

JOINT STANDING COMMITTEE ON TREATIES

REPORT 107: REVIEW INTO TREATIES TABLED ON 20 AUGUST (2) AND 15 SEPTEMBER 2009

GOVERNMENT RESPONSE

IMF Voice and Participation Amendment

Recommendation 5

The Committee recommends that the Australian Government use the good will it has gained by agreeing to the IMF Voice and Participation Amendment prior to the G20 meeting to progress improvements in the balance of voting power and the confidence and legitimacy of the IMF's decision making process.

Response:

The Government accepts this recommendation. The Government is a strong advocate of reform of IMF quotas and governance and notes that G20 Leaders agreed in September 2009 that the further modernisation of the IMF's governance, including the balance of voting power, is a core element in the effort to improve the IMF's credibility, legitimacy and effectiveness. The Government played an active role, including by co-chairing the relevant G20 Working Group, in the agreement on the third stage of IMF governance reform reached by G20 Finance Ministers and the IMF Board of Governors in late 2010. This agreement includes a doubling of IMF quotas and further shifts in voting power to dynamic emerging market and developing countries, and from over- to under-represented countries, both of almost 6 per cent. It also includes a more representative IMF Executive Board with advanced European countries agreeing to reduce their representation in favour of emerging market and developing countries.

Dissenting report: Recommendation 5

The Coalition is concerned that by agreeing to the IMF Voice and Participation Amendment the Government may act against the best interest of Australia by reducing our voting influence and that of other larger nations.

Australia's voting share is set to decline from 1.47 per cent of the votes to 1.31 per cent of the votes. Far from marginal, this decline in voting share of 0.16 per cent of votes signs away 11 percent of our current vote share.

While we support a greater engagement of developing nations within the IMF we are not convinced that this proposal will improve the quality of governance of the IMF.

Response to Dissenting report:

As noted in the National Interest Analysis provided to the Committee, IMF quota and voice reform — including the increase in basic votes provided for in the IMF Voice and Participation Amendment — results in a decline in Australia's relative voting share in the IMF. This reflects an increase in relative voting share provided to under-represented emerging market economies, including in our region, and the increase in basic votes benefitting small and low-income members. However, the 2010 agreement will moderate the decline in Australia's voting share, resulting in a share of 1.33 per cent of total votes compared with 1.31 per cent following the 2008 Voice and Participation Amendment.

Reform in this area has had bipartisan support in Australia. The first stage of reform was agreed by IMF Governors in September 2006 while the second stage was developed in 2007 and early 2008, and agreed by IMF Governors in April 2008.

The Government considers that the Amendment and related quota reforms are an important mechanism for enhancing the legitimacy of the IMF as an international financial institution with near-universal membership. A strong and effective IMF advances Australia's interests by supporting stability in the global economy.

IMF Investment Authority Amendment

Recommendation 6

The Committee recommends that, consistent with the IMF's goals of international economic stability and fostering growth and economic development, the Australian Government advocate that the IMF not invest in:

- **high risk investments;**
- **the manufacture of arms or military equipment; and**
- **environmentally damaging industries.**

Response:

The Government notes that the IMF will adopt rules and regulations (for example, imposing restrictions on types of investments and setting risk tolerance levels) regarding investments of currencies held in its investment account. The IMF Executive Board is expected to consider rules and regulations in the first half of 2011.

The Government expects that the IMF would not involve itself in 'high risk' investments and the Government accepts this part of the Committee's recommendation.

The Government notes that, while the nature of the IMF's operations suggests that explicit decisions to invest in arms or military equipment or environmentally damaging industries are highly unlikely, inadvertent investment may occur through the IMF's proposed use of a passive investment approach, involving the close tracking of widely used benchmark indices. Restrictions on such investments may need to await the further development of investment methodologies and market practice.

The Government will seek comments on the issue from IMF staff in the context of the forthcoming IMF work on rules and regulations governing IMF investments.

Dissenting report: Recommendation 6

The Coalition is concerned that recommendation 6 does not provide sufficient definition as to what constitutes ‘high risk’, ‘arms or military equipment’ or ‘environmentally damaging’. Without clear definitions of these terms it is possible that legitimate investments could be thwarted by an overly wide or indiscriminate reading of these terms.

If the Australian Government were to advocate for the proscriptions outlined in recommendation 6 we risk creating an overly prescriptive regime for the IMF to operate within and may unnecessarily impede the IMF’s ability to respond in the best interests of all countries concerned.

Response to Dissenting report:

The Government notes the concerns expressed in the *Dissenting report – Coalition Members and Senators*.

As has been the Australian Government’s position on other IMF policy discussions in the past, the Government will approach upcoming discussions on the IMF’s investment policies with a view to ensuring that the IMF’s ability to respond in the best interests of its members is not impeded.

World Bank Voice and Participation Amendment

Recommendation 7

The Committee recommends that the Australian Government support the proposal of the Development Committee of the World Bank to increase the quota of votes allocated to developing countries to at least 47 per cent.

Response:

The Government accepts this recommendation. At the April 2010 World Bank Spring Meetings, the Development Committee endorsed a package of reforms which included greater voice for developing and transition countries within the World Bank. The reforms will increase the voting power of developing and transition countries in the International Bank for Reconstruction and Development (IBRD) by 3.13 per cent, bringing their voting power to 47.19 per cent. This agreement includes a capital increase of US\$86.2 billion. For the next shareholding review in 2015, the Development Committee agreed to develop a dynamic formula that reflects countries’ evolving economic weight and the World Bank’s development mission, moving over time towards equitable voting power and protecting the voting power of the smallest poor countries.

The Government actively worked towards the achievement of these voice reforms.

Dissenting report: Recommendation 7

The Coalition is concerned that by agreeing to the World Bank Voice and Participation Amendment the Government may act against the best interest of Australia by reducing our voting influence and that of other larger economies.

Australia's voting share is set to decline from 1.53 per cent of the vote to 1.49 per cent of the votes. This decline in vote share of 0.04 per cent of the vote signs away over 2.6 per cent of our current vote share.

Australian influence in the World Bank would be further diluted if Recommendation 7 is supported and eventuates as a later World Bank Amendment.

While we support a greater engagement of developing economies within the World Bank we are not convinced that this proposal will improve the quality of governance of the World Bank.

Response to Dissenting report:

The World Bank Voice and Participation Amendment will result in a marginal decline in Australia's voting share. As noted in the National Interest Analysis, the decline in Australia's relative voting share is not expected to significantly alter the dynamic within our World Bank constituency or our influence within the Bank.

Once the further reforms endorsed by the Development Committee in April 2010 have been implemented, Australia will hold 1.33 per cent of voting power at the IBRD. Again, this is not expected to significantly alter the dynamic within our World Bank constituency or Australia's influence within the Bank.

These reforms have had bipartisan support in Australia.

Increasing the voting share of small developing and transition countries aims to improve the effectiveness and legitimacy of the World Bank as the leading global development institution and enhance the engagement of those countries with its governance, policies and decision-making.

Amended Chapeau Defence Agreement

Recommendation 8

The Committee recommends that the Australian Government explore mechanisms to ensure that Australian personnel convicted of crimes for which the penalty is death while serving in the United States are not subject to the death penalty.

Response:

Agree in principle.

Consideration of privileges and immunities is a normal part of the risk assessment process for any operational deployment, or non-operational posting of Defence personnel to a foreign country. Where, for example, the ADF is deployed for operational purposes such as peace enforcement, restoring law and order, or disaster relief at the invitation of a host government that has the death penalty, we seek immunity from the death penalty.

In the majority of cases where ADF personnel are on non-operational deployments, postings or overseas service, there are no agreements or arrangements specifying any immunities or privileges in respect of local law. Many of these countries have the death penalty; notable examples are the United States, Japan and Thailand. For non-operational deployments and postings, mainly the case with the United States, Defence personnel are likely to be engaged in activities which are considered to be lower risk than operational deployments.

The Government remains universally opposed to the death penalty. It is Australian Government policy to make representations on behalf of Australian citizens facing the death penalty when all appeal and other process have been exhausted. It is also Australian Government policy to encourage universal ratification of the Second Optional Protocol to The International Covenant on Civil and Political Rights. The Protocol prohibits the States Parties from executing anyone within their jurisdiction.