



Submission No 29

Inquiry into Australia's Relations with Indonesia

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DEPARTMENT OF INDUSTRY, TOURISM AND RESOURCES

Submission

**to the Joint Standing Committee on
Foreign Affairs, Defence and Trade Inquiry**

Building Australia's Relationship with Indonesia

The purpose of this submission is to provide factual material to the Committee in relation to the Terms of Reference :

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall inquire into and report on Australia's relationship with the Republic of Indonesia, focussing in particular on building a relationship that is positive and mutually beneficial.

The Committee shall review the political, strategic, economic (including trade and investment), social and cultural aspects of the bilateral relationship, considering both the current nature of our relationship and opportunities for it to develop.

The Department has several current activities in relation to the country under inquiry. These are outlined in the following pages.

PETROLEUM DEVELOPMENT

Indonesian Government involvement in the Joint Petroleum Development Area (JPDA) - formerly the Timor Gap - ceased in October 1999 following the East Timor's decision to separate from Indonesia. Since disengagement from the JPDA, Indonesian involvement has been limited to supply activities for industry involved in current developments:

- employment on the current Elang-Kakatua oil producing facility; and
- construction of some of the structural facility for the Bayu-Undan project.

In the event that East Timor requests a permanent maritime delimitation of the current JPDA boundaries with Australia there is a possibility that Indonesia will be drawn into the discussions. This is a matter properly dealt with by the Department of Foreign Affairs and Trade.

MINING INDUSTRY

Indonesia is a major international producer of oil and gas, as well as several metallic minerals and coal; this contributes significantly to Indonesia's GDP and balance of payments, providing a major source of foreign currency. The investment environment in the mining sector has changed rapidly since the financial crisis of the late 1990s. Political devolution, for example, may make government more responsive to the needs of local investors, but it also generates uncertainty. Miners also have concerns about social stability in some regional areas, stringent new environmental requirements and illegal mining.

The mineral potential of Indonesia and the Contract of Work (CoW) system together have encouraged foreign mining companies to have invested an accumulative total of \$US10.8 billion over 30 years. In 2000, US mining companies accounted for 60% while Australian mining companies, including Rio Tinto, BHP Billiton and Newcrest, account for some 30% (or US\$3.2 billion). Many investors have contracted Australian consulting and engineering companies known to them from their Australian operations. This has resulted in the use of Australian geological, consultancy, construction and contracting skills, giving Australia one of the largest foreign investor networks in the Indonesian mining industry.

But the Indonesian Government's reform process is creating uncertainty in the mining sector. Its devolution policies have led to confusion over demarcation of central and local roles, and an uncertain delegation of authority. The mining industry generally supports the principle of regional autonomy but preparations are complex and confusing, undermining investor certainty and confidence. Mining legislation to replace the CoWs and the 1999 Forestry Law, which prohibits mining and exploration in protected areas, have added to uncertainty for mining company investments in Indonesia.

Illegal mining causes severe environmental and social damage. Under the previous CoWs, mining companies possessed a sole right to mine in a designated area. Mining companies consider the environmental issues generally are heavily politicised and lacking in scientific underpinnings, while foreign companies are singled out for the cause of any environmental incidents that are often the result of the cumulative impact of illegal mining. Industry believes that illegal mining may also have underlying support in the Indonesian political scene and administrative system.

Devolution

Devolution eventually may improve the investment environment for miners. It offers the regions greater share of mining revenues, ensuring local communities benefit more directly from mining

activity. In future, local governments, rather than the central government may sign miners' contracts of work, potentially strengthening local support for miners. Devolution delegates the issuing of permits for mining investment and exploration to the regions; eventually this may reduce the cost of obtaining approval. It also requires local government to conduct environmental inspections. Devolution may encourage regions to compete for new foreign investment, benefiting miners.

However, the transition to a new system of government is raising some concerns amongst miners. Miners are uncertain whether contracts of work drawn up between mining companies and the central government will remain relevant.

Devolution may reduce coordination between neighbouring districts, increasing administrative costs for mining projects encompassing more than one district. The central government is seeking to quell these concerns. New Ministry of Mines and Energy regulations establish procedures for provinces to issue mining permits for investment, exploration and production in areas lying within two or more districts and up to 12 miles offshore from their coasts. Initially, some regions may find it difficult to meet previous standards in issuing permits and inspecting environmental performance. If some regions are unable to control the environmental degradation associated with illegal mining, this could undermine public support for the operations of legitimate miners.

Some analysts also are concerned transparency issues at the local government level may increase risk. As the allocation of taxation responsibilities between central and local governments is not fully clarified, concerns exist local governments may seek to impose ad hoc taxes. During the transition phase, investors should seek to strengthen relationships with all three levels of government and local communities. New firms should seek assistance from firms with established networks of contacts and information.

Illegal Mining

The increase in illegal mining since the financial crisis is concerning the Indonesian Government and the mining community alike. Illegal mining is most serious in the gold, coal and diamond sectors; estimates of its value vary widely, but in the case of gold, range from 12 to 33 per cent of output (Kuo, 1999). For example, in 1992, state mining company PT Aneka Tambang, Antam, reported large numbers of illegal miners had arrived and by 1998, they had halved output and exports from its Pongkor gold and silver mine. BHP's subsidiary, PT Arutmin, in South Kalimantan, also suffers from large scale illegal mining.

The Indonesian Government is attempting to reduce illegal mining by warning against the purchase of illegal output and banning the use of government roads to transport illegally mined material. It also has introduced tough new environmental regulations in response to the damage caused by illegal operators. Emerging regional institutions could reduce the incidence of illegal mining over the medium term. New reforms redistributing mining royalties to regions also should increase incentives for district governments and their communities to eradicate illegal mining.

Public reaction to the damage caused by illegal miners has prompted tighter environmental legislation. The Environmental Protection Agency, BAPEDAL, issued Decree PP18 in February 1999, imposing stricter standards on waste discharge. The 1999 forest law reserves large areas for water catchment and limits new mining activity in these areas. These new standards in some cases exceed international norms. The Indonesian Government has provided assurances the law does not seek to restrict established exploration or mining agreements. Mining companies should improve contact with local environmental bodies, including non-government

organisations, to reassure these groups about the firm's environmental credentials, and share information on environmental strategies.

Contracts of Work (CoW) Changes and the New Investment Framework

Changes to the CoW system undermine its previously successful operation and have created legal inconsistency. Despite recent Indonesian Government statements committing to current contracts under previous CoWs, it is unclear how the new 8th CoW will affect current legal contracts. Breaches could lead to legal action. The move to regional autonomy may well exacerbate this trend.

Contracts of work signed since the financial crisis include higher royalty rates on key minerals, although in most cases, these continue to be offset by the lower costs of exploration and corporate tax rate in Indonesia. For example, under Regulation No. 13 of 2000, gold royalties rose to 3.75 per cent from between 1 and 1.5 per cent, and copper royalties rose to 4 per cent from 2 per cent. Indonesian investment guidelines provide a refund of the 10 per cent value added tax, VAT, paid on imported mining capital equipment. The Indonesian Government is aware that some mining firms have expressed concern about difficulties in obtaining this refund. As devolution occurs, potential investors should watch carefully developments in taxation and royalties applied to mining revenues.

Applications to invest in the mining sector, excluding oil and gas, have declined significantly since 1996. If this trend continues over the medium term, replacement investment may be insufficient to maintain current production levels. The Department of Mines and Energy reported foreign and domestic mining investment intentions continuing to decline in 2000.

The 8th CoW and new Mining Law offer mining licenses rather than legal contracts and add significant new obligations onto the mining industry. The mining industry in Indonesia seeks to retain the certainty of the status quo. In the event of uncertainty abrogation of sovereign promise will cause banks to raise lending rates for capital projects, at a minimum; and increased sovereign risk will possibly lead investors to deploy capital elsewhere. The Freehills draft report of June 2001 urges Indonesia to retain the *lex specialis* as the principle underlying Indonesian mining law.

Industry Concerns

Against the Indonesian Government's efforts to change its system of government and the resulting impact on the mining sector, mining companies in Indonesia have identified the following issues as major challenges to their continued operations. Forestry Law No. 41/1999 prohibits exploration and exploitation of natural resources within a "protected forest". The law could prohibit access to some 50% of Indonesia's land mass and challenges the entire mining regime. The mining industry maintains the law is based on a misunderstanding of the impact of exploration and mining on forestry areas (only about 0.0005% of the land area). The law could deter future projects and undermines projects started under previous contracts of work (CoW) creating possible legal problems for both the government and industry. Recent advice (September 2002) is that a limited number of companies will be allowed to proceed with mining activities in areas designated as "protected forest".

VAT is imposed on the value of imported capital. Large payments need to be made by capital investors (subject to refund) prior to the start of a project. Mining is a capital intensive industry. The industry is seeking an earlier refund of VAT payments made on equipment imports/purchases, or preferably its abolition, since industry sees it as a seed of institutional corruption. The Indonesian Government is holding a significant amount of foreign investor

capital under this regime (possibly up to \$1 billion). Industry believes corruption is endemic in Indonesia (and is signalled by the somewhat arbitrary discretion to grant or withhold approvals or refunds of money). Abolition of VAT imposts would be a start (psychological as much as systemic).

Industry also believes environmental approvals are heavily politicised and so lacking in public consultation that any scientific underpinning is minimised. Industry resents that it is "victimised" on its environmental performance while illegal mining and logging go relatively unremarked. As a result, large-scale capital investors are financially damaged when the Indonesian Environment Ministry implies that foreign investors are reckless.

BILATERAL TOURISM RELATIONSHIP

Two-way tourism flows

Inbound visitor numbers to Australia from Indonesia fell during the Asian economic crisis of the late 1990s before signs of recovery in 2000. Preliminary figures for 2001 indicate a 3.7 per cent decrease to 97,800 arrivals compared with 101,600 in 2000 (source: Australian Bureau of Statistics).

However, a steady recovery from the impacts of the Asian economic crisis is expected to stimulate visitor arrivals [Note: the events of 12 October 2002 in Bali may impact on Indonesian visitor arrivals]. The Tourism Forecasting Council expects the average annual growth in Indonesian arrivals to reach 8.7 per cent to 251 000 visitors by 2012. Arrival numbers are forecast to reach pre 1997-98 Asian crisis levels by 2007.

Concern about social and political sustainability in Indonesia has resulted in the number of Australians visitors falling in recent years from 531,000 in 1999 to 460,000 in 2000 (source: World Tourism Organisation). The recent terrorist attacks in Bali which resulted in the death of a number of Australians will also have a significant impact on Australian visitors to Indonesia, particularly as the perception of Bali as a safe haven added to its popularity as a tourist destination for Australians.

Current Government/Private Sector Tourism Activities with Indonesia

The Australia-Indonesia Memorandum of Understanding (MOU) on Tourism Cooperation, signed by the respective Foreign Affairs Ministers during the Australian visit of former Indonesian President Wahid in June 2001, provides opportunities for joint tourism initiatives in a number of key areas such as research and development, human resource capacity building, promotion and investment.

A bilateral Tourism Summit, involving discussions between Indonesian and Australian industry representatives on expanding the tourism relationship between the two countries and opportunities for commercial collaboration, is an initiative proposed under the MOU. Discussions are proposed between respective industry representatives on the arrangements for the summit, with the Northern Territory Government offering to host the event in mid 2003. It is not known at this stage whether the Bali terrorist attacks will impact on the timing of this event.

Another initiative which highlights the bilateral tourism relationship is the Indonesia Australia Partnership for Skills Development (IAPSD). The 5-year program, which commenced in Indonesia in July 1998, aims to assist in improving the skills of the Indonesian workforce to better meet the needs of industry sectors. It currently has 7 sub-programs including the Hotel

and Restaurant Sub-Program and the Travel and Tourism Sub-Program. The AusAID funded program is managed by the South Australian firm SAGRIC International.

IP AUSTRALIA

World Bank funded project to the Indonesian Directorate General of Intellectual Property Rights (DGIPR)

Between August 1999 and March 2000, a consortium of IP Australia, SMEC International and AMATYAS Experts and Associates undertook a World Bank funded project for technical assistance for the institutional development of DGIPR.

The Project Team was headed by Mr. Ross Wilson, Registrar of Trade Marks. The team produced a 700 page report and developed a Master Plan for implementing the report's recommendations over a five year period (2000-2004). The Plan focussed on:

- Indonesia's legal framework for the protection of intellectual property rights;
- DGIPR's business, support and management processes;
- staffing issues;
- customer service; and
- resources and facilities

World Intellectual Property Organisation (WIPO) Expert Mission on Industrial Designs

In August 2001, Mr. Victor Portelli, Deputy Registrar of Designs, conducted a WIPO expert mission to Indonesia to provide training in industrial designs to the Directorate General of Intellectual Property Rights.

WIPO funded mission to Australia

In November 2001, IP Australia coordinated a WIPO funded mission to Australia by a senior office of the Indonesian Directorate General of Intellectual Property Rights to study the administration of geographical indications.

The Australia-Indonesia Ministerial Forum IP Sub-Group

The Australia Indonesia Ministerial Forum IP sub-group was established in 1992. Its main objective is to find appropriate ways of providing IP technical assistance to Indonesia. One of its major achievements has been the inclusion of IP in the Indonesia Australia Specialised Training Project (see below). The sub-group last met in Jakarta in April 2002, as part of the inaugural joint meeting of the Australia-Indonesia Working Group on Legal Co-operation. IP Australia was represented at both meetings.

Indonesia Australia Specialised Training Project (IASTP)

The IASTP is an AusAID funded project designed to enhance Indonesia's intellectual property rights system and administration. The project comprises a series of courses in Indonesia and Australia for Indonesian government officials and the private sector. IP Australia has participated in the project by providing training in intellectual property law and administration and demonstrating administrative systems. The last group of participants (14 officials from the Indonesian Directorate General of Intellectual Property Rights) received training at IP Australia in May 2002.

APEC TILF Project on Public Education and Awareness

IP Australia received funding from APEC under the Trade and Investment Liberalisation and Facilitation (TILF) program for the 2002 - 2003 calendar years to assist certain member economies including Indonesia to develop their IP public education and awareness programs.

Mr Matthew Fomo, of IP Australia's Marketing section, visited the target countries including Indonesia in June 2002. As a result of the visit strategies are being developed which will assist in the development/redevelopment of Internet web sites, promotional materials and seminars to deliver IP public education and awareness programs.

IP Australia is currently liaising with participating countries to establish project time-lines and costs.

WIPO Expert Mission on Trade Marks

In August 2002, Ms. Helen Dawson of IP Australia's External Relations section conducted a WIPO Expert Mission to the Indonesian Directorate General of Intellectual Property Rights to evaluate the administration of trade marks and geographical indications (GIs) and advise trade mark examiners on examination procedures. IP Australia will provide a report to WIPO on the mission with recommendations about resources for examiners, training, delegations and computerisation.

PROPOSED CHRISTMAS ISLAND SPACEPORT

The proposed Asia Pacific Space Centre (APSC) on Christmas Island is designed to become the world's first fully commercial land-based satellite launch facility. The facility will be entirely privately operated, employing Russian launch vehicle technology. The Australian Government is facilitating this project by providing funding assistance to develop infrastructure on Christmas Island, negotiating a bilateral agreement with Russia on space technology safeguards and will regulate launches using one of the world's most stringent launch safety regimes.

Indonesian Concerns about the Spaceport

The Christmas Island spaceport project was initially discussed during an Australian Parliamentary delegation visit to Jakarta in July 2001. Formal and informal discussions occurred in the following months. Concerns were raised in the DPR Commission 1 of Indonesia's Parliament in mid-March 2002, where a presentation by the Indonesian National Institute of Aeronautics & Space (LAPAN) alluded to the possible negative impact of failed launches upon Indonesia, especially Bali and its tourism industry. Articles in the Indonesian publications Gatra, Kompas and Republika cited these and other issues, such as potential military and intelligence applications of the launch site and the risk to oil and gas facilities in the region.

In April 2002, senior representatives from the Indonesian Ministry of Foreign Affairs identified a list of concerns about aspects of the project (**Attachment A**). The main areas of concern outlined in this document were: the possible threat to Indonesia's population, environment and tourism industry of a failed launch; envisaged delays and disruptions to schedules of commercial air and sea transport routes; the extent of Australia's responsibility and liability in the event of a launch failure; and the reasons for locating the launch site on Christmas Island. During bilateral discussions with Australia in September 2002, the head of Indonesia's Foreign Ministry delegation sought further consultation with Australia regarding the proposed spaceport.

Actions by Australia to Address Indonesia's Concerns

Recognising Indonesia's concerns, Australia took steps in late 2001 to establish an ongoing dialogue to clarify not only the extent of Australia's facilitation and regulation role in this privately-operated project, but also to assure Indonesia of the strict requirements of the Australian launch safety regime and reaffirm Australia's adherence to international agreements governing the peaceful use of outer space. The Australian Ambassador and Embassy officials discussed with, or wrote to, the Indonesian Ministries of Foreign Affairs, Research & Technology, Security & Political Affairs, Transportation, Culture & Tourism, Defence and Communications & Information, as well as LAPAN and the Directorate of Air Transport. Further extensive discussions followed, including the provision of documentation and personal briefings to several Indonesian officials.

Senior representatives from the Commonwealth Department of Industry, Tourism & Resources (DITR) and the Technical Director of APSC visited Jakarta in February 2002 to brief Indonesian Ministers and officials. The Australian delegation provided documentation and personal briefings to representatives including those from: the Indonesian Ministries of Foreign Affairs, Research and Technology, Tourism and Culture; officials from LAPAN, the Division of Air Safety and Air Transport and the National Intelligence Agency; and representatives from the Indonesian Air Force.

Information on the technical aspects of the project, copies of the relevant Australian legislation and legal aspects of the proposed technology safeguards agreement with Russia were all provided at these meetings. The delegation presented information translated into Bahasa Indonesian to reiterate aspects of the project where Indonesia had intimated particular concern. These topics included:

- the Australian Government's role in the project;
- safety, regulation, licensing and insurance;
- applicable Australian legislation;
- risk, hazard and environmental analyses;
- Australia's international obligations;
- proposed flight trajectories;
- proposed drop zones; and
- the protection of human life and valuable assets.

Senior representatives from DITR also met with Indonesian Embassy officials in Canberra during March 2002. Mr David Kwon, Managing Director of APSC, visited Jakarta in late March 2002 to meet with Indonesian officials and several Indonesian companies interested in possible future involvement in the project. The Australian Ambassador met with the Chairman and other senior officials of Indonesia's DPR Commission 1 to respond to issues raised during the Parliamentary debate.

In August 2002, the Australian Government provided a response to the list of Indonesian concerns about the spaceport. The text of this response is at **Attachment B**. The response highlighted the following issues:

- the choice of Christmas Island for the spaceport as a commercial decision by APSC;
- the peaceful nature of launches from the spaceport;
- the strength of the regulatory regime which will govern the safety of launches;

- the Australian Government's role in regulating and licensing the spaceport and technology safeguards;
- no proposed launch trajectories will overfly Indonesian territory;
- the safety record of the actual launch vehicle technology to be used is exemplary;
- Australia is committed to the *United Nations Convention on International Liability for Damage caused by Space Objects*; and
- particular mention was made of the demanding environmental analysis of the proposal, which took a period of two years to conduct.

The facility will be licensed according to stringent Australian legislative requirements under the *Space Activities Act 1988* and *Space Activities Regulations 2001*. This will require thorough assessment of the safety of the launch vehicle and facility, compliance with insurance arrangements and assessment of the security arrangements to protect both the facility and the vehicle. Risk and hazard analyses will address risks with a probability of occurrence of greater than one in ten million. Each launch will only proceed following the issuance of a launch permit as required under Australian legislation.

Australia continues to work constructively with Indonesia through diplomatic channels to build confidence in this project and facilitate the development of a successful commercial satellite launching facility on Christmas Island.

Attachment A – (Unedited) Text of Representation Made to the Australian Government by the Government of Indonesia

- On 23 May 2001, the Government of Australia and the Government of Russia have signed a bilateral agreement to build a space port center in Christmas Island. The physical construction of this space port will be begun in 2002 and it is expected to fully operate in 2004.
- Based on the above agreement, the Government of Indonesia has examined that if Christmas island become a place to launch rockets, therefore the rockets will fly over some part's of Indonesia's territory, these are Java, Bali and Lombok islands. Therefor according to this, the Indonesian National Institute of Aeronautics and Space (LAPAN) has observed that Christmas island is located less then 500 km from Java, the most populated island in Indonesia and meanwhile, nowadays it is around 10-20% of major rocket launches fail. Indonesia is likely to be in the danger zone if launches fail.
- Indonesia and Australia have held two meetings to discuss this matter, both in February 2002. From these two meetings, the Indonesian Government remains unsure who will take responsibility if the failure of the rocket launching occurs.
- The Indonesian Government has indicated several risks that will burden for Indonesian people, based on the plan to build this space port. Firstly from the legal aspect, it is still unclear whether the Australian Government will take full responsibility if the rockets launched form Christmas island drop in any parts of Indonesia's territory. Secondly from the economic aspect, every launch from this space port will disturb all commercial flights in some parts of Indonesian region. Thirdly from the environmental consideration, every launch will harm the bio-species and the bio-system around the launch-path. Lastly every launch from the space port is taken into account will have some physiological impacts to the tourism industries in Bali, which eventually decrease the number of people to visit Bali.
- Based on those risks, on 13 March 2002, the legislative members of the Commission 1 – Dewan Perwakilan Rakyat/DPR (House of Representative), hold a hearing with the executive/the government to discuss this matter. From this hearing, both legislative and executive had come into a conclusion that the Indonesian Government has to express its deep concern regarding the plan to build a space port in Christmas island.
- Therefore, the Indonesian Government now asks the Australian Embassy in Jakarta to convey this message to the Australian Government in Canberra and hopes the Australian Government may reconsider to build this space port in other parts of the Australia mainland.

**The Department of Foreign Affairs
JAKARTA**

22 April 2002

Attachment B – Text of the Australian Government’s Response to the Indonesian Government’s Representation

- The ‘Agreement between the Government of Australia and the Government of the Russian Federation on Cooperation in the Field of the Exploration and Use of Outer Space for Peaceful Purposes’ signed on 23 May 2001 is an umbrella agreement for general space cooperation between the two countries. It does not specifically relate to Christmas Island or to the Asia Pacific Space Centre (APSC).
- The proposed space facility on Christmas Island will be a commercial venture between APSC and Russian partners. The involvement of the Australian Government in the facility is restricted to the provision of funding for common use infrastructure, negotiation of bilateral instruments with Russia to facilitate the safeguarding of Russian technology and licensing of the facility, and regulation of relevant matters associated with the spaceport including environmental management, launch safety and insurance.
- The Government of Australia assures the Government of Indonesia that there are no plans for launch trajectories to overfly Indonesian territory. There will be no overflight of Bali, Lombok or Java. The equatorial launch trajectory will extend from Christmas Island to the south of the island of Timor and across Papua New Guinea. Drop zones for spent rocket stages and fairings will be in deep ocean no closer than 100km to Indonesia. The third stage of the launch vehicle will enter orbit south-east of Roti Island. The launch operator, APSC, has not proposed any launches which approach within 12 nautical miles of Indonesian land and territorial waters.
- The Aurora launch vehicle to be used by APSC is based on the Soyuz Launch Vehicle, which has proven itself to be one of the most prolific and reliable launch vehicles ever produced. The Soyuz is one of the two current vehicles that carry persons into space (the other is the American Space Shuttle). These human-rated launch vehicles have safety standards and quality control processes that are much higher than other launch vehicles.
- The Aurora and Soyuz are part of the family of launch vehicles based on the design of the R-7 launch vehicle. Launch vehicles based on the R-7 design have launched a total of 1665 times from 1957 through 31 December 2001, with only 74 failures, resulting in an overall success rate of 95.6% over more than 40 years of continuous operation. This is by far the most launches of any launch vehicle family, nearly three times more than its nearest competitor. Most of the failures occurred in the late 1950's and 1960's as the design was being finalised. Since 1966 the Soyuz success rate has been 97.7% and has continued to improve with a 97.9% success rate over the last 20 years, a 98.5% success rate over the last ten years and a 100% success rate over the last five years. Since 1996, Soyuz has had 69 consecutive successes.
- Subject to confirmation under Australian licensing, APSC considers that in the event of a failure of the launch vehicle there is no discernable risk that debris would fall on Indonesia. Safety assessments of the Aurora will be based on assessments of its reliability in accordance with the flight safety code, copies of which were provided to Indonesian officials during the visit to Indonesia by Australian officials in February 2002.
- During the meetings between senior Australian officials and Indonesian ministers and officials held in February 2002, it was made clear that Australia is a signatory to the United Nations Convention on International Liability for Damage caused by Space Objects. Australia accordingly is absolutely liable for damages to the life or property of foreign

nationals resulting from space launches from Australian territory, including Christmas Island. Australian law requires that the launch operator insure against third party damages, including consequential economic and environmental damages, up to a 'Maximum Probable Loss' determined for each individual launch. The Australian Government remains liable for any damages to foreign nationals over and above this insured amount.

- The APSC facility will be licensed according to stringent Australian legislative requirements under the *Space Activities Act 1998* and *Space Activities Regulations 2001*. A separate permit will be issued for each launch. The licensing process will include a thorough assessment of the safety of the launch vehicle and facility, compliance with insurance arrangements and assessment of security arrangements to protect both the facility and vehicle. Risk and hazard analysis will address all possible risks and liabilities. The Australian Government will ensure that no person of any nationality is exposed to risk of serious injury or death exceeding one in ten million launches. This standard exceeds the level of safety already applying to third party risk from most other industrial hazards and natural causes. Launches will be terminated if their flight paths deviate from the authorised flight corridor.
- Risk and hazard analysis will take account of air and sea route traffic densities. The launch safety officer appointed under Australian law will not allow the launch to proceed unless he or she is satisfied that NOTAMs and certain other advisory notices have been issued and relevant areas of drop zones evacuated. Traffic patterns in the launch area follow predictable patterns and in consultation with Airservices Australia, it will be possible for APSC to determine periods when a space launch will have no impact on airborne air traffic. In 45 years of space launches, there has been no recorded accident involving vessels and aircraft.
- The Government of Australia assures the Government of Indonesia that the proposed space facility on Christmas Island will have no significant environmental impact. The Government of Australia required that APSC subject its proposal to a demanding environmental analysis. This analysis took two years and resulted in the Government attaching 65 conditions to the project which relate to both the Christmas Island environment and the national and international areas of overflight. It is particularly relevant to environmental protection that the Aurora rocket to be used on Christmas Island is powered by kerosene and liquid oxygen. Its fuels are therefore similar to aviation fuel, and do not pose the environmental hazards of solid fuel powered rockets.

INVEST AUSTRALIA

Invest Australia is the Federal Government's Agency responsible for the attraction and retention of Foreign Direct Investment (FDI) to Australia. Our mission is to attract productive foreign investment into Australia to support sustainable industry growth and development.

Invest Australia is based in Canberra within the Department of Industry Tourism and Resources portfolio with offices in Sydney, Melbourne, New York, San Francisco, Hong Kong, Beijing, Shanghai, Singapore, Tokyo, Taipei, Frankfurt, Paris and London.

As a source of FDI into Australia, Indonesia is ranked as a low order priority amongst South East Asian markets. Faced with the choice of allocating scarce resources amongst many possible markets, at this stage, Singapore and Malaysia appear to offer markedly better prospects than Indonesia. Consequently, Invest Australia's strategy for Indonesia is to respond positively to inquiries as they are received through sources such as Austrade, the Department of Foreign Affairs and Trade and private parties.

Assistance we offer investors include:

- information on how to establish a business in Australia;
- arrangement of site visits and help to find the right joint venture partner;
- expert advice from our range of industry specialists and help identify investment opportunities;
- information on the availability and cost of labour, R&D, transport and establishment costs;
- contacts with key government agencies and advice on investment regulations;
- advice on local, State and Federal incentives schemes;
- facilitation of major projects through the Major Projects Facilitation program;
- Fast track Immigration assistance through the Regional Headquarters Program.

Stocks and flows of Inward Indonesian Investment

The Australian Bureau of Statistics records both the stock and flows of investment. Flows measure the net yearly inwards investment. Stocks measure the accumulated levels of investment at a point in time.

Investment Stocks

Indonesia is a relatively insignificant source of inward investment to Australia. It currently ranks as Australia's 22nd most important source of Total Inward Investment (Attachment 1). Over the past four years its share as a percentage of Total Investment stocks from all countries has been negligible (Table 1). The latest ABS figures indicate that Indonesia's accumulated investment in Australia stands at about AUD417 million.

	1997/8	1998/9	1999/0	2000/1
Indonesia (AUD million)	216	339	527	417
All Countries (AUD Million)	587,231	629,421	722,250	814,662
Indonesia's Share of Inward Investment Stocks (%)	0.04%	0.05%	0.07%	0.05%

Source: Australian Bureau of Statistics, Catalogue number 5352.0 Supplementary Country Statistics July 2002

Statistics regarding the respective components of inward investment stocks are incomplete. As Table 2 below demonstrates, published figures are unavailable for the FDI component of Total

Investment in 2000/2001. The latest FDI figures available are for 1999 / 2000. In that year accumulated FDI from Indonesia amounted to AUD59 million.

	1997/8	1998/9	1999/0	2000/1
FDI (AUD million)	55	NP	59	NP
Portfolio (AUD million)	1	NP	NP	NP
Other (AUD million)	NP	NP	NP	NP
Total (AUD million)	216	339	527	417

Source: Australian Bureau of Statistics, Catalogue number 5352.0 Supplementary Country Statistics July 2002

Because of the lack of data, it is not possible to meaningfully comment on trends in inward FDI from Indonesia. A possible explanation for the lack of data is confidentiality. ABS does not release data in cases where it may be possible to identify individual investors or projects.

Flows of Investment

Over the past 4 year period, Indonesia's total investment flows to Australia have fluctuated markedly as is evident from Table 3.

	1997/8	1998/9	1999/0	2000/1
Indonesia (AUD Million)	-99	113	39	-90
All Countries (AUD Million)	41337	44136	45146	57854

Source: Australian Bureau of Statistics, Catalogue number 5352.0 Supplementary Country Statistics July 2002

Table 4 below illustrates the break-up of these investment flows in terms of FDI and other types of investment. In three of the four years listed in the table, Indonesia has been disinvesting in Australia. This seems to have been in response to the Asian Economic meltdown of 1996/97. However, in 1998/9 there was a relatively large increase in total investment from Indonesia on account of non-FDI investment (portfolio investment) of AUD116 million. This could be due to Indonesian investors seeking an offshore haven to weather out the economic turmoil in their own country.

	1997/8	1998/9	1999/0	2000/1
FDI (AUD Million)	-4	-3	6	-11
Portfolio (AUD Million)	0	0	10	-11
Other (AUD Million)	-95	116	23	-68
Total (AUD Million)	-99	113	39	-90

Source: Australian Bureau of Statistics, Catalogue number 5352.0 Supplementary Country Statistics July 2002

Indonesian Companies Active Within Australia

'IBIS World' maintains a database of the largest 2000 companies operating within Australia (being both public and private companies). This database identifies only one Australian company with an Indonesian parent shareholder. This Australian company is called 'Link Communications'. Link is a proprietary company located in Melbourne and was originally a joint venture by PT Bakrie Communications Corp and the Japanese telecommunications company 'DDI Japan'. It's primary business is in the provision of telecommunications services with reported revenue of AUD141 million in December 2001.

Invest Australia together with Austrade played a lead role in attracting this investment to Australia in April 1998. At this time, the investors announced their intention to create a joint venture and invest AUD29.6 million.

The only other Indonesian investment in Australia where Invest Australia assisted was for PT Krakatoa in April 1995. At this time, PT Krakatoa announced its intention to enter a joint venture with SA Steel & Energy. The joint venture would invest AUD15 million in a metal products manufacturing operation. It was estimated the joint venture would create 80 new jobs. The Austrade Office in Jakarta played a substantial role in this investment decision.

Australia: Total Inward Investment Level By AUD Value 2000-01		
Ranking	Investment Source	Level of Investment AUD million
1	USA	234,928
2	United Kingdom	205,057
3	Japan	46,962
4	Hong Kong(SAR of China)	34,477
5	Singapore	25,026
6	Netherlands	18,527
7	Germany	15,226
8	Switzerland	14,515
9	New Zealand	12,063
10	Belgium and Luxembourg	9,821
11	France	9,144
12	Central America and Caribbean	8,316
13	China	3,385
14	Malaysia	2,959
15	Canada	2,478
16	Ireland, Republic of	1,405
17	Philippines	1,295
18	Taiwan	1,079
19	Sweden	996
20	South African	770
21	Korea, Republic of	541
22	Indonesia	417
23	Italy	404
24	PNG	389
25	Fiji	23
26	Greece	19
27	Mexico	12
28	Russian Federation	7
29	Brunei Darussalam	6
30	Thailand	n.p.
31	Chile	n.p.
Source: Australian Bureau of Statistics, Catalogue number 5352.0		
Supplementary Country Statistics July 2002 Table 1b		