what happened in Indonesia, for example, in 1997. I will not ask you to say it, because you are here representing the government, but I would make the observation that there is a fair bit of justification for the argument that the bailout in Indonesia worsened the economic situation. From what you have described, it would seem that any bailout of this nature in PNG may have the same effect. The problem is that if we are going to put \$300 million into this place by way of aid, why would we waste our \$300 million by wrecking the economy in the first place, because that money will just vanish as water into the sand if the economy is intrinsically not sound. When I asked the question earlier—and I am not trying to be argumentative—about what economic studies we have conducted on PNG that led us to the conclusion that the economic medicine that we are prescribing is the right economic medicine, I believe you referred to some work done by AusAID.

Mr Oliver—The reason for my saying that is that the basic work on the kind of assistance which we can provide in terms of loans to the PNG government would be undertaken by our Treasury colleagues who provide the loans, and they would do the analysis as to how they are repaid and when they are repaid. They are the ones who also talk to the IMF and the World Bank. As a department, we do not, although AusAID certainly does talk to the IMF and World Bank on a regular basis. I suppose I am ducking the question a bit to say that I think the expertise in the kind of medicine that we would deem to be desirable for PNG might well be better explained by a colleague from Treasury who understands international finance in a way which, if I were an economist I might do, but sadly I do not. I guess they would have a better answer as to—

CHAIR—That is fair enough. My colleague Senator Hogg was saying—I will not quote you, Senator Hogg.

Senator HOGG—I will say it myself: might not have the same empathy for the circumstances as a DFAT official. That is the problem. They will look at it in a strictly monetarist way. I might be a little harsh on Treasury here, but that is quite possible. The Department of Foreign Affairs and Trade may well take a broader view.

Mr Oliver—Certainly the government wants to see PNG's economy revived. That is not so much in question. But the kinds of measures which PNG has to do to get there very much depend on some of the externals and the perceptions which outsiders have of the economy. The previous government was committed to a process of reform, and I think that it is true to say that the incoming government shares that. The extent to which it will be equally committed to the same kinds of reform is less clear. What is probably less clear is that you need to see a bit more privatisation, for example. If privatisation is aborted, the revenue which the PNG government would have got from that process will not occur. If they do not cut things like the public service, it will be unaffordable. There will not be enough money in the kitty to pay for a whole lot of public servants who do or do not exist. Likewise, with essential infrastructure, they do not have the money to build roads and schools and pay schools, hospitals and doctors. It is those kinds of things that they will be looking to us for help on.

CHAIR—You are right. Maybe we should invite Treasury to comment on why they hold the view that they do and what has led the government to take that view. Maybe we should ask the same question of the IMF and the World Bank. I will confer with my colleague. My view would be that we should ask the IMF, the World Bank and Treasury to justify to us why they think that the approach that you have outlined is the appropriate one because, if you look at the core industries of forestry, fisheries and tourism, the first two are fraught with problems although, with regard to forestry, there is a global shortage of cellulose. Fishery is not necessarily an industry that you would expect would save an economy like PNG. Tourism and terrorism do not mix and, with the rascals problem and other difficulties in PNG, PNG does not immediately appeal as an A1 tourist destination for the region.

Mr Oliver—But it has some of the best facilities around, if only they could be developed.

CHAIR—Absolutely.

Senator HOGG—What is the current warning for Papua New Guinea in terms of tourism? Do we know?

Mr Oliver—I think that I have it somewhere in here, but the short answer is that Australian visitors are encouraged to be extremely cautious and careful in their visits to PNG. I think that the Kokoda Trail, which was out of bounds, is now back in bounds. But it would be discouraging for most tourists; there were very serious threats to their welfare and wellbeing.

Senator HOGG—One hears stories that one should stay only in certain hotels, above the eighth floor and things such as this. I have never been there, so I cannot say, but I do know some expats who live there. They live in compounds. Even living in compounds, you still hear stories that would make your hair stand on end.

Mr Oliver—Many expats would tell us that we are overly cautious and that you can have a perfectly enjoyable time in PNG so long as you use commonsense. There are many who think that we live behind too much razor wire and concrete. They would say, 'Get out into the public arena. It's okay out there.' I am not sure that the average tourist would believe that.

CHAIR—Probably both views are right. If you live there, you have local knowledge and you know how to take care of your safety. If you are a visitor without that knowledge, you need the extra warnings, because it is not a simple matter of assuming that you are safe in certain ways.

Mr Oliver—And 6,000 to 7,000 Australians do live in PNG and have been there for many years. I think that number is declining, though.

CHAIR—It seems to me that the economic platform we approve of is the platform that was thrown out by the electors in the last election. The incoming government has a different platform. We are putting to the Somare government that it should shape up and buy the defeated government's platform and accept, even when it came to power on a promise of no privatisation, that it should now engage in privatisation. Thus, we are asking a political leader to backflip—and I have done it too from time to time when circumstances have altered cases. So fresh after an election in which Somare campaigned against privatisation, we are now putting to him that he should privatise his electricity generating authority. Has DFAT done any studies as to what that does to the political stability of the country when we say to a democratically elected government, 'Don't follow the mandate you have; do something else?'

Mr Oliver—I would not call them studies in the sense that we have engaged outsiders to do them—and I suppose it is fair to say that the kind of study I think you have in mind we may not have undertaken—but I think there is a feeling that the theory behind privatisation is sound. The PNG government has some very expensive public utilities on its books, and unless it has the revenue to manage them they will become an increasing burden on the budget. With PNG's economy in the shape it is, it cannot sustain that level of public expenditure. It may be able to sustain some, but not all of it. I think it is correct to say that Sir Michael Somare, as a leader, would prefer to see some of these utilities in substantial public ownership. He may well be able to secure additional finance and resources from elsewhere in his budget, but I do not think we are quite clear on that. We are in a period of time when it is not clear to us precisely where he will come down, and I suppose until he does it is a little hard to speculate. He may decide that some of the utilities do indeed need to be privatised because he needs the revenue; on the other hand, he may not. It is a bit hard to speculate on what he will do. I think his Treasurer, Mr Bart Philemon, supports stronger measures than maybe his own cabinet are prepared to take. I guess we will have to see, because that is still not clear. But, in answer to your question about the studies, no, we have not done the kinds of studies you are specifically referring to.

CHAIR—Do you have any thoughts about when, after a democratic election, we say—perhaps not as directly or as crudely as I am about to put it—to a government elected on a particular mandate, 'Continuance of aid, or our consideration of further aid, to meet your pressing economic problems will involve a backflip on your election promise'? How do we justify taking that view when we are a country, as we all know, that upholds democratic values and respects the democratic decisions of other nations?

Mr Oliver—I do not think we would say to them that they had to backflip. Depending on what we are asked to do, I think we would say, 'We see certain ways in which you might be able to achieve the kinds of budgetary goals that you want. Here they are.' It is up to PNG whether it does or does not accept those. Once we get a better picture of what the PNG cabinet wants to do, we will be in a better position to say what we think is an appropriate and reasonable Australian response to that. At the moment we have a lot of consultations and discussions going on with them that they will have to digest. I guess the kind of analysis you are referring to might be looked at once we see more clearly what they feel they can and cannot do. There may be some elements of the reform program of the Mekere Morauta government that they simply will not wish to pursue. Engagement with the IMF and the World Bank is still not absolutely clear. That is a very big decision for them, and they will have to think very carefully as to what it may

mean in terms of ongoing structural adjustment programs from the World Bank or from the IMF. They may choose not to go down that path, but it is not quite clear. The studies might come a little later when we know what it is that we are dealing with.

CHAIR—They are being given a kind of Sophie's choice, aren't they?

Mr Oliver—It is not an easy choice. The reason I am hedging is that I think the PNG government is coming to terms with the extent of the problem it faces. Sir Michael has been out of office for a long while and many of his ministers are new; some of them are not. But now that they are in the ministerial chair they will see what the books show, and I think that will take a bit of time.

CHAIR—I am all for a wake-up call, but I am not sure that I am signed up to the proposition that is being put to PNG. Anyway, that is a matter we will take some further evidence on in this inquiry.

Mr Oliver—There is nothing hard and fast; these are all very friendly discussions and talks with them. We have not laid anything down as being: 'You must do this if you want to get that.' We are merely saying, 'As we see it, you will need to think about these issues and you will need to take account of them because they seem to us to be relevant factors, but you might have a different view.'

CHAIR—I have a great respect for Australian diplomats, and I do not think they would put a proposition as crudely as that—they would put it very nicely indeed.

Mr Oliver—We might wish to, on occasions, but we are invited not to. I think when the Prime Minister was at the forum in August—and Sir Michael Somare accompanied him there—he was very firm in talking about the importance of good governance. In large measure that is what applies to PNG. It has a lot to do with good governance and there is a lot more good governance that could take place in PNG.

CHAIR—I cannot resist making this observation, though: the roads are in disrepair, the infrastructure is in decline, education and health services are unable to be delivered in the desired way and we are asking them to cut expenditure when expenditure would be, one would imagine, aimed at improving all that infrastructure. But if they cannot pay their public servants then they are obviously living beyond their means. The question then has to go to what tax base do they have on which they can live to their means or whether outside aid—the IMF and the World Bank assistance—can be directed to stimulating the economy so that it can be put on a growth path. When you look at what economic assets there are and where the industry is that would provide that core economic vitality, it is pretty hard to identify, given the problems. Once these economies start to go into a downward spiral then you do waste your money because there is no solution. The cost at the end of the day for countries like Australia that have to help because of our role in this part of the world is even greater—and that is my concern.

Senator HOGG—Mr Fletcher must be feeling fairly lonely there so—

Mr Fletcher—I am learning a lot! I am not having a go.

Senator HOGG—The issue that I want to raise will probably apply in the Pacific island areas as well. It refers specifically to a comment by you, Mr Oliver, in your opening remarks. You referred to the senior officials meeting that has just taken place to get a better understanding of, I presume, what is happening now. You suggested ways Australia might be able to assist. This always amuses me because whilst we have to deal with the contemporary situation, and I understand that, we have been closely associated with PNG over a long period of time. Since it gained independence in 1975 there has always been a very close alliance there, and yet today we are still trying to understand. In that period since 1975, there have been a number of governments, of different persuasions, so I am not trying to focus the blame on any particular government.

What has gone wrong in Australia's approach to a nation such as PNG that we have not been able to involve ourselves earlier in the process to assist them, rather than let them get to where they are now? I am not saying that in a paternalistic way. Is there some intervention that we could have done, should have done? Is there something wrong in our own planning? Are we taking too short-term a view in respect of our responsibilities to PNG, and also the Pacific islands, for that matter? It is an issue that I raised last week with witnesses here. Are we forsaking the long-term planning and long-term vision for these particular nations that would assist them better than some of the short-term fillers that we put in place to assist them as they go from crisis to crisis? That is the way some of them seem to go. If they have got a crisis we address it, whether it be drought, whether it be law and order; and so it goes, on and on.

Mr Oliver—In hindsight, one might say that—

Senator HOGG—I know it is easy to govern in hindsight.

Mr Oliver—Where did we get it wrong? It is a question we ask ourselves a lot of the time. Maybe we should have, earlier than we did, encouraged previous PNG governments to look more seriously at the whole question of reform. It was only really in 1999 when Sir Mekere Morauta came to government that he became probably the first PM who seriously approached the whole issue of central political and economic reform for PNG—and that is a long way into PNG's history, if you like. Maybe we should have encouraged that process to be undertaken earlier, but there is only so much you can do with a sovereign government. It will listen to advice it is given; it will take some and reject other. Under Prime Minister Skate the emphasis was on finding PNG's solutions to its own problems, and that may not have worked. Looking back on it, if we had insisted on an earlier examination of the need for reform, that might have been a desirable thing.

Senator HOGG—Prior to my question, Senator Cook raised the issue that health services, roads, schools, education—basic infrastructure, and so on—were obviously deteriorating over a long period of time; that the nation was in a downward spiral. Was an assessment not made that there was a downward spiral; that there was a run-down of various facilities? While respecting the sovereignty of PNG, was there not some way that we could have assisted them in making an assessment of their economy—an assessment of their ability to cope with the needs of their people? Or, was that just all too hard, given the nature of the place?

Mr Oliver—I could never admit that things were all too hard for us to have a look at them. Until fairly recently, a lot of our development assistance was in the form of budget support. Over the years, that was phased out; there is no longer budget support. I suppose certain

essentials of the PNG economy—recurrent expenditure on schools, roads, hospitals and the like—are very much ones for the PNG government to manage itself. The intention was that, over time, as we phased out our budget support, they would make budgetary provision for that to be met from recurrent expenditure. Our aid program, therefore, shifted to assist with their budget; that is where the money went. Under our current aid program that no longer happens—it is much more project focused.

I suppose that there is a balance in all these things: if the PNG government cannot raise the revenue or manage their own public services, they will fall into disrepair—we and PNG know that. I do not think that we would say we did not see it coming; it is a question of saying, ‘You will need to make sure that you can manage your central infrastructure and services.’ If governments choose not to do that, I suppose that over time we will have to address it. The time has come now where we probably have to: schools, roads and clinics are in sufficient disrepair that we will have to look seriously at assisting in rebuilding them. Do we foresee that? Yes, I suppose we do. Can we do anything about it? That is much harder. We can merely inform the government that this is what we see happening. They do not have the resources to deal with it. They choose to use their resources in a different way.

Senator HOGG—I know that it is a difficult situation, but if one foresees what is going to happen and one does not take the necessary steps then, when the crisis actually arrives it becomes infinitely more difficult to address. The programs and the remedies that one needs to put in place inflict a lot more pain than might otherwise be necessary. Part of the problem of the political cycle is the fact that governments have to face the electorate—and I accept that. But, nonetheless, it seems to me that there must be a balance there somewhere. I am not saying that it is an easy balance to find; I am just asking.

Mr Oliver—It is not an easy balance to find, and I am sure we have seen some of these difficulties occurring and I am sure that we have encouraged the PNG government to address them. In many cases the PNG government will have chosen to allocate its resources in ways that might not have been economically desirable—one can always look back and see that that is what has occurred. But, at the end of the day, PNG has its own resources. How it deploys them is very much a matter for it to decide. We might not agree with what it does, but it is their choice. We might wish it otherwise—and I am sure that in the past we have—but there is a limit to what we can or should be doing.

Senator HOGG—Whilst the PNG government is rightfully preoccupied with solving the immediate problems that it faces, is there a value in the PNG government, together with our government and other donor governments, sitting down and developing a long-term strategic plan as well as having a medium- and a short-term program? It seems to me that if there is something that is missing in this area—in PNG and the Pacific islands—it is a long-term strategic program as to how the relationship will grow.

Mr Oliver—I think that there is value in that. There is certainly value in donors like us and others coordinating with each other to see what we can collectively do to assist PNG. I think that process is probably under way in the sense that the incoming government is coming to grips with the problems it faces and is indeed talking to us and other donors to work out what we and it might do to address some of these problems. I do not think that process is concluded. It is very much in its early stages.

Senator HOGG—I accept that. What about the longer term? It seems to me that it is fairly reasonably addressed in the short term, because that is an immediate response by our government or another government in respect of either PNG or the Pacific islands. The medium term is still there because it generally falls into the three- to five-year mark, but there is that longer period—the 10- to 15-year mark or the 15- to 20-year mark. You were mentioned the need to, for example, bring resources projects online in PNG, and that it will take 10 years. I think that is in your submission and you mentioned it again this morning.

Mr Oliver—There is certainly a long lead time.

Senator HOGG—There is a long lead time. So it just seems to me that there is that need to have some broad strategic plan and program—as well as one could do it, looking into the future—which can be developed between governments such as PNG's and ours.

Mr Oliver—I suspect that were you to ask our AusAID colleagues when they are sitting here they would probably be able to give you more detail of the kinds of discussions which are being had with other donors and with PNG to look at both, primarily, the immediate short-term issues and how we can deal with them, and how collectively we can all deal with PNG's long-term economic problems, which, as you say, are very serious ones. I think that the need for both is well understood but I guess the priority will be, to some extent, on the immediate issues, because they are the most critical ones. The longer term need for a strategic sort of plan for PNG's future economic development is, I think, well and truly understood, but the new government itself has to reveal a bit more as to how it sees that development process proceeding. Certainly, from the initial remarks of Prime Minister Somare, one would sense that the sectors of forestry, fisheries, agriculture and tourism are ones he wants to promote. He certainly wants to address poverty reduction. He wants to see rural development given a kick along. On all of those issues we would be very happy to see how our aid program and our assistance can dovetail with what he has in mind.

Senator HOGG—I do not know if Mr Fletcher wants to comment on what I have just said in respect of this.

Mr Oliver—I am sure Graham would want to comment on many of those things.

CHAIR—I will just add another question and you can comment on both, then. Is the Samoan economic approach of lower taxes, attracting foreign investment, and developing a small—small in its scale of operation but significant in the scale of the Samoan economy—manufacturing sector which can provide employment a model for other Pacific islands, in DFAT's view?

Mr Fletcher—Certainly Samoa has been quite successful in pursuing the sorts of reform objectives that we have encouraged all the Pacific island governments to pursue. Samoa is fortunate in that it has had the one government. The current Prime Minister was finance minister during the nineties and, for the last 10 years or so, they have had consistency of policy, which has helped. Some of the other Pacific countries have had frequent changes of government, which does not lead to continuity in policy terms. Samoa benefits also from a large support base that it has got in New Zealand, the US and Australia. About 40 per cent of its GDP is accounted for by remittances from Samoans overseas, and that is something that the Melanesian countries just cannot rely on. Tonga, similarly, has that kind of inflow. So, from our point of view, Samoa

is a good success story in the Pacific but we recognise that some of the advantages it has are not shared elsewhere. If, however, other governments develop the sorts of consistent policy lines that Samoa has been developing, then I think they would be doing better, economically.

CHAIR—Sorry; what did you say was the level of remittances from expats?

Mr Fletcher—About 40 per cent—

CHAIR—40 per cent of the economy?

Mr Fletcher—of GDP in both Tonga and Samoa, just on a dollar figure, comes in from overseas. That is an enormous buttress to the economy.

CHAIR—What is it that prevents Tuvalu or the Melanesian islands being able to have an expatriate income of about that order?

Mr Fletcher—Polynesians are great migrants and that is how they got there. They set out on their boats from, we believe, Asia, and turned up in Polynesia. History has something to do with it. Polynesia is ethnically more homogenous. Its links with New Zealand and Australia have meant that people have been able to move more easily. Cook Islanders, Niuanans and Tokelauans have New Zealand citizenship; therefore, they can get into Australia as well. They like to move. Melanesians do not have that same opportunity and they do not have the same natural interest in moving. You do not find large numbers of Melanesians leaving Melanesia to work elsewhere. Perhaps their cultural background and their sense of identity are different enough that they do not do that sort of thing. It is just notable that, in Polynesia, people up and off very easily and work overseas. Family and church links are very strong. It is a question of what is going to happen with the next generation. Will the same sorts of family loyalties remain, and will Tonga and Samoa still be able to rely on this stream of income in, say, another 20 years? But certainly at the moment it is a good thing for both countries that they can enjoy that flow of income.

CHAIR—I have a quick question about Samoa: what is the pattern of people leaving? Do they, in later life and in retirement, go back or do they remain in the countries—New Zealand or Australia—where they have ended up?

Mr Fletcher—Sorry; I do not know.

CHAIR—We have a lot of other questions but we might have to indulge you by asking if you would accept them being placed on notice because, as I foreshadowed at the beginning, I want to ask some questions about global terrorism and what the issues are in this part of the world from that point of view. Firstly, what can the department tell us about international terrorist links with breakaway, insurrectionist or terrorist groups in PNG and elsewhere throughout this region? I do not know, Mr Oliver, if your brief extends to Irian Jaya or West Papua.

Mr Oliver—No, it does not extend to Irian Jaya or West Papua—that is run by our Indonesia colleagues in the South-East Asia division—but it has some implications for PNG because of the common border.

CHAIR—Can you tell us what the department's view is of the likelihood of any of the breakaway movements or insurrectionist groups within PNG, Bougainville and in the wider area

of the Pacific establishing contact with international terrorist organisations? Is there anything else you can tell us about that?

Mr Oliver—There are two things. Firstly, there is a terrorism task force set up in the department, which I am not part of. I can certainly talk to them and see to what extent their current focus is addressing the questions you ask. Secondly, as a general observation, PNG has a very porous border with West Papua. So far, PNG's resources to deal with terrorism, to strengthen border management and those sorts of issues are limited. We have ongoing negotiations with Papua New Guinea to have a bilateral arrangement with them whereby we and they work together on a whole range of migration and border control and border management issues, which extend through to airport security, security of buildings, cooperation between intelligence forces, cooperation between police and the military and cooperation between government departments. That has been in the process of being negotiated for 12 to 15 months. It is getting closer to conclusion but it is not quite there yet. To a considerable extent, it will seek to strengthen PNG's capacities to deal with some of these issues, and recent events have heightened the urgency of it. I am not in a good position to comment too much on that because I am not directly associated with it, but I am sure we could provide you some additional material, if you wish.

CHAIR—Is there any worry that petrodollars that might finance some international terrorist cells would find their way into some of these poverty-stricken economies?

Mr Oliver—That would certainly be an issue. Whether people would identify PNG as a suitable point for pursuing these matters, I am less sure. I would not want to speculate on that because I am really not close enough to that particular issue to give you a sensible answer.

CHAIR—Are you able to tell us whether there have been arms shipments or smuggling of that nature?

Mr Oliver—From my perspective, the question of transborder shipments of weapons or drugs is mainly focused on the Torres Strait, which is part of the parish which I deal with, and the amount of traffic there seems to be relatively small. It is not, as I understand it, a well-developed mechanism for trafficking of either drugs or weapons. That is not to say that it is not happening in other parts of PNG, merely that I am not part of the process which would look at that. It is not my impression that PNG has yet been identified as a place where there is a substantial trafficking of weapons or drugs—that is not to say that it could not be, merely that it is not at the moment.

Mr Fletcher—We have been concerned for some time about the vulnerability of South Pacific countries to transnational crime. It goes back at least 10 years.

CHAIR—Is this the money laundering aspects of it?

Mr Fletcher—It is the whole package. When you have governments which have priorities other than efficient border control and you have opportunities for corruption, some governments see value in selling investor passports as a way of making money. We have always been concerned about that sort of thing as an opportunity for criminals of various sorts. Obviously, in the last year, terrorism is top of the agenda. Even before that, in August last year, the government decided to boost funding to ASIO to allow them to do counter-terrorism

investigation training in Melanesia. AFP people were stationed in Melanesian countries. There was a big drug bust in Fiji the year before last. With those sorts of issues, if someone who was a terrorist or whatever wanted to turn up with a yacht, it is probably easier to do it in the South Pacific than it would be in South-East Asia. On the other hand, in small communities people are more visible.

We have been trying very hard to get the governments in the region to focus seriously on it. We have been saying that they really do need to have measures in place so that, if someone turns up, they have a law under which they can arrest and charge them and, if we want to take an interest in the matter, there are established arrangements that we can take advantage of. Getting the legislative framework in place has been the focus of efforts beginning in 1992; now, of course, with September 11 and the Bali bombing, there is even greater urgency being put to that. As to the links, might a group internationally see advantage in insinuating themselves into an insurgency group in the Pacific? That is not my area either. As far as I know, our concern is more for the possibility that it could happen rather than the fact that it is happening.

CHAIR—From the drugs point of view, which is a different order of concern, there have been a lot of rumours—maybe reports as well—about the Pacific Island route being a way into Australia for drug smuggling. Do you have any particular remarks that you would like to put to us on that subject?

Mr Fletcher—Really, AFP are the people to talk to. In the period before they strengthened their presence in the South Pacific region, they were saying that, although the South Pacific was of concern, it was not the priority. From their point of view, directly north of Australia—South-East Asia and North Asia—was the primary route and the primary focus of their concern. But, if people get stopped coming directly south, then of course there is the possibility that there will be shipments coming in. The seizure in Fiji in the middle of 2000 was a big one. The question then gets asked: have there been others? The AFP are the people to ask.

CHAIR—Earlier you said that some island nations sell their passports. Do any of the countries that have open access to New Zealand, and thus through New Zealand to Australia, sell their passports?

Mr Fletcher—No. The countries that have open access to New Zealand use New Zealand passports, so they do not have their own. There was a scheme in Tonga some years ago; I think Kiribati was also toying with that idea. They were going to make them quite separate passports to their own. They were going to say, ‘You can buy the right to live in Kiribati, but you don’t have to come here.’ But they are not recognised internationally. Those schemes are not a good idea. They attract the wrong sorts of people and reputable governments do not deal in them.

Senator HOGG—I have a couple of questions; more general questions. How will the creation of a Pacific free trade zone and the implementation of the Pacific Island Countries Trade Agreement and the Pacific Agreement on Closer Economic Relations positively impact on the Pacific region, given that there are some smaller players in that region who feel that they will be disadvantaged in such a scheme?

Mr Fletcher—The Pacific island countries decided to negotiate between themselves a free trade agreement. That is the PICTA. That took place over a number of years and was finalised in August last year. They decided that was a good idea. They were, I think, encouraged by

analysis done by the forum secretariat that, in a world which is more and more globalised, they cannot be immune from the pressures of tariffs being lowered elsewhere et cetera and that, if they are to become more competitive and more efficient, the safest way to start on that process is between themselves. Others might say, 'The economies of the Pacific are very similar. What sorts of complementarities might there be that can actually help them?' On the other hand, they may well have decided: 'There's no risk to our economy from opening up to our neighbours because we're all similar.'

That process was developed within the region by the island countries. We accept that, if they want to do that, that is fair enough for them. What we wanted to do at the same time was to say, 'If you develop a free trade agreement among yourselves and, as has been suggested, enter into some kinds of free trade deals with other countries—the EU, Japan or the US—then Australia and New Zealand, which have always offered duty-free access to these countries, need to share part of the action.' So the PACER treaty, which sits on top of the PICTA agreement, provides for consultations with Australia in the event that the island countries develop free trade arrangements or preferential access arrangements with other developed countries which might disadvantage us. If, for example, the EU and the island countries reached some kind of trade agreement where EU products received more preferential access than Australian products received, we would say to the Pacific countries, 'That's not fair. We already give you the best deal we've got on offer'—duty-free access—'and we expect reciprocity.' So if they are prepared to offer preferential access to the EU, some manufactured export into the Pacific countries, we should have equal opportunity.

There is no obligation on the Pacific countries to do that but there is an obligation to consult. We believe the Pacific countries would extend to us the kinds of advantages that they might be prepared to offer someone else. That is why the agreement is worded the way it is. Some Pacific countries are having second thoughts about the whole process. That is fine. It will only advance at the pace that they are comfortable with. There is already a free trade arrangement between the Melanesian countries. That has reached some problems; the Solomon Islands are wanting to pull out of that. We are quite happy to see them develop these things as they are comfortable with them. We are not pushing them in any way to speed up the process.

Senator HOGG—Do we play any direct role in assisting them in these arrangements?

Mr Fletcher—Our assistance is through the forum secretariat. We provide quite a bit of funding to the secretariat every year. That funding is used by the secretariat to hire people, to get consultants in to help them with that process. But it is a bit at arm's length in that sense.

Senator HOGG—I have a second question. On page 5 of the submission, DFAT state:

We are also careful to exercise the influence we possess in a manner which is responsible and which respects the sovereignty and particular circumstances of the island countries ...

whilst adhering to objectives of political stability and good governance. What criteria exist to determine if Australia should intervene and the nature and the extent of that intervention—for example, in the Solomon Islands?

Mr Fletcher—The criterion we use is our good judgment.

Senator HOGG—Your good judgment!

Mr Fletcher—Yes, that sentence actually talks about influence rather than intervention; I prefer the word ‘influence’. Australia does have influence, simply by virtue of the fact that we are a large player in the region and we can do things if we want to. We have resources at our disposal. The next question is: how should we use those resources? What is the responsible way, from the points of view of Australian interest, the Australian taxpayers and the recipient nations we are dealing with?

Senator HOGG—Last but not least, in respect of Nauru, page 12 of the submission talks about the asylum seeker arrangements with Australia. The submission makes the comment:

This arrangement has been of benefit to both sides.

How did the department arrive at that conclusion? Is that the conclusion that has been adopted by others who have also participated in the Pacific solution?

Mr Fletcher—I believe so. It is of benefit to us. Through those facilities, we have managed to stem the flow of boat people coming to Australia. To my knowledge, there have been no boats since November-December last year.

CHAIR—Since SIEVX sunk.

Mr Fletcher—You know the date, I am sure.

CHAIR—That was an unfair aside. I said: since SIEVX sunk.

Mr Fletcher—Really? In terms of Nauru, people there are quite up front that the arrangement has also been of benefit to them.

Senator HOGG—What about Manus Island?

Mr Oliver—I suppose the main thing there is that Manus used to have 420-odd people on there. I think it is down to fewer than 100 at the moment. The governor of Manus Province has, I think, been pleased with the facility, in the sense that, as part of the management of Manus, a number of small pieces of development have been undertaken in his province, which he is comfortable with. As you probably know, the incoming government has agreed to extend the Manus processing facility for another 12 months; I think it now runs to about 21 October next year.

There are currently fewer 100 asylum seekers on Manus. It has an upper limit of 1,000 people, but that is not likely to be achieved in the near future. So, all round, I think the incoming government is comfortable with it. The foreign minister of PNG has been there to have a look at it himself. The new governor of the provinces wishes to see it extended and was happy to support its extension, so I think the local people have been comfortable with it. And we have had the opportunity to use the facility for 12 months, with an extension of another 12.

Senator HOGG—Returning to the executive summary of your submission and going back to where we started in this discussion, under the heading ‘The implications for Australia of future

developments’—there is no need to refer to them; I am just going to let you know the comment that I wrote as I read through your submission—I have written: ‘It looks to me that this paragraph is a real note of despair.’ That was my response. It may well not be the case, but it seems to me that there is no bright outlook for either PNG or for the Pacific islands, in that they face a huge number of problems. It seems to me that a reasonable concern is being expressed by DFAT in that paragraph. As I said, I characterised it as being a note of despair. You may well disagree with that, and that is fine.

Having formed that view, what policies and initiatives or directions have DFAT put in place to try and address the view that is expressed there? Is there any way in which we can control some of these things or assist in controlling them whilst not impinging upon the sovereignty of some of these nations themselves? As a good citizen of the Pacific in dealing with our neighbour to the near north, Papua New Guinea, is there some way we can contribute, given the not very great prospects that are expressed in your summary?

Mr Fletcher—I will take that one; I wrote the executive summary. The effect that our paragraph has had was intended. The Pacific is facing a very difficult future, and we think the Australian community and the Australian parliament should be aware of that. We also think we are doing everything we can to assist, short of spending a heck of a lot more money and being more interventionist, which we believe would be neither in our best interests nor supported by the Australian taxpayers. This is AusAID territory, but a third of our aid budget goes to the Pacific. That is a big proportion of our aid and aid is limited. Aside from aid, we are doing everything that we think we can to assist the countries of the region to face up to the challenges that they have got and to address them. Our message sometimes falls on deaf ears; there are a number of governments in the region that say we are doomsday prophets. We would prefer to get it wrong by being more bleak than we need to be but, frankly, we cannot see a promising future for countries that do not live within their means.

The next question is: how much do we need to get involved? We talk about sovereignty and we mean it—these countries are responsible for themselves. We will help them where we can, where they want us to and where it is affordable but, at the end of the day, they are responsible for themselves. That is part of the message that we are trying to get through. We can work with governments that do the right thing and that can generate economic growth. We can help people who are heading in the right direction much more easily and effectively than we can dissuade people who are heading in the wrong direction. If a government decides to be corrupt, mismanage its resources and forget about the future, there is not a lot that Australia can do about it. We will, of course, continue with aid; we do not want to see humanitarian disasters. But the carrot and stick sort of approach lies behind the word ‘influence’. Carrots work a lot better than sticks; you cannot force a government to be responsible. But you can encourage, and that has really been the approach adopted by governments in Australia since the early nineties, in some cases with great success and in some cases with less success.

Senator HOGG—One thing that you said there which has certainly come out in the inquiry thus far is that there seems to be a general lack of understanding within Australia of what is happening out there in the Pacific community. There seems to be a general lack of rigorous academic research into the area, although we did have a number of academics from ANU here last week, which you would be aware of. But there seems to be a lack of general understanding of the relationship that we have with our Pacific neighbours and the interaction that we have with them. All we ever hear about are the crises in the area, so to speak. What steps can be

undertaken to make the Australian community more aware of our near neighbours and the importance that they have to us, both economically and strategically?

Mr Fletcher—That is a problem we grapple with. We talk to the media. Sometimes journalists say they cannot get coverage and they cannot get column space. Their editors blame the public and say it is not interested. We say the public needs to be interested. We welcome this inquiry. It is a great way to boost the profile of the region in the public mind and to focus more attention on it. The problem you have identified is a real one. I am not sure that we can fix it easily. To a certain extent there is a generational shift in Australia from people who may have been, or whose parents may have been, in the Pacific during the war or in the immediate postwar period. Young Australians looking to travel overseas now might not go to the Pacific. They might head further north or elsewhere. But the Pacific is there, it will continue to impinge on us and it is certainly an issue that we wish to try to address.

CHAIR—We are running over time and we should break now. Before we do, Mr Fletcher, would you mind taking on notice this question, which arises from your answer on the trade arrangements: has there been any occasion on which Australia has drawn to the attention of the Pacific island countries that they have entered into more favourable trading arrangements with other powers—for example, Europe—and we have had to ask them to extend to us the same rights?

Mr Fletcher—That is an easy question to answer. The answer is no.

CHAIR—I did not think there would be. To make sure the record is excruciatingly accurate, my comment about SIEVX was that it is true that at least two other vessels departed after the sinking of SIEVX. It is fair for me to say that, when the news of the SIEVX sinking became known, boats stopped coming across the Timor Sea. It is also fair for me to say that I would not pretend that was the sole reason, but it is the obvious reason that is omitted from the official explanations, in my view.

Proceedings suspended from 10.07 a.m. to 10.21 a.m.

O'KEEFFE, Ms Annmaree, Deputy Director General, Pacific, Contracts and Corporate Policy, AusAID

TAPP, Mr Charles W.N., Deputy Director General, Papua New Guinea and Global Programs, AusAID

THOMAS, Ms Margaret Anne, Assistant Director General, South Pacific Branch, AusAID

CHAIR—I welcome AusAID. I take it that you are aware of the warning about privilege and the obligations of public servants et cetera that I read at the beginning of all these hearings. If you are in any doubt, I will pass to you the official document rather than repeat the routine. One of you is invited now to give us a presentation on the AusAID submission, following which we will ask you some questions.

Mr Tapp—In our submission I think we have covered off quite clearly some of the key issues as we see them within the context of PNG and the Pacific. We have no particular statement that we wish to make this morning but we are obviously very happy to answer any questions that you may wish to put to us.

CHAIR—You are sitting pat on your submission? You do not think there is any element of it that you would like to highlight to us?

Mr Tapp—There are perhaps a couple of points that we could highlight. As we have made clear in the submission—and following on a little bit from the questions that you were asking our colleagues from DFAT and comments that they were making—the environment that we are engaging with under the aid program within PNG and the Pacific is a very difficult one. It is one which is requiring on our part a very significant focus on the importance of good governance in PNG and the Pacific island countries. The centrality of good governance to stability, growth and the long-term economic prospects within the region is extremely important. Within the aid program we see the focus on governance not being, as it were, a specific sectoral focus on just, say, law and order or what have you, but something that cuts across all the work that we do. This has been clearly outlined in Mr Downer's recent aid statement to parliament, which has the focus on governance as one of the key platforms for the aid program, not just in the PNG and the Pacific. That is very much the thrust of much of our engagement within PNG and other parts of the Pacific.

I would also highlight the fact that engagement in countries that are not focused on and committed to programs of good governance is a very difficult process, as our colleagues from DFAT have highlighted. The countries where we are working are sovereign countries. Therefore, the level of impact and influence that we are able to have is at times going to be limited and not be as much as we would like. Beyond that, we stand by the submission that we provided to you. I just wish to highlight the particular importance of the focus on governance within the program. I am happy to expand on that further as the basis of questions that you may wish to put to us.

CHAIR—Do Ms O'Keeffe or Ms Thomas have any supplementary remarks?

Ms O’Keeffe—From the Pacific perspective, I reiterate what Charles has said in terms of the strong emphasis on governance. We recognise that that is very fundamental in terms of trying to implement other parts of the broader strategy that we have for our program in the Pacific, particularly in terms of strengthening basic services—health and education facilities and services within the region—and also bolstering, wherever possible, economic growth. To do this, we look very closely at what we can do to build the capacity of the different countries in the Pacific, recognising that, in some of the cases where they are particularly small countries, building capacity and expanding economic growth is going to be limited by the very real geographic, physical and other constraints that these countries face.

CHAIR—This may be an entirely unfair question from me to you, Mr Tapp, and you may not be the right person for me to ask, but I will ask you anyway—and you should feel free to answer it in the most appropriate way. If we are emphasising good governance in our aid program, how does the current situation in aid negotiations with PNG reflect good governance? The background I am coming from is that it has been put to me that in the last PNG election the outgoing administration had economic policies strikingly similar to what Australia thought they should have and the Somare opposition ran in opposition to those policies and was elected. We are now saying to PNG, ‘Reverse some of your pledges on privatisation and, if you do, we will consider how we should respond to your aid demands.’ How is that good governance?

Mr Tapp—I am probably the right person to answer that question, and I will do my best to do so.

CHAIR—That is a commendable acceptance of responsibility, Mr Tapp.

Mr Tapp—We cannot shirk our responsibilities. I will answer your question, if I may, with a little bit of background as we see it from the context of the aid program. Under the Morauta government there were a number of programs and measures which were, in the context of governance within PNG, promising and encouraging. I think they were certainly accepted very much by the Morauta government as first steps along a long-term program. In the electoral process in PNG, as I understand it, a number of comments were made specifically in relation to privatisation.

However, in the period immediately after the election before a government was formed and while the counting process was going on, both now Prime Minister Somare and a number of his leading ministers made a number of public pronouncements which indicated that the fiscal and economic situation in PNG was a very significant cause of concern and that the incoming Papua New Guinea government would need to address these as a matter of some urgency. From the aid program perspective, our earliest engagement with the incoming government was on the basis of conversations that they had with us in relationship to the short- and medium-term fiscal outlook faced by the country. We have been responding to the Papua New Guinea government on the basis of information and perspectives that they have been putting to us.

The short- and medium-term fiscal outlook for Papua New Guinea is very serious indeed. One of the things that we have been particularly encouraged by, and pleased to be engaged with the incoming government on, has been the fact that they have been looking at the current PNG situation in a longer-term time frame. Traditionally, the budgeting processes within Papua New Guinea have run on an annual basis. There has been very little, if not no, placing of an annual

budget within a longer-term framework. This tends to lead, as you can well imagine, to quite short-term decisions and a process of living somewhat from hand to mouth.

Under the Morauta government there were beginning to be some changes in that, and we had been requested, along with our colleagues in Treasury, to provide technical assistance to Papua New Guinea's Treasury department and Department of Planning to starting to look at longer-term planning and budgetary timeframes. Under the new government that is absolutely the framework within which they have engaged with us. So our earliest engagement with the Somare government has been within that context of governance. Essentially what the PNG government has been placing before us and, indeed, some of the other donors, particularly the World Bank and the IMF—PNG's Treasurer Philemon was in Washington at the recent annual meetings—has actually been a very realistic framework, quite brutally realistic. It is certainly very encouraging to see that the political leadership in Papua New Guinea is facing up to some of the realities of the current situation.

In relation to privatisation, Prime Minister Somare has stated that they have just suspended the process of privatisation while they look at it more closely. Our initial engagement with the PNG government, from our part on the aid program side, has been very much focused on looking at the medium-term fiscal framework and the immediate, supplementary budget and the work they are doing for the 2003 budget. We are continuing to work with them to try and link the budgetary process into their medium-term development strategy, which is another program that we have been working with them on.

The issues of expenditure control, public service reform, looking to structure the budget in such a way that is it going to focus on key priorities and also looking at ways in which growth can further be encouraged within the PNG economy are the areas where we in the aid program have been engaged with the PNG government. That said, we do see it as important that PNG remains very closely engaged both with the IMF and the World Bank. There is a World Bank team in Papua New Guinea this week; there is a Fund team going in next week. Their engagement with Papua New Guinea remains very important.

CHAIR—It remains the case, doesn't it, that at the last election there was a reasonably clear expression of electoral opinion not to go down the privatisation route? Or at least that was a mandate the government can claim. The World Bank, IMF and Australian government approach is that privatisation is a necessary thing for the health of the economy. Good governance, to me at least, means a government capable of administering itself in a cost-effective and efficient way, able to root out corruption and able to muster public sector investment in infrastructure, health, education, training, welfare, communications, defence and policing. So, if we are asking them to cut back on their expenditure and reduce the size of their public sector, isn't there a tension between that idea and the economic strictures we are asking them to impose on themselves? I guess I am asking, in a laborious way: how can you have good governance to meet all of those objectives while you are cutting back your expenditure?

Mr Tapp—I clearly consider that there are a number of ways in which cutting back expenditure is likely to be very helpful in terms of governance. For example, I give you a situation in terms of the public service payroll. One of the areas that the Asian Development Bank, with some assistance from us, has been looking at is the whole question of what are referred to as ghost employees within the context of the public service payroll. There are clearly

areas there in terms of public expenditure where there can be clear efficiencies gained, which is undoubtedly within a context of good governance. There are considerable leakages—

CHAIR—Sorry to interrupt you but I am very interested in this answer, so can I ask you to retain all the other examples you were apparently going to go to while I follow that one up. Is there any quantification of what the effect of removing ghost employees from the government payroll would be in terms of cost savings?

Mr Tapp—We are looking at this one at the moment. I would probably need to check but from the conversations we had with the PNG government last week, the very initial indications are—and this is before a more detailed analysis—that you could be looking at as much as 30 million kina in that context.

CHAIR—What does that translate to in Aussie dollars?

Mr Tapp—That would be in the region of about \$14 million.

CHAIR—That is quite substantial.

Senator HOGG—In ghost employees?

Mr Tapp—Just on the ghost employees. I will check on that and come back, but that was a number that was provided. This is essentially because the public service payroll mechanism has been very inefficient, so that you have people who may be leaving the public service who remain on the public purse or people who may have moved from one department to another who may end up being in two places at one time. It is just a question of going through and cleaning up that process.

CHAIR—Let me ask you again to hold in your mind all the other points you were going to go to because there is a secondary question on this. When we talk, as we sometimes do at government level, about reducing or cutting back on the public sector in PNG, do we mean just reforming the public sector so that the ghost employees cease to exist, making this saving of around—to be confirmed—\$14 million or do we mean reducing the actual number of jobs in the public sector?

Mr Tapp—We would be interested, because the PNG government has asked us, to look at both of those issues. In conversations we have had with the PNG government, they have outlined very clearly the importance of looking more broadly at the whole public sector. The World Bank has been asked to conduct a public expenditure review. This is building further on some of the work that we had been doing with the previous government through the Public Sector Reform Management Unit, which was in the Prime Minister's department under the Morauta government and which now sits under the Department of the Personnel Management under Minister Puka Temu. Essentially what we were doing was looking at the functions and the effectiveness within the various key line departments within Papua New Guinea.

The Papua New Guinean government has identified the fact that there are many priorities that these departments may be focusing on which are not central priorities for the government. What they are looking to do is to align their public expenditure within the clear priorities that they are outlining. Those priorities are essentially the key importance of law and order, the importance

of delivery of basic services, such as health and education and a strong justice system. They have also outlined the importance of growth within the economy and they are highlighting particularly the area of infrastructure within the country and the importance of rural development where the bulk of the PNG population resides.

So what they have been asking us to do—and we are obviously very happy to do it—is to look at essentially the effectiveness of the various departments within PNG and how they align with government priorities. It then becomes a question for the PNG government, based upon some more analytical work to be done by the bank, which will essentially be saying, ‘To be able to deliver those services which you are indicating you wish to take, this is what you would require in terms of your public service structure.’ What that may mean in terms of cuts in the public service, we do not know at the moment. That is something that we will work on with the government of Papua New Guinea.

There is no suggestion that we are going in and saying to the government of Papua New Guinea, ‘You need to cut the public service by 30 per cent or 40 per cent,’ or whatever it may happen to be. We are saying, ‘We are very happy to work with you at your request to look at the effectiveness of the public service and where greater efficiencies can occur, aligned with the priorities that you, the Papua New Guinea government, are setting.’ This is an issue that they are clearly highlighting as being of significant importance. It takes a period of time to go through that process and look at what the PNG government referred to us last week as a restructuring within the public service. That is the language which they are using with us.

In the supplementary budget that was brought down by the PNG government and in what they are looking at doing in the 2003 budget, there are some short-term measures that they have looked at exploring—for example, salary freezes and the potential to cut down the number of overtime hours. Those are areas where they can deliver the more immediate efficiencies that are required to rein in the very significant budget deficit they face. But it would be incorrect to suggest that Australia is presenting some sort of panacea to Papua New Guinea of what the public service needs to look like and what its size can be. That can only be a process that we can assist the Papua New Guinea government to go through, because any decisions are clearly their own.

CHAIR—The deficit is about seven or eight per cent of GNP at the moment, and deficit reduction is regarded in orthodox economics as being an important target. The role of the public sector and public sector investment in a developing economy is the question here, and orthodox economics would argue that, if you reduce the level of public sector investment and contract the public sector, you will make room in your economy for private sector initiative and private sector investment to pick up the slack. If PNG were to go down that route for whatever motive—because they were encouraged to do so or because they chose to do so—are we able to identify by looking at their economy where the growth in the private sector will come from that will pick up the jobs displaced in the public sector? Will those who lose their jobs in the public sector—or those who prospectively will have jobs in the public sector if the public sector were to remain as it is—remain in PNG, or will they simply leave and pursue their career potential elsewhere?

Mr Tapp—This is indeed a very important point as one looks at the PNG economy as a whole. I would be extremely concerned if anyone were to suggest that all that one is looking at from an Australian perspective in our joint discussions and engagement with Papua New

Guinea is a simple cost cutting exercise in the public service. I am going to answer this question with a bit of background, if I may.

CHAIR—That is fine. The big question here is the aid issue; that is what is behind this line of questioning, and I may not have explained that up-front. The first question I start with at least is: how can this economy be made self-sustainable so that aid is a distant question and is eventually phased out and not needed because the economy is on a sound growth footing? Do the main economic theories that may arguably apply to developed economies apply to developing economies? You can perhaps alternatively argue that, in developing economies, public sector investment plays a key role in lifting the economy to a point where it can take off of its own volition—the old pump-priming Keynesian view of economic growth.

Mr Tapp—I will not take any particular views in relation to different philosophical approaches to economic growth but I understand your point, Senator. The figures that have been prepared by the PNG government treasury indicate quite clearly that, without attention to the budget deficit in terms of looking at the expenditure side, by 2007 government debt as a percentage of GDP will have increased to 140 per cent. Currently it is running at about 70 per cent of GDP. The primary reasons for this are reducing revenues from the resources sectors—mining and oil revenues—and a government expenditure platform which basically exceeds affordability. There are other elements within it, but leave it in those terms. One also has to bear in mind that some of the debt servicing required from PNG in the current years will be quite significant. Essentially you are looking at a revenue reduction. The public purse is a long way outside the revenues that they have.

Senator HOGG—Is any change to the debt servicing arrangements being looked at?

Mr Tapp—In what way? I cannot comment on the discussions that the PNG government may be having with the bank and the fund at the moment. Whether they will be raising those issues with them, I do not know.

Senator HOGG—I was not trying to get into those discussions directly. I am just wondering whether there are any steps being taken to look at reorganising the debt servicing repayments.

CHAIR—Is the Australian government looking at that?

Mr Tapp—There are two sides to that. One, the way that PNG may be able to organise its debt management is one of the things that our Treasury department is providing technical assistance on through the Treasury Twinning program—it is part of the aid program. In terms of whether Australia will be looking at rescheduling of any loans that have been made to PNG, that is a question you would need to put to Treasury. We in the aid program do not have any responsibility for that, so I cannot comment. A lot more work can be done on trying to strengthen PNG's capacity in terms of debt management. It has not got a very wide array of debt. It has quite a significant amount of domestic debt, which it has used to cover much of its financing gaps in recent years.

The question, therefore, that the PNG government is faced with is how to deal with a very serious immediate and medium-term fiscal problem while at the same time looking at ways to get further growth in to the economy. From our perspective on the aid program we see the importance of growth as being the primary driver for reducing poverty, quite clearly. Therefore

we are working very closely with the PNG government at the moment to look at those areas where we would be able to allocate resources which would be clearly very conducive to developing further growth within the economy. One of the areas that is of particular interest to the PNG government and to us and also to the World Bank and the ADB is the absolutely key transport infrastructure within the country.

The Highlands Highway is the critical artery within the country. At the moment, various studies have indicated that, due essentially to lack of access to markets, there is a significant amount of agricultural production which is not getting to markets and therefore a considerable amount of income is being forsaken. There are different numbers which are being floated around but, just for example, the secretary of the PNG treasury was saying to us last week that, just by increasing the infrastructure maintenance of the Highlands Highway at a fairly basic level, they were looking at potentially more than 200 million kina of additional income getting back into some of the rural economies. We consider that quite a conservative estimate. Some of the studies being done by the World Bank for the big Highlands Highway program that they are looking to introduce—hopefully it will be going to the World Bank board either in December or early next year—are showing that very significant benefits will come to the economy, particularly the rural economy. Commodities getting to market, some of which will be able to be exported, will also bring additional income to the public purse in the country.

We have been very concerned through the aid program about infrastructure, and for a number of years we put quite a significant proportion of the aid budget into the infrastructure sector. We have been asked by the Papua New Guinean government if we can do more. What they have specifically been asking us is to ensure that what we are doing is aligned with what they are outlining in their medium-term development strategy. For us, that is fairly straightforward because we helped them develop the medium-term development strategy. The priorities which they are outlining are ones which we are completely supportive of. I give that by way of one example.

The other areas of importance are the ways in which we within the aid program are going to be able to clearly align some of the assistance we are providing with the expenditure prerogatives set by the government. I draw your attention to the health sector. We are working with the Department of Health in what we refer to as a sector-wide approach. This is a coordinated process with all donors where we are actually providing assistance through the government health delivery system. This means that we do not have a whole lot of parallel delivery mechanisms in the health sector. We are both strengthening the government's basic health delivery mechanisms and ensuring that where we are channelling our resources is aligned with their priorities. Some of the work we have already done in the context of PNG has been delivering fairly significant returns. If you work on the basis that 55 per cent of PNG's development expenditure is accounted for by the Australian aid program, which is the current figure—

Senator HOGG—Was that 55 per cent?

Mr Tapp—Yes. If you look at the last 20 years or so you will see that: life expectancy in PNG has increased from 49 years to 58 years; infant mortality has declined from 86 deaths to 58 deaths per 1,000 live births—this is still way too high and we have a lot further to go; and immunisation rates have increased dramatically in the country.

Senator COOK—Is there a population of similarly placed developing countries against which we can make a comparative study to see whether PNG is performing at the norm, above the norm or below the norm?

Mr Tapp—Let me give you one example. We did a bit of work in terms of looking at the comparison of PNG to a couple of African countries which were at a similar developmental status at independence and were also resource rich, which I think is an important context within the PNG example. Those African countries were Sierra Leone and Angola. They had a very similar developmental status at independence and also, particularly in the case of Sierra Leone, arguably they had a stronger government management structure than PNG had at independence.

PNG has been notable in that, despite all of the comments that people make about how PNG is in a very difficult situation—which it is—it actually has enjoyed a level of economic growth since independence. In recent years that has not been the case, but it had done for a number of years, primarily driven through the resource sector. It has managed to maintain a functioning democratic system, albeit flawed in some contexts, but actually it does have a democratic process. It has managed to avoid the worst of internal conflict, which has bedevilled many other countries which were very resource rich—in Africa and in other places. One can point to Bougainville where the conflict was very serious, but actually PNG has managed to work through a peace process which, if you compare it to a number of other countries such as Angola, Sierra Leone, Sudan, Chad, the Central African Republic—a number of other countries—

CHAIR—But you would not compare PNG with Sudan, Chad and those places, would you?

Mr Tapp—If you are looking in terms of the resource richness of those countries, and those economies, one of the things that I think one needs to recognise is—

CHAIR—But they are LDCs and we would not, I do not think, count PNG as among the 22 least developed countries.

Mr Tapp—We will go back then to the Sierra Leone and Angola situations. The point I was trying to make—

CHAIR—I am not trying to contend with you, Mr Tapp; I just want to get this picture clear.

Mr Tapp—The issue I am trying to underline here about many of the issues of conflict which have been associated with many other countries—not just least developed countries but also developing countries—which have been resource rich is that the PNG experience has been that, while it faces some very significant issues and problems, there are actually some successes that we need to factor in and to bear in mind.

CHAIR—Are there any studies or reports that you can direct us to which, across a series of indicators like infant mortality, life expectancy, income per capita and those sorts of things, can compare PNG's performance with countries at a like stage of economic development—such as, as you have mentioned, Sierra Leone?

Mr Tapp—We can provide you with some of that information. I would be happy to do so. The health indicators in PNG are very low, and they are a concern. However, some of the indicators are moving in the right direction. We have a very significant job to do.

CHAIR—I am not getting onto the HIV-AIDS issue, which also is a health problem for the Africans, and I am not sure to what extent PNG can be put at the actual level of the health epidemic in Africa, but I understand from earlier evidence that HIV-AIDS is an incubating problem and it is beginning to assume much wider significance than it has before. All I am saying is that, when we are looking at health indicators, that is the big, stark issue that is sitting out there that probably knocks all the health indicators off the pad at the end of the day.

Mr Tapp—In terms of the potential impact that it can have, I think our view is that it can be almost unhelpful to look at HIV-AIDS merely in the context of health indicators. It is an economic issue, and it is an issue that can have a significant impact on the economy of PNG and growth within PNG. This is something that Mr Downer has highlighted very clearly. It came through at the HIV-AIDS ministerial meeting in October of last year. In the context of PNG—

CHAIR—The only reason I raise it is because later we will need to spend some time on that as a subject. The only reason I raise it is because of its impact on the health indicators. If we are looking at like economies, we have to look at like health problems, too, when we are trying to make some sense of what the comparative studies might show in trying to assess where PNG is up to.

Mr Tapp—I accept that, Senator, and we can provide you with some of that information. One of the abiding lessons that comes out of African examples, or out of many countries around the world, is that internal conflict has the most devastating impact on growth and developmental status within a country. Therefore, for the Australian government in general and for the aid program it is absolutely an important element within the Australian government's focus on the stability within the region to look at ways that we are able to provide assistance which will be able to help promote security. Going back to what we were discussing earlier about how the economy of PNG can grow further, the issue of law and order is a fundamental one because that gets to the whole question of investor confidence within the country.

One point that is quite interesting to note within PNG is that the number of police within the Royal Papua New Guinean Constabulary today is only about 15 per cent greater than it was at independence, and these are mostly reserve constables and special constables. The population of Papua New Guinea has more than doubled since independence. The law and order situation in the country is obviously a concern not just related to Port Moresby. We are seeing issues in the Southern Highlands and in other parts of the highlands which have an important impact on investor confidence. Therefore, that is an area where we have been looking to provide assistance. We can provide assistance to develop the capacity within the police force, the court system and other parts of the law and justice sector within Papua New Guinea. Decisions in relation to—

Senator HOGG—What are you doing specifically about the court system? We have been told that there is a lack of people to properly process things through the court system, whether they be at the clerk level or at the level of magistrates and so on. Is there something we are doing there?

Mr Tapp—What we have been doing is working through the Attorney General's Department within Papua New Guinea and other parts of the legal system to try and improve the capacity within the department. The fundamental problem that they are facing in PNG at the moment is that lawyers are able to earn significantly more in the private sector than they are able to earn

working for the government. Just last week, the secretary for the planning department flagged with us the very real issue of whether there is any more assistance that we can provide the Solicitor General's Office to increase the number of lawyers who are there to be able to actually process cases. One of the points they raised is that at the moment the government is losing around 100 million kina a year in court cases against the government because they are unable to turn up in court and fight cases which are being brought against them. Most of these cases, if the government were able to turn up to court and represent themselves, they would win. So you have got a drain on the public purse which has come in because they just do not have the lawyers to be able to provide that service.

Senator HOGG—If that 100 million kina, which on my reckoning is about \$50 million in round terms, were to be put into the program—not the \$50 million, but some amount of money—then there would be a significant saving for the government.

Mr Tapp—The question would be that you probably would not need to be putting that amount of money into it.

Senator HOGG—I am not suggesting that at all.

Mr Tapp—One of the issues is a question for the government—

Senator HOGG—Do we know how much, though?

Mr Tapp—No, we are looking at it at the moment. The request has just been made to us orally and we are waiting for a written request and then we will consider it. But the question, Senator, comes down to what is it the government is able to pay its lawyers. That is not an issue that we are able to contribute to, but if the government is able to pay its lawyers a certain amount, that is one answer. The other option is that they could subcontract to the private sector to conduct cases on their part. That is an area where we may be able to help, and that is an area that we can perhaps look at with them.

Senator HOGG—In addressing issues such as this where there are substantial savings to be made by the government, are they looking for a redirection of existing aid or the establishment of additional aid?

Mr Tapp—No, the conversations we have been having with the government have been looking at the existing priorities in the program—and this would fall clearly within the joint priority that we have; it would fall within the \$300 million resource that we have under the jointly managed program—and as to whether this is now going to be of a higher priority than maybe some of the other assistance that we have been providing. That is an ongoing discussion that we are having with them. As yet, anyway, there are no written requests. The government there is still quite new and we have been having early discussions with them.

CHAIR—Returning to the central economic argument we started with, the picture I am getting is this. The public sector, obviously, has inefficiencies built into it and the government is very keen, with Australian and other foreign assistance, to remove them and make the public sector more efficient. In looking at where economic growth comes from and how you stimulate it, we have, as far as I can tell, rightly identified the removal of obstacles to growth that exist in the economy—that is, by improving the infrastructure so that the efficiencies, agricultural

production, can find a better market and the market can clear more effectively. We have done that. But we are looking at all of this in the context of decreasing revenue, higher debt-servicing obligations and the need to reduce the deficit. I think you have identified in your submission to us that the government places a high priority on fiscal responsibility—in other words, by saying, ‘Reduce your deficit.’ In putting all that together, what we are looking at is a cake that may have been this big, albeit inefficiently administered, coming down to something much smaller when the demands on it seem to be greater, including the demand which we have just been talking about—the justice demand and the policing demand. Some of those things, if you attend to them properly, are also issues where you remove obstacles to growth. If the policing is more efficient, foreign investment will be more comfortable and tourism development will flourish, but if policing is inefficient it is an obstacle to growth in that area. What this is coming down to in my mind is that maybe we ought to be saying to PNG that that six to eight per cent deficit is not a problem, that it ought to be continued at that level in order to meet expenditure requirements and deal with some of the demands so you can remove the obstacles that are impeding your economy from becoming self-sufficient. Yet it seems to me that the balance of economic advice is fiscal rectitude. Do you see what the macroeconomic argument is here? What consideration is being given to how you actually set up a macroeconomy in a developing country like this by reducing public sector expenditure?

Mr Tapp—I would disagree somewhat with the way that you have framed that.

CHAIR—Please do.

Mr Tapp—Let us start with the cake. The assumption that you are making is that the cake is somehow an acceptable cake to begin with. Essentially, PNG has been living beyond its means for a while. Within the context of government expenditure in terms of the cake—

CHAIR—That is a judgmental comment, because it goes to what the objective of our policy is. If the objective of our policy is to create a sustainable economy, maybe it has not been living beyond its means and, if you reduce public sector expenditure, you will actually create a downward spiral in which it will collapse in on itself and whatever foreign aid we provide will be like pouring water into sand—it will just vanish; the cost will be greater in the end.

Mr Tapp—The question is what choices you are making in applying your expenditure. In the context of PNG, there are significant areas of leakage where funds are not getting to where they are supposed to be going.

CHAIR—That is simply one of the efficiency arguments.

Mr Tapp—The efficiency arguments are really significant in the PNG context.

CHAIR—I accept all of those and I do not doubt their significance. What I am looking at is the core direction of policy, the objective of our policy.

Mr Tapp—It is important for the PNG government to live within reasonable economic means, and there are questions of affordability that have to be looked at and addressed. The question comes down to the role of development assistance into PNG. We, the World Bank, the Asian Development Bank and a number of other donors to Papua New Guinea have been working very closely with the government on ways of providing resources in areas that can

address some of the systemic issues that exist within the PNG system and try to improve efficiencies there, and address the delivery of some basic services, because there are areas in which the assistance we provide essentially provides relief to the government in terms of expenditure. We are also looking at areas where we can provide assistance that will be able to generate growth in the economy. For example, the World Bank program on the Highlands Highway is very specifically geared toward that. The PNG government cannot afford to do all of that work, and there is clearly a role for the bank. We and the Asian Development Bank are associated with that program and looking at different bits that we are able to do.

The key issue—and the area that I am taking some issue with—is the sense that we are only talking to PNG about the fact that they have got to cut their expenditure. The PNG government themselves are recognising that they need to cut back on some of their expenditures and inefficiencies. But the other key element is how we can implement activities that are going to be able to generate growth. There is not going to be a very rapid return on some of that investment; it is going to take some time to start seeing that feed through into the economy. In that context, PNG cannot—and we cannot—get away from the fact that we should not be looking at government debt as a percentage of GDP increasing to 140 per cent within five years.

CHAIR—I am not arguing that at all.

Mr Tapp—That would clearly be irresponsible on their part and on ours.

CHAIR—The questions are not about that, though. The questions are about the fact that revenue is declining, debt servicing is increasing, health issues are increasing as well if the HIV-AIDS issue is brought into the equation—it is not at pandemic proportions as it is in Africa but it is nonetheless a serious and significantly growing problem—and public investment is directed at removing obstacles to growth like the highway and the policing issue to encourage tourism and so forth. The budget necessary to meet those demands and tide PNG over in the medium term may well require a bigger injection of aid or economic support for the economy, rather than simply a reduction in expenditure to balance the budget or to rein in the deficit. I think we are talking about two different things. I am talking about how you stimulate growth to try to bring this country to economic self-sufficiency so that it can take off, rather than how you manage the immediate fiscal problem. I am not in any sense denying how serious that problem is, nor in any sense saying that all the efficiency measures to ensure that aid dollars—which come from taxpayers who are my constituents, most of whom cannot afford to pay an extra quid, so I have to be fairly rigorous in guarding this expenditure—are properly spent and achieve their objectives. I think that I have got enough of a picture and that you can see where I am coming from. If there are other points that you want to put to me to fill it out, please do; otherwise I will ask Senator Hogg to take over.

Mr Tapp—Perhaps I could finish by saying again that if you have the impression that we are merely focused on the short term, that would be unfortunate. The whole thrust of much of the work we are doing with Papua New Guinea has been, in a sense, to help the Papua New Guineans themselves lift their eyes above the immediate and start thinking in a longer term. The medium-term fiscal framework and the medium-term development strategy are significant steps forward in that regard. In terms of trying to increase the development effort within Papua New Guinea, this is one of the reasons we have clearly underlined the importance of the IMF and the World Bank within the context of Papua New Guinea, and also the importance of the Asian Development Bank, the Japanese and others.

One of the things we have recognised is that, over the years, the predominance of Australian support into Papua New Guinea has not changed greatly. PNG has not been particularly good at being able to attract other donor resources into the country. That is something we are concerned about, and we wish to help them to increase those donor resources. One of the areas where there has been a very weak engagement has been from many of the multilateral organisations, particularly some of the UN organisations that have got a frankly quite woeful interest in and engagement in Papua New Guinea. Recently I was in New York after the annual meetings and was continuing to push the very firm line that it is important that many of these agencies lift their engagement and involvement in Papua New Guinea and the Pacific. We are obviously very keen to see a continued and significant engagement by the Japanese government into Papua New Guinea. The importance of a donor—

CHAIR—I think China is a bit interested as well. After all, each one of the Pacific islands and PNG has a vote at the United Nations. In terms of influence, countries that can afford to are interested in a bit of judicially placed aid.

Mr Tapp—I am sure that may be correct. The point I am coming to, to conclude on this topic—unless there are some other questions you wish to ask me—is that it is also beholden upon the donors to work closely together and to coordinate the way that they work with the government of Papua New Guinea within the development framework set by the government of Papua New Guinea so that we are not imposing a burden upon them. If we have a whole squillion of initiatives, as do all the other donors, the poor old Papua New Guinean government is going to be spending a large part of its time dealing with different teams coming in and everything else, and cannot get on with the job of doing what it is supposed to do, which is providing services and governing the country.

Senator HOGG—Is there an overarching, coordinating body?

Mr Tapp—The World Bank with the government of Papua New Guinea would be setting up a consultative group for coordination, as they do in a number of other countries. That has not worked as effectively as one might have hoped.

Senator HOGG—Where is the breakdown?

Mr Tapp—In a number of different areas. It has been related to the ability of the government of Papua New Guinea to be able to pull together some of the basic information that is required for consultative group meetings. Also, things in Papua New Guinea have been moving pretty quickly, there has been a lot of change going on, so a lot of it has been done more on an informal level rather than in that more formulaic context. However, I should bring to your attention that the government and the bank are organising an informal meeting of donors next week up in Port Moresby—which is very good, given the very recent time period of the new government in Papua New Guinea—with a view to a formal consultative group meeting occurring maybe early next year.

We and the bank and the ADB are working very closely with the government of Papua New Guinea, at their request, to look at bringing together our assistance strategies within the context of the medium-term development strategy. This is quite a new initiative; in fact, globally it is quite a new initiative. We are exploring this. We all have different prerogatives and what have you but, if there is a way in which we and the other donors are able to reduce the administrative

burden that we place upon the government of Papua New Guinea, it is beholden upon us to do so. We recognise that and we are working to it. Ms O’Keeffe may be able to talk more about some work that we have been doing in the Pacific in that regard and particularly about some harmonisation with the New Zealand government in the Pacific.

In conclusion, I agree with you completely that there is a need to look at the longer-term issues, the longer-term growth and investment requirements within Papua New Guinea, as well as at the immediate-term fiscal situation. We are also firmly of the view that ignoring the short-term fiscal situation, getting into what would be unsustainable deficit financing when there are significant areas of efficiencies and benefits in public expenditure that can be achieved in Papua New Guinea is not a route that they should be going down.

CHAIR—I do not think that that is a real option, either. To what extent are you able to tell the PNG government what the longer-term horizon of Australian aid to PNG will be, subject to efficiency measures and all the rest of it?

Mr Tapp—The longer-term horizon of Australian aid to PNG is clearly going to be dependent upon decisions which will be made by our government in those terms. There is no question, as has been highlighted quite clearly in Mr Downer’s recent ministerial statement, that Australia’s engagement with PNG is long. It is historical and it remains as firmly committed as it has ever been. PNG faces significant challenges, and we remain prepared and willing to assist PNG to do so.

CHAIR—Can we give PNG any long-term certainty as to what the aid level will be, subject to all the efficiency measures and the cleaning up of the ghost workers et cetera?

Mr Tapp—In the context of the treaty that we have with Papua New Guinea, there is a commitment to provide up to \$300 million of assistance, which is one-third of the whole bilateral program of Australian aid. It is by far the largest aid program that we have with any country. I cannot give any commitment as to what the sums will be; it is something that is looked at within the context of the budget processes and it is a decision that rests with the ministers. However, the \$300 million level of assistance to PNG has been longstanding. The importance of PNG, and PNG within the context of the aid program, remains absolutely fundamental.

CHAIR—Phrases with ‘up to’ sound a bit like real estate developments which have ‘prices from’.

Mr Tapp—Historically, it has been \$300 million. I am just quoting from the treaty.

CHAIR—Sure.

Senator HOGG—Ms O’Keeffe, could you follow on from what Mr Tapp was saying, with reference to the Pacific islands?

Ms O’Keeffe—Are you referring specifically to the way in which donors are working together?

Senator HOGG—Yes, and the need for coordination because it seems to me, from what I have heard thus far, that there are a number of different donors and they may well be falling over each other doing the same thing. There does not seem to be any real coordination process, but there may well be. We heard about one committee—I think it is SPREP. Are they involved in that area?

Ms O’Keeffe—The South Pacific Regional Environment Program?

Senator HOGG—Yes. It has been put to us that there are deficiencies in the operation of that organisation. In a more general sense, could you talk about the need for overarching coordination? Who should do it? If it is being done, is it being done well? If it is not being done, why is it not being done?

Ms O’Keeffe—You have raised a couple of issues there. I will talk more generally about the way in which we coordinate with and work with other donors. Probably the most important initiative we have in terms of coordination is the harmonisation project with New Zealand and other countries in the Pacific. Harmonisation aims to bring about a simplification, a way in which the different donor processes can be made similar and to work very much in line with whatever the recipient government’s processes are. For a small country like Samoa, having to deal with a number of different donors with different processes, different requirements and even different financial years is a huge burden. For Australia that would be a difficult burden; for a small country such as those in the Pacific it is an enormous burden.

Senator HOGG—You could actually kill them with kindness, couldn’t you?

Ms O’Keeffe—Absolutely. That is what is behind this whole emphasis on harmonisation. In fact, New Zealand, Samoa and Australia have taken it to the next level. We talk about partnership in aid and it is very much something that we pursue. In Samoa we have taken it to the next level whereby Samoa is leading the coordination process and is ensuring that there is coherence with the different aid programs.

Senator HOGG—You mentioned Samoa, but what about some of the other places?

Ms O’Keeffe—Taking the lead in coordination and coherence requires a certain degree of efficiency within the system itself. Samoa is recognised—and would be the first to say it—as having the efficiency to be able to undertake the administrative tasks involved in ensuring harmonisation and coordination.

Senator HOGG—What about those others that do not fall within that parameter?

Ms O’Keeffe—We are looking at working with other countries in the Pacific to bring about the same sort of approach. Fiji stands out as another country that would have the administrative effectiveness and efficiency to take the lead in coordinating donor responses. Of course that has been slowed down by the events of May 2000, and we have only recently normalised the aid relationship with Fiji. But clearly that country stands ready to take on the coordination role that is required. Other countries are probably not as ready as Fiji and Samoa but are very interested in taking on some of the other less complex aspects of harmonisation. We certainly are talking to them about this and working very closely with New Zealand on implementing this in other countries. For example, in the Cook and Tokelau islands where New Zealand is the principal

donor, we are talking to New Zealand about taking over the Australian aid program in those countries so that we are there in name only. We are working closely with Wellington, but New Zealand will be the lead partner. New Zealand will be looking to us to implement a similar sort of arrangement but with us as the lead agency, or the agency if you like, in other countries. That is the next step that we are looking at.

Senator HOGG—That will see a reallocation of resources in the lines in the budget then?

Ms O’Keeffe—Not really. It is not a reallocation of resources; it is a reallocation of who manages those resources. In a place like the Pacific where New Zealand and Australia are very much the principal donors—not so much in dollar terms when it comes to New Zealand, but certainly in terms of the influence on and expectations of other Pacific countries—it is clear that if harmonisation is ever going to work in this region it has to be led by New Zealand and Australia.

Senator HOGG—What general view do those governments have of the aid and assistance that is provided to them? There has been some evidence before the committee that we are seen as being aggressive, that we are in there to get what we can out of their countries and that we are a little too overbearing sometimes. What view do they transmit to you?

Ms O’Keeffe—Of course, you are going to get differing views. We are the biggest in the Pacific. We do have a recognised responsibility. When it comes to difficulties that some of these countries face, we are the first port of call. When things are going smoothly, they would rather not be reminded that there are times when they do rely on us very heavily.

In terms of their recognition of what we are trying to do and their impressions of how we are doing it—I am probably biased; I have been working in the Pacific now for some considerable time—generally, it is very well received. We work very closely on ensuring that the sorts of activities and approaches we are taking in the Pacific are those which the countries themselves have recognised and are following. We had high-level consultations with Fiji just a couple of weeks ago. What we are trying to do through the aid program is precisely what they are trying to do through their medium-term development strategy. There are very clear linkages, as there should be. It is no surprise that what we are trying to do is support what their overarching approach for their own country is because we are talking not only to Fiji but also to all the other countries on an ongoing basis.

The high-level consultations are the final product of significant discussions, consultations, negotiations and a very clear understanding of where these countries want to go. They have significant constraints before them, particularly what we describe as ‘the babies of the Pacific’. Their populations are small but outstripping economic growth. Their capabilities, because of their geographic positions if nothing else, make it very difficult for them to embark on any sort of expanded economic growth that is going to be able to match their population growth, taking into account the sorts of constraints facing them—distance, the weather, the fact that they have very limited resources available to them, living on atolls. Fish, for a number of these countries, is it.

CHAIR—I am sorry about this, but we are out of time. We have another witness and a long list of questions that we have not even got to. It has been useful. Can we put some questions on notice? Would that be a difficulty for you?

Mr Tapp—We would be happy to reply to those questions.

CHAIR—I think we will do that then. Thank you very much.

[11.34 a.m.]

STORTZ, Mr Pat, Manager, South East Asia and Pacific Markets Office, Austrade

CHAIR—Welcome. I invite you to address Austrade's submission.

Mr Stortz—Australia earns approximately 10c in every dollar of our export income from the Pacific. That includes New Zealand. So it is a pretty important market for us. Our shares in import markets across the region are strong. They range from 16 per cent in New Caledonia to 45 per cent in Fiji and up to 52 per cent in PNG. But there is increasing competition from Asia in particular. Austrade has four offices across the region to provide a range of assistance to exporters seeking to sell their goods and services to the 15 countries and territories in the Pacific. We have an office in Port Moresby that also has responsibility for the Solomon Islands, an office in Suva that also looks after as well the smaller island states and an office in Noumea that is responsible for Vanuatu and French Polynesia. We also have an office in Auckland. I will be focusing my comments on three of the countries where we have offices: PNG, Fiji and New Caledonia. Austrade's activities across the Pacific aim to build stronger and more sustainable commercial relationships between Australian companies and potential customers in the region by marketing the opportunities we identify across the region to, in particular, small and medium exporters in Australia; organising and promoting trade exhibitions; and facilitating business missions, both in our own right and with a range of allied organisations, into the region.

Papua New Guinea is our 23rd largest export market in the world, and we are by far PNG's largest trading partner. Per capita the people of PNG each buy about \$200 worth of goods and services from Australia each year. In the resources sector—the main driver of economic development for PNG—about 70c in every procurement dollar spent by resource companies comes to Australia. So it is in our commercial interest that PNG's resources sector is strong and growing, and currently that is not the case. Regarding the commercial environment for Australian companies, business in PNG remains very cautious and subdued. Some industries are travelling okay, but there are concerns over stalled mining activity, including through criminal action; depressed consumer demand; drought and poor crop yields; and ongoing law and order issues.

The cost of doing business in PNG is quite high for Australian companies. Many companies build into their pricing a 10 per cent law and order premium to cover the additional security costs and risks. Utility costs are quite high, transport infrastructure is poor and there are bureaucratic delays in gaining work permits and other regulatory requirements. These all inhibit investment and growth. In addition, there is currently almost no new mining exploration and investment, which will have real implications for both government revenue and employment in the coming years. Australian service providers dominate the finance, accounting, banking, legal, insurance and real estate sectors in PNG.

Turning to impediments to trade, although PNG adheres to the WTO schedules, there is a reluctance to pursue tariff reductions. Poor infrastructure and transportation, unnecessary bureaucratic delays in customs and quarantine clearances, insufficient cold storage at points of entry, threat of direct theft of goods in transit and risks of nonpayment by local buyers all inhibit trade. Throughout the coming year Austrade will continue to seek out new areas of market

opportunity in PNG for Australian companies, with particular emphasis on opportunities for new exporters. In this current financial year we will be conducting a range of promotional activities that covers food and beverages, mining, forestry and education. Some recent examples of success where we have worked with Australian companies include a range of enrolments in Australian tertiary institutions following an education promotion up in PNG that earned Australia \$1.2 million, an Australian company winning a project to build a new wharf in Bougainville valued at over \$8 million and security perimeter fencing for the new Jackson airport in Port Moresby worth over \$4 million.

In 2001-02 Australia exported \$526 million worth of merchandise to Fiji. This was more than our total exports to Eastern Europe. In addition, we sell over \$220 million worth of services to that market each year. Per capita the people of Fiji buy about \$650 worth of goods from Australia each year. This compares favourably with, for example, Japan at \$179 per capita and Korea at just over \$200 per capita. We have a 45 per cent share of the import market in Fiji but, like most other markets in the Pacific, our exports face increasing competition from China, the US and Asia—all of which are making considerable efforts to increase their penetration in this market and provide strong competition for Australian products.

The commercial environment for Australia in Fiji is very favourable. The legal and financial systems are similar to Australia and Australian banks dominate the financial sector. The main competition comes from New Zealand at the moment. It is closer geographically, therefore it has better shipping and air services and the cost of those services is much less. Opportunities for Australian companies are right across the board in Fiji. They range from energy, environmental systems, waste water management, food and beverages, hospitality goods and services, leisure and sporting equipment, to building materials, general hardware, communications technology equipment and so on.

There are only a few impediments to trade with Fiji. Favourable treatment is given to products purchased for the tourism industry, particularly new products. Some of the impediments include difficult access for Australian poultry and honey due to quarantine issues and also partly to protect local industry from competition. Some high tariffs are being placed on infant industries in particular—for example, cable manufacturing. In Suva, which is responsible for both the Fiji market and the smaller island states, we have a trade commissioner and three marketing staff. We have a range of events, including food and beverage promotion, hospitality and tourism promotion. We are currently working with Fijians in Australia to promote investment into that market. Some recent sales include synthetic grass for the National Stadium worth \$450,000, furniture worth \$102,000 and basketball flooring worth a quarter of a million dollars for the Fiji Sports Council stadium in preparation for the South Pacific Games next year.

New Caledonia is a very sophisticated market which provides a diverse range of opportunities for Australian companies, not only in the nickel mining sector but also right across the economy. There is potential for Australia to expand its market share considerably as New Caledonia's import restrictions continue to liberalise. Over the last five years our exports to New Caledonia have increased from \$182 million to over \$225 million in the last financial year. Put another way, New Caledonia is currently buying over \$1,100 worth of goods per capita from Australia. The commercial environment is pretty favourable and swinging more in our favour. There is potential for Australia to further grow its market share as the import restrictions that are currently in place liberalise. Our proximity to New Caledonia, air freight and sea freight services, our broad industry capability and the more competitive freight rates that apply from

Australia than from Europe all present a competitive advantage for our suppliers. The market is quite sophisticated and demanding. Delivery time is often a key factor and payment is not usually an issue. We are perceived as reliable and we have a good reputation.

With regard to investment, employment for local people is a high priority in New Caledonia. Foreign investment is actively sought, preferably through joint ventures. Australian investment has not been as significant in New Caledonia as in some other Pacific markets, mainly due to factors such as the complex administrative procedures that take place to approve investments, French control of industries such as mining and the cost of operations due to the high standard of living. However, New Caledonia is increasingly looking closer to home for business partners and this is where Australia stands to gain considerable advantage.

Australian companies for their part are now showing more interest in New Caledonia. Most of the ones we work with find the state of development in New Caledonia surprising. There are 21 Australian companies with local branches or licensee arrangements with New Caledonia. These are in sectors such as freight handling, education, financial services, mining and construction. Development of new mining projects will certainly encourage more Australian companies to set up branch offices in New Caledonia in the coming years. Even though the major value opportunities are in the mining sector, there are diverse opportunities across the economy for Australia in food and beverages, chemicals, boats, building materials, machinery and equipment, technology and services. As an example, Austrade recently helped an Australian company to win business removing asbestos from a major building in Noumea. The alternative being considered was to bring in fairly expensive equipment and skilled staff from France.

Considerable impediments to trade are still in place. These include the customs duty, which does not apply to EU-sourced products and which is usually between 10 and 15 per cent on the landed price of Australian goods or non-EU goods; import restrictions or seasonal quotas to protect local manufacturers and service providers; limited English language teaching, which could affect those local citizens who are intent on pursuing a business career; and a lack of an international school, which is becoming an issue for families considering moving to New Caledonia following an investment from Australia. All of these issues have been raised with New Caledonian officials just recently at bilateral talks held in Canberra.

Senator HOGG—Let me just stop you there. That 15 per cent applies to all non-EU?

Mr Stortz—Yes. It applies equally to New Zealand, America, Japan, Korea, Taiwan, anyone.

CHAIR—This is New Caledonia.

Senator HOGG—Right.

CHAIR—It is a department of France still, isn't it?

Mr Stortz—Yes, it is. The import regime responsibility is gradually being transferring from France to New Caledonia to administer. At the moment, I understand, they have authority over that but they have not quite seen fit yet to do anything about reducing that. There are still very close and strong ties to French suppliers. But increasingly New Caledonians are travelling to Australia—they are major investors in the Gold Coast, for example, and are very familiar with

Australia. I think it is just a matter of time before that will be reviewed because it really is hurting them. It is an extra 10 to 15 per cent on the landed cost of goods.

Senator HOGG—Yes.

Mr Stortz—In terms of what Austrade is doing in New Caledonia: Austrade Noumea is responsible for Australia's export and outward investment interests in New Caledonia, Vanuatu and French Polynesia. We have a locally engaged Australian manager in Noumea and 2½ locally engaged staff. We recently ran a successful mining mission, which is an annual event for us, into New Caledonia, and we have eight companies signed up for a promotion which commences across the Pacific next week called 'Australia on the Menu', which is a food and beverage promotion.

We have been involved with several recent successes. One New South Wales company sold electronic access control systems valued at \$30,000 to New Caledonia. Another has sold fresh fruit to the tune of \$18,000, and a Hunter Valley company sold road signs worth \$10,000. Other companies have won a \$8 million earthworks contract at the new Goro nickel mine development, and a Queensland company has sold software to the value of \$42,000. So our successes are across the board.

One of the main problems we have in the Pacific broadly, including New Zealand, is attracting Australian interest. Because the media in Australia is dominated by Asia and particularly South-East Asia—putting aside the Bali bombings and the more recent security warnings—Australian companies tend to see richer pickings in the markets of Asia than they do in the Pacific. We have a constant education program, if you like, to convince companies that good cash flow opportunities come out of the Pacific. They are heavily import dependent markets. Australian companies tend to see the glitter of larger populations, more affluent markets, as more attractive than the Pacific. So it is a very difficult region in terms of getting companies interested, especially new companies, because they would rather go to China, by and large, than look at opportunities in places like Fiji, New Caledonia and so on.

Senator HOGG—Are these manufacturers we are talking about at the smaller end of the marketplace?

Mr Stortz—Typically they are. Those that have experience might be in another market. For example, if they are currently exporting into Singapore and Malaysia and we deliver them an opportunity to grow or expand their business into Fiji, then generally they are interested because it is an add-on business. But with those companies that are new to export, enticing them into a market of, say, 200,000 people, like New Caledonia, is pretty tough. They are well aware of Singapore or Malaysia or Thailand or Indonesia, and they would think that if they were going to spend some of their marketing budget developing their business overseas then they would rather do it in a market that offers potentially greater returns—not realising that the competition in most of those places is quite ferocious.

Senator HOGG—Is that because they see the Pacific market in segments rather than as a total market?

Mr Stortz—Absolutely.

Senator HOGG—And the difficult there is that it is not really a total market in itself, is it? It is really a segment of different markets.

Mr Stortz—I think the only companies that tend to treat it as a total market are the traders who consolidate products out of Brisbane and Sydney for distribution to their contacts progressively. For example, they would send a container of tinned products across the Pacific on a freighter that would drop off in New Caledonia, go on to Vanuatu, then go into Fiji and come back via Tonga maybe. But everybody else would see it as a specific opportunity in a specific market.

CHAIR—The government's declared target on exports is to double exports by when?

Mr Stortz—By 2006.

CHAIR—So to double them in the next four years?

Mr Stortz—It is now four; it was five when the target was set—it is coming down.

CHAIR—Do you expect to double exports into this market?

Mr Stortz—Into all of the Pacific markets?

CHAIR—Yes.

Mr Stortz—We are not talking about New Zealand, of course. I would like to be able to say yes, but I would have to qualify it by saying that PNG is going through a dreadful time domestically. The economy is suffering, it is drought affected and there are ongoing law and order problems. Governance is an ongoing issue in PNG and other markets—the Solomons, Vanuatu and so on. With respect to Fiji, I would be quite optimistic that we could grow our business substantially there. There is a huge amount of pent-up investment that was about to happen pre the coup in May 2000. It is now coming back and I think it is getting to the stage where, subject to political developments, there is a tremendous confidence emerging in Fiji. Hopefully, it will be a beacon, in terms of an example to the other smaller islands, as to how to develop, grow your economy, gain employment for your people and prosper. A new Hilton Hotel, worth about \$170 million, is about to be constructed, I understand, on Denarau Island in Fiji. Symbolically, this is a sign of a return of confidence of investors to Fiji two years after the coup.

The Fiji government has announced that it is spending about \$1 billion on new infrastructure, which is desperately needed. That in turn will facilitate a lot more growth and further investment. Currently, tourism numbers into Fiji are back to their highest level pre the coup in 1999 and they are optimistic that they will break all records this year. The good thing about Fiji is that it has found a global niche in tourism in particular, although it is doing other things and it has problems with some of those sectors—in particular, sugar. The niche is family holidays and they are beginning to market that niche around the world. Australians and New Zealanders are great holiday-makers in Fiji, and increasingly people from the west coast of the US are taking advantage of a friendly, safe and relatively inexpensive holiday destination.

With respect to PNG I would be very doubtful, subject to some major up ticks in the economy—for example, the go-ahead for the PNG-Queensland gas pipeline, Ramu Nickel finding an equity partner and committing to that project—and some other developments, including the development of substantial industry policy by PNG to get serious about forestry, fish, coffee and so on. In the absence of those, I would not be optimistic that we will grow our business. In fact, we fear that it might go backwards in PNG with divestment.

In terms of New Caledonia, I would be optimistic that we will grow. I think the human relationship between New Caledonians and Australians is growing very strongly. They come to Australia for holidays in big numbers. As I said, they are major investors, particularly in Gold Coast real estate. They holiday there regularly. They are beginning to realise that the cost of goods and services in Australia is tremendously competitive with what they experience in New Caledonia. New Caledonia is a very high-cost economy; it is typical French prices—

CHAIR—Paris prices.

Mr Stortz—Yes. So if you go there and have a cappuccino it will probably cost \$6 or \$7. That is what frightens quite a lot of Australians: when they start to think about New Caledonia they realise the costs of market entry are quite expensive. Then we have to convince them that the profit return potentially is quite high as well.

Senator HOGG—With respect to New Caledonia, one of our witnesses later today has made a comment in a submission about the closure of Radio Australia's French language service back in 1997. I do not know if it has been resumed, but the submitter says that that closure was a significant blow to growing links between Australia and one of its nearest neighbours. How important is something like that to the psyche of the people within that country as to how we get our message across to them about Australia, its needs and its desire to have a good working relationship with them? Does it play an important part or is it something that is really at the margins?

Mr Stortz—It certainly has a positive role to play. I mentioned in my presentation that there is a big issue about the lack of English language training in New Caledonia. They get a lot of news services out of Paris; they are still very focused on France and what it has to offer. Most New Caledonians, except the Kanak population, have relatives, friends and so on back in Paris. If there is a need for their children to have tertiary education they tend to think of France before Australia, New Zealand or anywhere else. I am not sure how many of them would be tuning in to an Australian broadcast French language service at this stage, but I think there are signs of change beginning. I do not know whether that service has resumed; I could find out for you.

Senator HOGG—Would you find out; it would be interesting. I do know that the reduction of services operating out of Australia at that time did have an impact on the perception of Australia in certain areas. I believe perception plays a great part in how the other nations of the Pacific view us. If the perception of us is healthy and good, it puts them in a reasonable position to see us as a good trading partner, a good visitor destination and so on.

Mr Stortz—I could not agree more; I think all of that is positive when building a relationship. We are finding increasingly that New Caledonian businesspeople are expressing an interest in coming to Australia to have a look at what we have to offer. Going back as recently as, say, three or four years, New Caledonians would generally think about and do business with

France and not even consider business closer to home. We have detected a mind-shift in that, increasingly, they are coming to Australia. We organise a lot of inbound buyer visits, particularly for the mining sector. They come, and without exception go back totally overwhelmed with the capability of Australia in a whole range of sectors, but particularly in mining. Of course, we get very good business out of that.

It is not limited to that. We have had a number of educational institutions go and look at the opportunities there. We have business in the pipeline to assist Australian education providers to set up and go into joint ventures to help fill the gap, to push along the English language tuition that we think they desperately need—and I think they are beginning to realise that themselves. There is another issue in terms of the lack of recognition of Australian professional qualifications in New Caledonia. They recognise French qualifications but not Australian. So DFAT and the department of education and so on, along with Austrade, have had quite an aggressive push to get them to recognise that tertiary students out of New Caledonia can come to Australia and get qualified and go back and be recognised as being proficient in that particular area. So that is an emerging trend. It will take some time for their recognition to change, but it is coming through.

Senator HOGG—Turning to the various tables you have provided on the balance of trade between Australia and PNG, Samoa, New Caledonia and Fiji, the one that stands out is in respect of Australia and PNG, where the balance of trade in 1997 of roughly a positive \$248 million has now slipped back to negative \$213 million. Is that correct?

Mr Stortz—Yes.

Senator HOGG—What are the contributing factors there? I note that the figure was high in 2000.

Mr Stortz—The main contributing factor is the huge growth in crude petroleum imports from PNG, which in 1997-98 amounted to just over \$460 million and more than doubled in 2000-01 to almost a billion dollars; last year it dropped back to \$600 million. That is the trend. Non-monetary gold has grown as well, from about \$200 million to close on \$400 million. But other than those two items the rest of it is very small.

Senator HOGG—As time goes on, can we expect that the balance of trade will continue to grow in favour of PNG?

Mr Stortz—On the current outlook, no. They are going to find it very difficult to continue to grow their exports, unless a lot of things change domestically. They do not have a broad based economy that they can build export capacity from. They need huge amounts of investment, particularly in the mining sector. There is \$70 million worth of copper in last year's import stats from PNG, which is looking pretty shaky. I am not sure how viable that is in the long term. There is no new exploration going on for crude petroleum and no new investment, so over time that will drop off. I think it has peaked anyway at the moment. The rest of it is very small: \$15 million in coffee; in food products, \$14 million; and in wood products, \$9 million—that is about it.

Senator HOGG—So what about the fate of the Australia-PNG gas pipeline? If that kicks in, that should add to it significantly, should it not?

Mr Stortz—We hope so. We have a lot of Australian companies that have already won business in terms of the feasibility and the front-end engineering and design exercise for that project. Importantly, if it kicks in, it will show the broader investor community that major companies have confidence in the future of PNG. At the moment, there are no signals to that effect going on.

Senator HOGG—What is the likelihood of that project taking off and when?

Mr Stortz—The latest we have heard is that they have to sign up a few more customers before they will commit to proceeding with the project. We do not know how long that will take. They are desperately keen to get those additional customers with additional off-take capacity signed up before the end of this year. Who knows whether that will be achieved? From what we understand, they are getting close to the required contractual commitments from gas purchases in Australia to make the project viable. There are a few more still to lock in, but they tell us they are getting close.

Senator HOGG—If one is looking at proceeds from that kicking in under any circumstance, it might be at least in the next five to 10 years.

Mr Stortz—It is going to take at least three years to build the pipeline and for it to start delivering royalties to the PNG government. That is a pretty tight construction schedule but deliverable from what we hear.

Senator HOGG—Looking at those figures, with the exception of Samoa—we seem to have had a trade deficit with them from 1997 to 2001—PNG is the only country we have a trade deficit with. I was curious about the PNG deficit and the impact the gas pipeline might have on it.

Mr Stortz—Just on Samoa, the main game there in exports is electrical harnessing for automotive manufacturing. They have a huge Japanese investment, which is a major employer in Samoa. They produce electrical harnesses for cars. Last financial year, almost \$9 million worth of those products came to Australia for our auto industry. Other than that, there are very few other products on the import list from Samoa. Our trade balance with Samoa will depend heavily on the future of that product staying modern, being price competitive and delivering in the numbers Australia needs for a fairly rapidly growing auto industry here.

Senator HOGG—I would like your comment because it goes to the heart of the difficulties in PNG. In your opening statement, you referred to part of the statement you made in paragraph 2.4:

Companies wanting to trade and invest in PNG must negotiate major obstacles, including restrictions on foreign investment in some sectors, poor transport infrastructure and the high cost of utilities.

You did not refer to that paragraph specifically but you alluded to it. You went on:

Some costs of investment and doing business, especially security precautions to combat the continuing crime problems, high utility costs and bureaucratic delays in gaining work permits and other regulatory requirements, remain a negative influence on business growth.

What has been the experience in more recent times with the change of government? Whilst it is early days—I accept that—has there been any signal out there that things are changing, are going to change or that it will bring back investors' confidence in going into the PNG market? Or is it likely that the things that you have outlined will remain dominant?

Mr Stortz—These are huge problems. Law and order—driven largely by unemployment—is something that probably any government in a developing country would find a huge challenge to turn around in the short term. We do not have any early indicators that there are significant changes about to occur. There are positive signals coming out of the forestry and the fish canning industries, where the government is looking to have the beginnings of an industry policy to put some effort and resources behind those. But it is too early days for us. We are not getting any signals from business that, 'Hey, this place isn't too bad after all.' The companies we deal with are the ones that are already up there. It is like the companies in Indonesia; they have been there for the long haul and they will be there through very difficult circumstances. There are a number of Australian companies that have now found PNG too difficult. They are not getting the return on investment that they could get elsewhere and they are also having difficulty attracting the right skill level Australians to run their enterprises. That is becoming a problem. On the positive side, there is a new government—hopefully with a lot of recognition of the problems that PNG faces and a very strong commitment to address those and to really focus on the engine that will drive the PNG economy, and that is getting business up and going and creating sustainable jobs.

Senator HOGG—Thank you.

CHAIR—I do not have any further questions, Mr Stortz. I do note that you have given us a quite detailed submission, one which focuses on many of the major island nation-states in the area. That is quite a valuable input into our inquiry, and I thank Austrade for that. If other questions arise, would you be able to take them on notice?

Mr Stortz—Absolutely.

CHAIR—Thank you very much for your attendance today.

Proceedings suspended from 12.08 p.m. to 1.08 p.m.

MACLELLAN, Mr Nicholas James (Private capacity)

CHAIR—Welcome. I have a formal statement which tells witnesses of their rights and obligations, but rather than read it out again I will give you a copy of it if you wish, though I am sure you are well and truly aware of what they are. We have a submission from you, and I now invite you to make an opening statement.

Mr Maclellan—I thank the committee for the opportunity to participate in these hearings and I also thank the secretariat staff for their assistance in organising my attendance. I welcome the committee's focus on the Pacific islands region as an area of immense strategic, economic and cultural importance to Australia. I should give a brief background to my interest in the Pacific islands region. I have worked as a researcher and as a community development worker in the Pacific islands for more than 20 years. I have worked as a journalist and written widely about South Pacific issues and I have co-authored three books on the region.

For many years I have also been involved with the community and non-government sector in the Pacific islands. I worked for nine years as a field officer and then as the manager for the Australian Volunteers Abroad program in the South Pacific. I have also worked with the Pacific Islands Association of Non-Government Organisations, which has its secretariat in Port Vila, Vanuatu, and with the Pacific Concerns Resource Centre in Suva, Fiji. From 1997 until the beginning of last year, I lived and worked in Fiji—a period that included the May 2000 coup. So I have been working in the region for a long time. I should stress, though, that the submission I made to the committee was in my own name and that I attend today in a personal capacity so no-one else should take blame for my comments.

CHAIR—You have not at any time been a chief of staff or deputy chief of staff to a prime minister of PNG, have you?

Mr Maclellan—No.

CHAIR—That is an in-joke in this committee, I am sorry. Please proceed.

Mr Maclellan—I would briefly like to reiterate a few key themes that were developed in greater detail in my formal submission to the committee.

Senator HOGG—Just before you proceed, what is your current role?

Mr Maclellan—I currently work as a freelance journalist and have been working for a range of organisations including *Islands Business*, Radio Australia and other bodies, in a freelance capacity. When talking about the Pacific islands there is often an underlying assumption that all Pacific societies are the same, but I think it is important to stress the vast diversity of social, political and economic circumstances in more than 25 countries and territories across the region. The current crisis in the Solomon Islands has parallels in a few Pacific countries, but not many, and I think it is important to look at the unique and complex circumstances of each society in the area that this inquiry is looking at.

The second key theme I would like to stress is that a response from Australia driven by perceptions of crisis in the Pacific will distort actions taken to address regional developments. I think that the overwhelming sense of crisis presented in much media coverage does not reflect either the diversity of the region, the dynamism of change or the fact that Pacific islanders are engaged in dealing with many social, environmental and political problems that are affecting the region.

There are undoubted problems facing the region, but it is not all gloom and doom. I think that many of the issues affecting the region are global ones, not particular to the region. Australian government officials and media commentators often underemphasise the capacity of islanders to respond to these crises and problems. I would argue that they also ignore the contribution made in many cases by the policies of donor nations, including Australia, to either creating or exacerbating some of these problems.

Many Australian government programs do not prioritise support for the community sector, and a fourth key theme that is stressed a lot in my submission is the vital role played by community organisations, speaking broadly—to use the jargon: civil society. Many church and non-government organisations are long established and well respected in the Pacific and play a crucial role in development, governance and national policy. For that reason I think a key theme is the need for Australian government agencies to focus more resources and attention on the Pacific but think creatively and flexibly about how they could increase their focus on long-term programs committed to strengthening the community sector in the region. My submission covers a whole range of other areas but I might leave it open for discussion to follow through on those.

CHAIR—I will start by putting this teaser to you. Since you were sitting in the body of the room when we were discussing with the witnesses from DFAT and AusAID the economic issues with particular focus on PNG, do you have any comments to make about what looked like being a broad consensus that PNG is basically—to use a colloquial expression—an ‘economic basket case going south’?

Mr Maclellan—I think that that shorthand description is too bald. I think that there is an enormous resilience and dynamism in Papua New Guinea, and indeed in many Pacific societies, that is underacknowledged. PNG is a nation of five million people and growing—a bigger population than New Zealand. It has an enormous wealth of natural resources, as do many Pacific countries. One of the key challenges, not only for PNG but for other Pacific countries, is to establish systems and a better deal for the exploitation of those resources.

For example, fisheries was raised as a key economic sector. At the moment, every year about \$US1.8 billion worth of tuna is taken from the waters of the Pacific, from the exclusive economic zones—so it is taken not just from PNG but from the whole central and western Pacific region—but Pacific island governments get less than \$200 million in royalties, revenues and taxes from that exploitation of that enormous resource. The opportunity to strengthen and value add to the fisheries sector to improve the deal that Pacific island governments get from foreign fishing fleets which fish in the 200-mile exclusive economic zones would change the balance of resources. If, over time, you could double the amount that people get from the exploitation of tuna, you would still leave about \$US1.5 billion for the foreign fishing fleets but put a dent in the need for foreign aid.

The deal that Pacific islands are getting in the exploitation of their resources—marine, timber, minerals and biodiversity—is a bad deal. There is a need to strengthen that arrangement. When people say, ‘It is a basket case,’ one of the key questions is: ‘What capacity do the governments have to manage the exploitation, largely by foreign corporations, of the resources?’

CHAIR—That is a good question. It would be argued that the balance as it is now reflects the ability that those governments have to negotiate a fair deal. If that view is true, I imagine that your criticism would be that the balance is not a fair one objectively.

Mr Maclellan—I do not think that it is an appropriate balance. There are many initiatives from regional organisations such as the Pacific Islands Forum, the Forum Fisheries Agency and the South Pacific Regional Environment Program and other intergovernmental bodies in the region to address these questions. There has been a long process through the Multilateral High-Level Conference on fisheries to change the balance in that fisheries deal that I talked about to increase the revenues, royalties and taxation that comes into the Pacific island governments to basically get a better deal. That involves strengthening the capacities of the governments to negotiate, but it is also broadly tied to the conduct of companies and, indeed, governments that operate in the region.

There has been a lot of talk about good governance, yet a key issue in the Pacific is not simply the governance of Pacific island societies but the governance of other players—thus, corporate governance from countries like Japan, the United States, Taiwan and China that have economic and political interests in the region. The non-government and community sector is increasingly looking at questions of corporate governance and codes of conduct for corporations that operate in the areas of fisheries, mining and so on. What regulation is there of corporate conduct? What role is there for OECD countries, including Australia, to play in setting standards for corporations operating in the timber sector, for example? There have been royal commissions in Papua New Guinea looking at corruption, but it takes two to tango. It is not simply PNG officials needing to clean up their act and not take bribes; it is also about looking at the conduct of the people who are giving the bribes. There has been a whole series of attempts through the OECD to set systems, regulations and codes of conduct that would govern their operations. That is a whole area of governance that is not focused on in current government policy.

CHAIR—That is an interesting discussion.

Senator HOGG—How would you focus on it?

Mr Maclellan—There are a whole range of areas where that is needed. One is to come into the initiatives that are happening through the Pacific Islands Forum with a greater awareness of international standards. There has been a whole series of moves internationally to address questions of corporate conduct. I will give you one example on the waste trade. Recently there has been a lot of concern that Taiwanese companies are shipping waste to the Solomon Islands, which are desperate for money. Elements of the Solomon Islands government and private individuals in the Solomon Islands have been talking with companies in Taiwan about importing waste. It is raising a lot of concern about the environmental and social impacts.

Senator HOGG—What sort of waste are you talking about—hazardous waste?

Mr Maclellan—That is exactly the discussion. The Taiwanese companies involved have said that this is non-hazardous material; at one stage it was talked about as ‘garden humus’. Many people in the Solomons are concerned that it may incorporate hazardous materials or toxic materials, saying, ‘Why else export it?’ There are many questions about this and there is a lack of transparency in the deal that has been talked about. There are many international conventions—the Basle convention and others—on the transport of toxic wastes. There is a role, I would argue, for Australia to play in strengthening the capacity of Pacific island governments to understand, adhere to, ratify and meet the obligations of international conventions on a whole range of areas: corruption, money laundering, and the transfer of toxic and hazardous wastes. I think there is a role to play for Australia to increase its work in adapting international conventions to Pacific island realities.

Senator HOGG—It must be hard for some of these communities when they have real difficulties in a budgetary sense in terms of employment, infrastructure, education, health and so on. Their bargaining chips are very limited, as I see it, in the broad scheme of things. The disadvantage that they suffer in some sense makes them vulnerable to these sorts of offers.

Mr Maclellan—It is certainly the case that individually the countries on a global scale are small and isolated. There have been a lot of attempts by small island developing states to coordinate in the South Pacific. There is quite an extraordinary network of intergovernmental organisations that span the region with much greater strength and capacity than those in comparable areas such as the Caribbean. There is the Pacific Islands Forum, SPREP, Forum Fisheries Agency and the University of the South Pacific. All that regional infrastructure is relatively well developed in comparison to that in the Caribbean, Mediterranean and other small island developing states.

The Pacific island governments have increasingly tried to band together to get more weight. Where they can be picked off one by one, so to speak, there have been a lot of attempts to build common platforms. Thus, governments have joined the Alliance of Small Island States—AOSIS—to work together with other small island developing states from the Caribbean and the Indian Ocean to strengthen their capacity to have a voice on the international stage. AOSIS has over 50 members—that is a quarter of the membership of the United Nations. When it comes to negotiating for things like ‘Do you want our votes on the Security Council?’ it gives a bit of value-added capacity for governments to act in concert. Thus, you see a body like the Pacific Islands Forum or AOSIS taking a stand on questions like climate change. That number of governments working together to develop consistent policies has more clout than the small and fragmented situation that you would imagine for a small island state. That is where Australia’s policy is sometimes an issue—for example, on climate change, Australian government policy has stood out against the general consensus within the Pacific Islands Forum on what is an issue of some concern for small island states.

Senator HOGG—Have we taken those island states for granted on too many occasions and treated them far too much in an off-handed manner rather than treating them as equal partners in a relationship?

Mr Maclellan—I think that is a commonly expressed concern from the Pacific islands. Foreign Minister Downer, even though he has rejected the claim, has stated that it is commonly said that Australia acts as Big Brother. The government disputes that its actions are not respectful of the sovereignty and priorities of Pacific island countries, but it is a regular

complaint. It is more so from the community sector in the Pacific than from governments, who are often more diplomatic. Thus on questions such as, for example, Australia's 'Pacific solution' there has been much sharper criticism from Pacific island churches and non-government organisations than from the governments, who ultimately have diplomatic and economic reasons to accept the current arrangements that are being put forward for the housing of asylum seekers in detention camps in Nauru and PNG for the processing of those asylum seekers over some time.

Senator HOGG—I asked a specific question of the DFAT officers this morning—I am not sure if you were here then—about how they saw the Pacific solution working. In their submission, they said that it worked in the interests of both parties. You would not share that view?

Mr Maclellan—No. I think in the long term there are many problems with the current arrangements, and those problems have been articulated by a range of people both at government and at non-government level. I noticed the statement this morning—

CHAIR—In your submission you make a number of quite interesting points on the Pacific Solution. I want to come back to the economic arguments shortly, but while we are on the Pacific solution let us just go to these points. You say the Pacific solution has exacerbated domestic political conflicts in PNG and Nauru, it is in breach of the constitutions of both countries and that suggests that the Pacific solution contradicts Australia's national interest in the sense that it creates regional instability. I think they are the three points that you make. Can you pick up some commentary on those in association with Senator Hogg's question?

Mr Maclellan—I noticed statements in the submission from the Department of Foreign Affairs and Trade that the governments of PNG and Nauru have accepted the arrangements and, indeed, that recently the government of Papua New Guinea has extended the arrangement of holding detainees in Manus Island. However, there has been serious political debate within Papua New Guinea about the costs and benefits of the arrangement. You will remember that the former Foreign Minister of PNG, John Pundari, last year lost his job because of disputes within cabinet over the arrangements for the establishment and the length of time that asylum seekers would be housed in Manus. The long-serving governor of Manus, Stephen Pokawin, lost his seat during the recent elections in PNG. Some commentators in PNG have said that disputes over the allocation of money, the benefits from hosting the camp in Manus—tens of millions of dollars that have come into a pretty small economy—were a factor in that electoral loss. I do not think that they were the key factor; there are many other complex political issues. But in both cases you have had one foreign minister and one governor gone in the last 12 months—both senior political figures in Papua New Guinea. There is similarly quite a lot of politics about the situation in Nauru, and there has been criticism from the opposition in Nauru over the continuing hosting of people in the two camps in Nauru.

So while certainly the governments of Nauru and PNG have both agreed to host the asylum seekers in their countries, there is considerable concern. That has been expressed strongly by church organisations. The Catholic Bishops Conference in Papua New Guinea has been very strident in its criticisms of the arrangements that have been made for Manus. One reason for that is that the Catholic Church is very actively involved in supporting refugees, border crossers and internally displaced people within PNG. There are currently 5,000 to 6,000 West Papuan refugees in PNG—people who have come across the border from the Indonesian controlled

territory of Papua and are still living in camps up and down the borders within the PNG side. Some of them have been there since 1984-86. The Catholic Church is very involved in supporting those thousands of asylum seekers and refugees with very limited resources. They have queried why Australia is spending tens of millions of dollars—I think last year it was \$42 million—for the establishment and maintenance of the Manus camp at a time when there are other needs for asylum seekers, for refugees, for displaced people, and you can magnify that in other parts of the region. Thousands of people were internally displaced during the Solomons crisis in 1999-2001. Within Bougainville there have been many internally displaced people as well as refugees fleeing into neighbouring Solomon Islands. There are many examples of where the allocation of money, even within the region let alone looking globally, has raised queries and concern from the non-government church and community sector.

CHAIR—Why is it in contradiction of the constitutions of those two countries?

Mr Maclellan—Both the Papua New Guinea constitution and the Nauru constitution have explicit provisions that set out the terms under which people can be detained in their country, both have constitutionally entrenched provisions about the right to independent legal counsel and both set out the terms under which people can be detained. Thus there are some lawyers in Papua New Guinea who have been studying mounting a court case as to the constitutionality of detention of people in Manus. There have also been some lawyers from Australia who have attempted to go to Nauru to meet with the detainees there so that they could have independent legal advice, which is a right guaranteed to them under the constitution. Those lawyers, from a non-government organisation, have been refused visas to go to Nauru. That is a decision by the government, perfectly within its rights; but one that raises questions among some church and non-government activists.

The Australian government actually denies that people are being detained in Manus and Nauru. The official position is that this is not detention, so the Department of Immigration and Multicultural and Indigenous Affairs have even changed fact sheets on their web site. Early fact sheets last year stated that people were detained in Nauru and Manus. Those fact sheets now say that people are 'located' in those countries.

CHAIR—Are we not supposed to notice the razor wire?

Mr Maclellan—The argument is that this is not a situation of detention. This is disputed by many people, including the United Nations High Commission for Refugees, which has raised concern about the situation. My understanding is that current government policy is that those people being hosted while their applications for asylum are being processed are not actually in detention.

CHAIR—It is a holiday camp then—I see. That clears up a lot of my worries and concerns!

Senator HOGG—Because we had AusAID here this morning, I want to raise a couple of statements you have made in your submission about the aid that we give. You say at page 7:

The Australian Government focuses much of its aid on implementation and policy at national level, with programs of institutional strengthening, especially of central government bureaucracies.

5.3 However this focus has meant a neglect of rural development and outreach to the provinces in some countries ...

How widespread is that, in your view?

Mr Maclellan—It is very difficult to generalise because there is such a variety of circumstances in the Pacific. The aid program from Australia, managed by AusAID, varies in size from—as it has been said this morning—\$300 million-plus to Papua New Guinea every year to much smaller amounts for other small island states. The type of aid varies from place to place, too. In some cases it focuses simply on scholarships for Pacific Island students to come to Australia. Thus for the French territories there is relatively little aid provided in contrast to more than a decade ago.

A key concern that has come from many people in the community sector and the non-government and church organisations in the Pacific is that the vast bulk of people live in rural areas and outer islands, and unless there are economic, educational and social opportunities for them in those areas there will be an increased drift to urban centres. The problems that people have talked about—in terms of law and order, rascalism, the development of peri-urban squatter settlements around most major Pacific capitals—are a feature of the fact that people do come to the urban centres for education, for economic opportunities, for employment opportunities and for the bright lights and the entertainments of urban life. Unless there can be the development of poles of economic, social and educational opportunity in rural areas and in outer island areas, that will be a continuing problem.

There is a concern from non-government groups—I think both in Australia and in the Pacific—that not enough emphasis is placed on the balance between strengthening the capacities of government and programs on the ground in rural areas. I have worked with organisations such as PIANGO, the Pacific Islands Association of Non-Government Organisations, and they have a concern that the balance has been struck wrongly, that there needs to be more focus on rural areas and outreach to rural areas rather than on the central government bureaucracies. I do not dispute the need for government departments or ministries to strengthen their capacities—that is certainly a demand coming from Pacific island governments—but in the community sector there is the feeling that, unless this question about developing poles of opportunity in the rural areas and outer islands is answered, the continual drift to the cities and the problems associated with it will go on and on.

Senator HOGG—On page 8 of your submission you refer to weaknesses with AusAID programs, and I want an expansion of your view on that. You refer to AusAID's 'contracting out' culture, the problem with the rotation of staff and also the rapid turnover of staff in AusAID and DFAT. How do those factors impact on the programs run by AusAID in the area, and could you give us some actual examples?

Mr Maclellan—One feature of activities in the Pacific is that it takes a long time to get things done. In establishing and maintaining programs in development activities—in health, in education and so on—things take time to establish and things take time to development and take root. My feeling is that the turnover of staff is not simply of concern for AusAID and DFAT but that it is also of concern for Australian non-government organisations that are active in the Pacific—members of the Australian Council for Overseas Aid, church organisations and so on. The desk officers, who are responsible for the day-to-day interface with people on the ground in the Pacific, often have contracts for only two, three or five years. One of the key features of working in the Pacific is the personal contacts that you can make. The way that deals get done is often through a handshake rather than through the formal contracts and negotiations that are

inevitable for implementing a major development program. The turnover of staff is a key concern.

As I said, I have been working in the Pacific for 20 years, and one of the advantages is that people tend to know where you are coming from. I think there is a tension between the demands of government to have generalists rather than specialists—that people not get bogged down in one area, that there be career paths for staff to move on—and the need for people with expertise, especially language skills. One of the big problems is that many staff from both government and non-government organisations who work in the Pacific do not have vernacular language skills. So if you are talking to people who speak English or French, their views do not often represent the views of people from the rural areas. Unless you learn pidgin you are not getting much of a sense of what grassroots people are saying and feeling. And if you are in a posting for only two or three years before being moved to a different desk within AusAID or DFAT, the government tends to be reluctant to put the resources into the language training and the skills training that you need to operate beyond a very comfortable circle in town.

CHAIR—Do you have any idea of how many people on postings throughout the region would be fluent in pidgin?

Mr Maclellan—It varies, and I honestly do not have those figures. I know from anecdotal evidence that there are some people who have excellent language skills and who also have a deep love and knowledge of the Pacific. The point I make in the submission—which I stand by—is contradicted by some very strong examples of people who have deep knowledge, experience and language skills by which to operate. But there are many cases where people from both the government and the non-government sector in Australia do not have the rudimentary language skills to operate outside a comfortable circle in urban centres.

Senator HOGG—The last issue I want to raise briefly is that, under the heading ‘Poor media coverage’, you say:

4.1 It is scandalous that most media organisations in Australia ... do not allocate sufficient resources and staffing to report on the Pacific islands region.

You go on to refer to one of my favourite hobbyhorses, Radio Australia. Can you comment briefly on the attention that is given to the area by both the popular press and the government media, such as the ABC, Radio Australia and so on?

Mr Maclellan—I think the government media have a very important role to play. Radio Australia plays a crucial role in the Pacific islands. It has an outreach, particularly to rural and outer island areas, of great significance both in its English language programming and, for example, in its Tok Pisin service, which broadcasts through Papua New Guinea. Radio Australia programs are also relayed through local radio stations. I think six stations of the NBC, the National Broadcasting Corporation network of Papua New Guinea, relay Radio Australia programs through PNG.

As you will know, in 1997-98 Radio Australia faced significant funding cutbacks. At the time, there was great concern from the community sector in the Pacific that this would impact on the capacity of RA to continue many of its services. For example, the French service was closed because of the budgetary constraints facing Radio Australia. Similarly, some other Asian

language services were closed. Ironically, 1997-98 was a crucial time in New Caledonia as the country was moving towards establishing the Noumea Accord, which brought a really important movement forward in the work of cooperation between the indigenous Kanak population, the conservative settler parties and the French government. So at a time when New Caledonia was making a major step forward in terms of its policies, the voice of Australia in French was cut off because of budgetary constraints that Radio Australia management was forced to address.

I very much welcome the government's recent commitment of funding towards ABC Asia Pacific, the international broadcasting TV station. It is a very positive sign that the government has realised the value of international broadcasting through TV and radio and, increasingly, through the Internet. More resources have gone into new media and the Internet, which has an important network within urban centres in the Pacific. But, as I say, the government services have a much better record than most of the commercial media in Australia whose journalists tend to 'parachute' into the Pacific when there are times of crisis.

I was living in Fiji during the coup—I lived there from 1997 to the end of 2000. There was relatively little media coverage at a time when there were key developments in Fiji: the introduction of the new constitution in 1997-98 and the election of a new government in 1999. At the time of the coup there was a flurry of activity when journalists not only from Australia but from around the region flooded into Suva. However, within a couple of months that story dropped. I would argue that ongoing coverage of developments in Fiji, which are just as important as the conflict of May 2000, have been underreported in the Australian media. There is a lack of resources given to the region, with much greater focus on Asia. The enormous costs of operating in the Pacific in terms of transport and communications are a significant cost for any organisation, but it is a major problem if Australian policy makers and the Australian community only get an image of the Pacific that is governed by moments of crisis.

In the paper, I talked about paradise or paradise lost. The only images that are presented to the Australian community are either the paradise images of tourism—blue water, sandy beaches, swaying palm trees—or crisis, mayhem and chaos: the Aitape tsunami disaster, the Rabaul volcano, the coup in Fiji, warfare in New Caledonia. There is remarkably little coverage of the day-to-day lives of the countries that are our nearest neighbours. It drives Pacific islanders up the wall when the only image of them that is presented is a false one—either the paradise or the paradise lost. As I say, it undervalues the work that is being done by Pacific islanders to resolve many of these conflicts and crises.

Senator HOGG—How well do you think we as politicians understand the region? Do you think we have a reasonable appreciation or that we are right at the margins?

Mr Maclellan—It is hard to generalise. There are some politicians, I know, who maintain a strong watching brief over the Pacific islands, who have personal contacts, who travel in the region. I think, though—and I would stand to be corrected—that that is the exception. There is a much greater interest in Asia. For obvious commercial, strategic and cultural reasons, Asia weighs much more heavily on Australia. New Zealand is very much more a Pacific island society and linked to developments in the Pacific because of its large Maori population and because of the large numbers of Pacific islanders living in New Zealand. Australia, for obvious reasons, looks more to Asia. Within the universities, within many institutions of government, the Pacific does not weigh heavily and it is only in times of crisis that people start to react.

CHAIR—I have a couple of questions, Mr Maclellan. I want to go back to one of the first points you make in your paper—I think it appears on page 2. Because of the 30-year rule, the 1971 cabinet papers became available in January this year. There were some remarks in the cabinet papers—I am not sure how widely they got disseminated to the broader community at the time—which essentially said:

... Australia's attitudes to the islands are dominated by selfish concentration on its—

that is, Australia's—

own interests in the region, principally commercial profit, and that Australia takes too little account of the wider interests in the welfare and progress of the Pacific community.

I think you go on to say that that view remains relevant today. That is a pretty harsh view of narrow self-interest on our part and of us not having a genuine approach to taking the interests of the region that we live in seriously and that we were only looking at it through the lens of our needs. Why do you hold the view that that remains the relevant view today?

Mr Maclellan—I would argue that there are three or four elements to that. Firstly, there is the greater emphasis placed on commercial and trade matters rather than on social and cultural development. I will give an example from New Caledonia, where I spent a lot of time and worked. At the time of the troubles in 1984-88, the Australian government intervened in a variety of ways—and it did intervene rather than use its influence. Through the Department of Foreign Affairs and Trade, through AusAID and through non-government organisations, there was a range of links built with the people of New Caledonia, looking to contribute to the settlement of quite a serious conflict that erupted in the mid-1980s. Since that time, those sorts of programs have weakened. Commercial interests have expanded and so increasing links between sectors—the mining industry and other commercial interests from Australia—are operating. The Australian government, through the Department of Foreign Affairs and Trade and the consulate in Noumea, has put a lot of time and energy into promoting commercial and trade links with what is the third closest country to Australia. The sort of community links, though, that were expanded during the 1980s have been allowed to drop off. For example, AusAID no longer puts money into New Caledonia's community development programs as it did in the late eighties and early nineties when the troubles erupted.

I think there is enormous potential for Australia to contribute to a whole range of cultural, social and educational exchanges—English language training, getting some Australian volunteers in there and so on. But there is a perception that, because France puts in over \$1 billion a year, aid money does not need to go to New Caledonia. It seems to me a very narrow vision of what aid can be used for. My belief is that aid is about development; it is not simply about cash and economic outcomes. A whole of government approach would look at an expanded range of cultural, economic, educational and social exchanges. I do not believe the Australian government puts many resources into building those people-to-people links between the French territories, for example, and Australia, and that can be duplicated for other countries. The commercial links are central.

Secondly, I think there is a weakening knowledge within the Australian community about the day-to-day realities of the Pacific. My parents' and grandparents' generation had a lot more organic links with the Pacific islands. Australia, as a colonial administrator, had many people operating in Papua New Guinea and elsewhere. The churches had a lot more links in the forties,

fifties and sixties, through the missions that operated in the Pacific islands, than they do today. There was a generation of people from World War II who had emotional ties to Papua New Guinea, East Timor and so on, and those sorts of links are not there to the same extent.

With the exception of people like the Australian Volunteers Abroad program, which has people living and working at the community level in the Pacific, the contacts with the Pacific are not deep. They are not that sort of organic link of people living and working alongside people. Volunteers live and work on the same salary as their Pacific island counterparts. There is a tendency for business and commercial people to come in and out, on vastly different salary conditions, and to live a separate life. The point has been made about people living behind barbed wire in Papua New Guinea. That is because there are not those organic links with the community—the people-to-people links—that have sustained many Australians in the past. I think that is a problem in terms of our ongoing relationship. The sense that Australians will be there when times are good but when times are tough Australians will not be there is a problem.

At the time of the crisis in the Solomon Islands and the Fiji coup, Australia advised Australian nationals to leave the country. The Department of Foreign Affairs and Trade and AusAID ordered out consultants and contractors who were working on non-humanitarian projects in Fiji, for example. It was a political decision taken because of concern over the coup d'état that had occurred. Living in Fiji at the time, I was struck that, right across the political spectrum, people were feeling that Australia was deserting them at a difficult time. I lived there and stayed until the end of the year through a period of curfew, power cuts and so on. When my contract finished and I left the country, people did not congratulate me on the work that I had been doing, which I had hoped would contribute to the development of the country; they congratulated me on staying, on sticking with them. The perception was that Australia had pulled out its people from the Solomons and Fiji at a time when there needed to be links.

I understand why the government made the decision it did—there were obvious security and political implications. At the same time, many people at the grassroots felt that they were being deserted at a time when Australia, as a key part of the Pacific, should have been there helping. It was a perception that went across the political spectrum, both from people who supported and people who opposed the coup.

CHAIR—How do you think they would feel if we went in and restored the democratically elected government of Fiji? Would that be seen as an unfair, unwarranted intervention in their internal affairs?

Mr Maclellan—There were many people in Fiji who would have seen it as an inappropriate response. The polarisation of political views at that time was very intense. I acknowledge it is pretty much a no-win situation for the Australian government. If they intervene, they are criticised; if they do not, they are also criticised. My point is that the long-term and sustained involvement is a crucial part of Australia's relationship. If Australia—and I speak of both the government and the community sector—only turns up at times of crisis or at times when it looks like we are doing very nicely, thank you, out of something, then people know and understand that and, frankly, store up a resentment about that. People are happy to see Australia there, but they notice when Australia is not there.

CHAIR—We are running out of time, so I want to move to a couple of other issues that are important. In your submission you talked about how Australia is isolated from other Pacific

island countries on issues like climate change and the transport of nuclear waste. You have made the point that when smart sanctions were imposed on Fiji the aid workers withdrew. Can you quickly tell us why you think Australia is isolated on those other matters and, if you have any suggestions to offer, what should be done about it in our report, if anything?

Mr Maclellan—There is a need for some fundamental changes in Australian policy on questions that impinge on the environment and development of the Pacific islands. For many island countries, the transport of toxic and hazardous wastes through the region is a growing concern. Global warming and climate change are having an impact now. Environmental groups sometimes present an image of the islands sinking beneath the waves sometime in the future, but there are impacts now from extreme weather events, global warming and other changes that impact not only on the physical environment but also on the economic development of small island states where governments are forced to reallocate resources from long-term development programs in environment, education, health and so on to physical rehabilitation programs such as seawalls, fixing up after cyclones, reconstruction projects and so on.

Australia, as a major player in international environmental negotiations, carries some clout. The stand of the government and of successive governments in recent times on nuclear questions and on policies towards global warming has caused a lot of resentment in the Pacific. The refusal of the Australian government to ratify the Kyoto protocol on climate change has left us isolated within the Pacific Islands Forum, where the consensus is that this is an action that needs to be taken as a contribution to the global movement to address this question. Australia's interest to transport its own radioactive waste from Lucas Heights to Scotland for reprocessing has left it isolated in terms of contributing to a strong, united stand against the transport of MOX fuel through the region.

CHAIR—So the shipping route is through the Pacific?

Mr Maclellan—Yes. Recently, for example, Japan returned some MOX fuel to Europe. This fuel had been sent through the Pacific exclusive economic zones in 1999. Because vital safety records had been falsified, Japanese nuclear companies refused to put it into their nuclear reactors and ordered that it be shipped back on the same route. So, without one iota of electricity being generated, these shipments of plutonium MOX fuel have been through the region twice. Pacific island governments have spoken very strongly against this in the Pacific Islands Forum. They have called on the shipping countries to enter negotiations over liability, compensation and, in particular, the potential for loss if there were an accident or incident. I would argue that Australia has not put its weight behind those calls.

CHAIR—When you talk about economic zones, is there some permit of passage or right of voyage through those zones without requesting access of those island nations? Are they just international sea lanes, or is there some sort of requirement that anyone transporting materials—whatever the cargo is—through those areas needs to get approval to do so?

Mr Maclellan—The shipping nations argue that they have the right of innocent passage through exclusive economic zones and therefore there is no obligation on them to address the concerns. Pacific island governments are currently negotiating, through the International Maritime Organisation, to strengthen the question of what constitutes innocent passage. They argue that shipping toxic and hazardous waste through the region is not innocent. But those negotiations are going to take time. In the interim, the Pacific Islands Forum has been calling on

Japan, Britain and France—the three countries involved—to enter negotiations over liability and compensation.

Their concern is not only about whether there were a major accident, a catastrophic accident, but also the perception of an accident. I will give you an example. In 1995 France resumed nuclear testing in the South Pacific and tourism dropped massively not only in French Polynesia but also right through the region. Tourism to the Cook Islands dropped 15 per cent; to Fiji, six or seven per cent; to New Caledonia, nearly seven per cent. Numbers of Japanese tourists to the region in the last quarter of 1995 dropped 36 per cent in comparison to the year before. So an incident, the perception of nuclear danger when France resumed nuclear testing, had spin-offs damaging the tourist industry elsewhere.

The island governments argue that the same thing could happen if there were an incident, even one that did not release radioactivity. The perception that there was a problem would have enormous ramifications for the fishing industry, for tourism and so on. The British warship that ran aground off Lord Howe Island has raised the point that, with all the best intentions and all the best safety regulations in the world, incidents do happen, and even though there was no danger to people nearby, the perception of danger does have economic spin-offs.

The island governments have been arguing that the shipping nations need to address this question about perceived dangers as much as real dangers that could come from the release of radioactivity. Thus far, the shipping nations have been very slow to address these questions. It is a question that Australia could put its weight behind. Church organisations in the Pacific have criticised Australia, suggesting that one reason that has not happened is that Australia itself transports its spent nuclear fuel from Lucas Heights overseas for reprocessing in the same way that Japan does, even though on a much smaller scale.

CHAIR—We had a graphic private presentation to us by the High Commissioner to Australia from the Solomon Islands about the way in which the economy in the Solomon Islands went south when they had the civil unrest and armed insurrection there and how investment has just dried up. The nub of that was that a very marginal economy, and a fragile one in the first place, collapsed even further in the face of that civil unrest. Now, I think you said, the Solomon Islands is negotiating, or has accepted, a deal with Taiwan to accept hazardous waste because it has no other form of economic income. I have heard that described elsewhere in fairly colourful prose, I might say, as developed countries ‘using paradise as their toilet’. Is that a phrase you would subscribe to to capture the character of what is happening here, or is that just overblown?

Mr Maclellan—It is certainly similar rhetoric to what Pacific island communities have said for a long time. For French nuclear testing the common saying was: if it is safe, test it in Paris. If it is safe, dump it in Tokyo. Japan, for example, has proposed dumping high-level and low-level nuclear waste in the Marianas Trench, a deep ocean trench near the Marianas Islands. There have been proposals from countries in Asia to deposit low-level, and possibly high-level, nuclear wastes in islands of the Pacific. For example, some years ago the Marshall Islands were considering a proposal that they store radioactive wastes on islands that were irradiated by the nuclear testing conducted during the 1940s and 1950s, with the notion that they were already sacrifice zones so a bit more would not hurt.

Similar proposals are being put for the deserts of Australia at the moment—that a nuclear waste dump be established in South Australia. The notion that these are vast, empty spaces is a

problem. The deserts of Australia and the islands of the Pacific are inhabited by significant numbers of people. The fact that nuclear testing was conducted for over 50 years in the Pacific—more than 300 atmospheric and underground nuclear tests—has caused enormous anger, in the sense of: if these tests are so safe, why are they done in an area which has a large indigenous population?

CHAIR—I will come back to where we started from, when you were talking about why you regard the economies of this area as being more resilient—I think that was your term—than most of the commentary we have received today would suggest. You referred to the tuna trade being worth \$US1.8 billion for tuna caught in and around the Pacific island nations and you said that the revenue off-take from that trade to those island nations is well below what would normally be a tax regime for an industry as strong as this. I am paraphrasing you, but you are nodding your approval. Have any of the Pacific island countries put forward a proposal that integrates the issue of how they gain revenue from this trade and/or how they would build an ability within their economies to be more active players in that trade?

Mr Maclellan—Very much so. The South Pacific Forum Fisheries Agency, which is a regional intergovernmental organisation based in Honiara, has been working to develop common Pacific Islands Forum policies on the management, conservation and exploitation of the vast maritime resources of the 200 mile exclusive economic zones. These are huge areas. Kiribati has about 800 square kilometres of land and about 3½ million square kilometres of ocean in its exclusive economic zone, so it is a massive resource. One of the things that has been proposed is more value added processing in the Pacific rather than elsewhere—that is, establishing fish canning factories where tuna can be processed within the region rather than simply shipping whole fish to Asia. Plants have been established in the Solomons, American Samoa, Fiji and PNG. There are a lot of economic difficulties with that, but the forum countries are looking at how they can put more value added work into the region, providing employment opportunities and developing technological skills and management skills. Similar things have been proposed for timber and oil: rather than simply shipping out the raw materials, can a processing capacity be developed within the islands? It is a question, though, of capital investment, and that is often lacking in the Pacific.

CHAIR—We are out of time. Would you draw to the attention of our secretariat the relevant documents so that we can look at them as well?

Mr Maclellan—I would be happy to submit a few background papers. I can send them in.

CHAIR—Thank you.

Senator HOGG—Excellent; thanks very much. I appreciated your submission.

Mr Maclellan—Thanks very much for your time.

CHAIR—Thank you, Mr Maclellan.

[2:09 p.m.]

BLACKBURN, Ms Joanne, First Assistant Secretary, Criminal Justice Division, Commonwealth Attorney-General's Department

HODGES, Mr Chris, Principal Legal Officer, Criminal Justice Division, Commonwealth Attorney-General's Department

TEMPLEMAN, Mr David, Director-General, Emergency Management Australia, Commonwealth Attorney-General's Department

CHAIR—Welcome. I assume, Ms Blackburn, that you are going to lead on behalf on A-G's.

Ms Blackburn—Yes.

CHAIR—We have your submission. In our records it is numbered submission 34. In a moment I will invite you to address it. I acknowledge, Mr Templeman, that you are the Director-General of Emergency Management Australia.

Mr Templeman—That is correct.

CHAIR—You have just been added to my agenda, but no doubt we will come to you as well within the global ambit of the A-G's Department submission.

Mr Templeman—I would be delighted to assist.

CHAIR—Thank you. If it is appropriate, Ms Blackburn, would you like to make an opening statement?

Ms Blackburn—It is a pleasure to appear before this committee this afternoon. I have a short opening statement to make to draw attention to some of the areas of our submission and to update some of the areas of the submission in which there has been further activity since we lodged that material with the committee. I have with me, as you said, Mr David Templeman, the Director-General of Emergency Management Australia, which is part of the Attorney-General's Department. I also have with me Mr Chris Hodges. Our submission addressed term of reference (c) of the inquiry, relating to:

(c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program ...

I would like to summarise some of the key issues and update those for the committee.

The criminal environment in the South Pacific region and further afield is volatile, as I am sure the committee is aware. Increasingly, law enforcement agencies are required to investigate criminal activities where the main players are overseas and where the direct and indirect effects of these activities involve more than one country. Of course, the South Pacific is no more exempt from that than any other part of the world. All law enforcement agencies are confronting

highly sophisticated crime networks with a range of tools, including encryption capabilities, mobile telephones and electronic mail.

Improved interagency and international cooperation are essential in the continuing fight against transnational crime. Establishing and maintaining strategic and operational agency interrelationships is fundamental to an effective response to these issues. The committee will be aware of the Honiara Declaration by the South Pacific Forum on Law Enforcement Cooperation. This declaration calls upon nations of the South Pacific to have in place legislation to combat crime and, in particular to enable the extradition of persons; to provide and receive mutual assistance in criminal matters; to trace, seize, freeze and forfeit the proceeds of crime; and to counter money laundering activities. We attached a copy of that declaration to our submission.

Australia, fortunately, has in place the full range of legislation to implement the Honiara Declaration. Regrettably, this cannot be said for all South Pacific jurisdictions. Compliance has been slow and patchy for a number of reasons, which include lack of drafting resources—the committee will be aware of the size of the drafting resources in attorneys-general departments in some of these jurisdictions: they are very small—lack of parliamentary time to debate the measures; and, in some cases, lack of political will. However the department has worked closely with the Pacific Islands Forum Secretariat and jurisdictions to facilitate compliance with the declaration.

Since lodging our submission, the August 2002 meeting of leaders of the Pacific Islands Forum has issued the Nasanini Declaration. This declaration draws upon the Honiara Declaration and updates it to address potential terrorist activities in the region. It refers to UN Security Council resolution 1373 and the eight special recommendations of the Financial Action Task Force on money laundering. I have copies of that declaration for the committee. A copy of the Financial Action Task Force's 'Special Recommendations on Terrorist Financing' was attached to our earlier submission. The Attorney-General's Department works closely with agencies and organisations in the South Pacific region to address some of these areas.

As I said, there have been some developments and I will update the committee on those. At paragraph 2.3 of our submission we reference the Pacific Island Law Officers Meeting. This is an annual meeting, the location of which changes from year to year, and the organisation met last week in Samoa. The meeting was attended by officers of the Attorney-General's Department. A wide range of regional law and order matters was discussed but, in addition to that, PILOM delegates considered the Bali bombings and the loss of life in that attack. As a result, the Samoan Attorney-General, as the chair of PILOM, has written to the Secretary-General of the Pacific Island Forum and proposed a plan of action to ensure that draft legislation is provided to jurisdictions to enable them to comply with the Nasanini Declaration and the UN counter-terrorism conventions.

Senator HOGG—Having taken that action, how long would it take for that to move through all the processes and for the various nations to implement the legislation and recommendations arising out of that?

Ms Blackburn—I do not think I can answer that question.

Senator HOGG—Is it a matter of months or years? If we have a need for an emergency piece of legislation here, we will deal with it fairly expeditiously. I am trying to work out the length of the processes involved in what you have just described. I am not trying to hold you down to six months or something.

Ms Blackburn—I can't give you a number like that. The Nasanini Declaration includes a requirement that the end of 2003 is the target date for implementation by all jurisdictions. PILOM said to do it faster, but it is then for each country to decide.

Senator HOGG—It is a matter of their capacity to do it, isn't it?

Ms Blackburn—It is a matter of capacity; as I mentioned earlier in my statement, in some of these jurisdiction you are talking about an attorney-general's department of five people. So there is a fundamental limitation on the capacity to do more than one thing at a time in some areas.

CHAIR—Is that five lawyers or five all up, including the receptionist?

Ms Blackburn—At the PILOM meeting, which I attended the year before last in Fiji, it was Kiribati's Attorney-General who announced with great pleasure that his department was now fully staffed, and that meant they had four people. It is very hard for people who do not understand the size that you are talking about to really appreciate the difficulties.

Senator HOGG—That is why I am teasing this out for the record, because I think there are misconceptions about how these things can be handled in the international forums with which we deal and those South Sea island nations.

Ms Blackburn—That is absolutely correct. However, if I could take an example from the Financial Action Task Force, which is an entirely different area. At its meeting last week in Paris, the Financial Action Task Force removed Niue and the Marshall Islands from the list of noncompliant countries. Both of those countries have had to take significant legislative action and have had to take it very quickly in order to meet the deadlines, which the Financial Action Task Force imposed on them. They have successfully achieved that and been removed from the noncompliant list. In the case of the Marshall Islands, that was achieved with significant financial and staffing resources provided from the United States; in the case of Niue, it was with significant financial and staffing resources provided by New Zealand. In some ways, the simplest answer to your question is that the speed with which these jurisdictions will achieve these goals depends on the amount of assistance that can be provided to them by countries such as Australia, New Zealand and the United States.

Senator HOGG—How much assistance do we provide?

Ms Blackburn—Let me continue and, hopefully, that will give you some examples and then we can come back to specific questions. I mentioned the Marshall Islands and Niue. In our submission we have also provided information on the Australia-Papua New Guinea Ministerial Forum. That forum is now meeting on 15 November and there will be a number of issues discussed at that meeting. The Attorney-General's Department has contributed advice on legislation to implement the Honiara Declaration, advice on regional weapons control legislation and regional security matters and assistance in arranging for the prosecution of cases in the region. We also assisted with a regional conference on people-smuggling, trafficking in

persons and related transnational crime, shortly referred to as the people-smuggling conference. That was held in Bali in February of this year. Representatives from Fiji, Kiribati, Palau, Papua New Guinea, Samoa, Solomon Islands and Vanuatu attended that conference. We also contributed to a Pacific regional workshop on combating terrorism, which was held in Hawaii in March 2002.

Senator HOGG—Has there been a follow-up to the people-smuggling conference, or is there an intended follow-up?

Ms Blackburn—Can I read the next bit?

Senator HOGG—Yes.

Ms Blackburn—As part of the follow-up from the Bali ministerial conference—I think we are working really well on anticipating your questions.

Senator HOGG—We are a very good team.

Ms Blackburn—As part of the follow-up from the Bali ministerial conference on people-smuggling, there was a workshop on developing legislation to effectively combat these crimes. That was held in Malaysia from 23 to 25 September. The workshop was organised by Thailand, which is the chair of the second experts group. There were two experts groups established out of the Bali conference; the second one was chaired by Thailand, which organised this conference. That workshop was attended by 27 countries, including France, representing New Caledonia, Indonesia, Kiribati, New Zealand, Palau, Papua New Guinea and Samoa. Kiribati and Australia have played particularly active roles in the workshop and were cofacilitating the workshop.

The outcomes from that workshop were three sets of agreed elements that are required in legislation to effectively prosecute people-smuggling, prosecute trafficking in persons and investigate those crimes. The workshop also agreed on eight strategies to implement the elements that had been developed. Australia, Samoa, New Zealand and Palau have all agreed to assist by actioning or coordinating one of these strategies. Again, I have copies of that material to provide to the committee.

The Attorney-General's Department is also developing model legislation to criminalise people-smuggling and trafficking in persons. This legislation is based on the obligations in the transnational organised crime convention protocol on people-smuggling and trafficking, and that legislation will also draw on elements agreed to at the Malaysia workshop. Once completed, this legislation will be very useful in assisting countries in the South Pacific region to implement the elements agreed to in Malaysia. We are also considering whether this model could be of use in the Pacific, and we are looking at the possibility of introducing it in the region through the mechanism of the Pacific Islands Law Officers Meeting.

Moving on to other areas we covered briefly in our submission: we referred to the mutual assistance in criminal matters arrangements which exist in the region, and details of those are in the submission. We also referenced the extradition arrangements which we have in the region. Currently, we can conduct extradition with the Cook Islands, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. We can also conduct extradition with Fiji and the Marshall Islands.

We are well aware of the government's Tough on Drugs strategy, under which considerably more funding and law enforcement effort has been directed at reducing the supply of illicit drugs entering Australia. The implementation of these initiatives has contributed to major international operations in the South Pacific region, particularly in Fiji and Tonga, concerning drugs which were destined for Australia. The Attorney-General's Department has an ongoing relationship with the Pacific Islands Forum through participation and assistance in developing model legislation. The Office of Legislative Drafting within the department has been contracted by the forum secretariat to assist the Cook Islands, Tuvalu and Vanuatu to draft legislation to give effect to the Honiara Declaration on issues relating to money laundering, proceeds of crime and mutual assistance in criminal matters.

In our submission, we also drew your attention to activities on, I guess, the civil as opposed to the criminal side, and we mentioned the twinning of law libraries arrangements between the Lionel Murphy law library and law libraries in the Cook Islands, Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. We also referred to intellectual property developments, human rights developments, family law developments and private international law in the region and the existence of a regional panel of appellate judges which Australia contributes to. That is the end of my opening statement. With your indulgence, I am sure Mr Templeman would like to make some comments as well.

CHAIR—My only comment thus far is that I am aware that the Australian government has turned the sentence 'tough on drugs' into a noun.

Ms Blackburn—Did I use it correctly?

CHAIR—Yes. As a noun.

Mr Templeman—Thanks for the opportunity for Emergency Management Australia to make a presentation today in addition to our submission. As was mentioned earlier, Emergency Management Australia was transferred to the Attorney-General's portfolio in November last year as a result of the government's redirection in terms of administrative arrangements orders. EMA has had a 27-year history within the Defence organisation. It has a long and continuing association with the Defence Force. Up until 1993, the organisation was known as the Natural Disasters Organisation, the NDO. The name of the organisation was changed to Emergency Management Australia in 1993 to better reflect its role and involvement in enhancing emergency management arrangements both within Australia and in the region and to cover a broader perspective of natural, human caused and technologically related disasters in terms of preparedness, prevention, response and recovery.

In terms of the introduction, there are three areas of interest which Australia has a focus on from an emergency management perspective. One is in direct assistance at times of disaster in the region. I should mention that there has not been a lot of that in recent times because fortuitously the region has not been affected so significantly by natural events. You may recall that in 1997-98 there was a very severe drought in Papua New Guinea and then sadly in 1998 there was that dreadful tsunami that claimed 2,500 lives. The only event since then has been a rather small event, a cyclone named tropical cyclone Waka, which hit the Solomon Islands on New Year's Eve last year. That involved some assistance with regard to accommodation and

tentage and things for a short period of time. So the first issue is in relation to direct assistance at times of disaster.

There has been other involvement, with EMA coordinating the reception associated with the evacuation of foreign nationals from the Solomon Islands during the crisis in June 2000. That involved the coordination of some hundreds of people, which again involved the Defence Force and the states and territories in those reception arrangements. The third activity has been our direct participation in a partnership role with regard to assisting them to enhance their own arrangements in the form of assistance with regard to training and education and other measures.

I suppose I would just like to say that I think the thinking within the region with regard to what some of the priorities would be would relate to their capacity to respond to a significant accident which involved a large number of casualties. It might perhaps be around the structural collapse of a building or something like that, which is probably significant when you think of the earthquake prone areas in some of these countries. The other one is in the area of assistance with possible communications difficulties. It is a vast area and at times of disaster the capacity to communicate just what is going on might not be there. And that was borne out during the recent cyclone I mentioned before.

CHAIR—What about an oil spill or a toxic waste event? Are you equipped to deal with that?

Mr Templeman—EMA does not do that sort of thing. There are other authorities that are equipped to assist in that process. The Maritime Safety Authority within Australia has an overriding arrangement within that area. In the case of, say, an oil spill, arrangements would necessitate the deployment of booms and other skimming devices into the region. Just to give you some insight in relation to that, where those things are available within Australia there are means by which they can be rapidly deployed. We were involved in prepositioning some of those recently with AMSA in the *Nottingham* situation for the possibility of something occurring. There was positioning put in place just in case something did go wrong.

CHAIR—If it was a safety at sea issue, AMSA would be the authority that would alert you because of its jurisdiction in this zone?

Mr Templeman—Correct. We would source other means of assistance and decide whether to involve the Defence Force or other offshore means of assistance.

CHAIR—Would that go to the extent of a nuclear accident, too—if a vessel bearing nuclear waste foundered or that waste leaked?

Mr Templeman—The passage of nuclear waste is something which has been addressed in the last couple of years, mainly in relation to the shipment of MOX fuel—and I did hear the previous presenter discussing that issue. Our involvement in this has been to the extent of the necessity to develop a new maritime safety plan specifically associated with the passage of nuclear waste following concerns which have been raised by Greenpeace on this issue about two years ago. The firm involved, British Nuclear Fuels Ltd, is a very reputable organisation with a very significant track record and minimal accidents, and the vessels that they use are protected for things like this. They have an absolutely sound safety record. Although these

issues have been raised, there has never been an issue about fire or accident as far as I understand.

CHAIR—I accept what you are saying, but what I am asking is, in the event of such an event, irrespective of how reputable the carrier might be, how are emergency procedures coordinated?

Mr Templeman—In the event of something like that occurring, it would need to involve a range of resources, including EMA coordinating both Commonwealth assets and other state and territory resources to assist in that situation.

CHAIR—And that would be your job?

Mr Templeman—Correct. We would be doing that in very close cooperation with the Maritime Safety Authority, and it would also involve the Defence Force.

CHAIR—So you do have a capability to coordinate? This is what I am coming to.

Mr Templeman—The essential role of EMA is coordination. That is what we primarily do most of the time. To give you an example, at the moment we are in waiting mode should there be a need to coordinate Commonwealth assistance like we did last year for the bushfire crisis in New South Wales, where we coordinated the assistance from the Defence Force and other Commonwealth areas to assist New South Wales during that crisis.

CHAIR—I am sorry to be laborious about this, but what I am trying to establish—and I think you have answered this question, but I just want to be sure that it has been answered—is that, in the event of a nuclear spillage or a toxic waste spillage in this region of the world, Australia, through AMSA, would learn of it, would alert your agency to it and your agency possesses the assets, from wherever it might draw them, to deal with such an event, including a nuclear spillage, safely.

Mr Templeman—The federal Attorney-General is the Commonwealth minister responsible for emergency management. Once he has given the authorisation for other Commonwealth arrangements to be put in place, EMA has the authority to coordinate on behalf of the Commonwealth and task any Commonwealth agency to assist in that process.

CHAIR—And my question is: are there assets or agencies that you would coordinate which have a capability of dealing safely with a nuclear accident?

Mr Templeman—They have the actual capability to deal with it themselves, or they have the capability to draw on other assets to assist in the process.

CHAIR—So it might go further down the line?

Mr Templeman—Yes.

CHAIR—Can you tell us—and if you need to take it on notice, please do—who those agencies are that you would draw on in such an event and what capability description you might have for them so that you would know to call them.

Mr Templeman—We will take it on notice, because it does involve a range of other specific portfolios—namely, the Department of Transport and Regional Services from the point of view of the overriding relationship with AMSA and the like. So I would prefer that we got it precise for you.

CHAIR—So would we prefer that. Thank you. Sorry to interrupt you.

Mr Templeman—Moving to the final part of my introductory statement, countries such as Fiji, Tonga and the Cook Islands are probably more advanced and more progressive in their arrangements as far as emergency management capability is concerned. The only other comment I would make is that there is an ongoing need for very simple educational material for all areas of the region to deal with simple safety messages—and that is in the area where EMA is providing assistance in conjunction with AusAID. Some of the priorities in that area that need to be ongoing and continually addressed are messages in relation to cyclonic information and preparedness; storm surge; electrical safety, which is particularly common; and water management. I thought it would be useful to give you a general, broad appreciation of the way we see things from an emergency management point of view in the region.

Senator HOGG—Do you coordinate with other donor countries in the region that are similar to Australia, and how do you do that?

Mr Templeman—A number of people operate within the region. More precisely, the South Pacific Applied Geoscience Commission, SOPAC, which operates out of Fiji, is almost the regional equivalent to EMA as a coordinating body within the Pacific. Within most of the Pacific Islands states there is a nominated disaster management officer, a national NDMO, who is the principal person responsible for the emergency management coordination within that country. There is that network and linkage into the SOPAC arrangements, which in turns links back to us. I would describe some of those arrangements as being in the area of significant challenge for the region, because, as I said before, you are dealing with an environment that has not actually been affected by an event in recent times, so you end up with complacency: it no longer becomes a priority for consideration and therefore it no longer becomes a priority for the allocation of resources. That makes the job of an NDMO very difficult in, say, a country like Vanuatu or the Solomon Islands.

Senator HOGG—So if there is an emergency, are we as a nation likely to be relied upon the most to provide emergency assistance, or are there other donor nations around that are equally likely to be called upon?

Mr Templeman—Generally it involves both Australia and New Zealand.

Senator HOGG—I presume we have some collective or cooperative working arrangements with New Zealand.

Mr Templeman—Yes, through their Ministry of Civil Defence and Emergency Services. But what normally occurs is that they themselves have limited resources and we find that a lot of

significant tasks of assistance within the region have involved Australia, following AusAID's assessment of the requirement.

CHAIR—Since New Zealand ran down its defence forces—I think it declared its air force obsolete—has that meant there is a net reduction in its capability to answer emergencies in this area? Has it meant that we have had to shoulder a greater responsibility ourselves?

Mr Templeman—I am not necessarily here to comment on the defence assets or capability in the region, but my understanding about the rationalisation within the New Zealand defence organisation is that it was principally getting rid of their strike capacity; they still have their heavy lift capability in the form of C130s.

Senator HOGG—What about reconnaissance capacity?

Mr Templeman—As I said before, I am not here to comment on the defence capability.

Senator HOGG—It should not have moved out of Defence?

Mr Templeman—My emergency management does not necessarily get into issues about reconnaissance, but, in respect of New Zealand's capacity with heavy lift aircraft, they worked with Australia last week, sadly, in the repatriation of injuries out of Bali. We were using one of their C130s at the same time as the RAAF assets.

CHAIR—Was that an event that you helped to coordinate?

Mr Templeman—We were involved to the extent of on-forwarding and the coordination of the on-forwarding of injured patients from Darwin to other parts of Australia. That involved a coordination effort involving not only EMA but also Defence and a number of other Commonwealth agencies and state and territory health organisations. We are still involved in that activity in the coordination to support the Department of Foreign Affairs and Trade in the repatriation of the remains from Bali.

Senator HOGG—Is there a specific allocation within your budget for doing the work in the Pacific islands region? If so, what is it?

Mr Templeman—We have been expending in the order of about \$300,000 to half a million dollars on an annual basis dedicated to our work within the region. Recently we have stepped that up to more specific initiatives; one of which has been the provision of improved communication support, which, as I mentioned before, is one of the highest priorities. Relating to that improved communication support is an attempt to get a standing national coordination crisis centre, to put that infrastructure in place for them. As I said before, it is a priority that may not necessarily get the highest attention.

CHAIR—These countries have all got small budgets, huge demands and a minimal tax base, so I can understand why they do not have a capacity. Do we provide any seed funding or ongoing funding to help them in doing this?

Mr Templeman—That is a matter for AusAID to address in the way that their relationship informs the direct aid assistance.

CHAIR—This question starts with you, Ms Blackburn, but it is a continuance of this theme. In essence, matters of law and justice in this region of the world probably start with how good the law enforcement agencies are. That is not necessarily a matter for you. Is there any helpful comment you can make to us, or should we talk to the AFP or some other agency, about the level of on-the-ground capability that the law enforcement agencies in these countries have?

Ms Blackburn—I cannot comment on the operational law enforcement aspects. Highlighted in our submission and in my statement is that the Attorney-General Department's primary contribution is to ensure that they have in place legal frameworks which would then enable the law enforcement agencies and anyone else involved in it to actually deal with these issues within a legal framework.

Senator HOGG—So questions about organised crime, drug trafficking, money laundering, illegal people movement, arms trafficking and so on are in someone else's domain, not in yours.

Ms Blackburn—If you want information on operational activities in those jurisdictions or operational activities between Australia and those jurisdictions—

Senator HOGG—So you try to provide the legal framework?

Ms Blackburn—Yes, our primary concern is to ensure that these jurisdictions have the necessary laws in place to criminalise activities, enable effective extradition and provide mutual assistance to enable them to be properly investigated and prosecuted. Once you have that framework, then obviously you have to look at the resources the country has to effectively implement that framework. If I put it in the context which I am more familiar with of the money laundering arrangements, the focus of Australia and the financial action task force has been on whether there is proper legislative framework in place to criminalise the activity and enable mutual assistance and cooperation to occur. Once you have that in place, the next step is whether you then have the administrative and organisational structures and the people and financial resources to implement those laws effectively.

Senator HOGG—Do you go to that level?

Ms Blackburn—No. Again taking the money-laundering example, the cooperation at an operational level is between our financial intelligence unit, AUSTRAC, and the similarly established units in any of these other countries that might have them, and in investigating and prosecuting criminal activities associated with that are Customs, AFP, DPP and other law enforcement agencies.

Senator HOGG—So you have no relationship with PNG, for example, in assisting them in having sufficient trained lawyers to operate as, say, prosecutors in their system?

Ms Blackburn—I will ask Chris Hodges to answer that, because we do have some specific arrangements for providing training and assistance.

Senator HOGG—I am also talking about judges and magistrates for their courts, and so on.

Mr Hodges—In relation to prosecutors, last year there was a meeting of the International Association of Prosecutors chaired by the Commonwealth Director of Public Prosecutions, Mr Damian Bugg. A number of DPPs from South Pacific jurisdictions attended that and we assisted in securing AusAID funding to enable those persons to attend. As Ms Blackburn has said, that helps to strengthen the infrastructure of the legal regime back in their home jurisdictions. Similarly, in relation to judicial training we have just established the Institute of Judicial Administration within the Attorney-General's Department and, although it is in the early stages now, we look forward to seeing South Pacific judges perhaps joining in that sort of training as well in the future. Again, it is in the form of providing professional advice and training rather than money itself. It is ensuring that these officers from South Pacific jurisdictions are exposed to the sorts of problems which we have faced and which they may face, to enable them to strengthen their infrastructure when they return to their home jurisdictions.

CHAIR—On page 1 of your submission there is a paragraph which intrigues me. It starts:

Globalisation and structural change have fostered the formation of trade blocs and the deregulation of economic activity.

But it concludes:

There is a need to reconcile two seemingly contradictory aims: trade liberalisation and the effective control of transnational criminal activities.

Would you care to expand on the particular problems that arise under trade blocs as opposed to non-trade zone arrangements? We are looking at the underpinnings of these economies. Trade blocs are one way of dealing with a more rational economic structure, and I think we need to weigh up what you see as the problems that opens in relation to criminal activity.

Ms Blackburn—Generally, at a simplistic level it is simply the breaking down of border controls at a time when there is increasing movement of capital, of people and of goods. A clear agenda in trade discussions all over the world is trying to facilitate the quick, clean, easy movement of goods, capital and people associated with conducting global business. That is great for that agenda, but the more you deregulate that the more you take out the checks and balances that used to exist in the cross-border movement of people, capital and goods—

CHAIR—But that is surely inside the zone. The perimeter of the trade zone should be as relatively impervious as the original cross-border controls were.

Ms Blackburn—I do not think so. Regarding the statement at the end of that paragraph, it is accepted that if you take Australia, which is not participating in any particular trade bloc—

CHAIR—With New Zealand.

Ms Blackburn—With New Zealand—there have been significant changes in the controls that exist in terms of those things coming in and going out of this country. There is nothing deeply philosophical in this statement. It is simply our reflection of the fact that changes in global trade patterns and particularly the push to facilitate trade, which is supported by the Australian government and many other governments all over the world, have created opportunities for new and changed criminal activity patterns. When you say you need to reconcile them, there is no suggestion at all that you can deal with these new and changed criminal patterns by closing

down and moving back to an older way of conducting trade. What we are talking about is that we have got to have systems which recognise the changed patterns and accommodate the fact that increasing globalisation and changing trade patterns will change the criminal activity pattern. It is a fairly self-evident statement in many respects. If aeroplanes did not fly between countries and ships did not go between countries, it would be much harder to have illegal importation.

CHAIR—The model I am thinking of is the European Union. I know that is a much more sophisticated economic community than the one we are talking about, but if the perimeter of the community is sealed—and that depends on how strong the weakest link is—then there ought to be a containment of criminal activity within those borders. And there ought to be a freeing-up of resources, where it was confined within one country which now has open borders with other countries, to deal with it in that particular case. I was not looking for a deeply philosophical dissertation on this, Ms Blackburn, but it seemed to me that the theory of it suggests that there should be greater resources to deal with pockets of problems within the perimeter.

Ms Blackburn—I do not think I can comment on that; I just do not know.

CHAIR—All right. I do not have any further questions. Do you, Senator Hogg?

Senator HOGG—No, thank you, Chair.

CHAIR—Thank you very much.

Ms Blackburn—It was a pleasure to have met with you.

CHAIR—Yes, indeed.

Committee adjourned at 2.52 p.m.