



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

ESTIMATES

(Budget Estimates)

THURSDAY, 2 JUNE 2005

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Thursday, 2 June 2005

Members: Senator Sandy Macdonald (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Ferguson, Mackay, Payne and Ridgeway

Senators in attendance: Senators Chris Evans, Faulkner, Ferguson, Hogg, Johnston, Ludwig, Lundy, Sandy Macdonald, Payne, Robert Ray and Stott Despoja

Committee met at 9.08 a.m.

FOREIGN AFFAIRS AND TRADE PORTFOLIO

Consideration resumed from 1 June 2005.

In Attendance

Senator Hill, Minister for Defence

Department of Foreign Affairs and Trade

Portfolio overview

Dr Geoff Raby, Deputy Secretary

Ms Penny Williams, First Assistant Secretary, Corporate Management Division

Ms Ann Thorpe, Chief Finance Officer

Output 1.1: Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity

1.1.1: North Asia

Ms Lydia Morton, First Assistant Secretary, North Asia Division

1.1.2: South and South-East Asia

Mr Paul Grigson, First Assistant Secretary, South and South-East Asia Division

Mr Scott Dawson, Head, Australia-Indonesia Partnership for Reconstruction and Development Secretariat

1.1.3: Americas and Europe

Mr Jeremy Newman, First Assistant Secretary, Americas and Europe Division

1.1.4: South Pacific, Middle East and Africa

Mr David Ritchie, First Assistant Secretary, South Pacific, Africa and Middle East Division

Mr Bassim Blazey, Head, Iraq Task Force

1.1.5: Bilateral, regional and multi-lateral trade negotiations

Mr Bruce Gosper, First Assistant Secretary, Office of Trade Negotiations

Mr Paul Grigson, First Assistant Secretary, South and South-East Asia Division

Mr Ric Wells, First Assistant Secretary, China Free Trade Agreement Task Force

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Mr Michael Mugliston, Head, Asia Trade Task Force

Mr Jeremy Newman, First Assistant Secretary, Americas and Europe Division

Ms Lydia Morton, First Assistant Secretary, North Asia Division

Mr David Ritchie, First Assistant Secretary, South Pacific, Africa and Middle East Division

1.1.6: Trade development/policy coordination and Asia-Pacific Economic Cooperation

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Mr Nic Brown, Assistant Secretary, Trade and Economic Analysis Branch

Mr Michael Mugliston, Head, Asia Trade Task Force

1.1.7: International organisations, legal and environment

Ms Caroline Millar, First Assistant Secretary, International Organisations and Legal Division and Ambassador for People Smuggling Issues

Mr Chris Moraitis, Senior Legal Adviser

Ms Jan Adams, Ambassador for the Environment

1.1.8: Security, nuclear disarmament and non-proliferation

Mr David Stuart, First Assistant Secretary, International Security Division

Mr Les Luck, Ambassador for Counter Terrorism

Mr Andrew Leask, Assistant Secretary, Australian Safeguards & Non-Proliferation Office

Output 1.2: Secure government communications and security of overseas missions

Mr Allan McKinnon, First Assistant Secretary, Diplomatic Security, Information Management and Services Division

Output 1.3: Services to other agencies in Australia and overseas (including Parliament, state representatives, business and other organisations)**1.3.1: Parliament in Australia**

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Ms Bronte Moules, Assistant Secretary, Executive, Planning and Evaluation Branch

1.3.2: Services to attached agencies

Ms Penny Williams, First Assistant Secretary, Corporate Management Division

1.3.3: Services to business

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

1.3.4: Services to state governments and other agencies overseas and in Australia

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Output 1.4: Services to diplomatic and consular representatives in Australia**1.4.1: Services to diplomatic and consular corps**

Ms Louise Hand, Assistant Secretary, Protocol Branch

1.4.2: Provision of protection advice through liaison with the Protective Security Coordination Centre

Ms Louise Hand, Assistant Secretary, Protocol Branch

Output 2.1: Consular and passport services**2.1.1: Consular services**

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

2.1.2: Passport services

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Robert Nash, Assistant Secretary, Passports Branch

Output 3.1: Public information services and public diplomacy**3.1.1: Public information and media services on Australia's foreign and trade policy**

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Mr Nicholas Coppel, Executive Director, Economic Analytical Unit

3.1.2: Projecting a positive image of Australia internationally

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

3.1.3: Freedom of information and archival research and clearance

Mr Rod Smith, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Output 4.1: Property management

Mr Peter Davin, Executive Director, Overseas Property Office

Output 4.2: Contract management

Mr Peter Davin, Executive Director, Overseas Property Office

Enabling services

Ms Penny Williams, First Assistant Secretary, Corporate Management Division

Ms Ann Thorpe, Chief Finance Officer

Ms Bronte Moules, Assistant Secretary, Executive, Planning and Evaluation Branch

Australian Agency for International Development (AusAID)

Outcome 1: Australia's national interest advanced by assistance to developing countries to reduce poverty and achieve sustainable development

1.1: Policy

1.2: Program management

Administered items—Australia's development cooperation program

Mr Bruce Davis, Director General

Mr Charles Tapp, Senior Associate

Mr Murray Proctor, Acting Deputy Director General, Asia and Corporate Resources

Mr Alan March, Assistant Director, General East Timor, Humanitarian and Regional Programs Branch

Ms Judith Robinson, Assistant Director, General Pacific Branch

Ms Jacqui De Lacy, Assistant Director, General Papua New Guinea Branch

Mr Peter Versegi, Assistant Director, General White Paper

Mr Peter Callan, Acting Assistant Director, General East Asia Branch

Mr Peter Smith, Acting Assistant Director, General Australian Partners Branch

Mr Robin Davies, Assistant Director, General Indonesia Branch

Mr Mark Fleeton, Assistant Director, General Office of Review and Evaluation

Mr Jeremy Guthrie, Director, Budget Unit

Mr Neil McFarlane, Director, International Policy and Organisations

Outcome 2: Australia's national interest advanced by implementing a partnership between Australia and Indonesia for reconstruction and development

2.1: Australia–Indonesia partnership for reconstruction and development management

Mr Murray Proctor, Acting Deputy Director General, Asia and Corporate Resources

Mr Peter Smith, Acting Assistant Director General, Australian Partners Branch

Mr Jeremy Guthrie, Director, Budget Unit

Ms Allison Sudradjat, Senior Representative, AIPRD Jakarta

Australian Trade Commission (Austrade)**Portfolio overview****Outcome 1: Australians succeeding in international business with widespread community support****1.1: Awareness raising****1.2: Government advice and coordination****1.3: Services and opportunities****1.4: Austrade administered: EMDGs for small to medium sized businesses and ITES loans and advances****Outcome 2: Australians informed about and provided access to consular, passport and immigration services in specific locations overseas****2.1: Consular, passport and immigration services**

Mr Leith Doody, Acting Corporate Services Director

Mr Greg Field, Chief Finance and Information Officer

Ms Margaret Ward, General Manager, Export Finance Assistance Programs

Mr Michael Vickers, Manager, Exporter Initiatives Mr Tim Harcourt, Senior Economist

Mr Peter Gunning, Group Manager Business Support, Corporate Finance

Ms Hazel Bennett, Project Manager, Analysis and Planning

Department of Foreign Affairs and Trade

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee and I welcome back Minister Hill, Dr Raby and members of the department. I understand you have some answers to questions taken on notice yesterday, Dr Raby, or some documents that you wish to table.

Dr Raby—Yes. I would like to table two documents, with your permission. One goes to the question of the guidelines for use of Australian diplomatic and official passports. These are guidelines for sponsoring agencies, but the sponsoring agency—in our case, DFAT; in the case of parliamentarians, the parliament—can draw on the guidelines and need to set specific regulations in terms of their own code of conduct. That might be helpful in terms of the discussion we had yesterday. The second document is simply DFAT's code of conduct; this is for our agency alone, although obviously it is based heavily on APS values. If I can table that as well, it would provide some more information on some of the discussion we had yesterday on that item.

CHAIR—Thank you.

Dr Raby—I have one other matter. Towards the end of yesterday's session, there was some discussion on the IWC—International Whaling Commission—matters with particular reference to a verbatim transcript from the 2000 IWC meeting in Adelaide. We have had the opportunity to look at that overnight as requested by Senator Faulkner and are happy to comment on that now if that is agreeable.

CHAIR—Thank you. We are still on 1.1.7, so if Senator Faulkner wishes to take that up now, he can.

Senator FAULKNER—Now that you have had an opportunity to look at the record of the 52nd annual meeting of the IWC, I suspect you understand why I asked the questions I did

about what appeared to be views expressed by Australia at that particular annual meeting. Who was the Australian delegate there?

Mr Moraitis—My understanding was that the delegation was led by the deputy secretary of Environment and Heritage. There was a DFAT representative from the legal division, as is practice. That person was a member of the delegation. As Ms Adams said yesterday, that has been normal practice. That was Mr Mason, a former director of the sea law policy area.

Senator FAULKNER—Thanks for that. When one reads the verbatim record of this 52nd annual meeting of the International Whaling Commission, it appears that the Australian delegate passes the microphone to his legal adviser. You may not know, but was that Mr Mason or was it someone else?

Mr Moraitis—I understand that it was Mr Mason.

Senator FAULKNER—Have you had an opportunity to acquaint yourself with the remarks that Mr Mason made at the time? Have you read the transcript?

Mr Moraitis—Yes. I have actually read the intervention.

Senator FAULKNER—I appreciate that. I do not know if you are able to provide any background to this or not, but it is clear that the legal adviser, who is a DFAT officer, brings to the attention of the commission developments and precedents which raise the possibility that Japan might not be acting properly within its legal rights when it issues scientific permits. I think that is correct, isn't it?

Mr Moraitis—Yes. When I say the legal adviser at the time, that was obviously a DFAT member, and he was part of the delegation. I do not think any distinction should be made between legal versus non-legal: he is there as a sea policy person and legal specialist. That happens quite often in the DFAT context where delegation members bring some legal expertise. Having said that, my understanding was that that intervention was made in the context of a publication by an Australian academic, Dr Triggs, in an international law journal, on the issue of the abuse of rights as pertaining to Japanese scientific whaling. I think what happened in that context was that the Australian delegation sought to bring to attention in a diplomatic forum views expressed by international legal scholars about evolving principles of international law in this area. Reading the statement, I thought that, in the diplomatic context in which it was done, that was quite a good way of bringing to the attention of delegates emerging norms of international law as affected by practice as well as by conventional law. I thought that was a good diplomatic approach to adopt.

Senator FAULKNER—Can you confirm that this intervention occurred under the agenda item of the IWC meeting in Australia in the year 2000—the agenda item dealing with action arising on North Pacific minke whales?

Mr Moraitis—My understanding is that it was in the context of agenda item 13—scientific whaling.

Senator FAULKNER—That is my understanding, too, but I thought you might have further and better information. Is it fair to say, now that you have had an opportunity to look at the transcript—and I appreciate the efforts that you and the department have made to do

that overnight—that Australia and Australia’s legal representative at this IWC meeting did actually raise consideration of legal action, and that it was done in a public forum?

Mr Moraitis—I do not read it that way, Senator.

Senator FAULKNER—How do you read it?

Mr Moraitis—I read it as an expression by the Australian delegation of emerging principles of international law and as an attempt to highlight that in a public forum involving delegates where there is an ongoing debate about scientific whaling and attempts by pro-conservation countries, including Australia, to prevent this. This intervention, I understand, was made in the context of various other countries supporting this concept. It was an attempt to develop a momentum, diplomatically speaking, in a diplomatic context, to put the focus on this issue and to bring to the attention of many delegates an article written by one academic in Australia, which I find quite interesting as well. It would have merited being brought to the attention of all the delegates at that meeting in Adelaide. Obviously, not all delegates agreed with that, and that is the crux of the problem here: it is an ongoing diplomatic effort using a variety of means of persuasion and effort to encourage pro-conservationists and also to bring to the attention of pro-whaling nations, in particular Japan in that context, the nature of emerging norms. Having reread the statement, I cannot see that there was any statement made by the Australian delegation purporting to bring judicial action against Japan in an international legal forum. I have also had the opportunity to speak to Mr Mason, who happens to be working back in Canberra after a posting. Fortuitously, I bumped into him in the carpark this morning, and I asked him what—

Senator FAULKNER—I hope you weren’t driving your car when you bumped into him!

Mr Moraitis—No. I asked him about it. I said, ‘I read your statement.’ He said that was clearly how he intended it to be made. That is my understanding of it, to be honest with you.

Senator FAULKNER—Having regard to such an intervention at the IWC, and given that Mr Mason was a DFAT officer, there would have been some effort put in, I assume, as it seemed a most erudite contribution to me—but I am not a lawyer; I don’t have a legal background, obviously.

Mr Moraitis—No, it was a good intervention in the sense that it drew upon quite a few elements. I understand that the article is referred to in the intervention and it actually quotes verbatim and refers to various legal academics, including Professor Gillian Triggs, and paraphrases from her journal assertions that she has made and conclusions she has come to in examining the relevant convention or customary case law as it emerges in that area. That is my understanding.

Senator FAULKNER—This would be a planned intervention, wouldn’t it?

Mr Moraitis—Planned?

Senator FAULKNER—If it seemed quite erudite, I assume that work would have gone into preparing it.

Mr Moraitis—It would not have been a made-up intervention on the spot. With all due credit to any delegate, I don’t think anyone could quote case law and things like that.

Senator FAULKNER—It involved preparation back in DFAT and the like?

Mr Moraitis—I think the object of this intervention was to bring to the attention of delegates the journal article by Professor Triggs, and I think that was obviously the basis on which many of these comments were drawn. I think that journal was distributed to IWC members at the meeting so that they could take it back with them to their capitals and examine it in more detail. I think this intervention highlighted the elements of that.

Senator FAULKNER—Who would make a decision that Australia's delegation at the IWC would raise such an issue?

Mr Moraitis—Going on general principles, the head of delegation would consider that. My understanding is that that would be the Department of the Environment and Heritage, as they head the delegations to the IWC.

Senator FAULKNER—We know that they are the lead agency. Do you think the head of delegation would have tasked Mr Mason to undertake this activity: prepare a thoughtful intervention on this matter in advance of the IWC meeting?

Mr Moraitis—Reading the intervention, I can see that the delegation obviously considered what was an appropriate intervention to be made in the context of that agenda item. In light of the publication of an article by Professor Triggs, an eminent international legal scholar on Antarctic and sea law matters, they thought it appropriate to bring that to the attention of the delegates. That is my understanding of it.

Senator FAULKNER—Is your role and responsibility in the department the same as Mr Mason's or did he fulfil a different function in the department when he made the intervention?

Mr Moraitis—No, he was fulfilling the function of a DFAT member of the delegation to the IWC. He was drawn from the legal area at the time and it is a different function from the one I have.

Dr Raby—Mr Moraitis's position did not exist back in 2000; it was created a little while after that. It is a more senior position, as senior legal adviser, than we have had before. Mr Moraitis is not the first incumbent of the position, but when that position was created it put in place a more senior level of legal advice inside the department than had previously existed—certainly than had existed in 2000.

Senator FAULKNER—Thanks for that. I was wondering whether, when such an intervention is prepared, Mr Mason at the time would have had that checked or ticked off by a superior officer in the department.

Mr Moraitis—I would not want to speculate but, in the context of such a deliberation in an international fora where statements are made of this kind, I think some consideration would be given in that way up the line. I do not know if that happened in this case, but I think it might well have—but then I am speculating and I do not want to do that.

Senator FAULKNER—You have pointed to the work of Professor Gillian Triggs, and the article referred to is that in the *Asia Pacific Journal of Environmental Law*, entitled 'Japanese scientific whaling: an abuse of right or optimum utilisation'. That is the key article the Australian delegation was trying to bring to the attention of other members of the IWC—is that right?

Mr Moraitis—That is my understanding, yes.

Senator FAULKNER—To your knowledge, has the Commonwealth taken any action to engage with Professor Triggs or consult with her in any formal or informal way about this issue?

Mr Moraitis—I certainly have not in my period in this job, so I am not aware of any. It is my understanding that this was published in the Asia-Pacific journal and the delegation drew on the matter.

Senator FAULKNER—The point here of course is that these issues not only are ongoing in relation to the quota for minke whales—and perhaps Ms Adams might care to comment on this—but have now been elevated to be of greater concern than was the case in the year 2000. I do not think that is a very controversial view—would you agree with that, Ms Adams?

Ms Adams—Yes, I would agree with that.

Senator FAULKNER—I appreciate, Mr Moraitis, that you might not necessarily be aware of this, so I wondered, given that this issue was brought to the attention of IWC member nations in 2000, whether there had been any attempt—if you are aware; I know you will come back to me and say that DEH is the lead agency and I accept that—

Mr Moraitis—I was not going to say that.

Senator FAULKNER—I am just qualifying here so that we are clear: understanding that, also we have an intervention here from a legal adviser to the Australian delegate to the IWC, who is a DFAT officer. Has there been any effort since then to use Professor Triggs's expertise that you are aware of? You may not be aware of it. Perhaps Ms Adams might have some knowledge in this area too, and if she is able to assist I would appreciate it.

Mr Moraitis—I could say that since I have been in this position, which is from late 2002, I have not been aware of any discussions with Professor Triggs about this issue or indeed any other issue that I can recall of AN international legal nature. Having said that, with your indulgence I will take it on notice and check whether anybody has in my area, though if it had been the case I imagine I would have been aware of that. That is the best I can give. That goes back almost three years now, so I think that covers quite a bit of the period since 2000.

Senator FAULKNER—I would appreciate it if you would check that, if it is not too difficult. Can you assist us at all, Ms Adams?

Ms Adams—I am also unaware of any DFAT or other involvement but I would also need to double-check. But not to my knowledge.

Senator FAULKNER—We are very lucky to have before us, Mr Moraitis, someone like you with such eminence in legal matters. I am afraid that I have no expertise in these matters; I am certainly not a lawyer. As I read the article of Professor Triggs, would it be fair to sum it up at least in part by saying that it specifically sets out a case for going to the International Court of Justice on this issue of whaling? I think that is fair, isn't it?

Mr Moraitis—My recollection of reading the article—it is a while since I read it, to be honest, and I am going on the basis of the intervention, which paraphrases elements of it—is that I think Professor Triggs's article basically provides a tour d'horizon of emerging law in

the area, focusing on pre-ICJ judgments that go back to early in the permanent court period. It refers to the UNCLOS convention, the law of the sea convention, which refers to the concept of abuse of rights. It quotes international scholars who refer to the concept and the emerging nature of it and I think draws a conclusion as an international legal scholar that perhaps in relation to Japan, in the context of the international whaling convention and the relevant article regarding scientific whaling and with due regard to the object and purposes of treaties and in this case the whaling convention, there could well be a possibility of abuse of rights. I cannot recall if there was any prescription at the end—

Senator FAULKNER—I do not think there is necessarily a prescription, but it does set out a case for going to the ICJ on this. I broadly accept what you have said to the committee about the Australian intervention that has been prepared by the legal adviser to our delegation to the IWC. You make the point—and I think it is a valid one—that you have to read the intervention that is made, which we have the benefit of doing because we have the transcript available to us. You have to read that, and you have to read it in conjunction with the article by Professor Triggs which has been brought to the attention of the IWC. That is right, isn't it? That is what you said. Here is Australia making an intervention and bringing to the attention of the IWC this work from a leading legal academic going to issues of concern to the IWC. You read both of these elements together, don't you?

Mr Moraitis—I would read it in the context of the intervention, which is drawing on comments by an academic and pointing out that various legal academics have raised possibilities of Japan having abused its sovereign rights under the convention.

Senator FAULKNER—But drawing to the attention of the IWC that this article exists and the broad thrust of it. It was more than that, wasn't it? As I heard you, you were trying to get this around to the delegates—shopping it around the delegates at the IWC. It is pretty proactive, isn't it? It is not just a question of canvassing general principles of international law. I am not critical of this, by the way. I do not want you to think for a moment that I am critical of this. This was a quite proactive action on the part of our delegate at the IWC and DFAT, who provided the legal adviser, to really push the boat out—to push the case hard.

Mr Moraitis—I think it was a case of a delegation taking appropriate measures in a diplomatic context to bring diplomatic pressure to bear on one delegation in particular to highlight emerging norms of international law in a way that would perhaps encourage reconsideration of longstanding positions. That is how I would look at it.

Senator FAULKNER—Given the strength of the intervention by Australia there, and the context and subject matter of the article, this seems to me to be a very clear indication and statement of support by Australia for a case against Japan being taken in the ICJ. How can anyone come to any other conclusions? This is a proactive effort by Australia in an intervention at the IWC promoting and drawing to the attention of delegates this particular article by an eminent Australian legal academic, and the thrust of it is the fact that action—and this is as far back as the year 2000—could be taken in the IJC on this matter of, in this case, minke whaling. That is right, isn't it?

Mr Moraitis—All I can do is go on my reading of the intervention. I was not there; I do not understand the dynamics at the time. Reading the intervention on its own, I cannot see that to be the logical conclusion. However—

Senator FAULKNER—But you agreed with me that you cannot read the intervention on its own. As you have said yourself, the intervention was to say to a group of delegates to the IWC, ‘Here is an article by an eminent Australian legal academic.’ It is drawing attention to it; it is promoting it; it is giving it substantial status. It is endorsing it.

Dr Raby—Can I comment as an interested bystander in this discussion. It falls far short of a statement of Australian government policy: to draw attention to an academic article to say that it is one of a number of possibilities is something quite different from being a representation of Australian government policy.

Senator FAULKNER—Do we know what Japan’s response was to this Australian intervention?

Mr Moraitis—My understanding is that Japan’s response was to not accept that argument, obviously.

Senator FAULKNER—Was it to not accept the argument or was it ‘We’ll see you in court’?

Mr Moraitis—It was something to that effect.

Senator FAULKNER—It was more, ‘We’ll see you in court,’ wasn’t it?

Mr Moraitis—I am not sure.

Senator FAULKNER—It is more than a nuance, isn’t it, given the thrust of this article about action before the ICJ?

Mr Moraitis—My understanding is that the thrust of the article is to focus on the international legal principle that is emerging as described by recent legal scholarship, focusing on the concept of abuse of rights. It is an emerging concept. To my recollection, there have been very few cases in international law where the abuse of concept principle has been taken to be the basis for action.

Senator FAULKNER—I am certainly assured by some who are experts in this area that Japan interpreted the intervention as a threat—is that right?

Mr Moraitis—I am not aware of whether they did or not see it as a threat.

Senator FAULKNER—As a threat of what Australia would do.

Mr Moraitis—I do not know, Senator. I can check if you like, but I am not in a position to know what Japan’s reaction was or how they interpreted it diplomatically.

Senator FAULKNER—You have given us some information about what Japan’s reaction was.

Mr Moraitis—Yes.

Senator FAULKNER—Would you just repeat what you said about what you understood Japan’s reaction to this to be?

Mr Moraitis—My understanding is that Japan was not prepared to accept these arguments, which is their longstanding position. They believe that scientific whaling under article VIII of the whaling convention is totally acceptable; it is legitimate under the convention. The abuse of rights as a concept goes to questioning that assertion. That was the nature of the thrust of this intervention—to bring into question the understanding of certain members of the convention that scientific whaling is an absolute, black-and-white proposition. I think the principles enunciated in the articles basically raise the question of whether that is in fact the case.

Senator FAULKNER—Did DFAT have any awareness that Professor Triggs was going to publish this article, before its publication?

Mr Moraitis—I am not aware of that; I would have to check.

Senator FAULKNER—Could you check that for me.

Mr Moraitis—Yes.

Senator FAULKNER—I thought that issue was covered off in the transcript somewhere, but I cannot find it. You have not heard of that?

Mr Moraitis—No, I have not. All I recall saying was that I was aware of her article, having read it in the journal of environmental law.

Senator FAULKNER—I will have to check.

Mr Moraitis—But this goes back to 2000 and before that.

Senator FAULKNER—I appreciate that.

Mr Moraitis—If you could indulge me and I could take that on notice, I could check.

Senator FAULKNER—I read in the transcript that Japan effectively invites Australia: ‘If you believe that particular course of action is suitable for you, please go ahead.’ That is right, isn’t it—that is accurate?

Mr Moraitis—I do not think the Australian intervention proposed any course of action. That is my reading of the intervention. As I said, I discussed it this morning with the person who delivered it and their understanding and recollection was that that was certainly not their intention or the thrust of that intervention.

Senator FAULKNER—But isn’t saying, ‘If you believe the particular cause of action is suitable for you, please go ahead,’ indicative that Japan did treat it as a threat? I am not used to all the niceties of diplomatic language.

Mr Moraitis—I take the point that the reception of the intervention was as you described.

Dr Raby—We cannot say what was in the minds of the Japanese delegates at the conference but, as you would know from participating in these sorts of public debates and discussions, that quote from the Japanese as you have read it sounds very much like the sort of thing you would expect in the normal ebb and flow of debate over these issues. The Japanese delegation would have known that a conference paper is not a source of Australian government policy and they would have known very well what Australian government policy was at the time, through normal channels.

Senator FAULKNER—I stress that I am not critical of this. These are important issues and they ought to be conducted in a serious and thorough way. But there is no doubt in my mind Australia made the intervention it did and drew the article to the attention of delegates for a very clear reason. It was correctly interpreted by Japan as a threat. It was a threat in my view that should have been made. You understand that I am not being at all critical in that sense. It seems to me a reasonable background to the questions I was asking yesterday about what, if any, legal advices had been sought and who they may have been sought from in relation to a possible case being taken to the ICJ. We do not have any further information on legal advices you might have sought in relation to the current issue, do we?

Mr Moraitis—As I have said, I have not had any discussions with—and Senator Evans asked about this—outside law firms and I certainly have not had any discussions with Professor Triggs on this issue.

Senator FAULKNER—I do not have anything further on whales.

Senator STOTT DESPOJA—I have a couple of questions about the United Nations. I promise I will not make any bad jokes about whales or beaches. I have noticed that the DFAT web site expresses support for UN reform generally and specifically welcomes the high-level panel's report. It says that we are going to consider carefully the recommendations that have come down through that panel. I am wondering if Australia has responded formally to that high-level panel.

Ms Millar—The panel report, as you know, came out in December and was one of two major inputs to the Secretary-General's report *In larger freedom*, which came out a few months ago and will be debated and acted on at the summit in September in New York. We made some initial comments and Mr Downer made some public comments about the high-level panel's report. Our delegation in New York conveyed our views, both during the process of that report being drafted and subsequently to the panel, to the Secretary-General and to other governments. We are now focusing on the second stage, which is the debate on the Secretary-General's report, in the lead-up to the summit. We are taking account of the concepts in the high-level panel.

Senator STOTT DESPOJA—In terms of any specific responses to the human rights commission or reform of the Security Council—any of those specific issues—do we have a position on those or do we have to wait for those few months?

Ms Millar—Ministers are clearly going to be looking at those issues very closely in the lead-up to the summit. It is fair to say that there are very clearly articulated, longstanding Australian government policy positions on a number of those issues. But the debates in New York are very fluid. The President of the General Assembly is preparing, with a number of facilitators, an outcomes document which will be a political declaration for the summit that will draw on the Secretary-General's report. We are feeding ideas into that process through our ambassador in New York, through Mr Downer's discussions with counterparts, the Secretary-General and so on. We are taking a very active interest in it. Ultimately, how the shape of that will come out is unclear. There may well be decisions the government will need to make on its positions nearer the time.

Senator STOTT DESPOJA—I am presuming that, as part of that report, if we are going to express support for a particular model, that would be the forum through which we would do it?

Ms Millar—Primarily. The government has made it very clear on many occasions—Mr Downer has stated our views on the expansion of the Security Council. There is no secret there. He has articulated in many speeches that we are in favour of expansion of the council's permanent membership to include Japan and appropriate representation of a number of other countries and regions of the world to reflect geopolitical realities of today rather than of 1945. There are a number of very clearly articulated Australian positions. We are feeding those into the debate. Ultimately, what proposal is put forward is still unclear.

Senator STOTT DESPOJA—Thank you. I have a couple of questions on the ICC.

Senator PAYNE—Can I ask one question. I understand that High Commissioner Louise Arbour was to provide a response to the Secretary-General on his response to the high-level panel. Has that happened publicly?

Ms Millar—There have been responses. The panel's report proposed that the Commission on Human Rights be universalised. The Secretary-General's report, which has overtaken the panel's report, proposed the reverse, which was to make it smaller and to change it to be a standing body of the United Nations. Those discussions are still taking place. My understanding is that Louise Arbour is more in favour of the proposal in the Secretary-General's report. We are looking at that very closely at the moment.

Senator STOTT DESPOJA—There is nothing specifically available on that in terms of the proposed human rights council? Australia has said nothing?

Ms Millar—We are asking a number of questions about it. The debate is still pretty fluid. I think it is fair to say that countries are fairly polarised on it. We had previously expressed some interest in the universalisation of the commission, so this is going in the other direction, and there are some quite good arguments in favour of that. One of the problems with the commission is that egregious human rights abusers get elected to it, basically, and it is unclear to us that that would necessarily not be the case with the human rights council. Those are the sorts of questions and issues we are raising in the debate at the moment. At this stage the government has not made a final decision on where it will come down, partly because it is not clear what the final shape of the recommendation will be in September.

Senator STOTT DESPOJA—In relation to the International Criminal Court, during the last session of estimates—I was not here for it; I think I was on maternity leave—I note that the Department of Foreign Affairs and Trade indicated that it had just received, three days earlier, the most recent correspondence from the United States in relation to proposed article 98(2), and the relevant officer had not had time to look at the letter in any detail. I am not sure if that was you, Mr Moraitis. Could you update us on the nature of that communication and perhaps provide a general update on where the negotiations are up to.

Mr Moraitis—The relevant officer was indeed me. Obviously there are other officers who are considering this but I just felt it was appropriate to look at where we are at. I can say that we are still considering the proposal. Because of the nature of the proposed agreement—and we have made this very clear on numerous occasions—any agreement with any country,

including the US in particular, on so-called 98(2) agreements would have to be consistent with our obligations under the International Criminal Court. It is quite a complex agreement. So obviously it is taking some time to consider some of those aspects of it.

All I can say is that it is an ongoing process of consultation and negotiation with the US administration. Because it is an ongoing diplomatic communication, I really could not get into the details of it. Just to re-emphasise the point I think I have consistently made when you and your colleagues have asked, in undertaking, finalising or indeed negotiating such an agreement, our obligations as a state party are paramount in our consideration of any proposals, counterproposals or counter-counterproposals. This is the obvious nature of diplomatic communication—that is, that it is ongoing. I must say it is still ongoing.

Senator STOTT DESPOJA—I gather it is ongoing.

Mr Moraitis—I think I made that clear.

Senator STOTT DESPOJA—How long is it going for? I understand, based on everything you have just said—

Mr Moraitis—It goes as long as it goes.

Senator STOTT DESPOJA—How long is a piece of string? I think it is three years since we received the initial request.

Mr Moraitis—Yes, that is correct.

Senator STOTT DESPOJA—I am just wondering if you would care to outline—I am going to keep pushing this if I can—some of the sticking points. Why three years down the track are we still in negotiations? Are there any particular issues that have arisen from our perspective that are problematic?

Mr Moraitis—I do not want to go to the details but I will just reiterate the general proposition that any state party to a convention, such as a convention like the ICC, will need to consider what its obligations are. If one enters into an arrangement which is parallel to that arrangement—that is, the ICC—one would wish to be absolutely consistent in one's obligations so, in a sense, one does not create two sets of obligations which are not necessarily totally parallel.

Senator STOTT DESPOJA—I am just wondering if the government has received any informal or formal expressions of concern from the states or from other, I guess, representative organisations. Have we received any concerns about us entering into an article?

Mr Moraitis—I am not sure if there has been any correspondence from NGOs or individuals but no states parties have made formal or informal expressions of concern. Obviously states parties to the ICC, including Australia, regularly consult on issues regarding the ICC and that cuts across a whole variety of issues. Obviously this is one of the issues that we would have occasional consultation with others states parties about. But I would not regard that as a form of expression of concern. On the contrary, it is just states parties who are committed to the ICC keeping each other informed of their intentions and their views on certain aspects of the convention and its implementation.

This is a quite a great development in international law and it is early years. There have been some positive developments on Darfur, for example, where, as you know, Australia supported referral to the Security Council. That was quite an unprecedented development—pleasantly surprising from an international lawyer’s perspective and the ICC parties’ perspective. So those are the sorts of considerations that inform our deliberations with other states parties. I think that is quite healthy because, obviously with such a nascent regime and organisation, the parties that are committed to it would like to ensure its success in both establishing its logistics base and developing its juridical and other reach. The fact that it is doing so in the case of Darfur through the Security Council, for example, is quite an interesting development in international law.

Senator STOTT DESPOJA—I do not doubt that that is a positive development. I am just wondering if there are any future developments that we can look forward to either being reported on here or being signed and sealed in relation to the 98(2) agreement. Is there a time line for finalisation of the agreement?

Mr Moraitis—No.

Senator STOTT DESPOJA—I did not think so.

Mr Moraitis—It is a priority to get this as soon as we can but obviously we need—

Senator STOTT DESPOJA—As soon as we can is not months. It is more likely years based on the fact that—

Mr Moraitis—It could be months; it could be years. I do not know. But obviously it is a priority for us to resolve this. As I have said, our objective is to ensure consistency with the ICC. You do not want to have two conflicting sets of obligations.

Senator STOTT DESPOJA—Thank you.

[9.54 am]

CHAIR—There being no further questions on 1.1.7, we move now to 1.1.8, Security, nuclear disarmament and non-proliferation.

Senator ROBERT RAY—We will ask a very general question about an update on the recent public events in North Korea in terms of underground testing. What information has come into the department on that issue and what action, if any, has the Australian government taken in response to those public reports?

Mr Stuart—Your question goes to the media reports about possible testing.

Senator ROBERT RAY—Possible underground testing, the Australian government’s reaction and what your overall appraisal is of this.

Mr Stuart—I cannot go much beyond what is in the media reports about testing. Obviously I cannot comment on sensitive source material. What I would say is that, were North Korea to test a nuclear device, that would clearly be a very serious development. It would escalate the crisis on the Korean peninsula and it would deepen North Korea’s isolation.

Senator ROBERT RAY—Have we made any recent representations to the government on North Korea on these issues? I know we have had an ongoing dialogue. It is sporadic, but it has been ongoing. When did we last raise these issues?

Mr Stuart—We have raised our longstanding concerns about their nuclear program with them frequently, bilaterally and in other ways. I would have to take on notice when we last took it up bilaterally. That would really fall to my colleague from the North Asia division to answer, but I can get you that information and get back to you. Multilaterally, we certainly took up these concerns firmly at the ASEAN regional forum senior official's meeting in Vientiane on 20 May in a statement in which we covered a number of issues. The issue we stressed most was our concern about their program and about a number of actions that North Korea had taken recently, including their 10 February declaration that they had nuclear weapons and that they were not intending to go back to the six-party talks at that stage. In the absence of firm information about testing, we have not made representations on that particular issue alone, to my knowledge.

Dr Raby—We also stay in very close contact with key allies who are involved in the six-party talks. That is the main vehicle through which pressure is maintained on the DPRK over this issue. We have very frequent discussions with the United States, Japan, China—which has a key role in this—and also with the Republic of Korea.

Senator ROBERT RAY—On the question of protection of nuclear material, we have all read the numerous reports detailing possible poor safeguarding of material following the breakdown of the Soviet Union. I have never seen any of those sorts of suggestions come to fruition anywhere. Are we any closer to getting a grasp on whether material did disappear, was on-sold and could later eventuate as a terrorist threat but more likely as a basis of a sovereign nation's nuclear weapons program?

Mr Stuart—Are you referring in particular to material in the former Soviet Union or more generally as a global proposition?

Senator ROBERT RAY—More specifically, I was asking about material that may have leached out of the Soviet Union following its breakdown and division into 15 nation states.

Mr Stuart—There are a couple of elements to that: what the international efforts are and whether we have been able to identify what might have got out of the control of governments in what was once the Soviet Union. On the second question, I cannot give you a detailed answer—I would have to take that on notice—other than to say it is a major concern. It is the subject of a very major bilateral program between the US and the Russian Federation which runs into billions and billions of dollars. It is also the subject of a G8 program which Australia last year supported by providing funds for a Japanese-Russian cooperative program to destroy nuclear-powered submarines in the north Pacific.

On the first question, there are a number of international steps that have been taken in the last few years, and my colleague Mr Leask, Deputy Director of ASNO, could probably elaborate on these. There is a convention on the protection of nuclear material; there is an attempt to amend that convention at the moment which Mr Leask could certainly elaborate on. There has been a stepped-up effort in the last few years to develop international regimes directed against the risk of leakage to non-state actors. As you are no doubt aware, last

November Australia hosted a regional ministerial level meeting which focused very much on this topic of protection of nuclear material and threats of nuclear terrorism; that was in November in Sydney. I do not have the information with me. I could provide you with the agreed outcome of that meeting, a statement which was tabled in the non-proliferation treaty review recently. If it would be useful, I could certainly provide you with a more detailed description of this set of initiatives. Many of them are actually described on the DFAT web site under the nuclear issue, but I also think Mr Leask may well be able to comment on some of these new treaties and conventions.

Mr Leask—I can certainly add some information in relation to the questions that you have asked to amplify Mr Stuart's information. The IAEA runs an illicit-trafficking database. It has been doing that now for some 10 years. It reports, to member states, information on nuclear material, radioactive material, which is reported as missing and may have gone missing. Certainly, in member states, there is an expectation that they will seek to clarify the veracity of the initial report. Based on that information, there is no evidence of any significant trafficking in materials which would contribute to a nuclear weapon or a nuclear weapon program. There has been some trafficking in radioactive materials which could contribute to a radiological dispersal device.

A key initiative which was undertaken in the last 10 years or so, perhaps a little bit longer ago than that, is the Nunn-Lugar initiative out of the United States in which the United States has invested enormous sums of money in securing nuclear materials at, quite specifically, Russian facilities, and they are nuclear materials primarily of concern for nuclear explosive devices. There are reports, which I think have been reasonably well documented, that security at Russian facilities is not equivalent to what you would find in a Western country. Nonetheless, there is no evidence that any nuclear material or weapons have gone adrift. However, as I say, the US has invested significant sums to strengthen the security arrangements there because, as we all know, over the last 10 years there has been an increasing concern that such material might fall into the wrong hands and be misappropriated.

CHAIR—Senator Stott Despoja, do you have any questions on 1.1.8?

Senator STOTT DESPOJA—Would the Habib issue come under 1.1.8, or would it be more appropriate to ask questions relating to him at another stage? I think the ambassador for counter-terrorism comes under this, does he not?

Dr Raby—The ambassador for counter-terrorism is here, so perhaps we could take them now.

Mr Luck—I deal with counter-terrorism, which is really international projection of Australian policies and capabilities—not the case of individuals who may be in detention; that is a consular matter.

Senator STOTT DESPOJA—Is 2.1 more appropriate? I am happy for us to move on, Chair.

Senator ROBERT RAY—Since Mr Luck has introduced himself, we might get him to describe exactly what he does so we are better informed.

Mr Luck—My focus is very much external, although a great deal of my work is actually done in conjunction with Australian agencies, which of course are the ones that deliver most of the capacity offshore that we need. Part of the role is advocacy of Australia's capability and intent. We work very hard to persuade neighbouring governments, and any governments—and strategic partners—afflicted with the problem of terrorism to work with us, to accept our capabilities, and to deal with the problem. In that way, we seek to advance very direct Australian security interests but, in so doing, also work in a very cooperative way with those countries to advance their security interests in connection with this global threat.

While it is generally a global threat and we can see manifestations of it in many countries, a lot of the work I do tends to have a neighbourhood focus, if you like, particularly in South-East Asia but also in the Pacific where, even if there is not the likelihood of attack, there is potential for exploitation by any kind of transnational crime but potentially terrorists. In that regard we work quite closely with New Zealand in helping Pacific countries.

A lot of the work I do involves developing and expanding the headroom for new forms of cooperation; and obviously there is a lot on record already about what exactly that sort of cooperation is in the area of law enforcement. It is multispectrum. It is everything from military—although that is a relatively small part of the spectrum—to law enforcement, which is a big part; intelligence; border security; transport security; financial intelligence; and so it goes. I spend quite a bit of time in direct dialogue with neighbouring governments to see what more we can do to really get on top of this threat.

Senator ROBERT RAY—I do not mean this at all as a flippant question, but in your relations with all these other countries, what is your working definition of 'terrorism' and does it actually accord with the countries with which you liaise?

Mr Luck—I must say that in my own work I have never found the absence of a precise definition of terrorism and the broader international debate about that to be an impediment. Indeed, I have not put a lot of effort into defining it, except to say that my work is built around what we have defined as a threat to Australia, and the government set that out very clearly in the white paper that was produced last year. In my discussions the focus is very much on the transnational threat which has the al-Qaeda brand but which takes sometimes more regional and localised forms. That is the threat that we perceive directed partly at Australia. It is often more directly focused on communities elsewhere, including Muslim communities who are going about their normal lives. I am not trying to dodge that issue here, but it is not something I have found to be a particular impediment in the business of finding very practical ways of working together as countries to understand the threat, understand how it confronts us and find out ways of dealing with it across the spectrum that I mentioned.

Senator ROBERT RAY—It occurs to me that it is almost one of those issues that you are dealing with that you can talk to other governments on, and this one matter can be divorced from all the other bilateral relationships. You could be having difficulties and problems in a whole range of other areas, but it seems to me that other countries and us can say, 'No, all that flows, but we must cooperate at this level.' It is a bit like Australia and the US on trade issues; we cooperate on security issues all the time. Are you finding that that is an evolving thing?

Mr Luck—In a sense I think that is right. Over the last few years everyone has grown in their knowledge and appreciation of just how insidious this threat is and the various ways it can cause not only appalling human and physical cost but also cost to economic confidence and reputations of governments and tourist spots. I do find that there is a fairly ready recognition that we are more or less on the same wavelength when we talk about this being a major security concern. What you then find is that there is high variability in the ability of governments to focus effort on the problem. That is partly because many governments have many other very challenging priorities but also because capabilities vary. Part of our response involves working hard to lift capabilities. I refer, for example, to the joint centre we have established with Indonesia. The Jakarta Centre for Law Enforcement Cooperation is a particular example of that where we have made a very determined effort both to build capabilities and to make available expertise which can be used for operational support.

Senator ROBERT RAY—There are obviously a lot of links going into the region at a police level, a military level, a diplomatic level—for all I know at a customs level and others. Are we keeping an eye on whether everyone is talking, from an Australian point of view, from the same script?

Mr Luck—Yes. That is part of my job.

Senator ROBERT RAY—I thought it might be.

Mr Luck—We have mechanisms here in Canberra to exchange views and ideas—particularly ideas—on what more can be done, and also on ways in which we do project a common view about what we are trying to do and how we are going to try and achieve it. Obviously, that is also a key role for our posts. When I visit South-East Asian countries and elsewhere, I always meet all the agencies present in those posts and I always speak with the head of mission to make sure that there is a good team effort. It is very important—in fact, it is vital. We have realised here in Australia that drawing together government capabilities is crucial in terms of our own national preparedness. It is one of the factors that counts a lot in that variability that I mentioned offshore, in the effort that is able to be brought to bear by neighbouring countries. The more we can show common purpose and make sure that we are not tripping over each other in our dealings with counterpart agencies, the more effective we will be and the better will be the example, in a sense.

Senator ROBERT RAY—Thank you.

CHAIR—If there are no further questions on 1.1.8, I thank Mr Stuart, Mr Luck and Mr Leask. We move now to output 1.2, which is Secure government communications and security of overseas missions. I welcome Mr Allan McKinnon to the table.

[10.15 am]

Senator FAULKNER—I think we held this one over from output 1.1.2. I want to ask about the confirmation, which is pretty recent, of the threat to our embassy in Cambodia. Dr Raby will correct me if I am wrong. I think there was a public confirmation of that on 23 May—is that right?

Mr McKinnon—I think that that date, give or take a day, is right. It was around that time.

Senator FAULKNER—Are you able to say whether that particular threat was time sensitive, if you like, or whether it is ongoing? Has the situation eased at all?

Mr McKinnon—We were aware of that threat from early in April. The threat was assessed at the time and it was determined that our security measures in Phnom Penh in our mission there were adequate. That one was not, to my knowledge, a date specific threat.

Senator FAULKNER—Are you able to say anything to the committee about the nature of the threat?

Mr McKinnon—Not in particular, except to say that our assessment of it was that it was not highly credible.

Senator FAULKNER—There was some public indication that it involved a suspected terrorist group, though.

Mr McKinnon—That is as much as I think I can say about the way we assessed it and the way we responded.

Senator FAULKNER—Wasn't there an indication publicly of the name of the suspected terrorist group?

Mr McKinnon—I think there were details in Thai newspapers broadly of the nature of the threat, and those details were subsequently picked up in other newspapers, including in Australia.

Senator FAULKNER—So those Australian press reports emanated from newspapers in Thailand, did they?

Mr McKinnon—My understanding is that they were sparked by reports in the Thai press that were subsequently picked up.

Senator FAULKNER—But the newspaper articles in Australia, or press coverage in Australia, did identify the name of a suspected terrorist group.

Mr McKinnon—That is my understanding, if you are referring to the article in the *Australian*, yes.

Senator FAULKNER—Are you able to say what that name is? It is in the newspaper. My recollection is that the name is Allah. That is what was reported, anyway.

Mr McKinnon—I can check what the actual name referred to in the *Australian* was and come back to you.

Dr Raby—With respect, though, if it is on the public record and in the newspaper, I do not think we can advance anything by following up on that. You have it; we have the same newspaper source. We are not in a position to confirm or deny the name. You have access to a public document.

Senator FAULKNER—One of the issues here is that what in some of these cases tends to get lost in dispatches is what is confirmed by DFAT and what is reported in the press. I am just trying to be clear about what DFAT has confirmed, and I do that by asking you to provide that information to the committee, if you can. Then I will try and make an assessment of where to take it. Let me indicate to you that it is true to say that there has been some press

coverage of this, including the name of an alleged or suspected terrorist group, however credible this is or not. I would prefer the department to say what they can—what has been confirmed publicly—and state that to this committee. That would help.

Mr McKinnon—I can confirm that a representative of the *Australian* newspaper contacted the Department of Foreign Affairs and Trade for comment on the Thai reports. We refused to comment and gave no information or no confirmation whatsoever. We said we did not discuss security issues—but that we were aware of the threat, took every threat seriously had assessed it, and that our security was at appropriate levels. That was as much detail as we gave.

Senator FAULKNER—In doing that, of course, that is a confirmation of the threat.

Mr McKinnon—Yes. The Thai newspapers had already confirmed it.

Senator FAULKNER—I am not being critical. I am just saying that effectively it is a confirmation by DFAT.

Mr McKinnon—Yes, it is.

Senator FAULKNER—Is the department at this stage able to provide any assessment of the strength of Jemaah Islamiah in Cambodia?

Mr McKinnon—I could not comment on that. Perhaps the Ambassador for Counter-Terrorism could comment on that.

Mr Luck—Detailed assessments of that would really be in the hands of our intelligence community, but I think I could say that we, along with the Cambodians, have been watchful of the possibility that extremist Muslim groups could be active there. I do not think we have seen much on the Jemaah Islamiah front, but we are aware that Hambali, a Jemaah Islamiah operative and a crucial link with al-Qaeda, did spend six months there—or a period of months there—before his arrest in Thailand a couple of years ago. And there has been interest from charities and people with money from the Middle East in provision of assistance to the relatively small Muslim community in Cambodia, which I think led the Cambodian government a couple of years ago to eject a couple of—I think Saudis, but I cannot be sure. Like everywhere in the region, it is something that we watch pretty carefully, but I am not sure that I can give you any more satisfaction on the Jemaah Islamiah point.

Senator FAULKNER—Has there been any suggestion at all of a link between the threat that the department confirmed in relation to the Australian Embassy in Cambodia and Jemaah Islamiah?

Mr Luck—That is something that is being looked at and assessed by ASIO, which is the competent organisation to make those assessments, which have to be done with great care and precision, often based on relatively limited information.

Senator FAULKNER—I am pleased, Mr McKinnon, that you have given assurances about the appropriate level of security at our mission in Phnom Penh. I think you said that in response to inquiries from an Australian journalist. Are you able to confirm that for the benefit of this committee?

Mr McKinnon—Yes. The assessments of all of the security missions is an ongoing matter and obviously threats like this are fed into that very directly. We did a global review of

security at all of our posts, which was completed at the end of last year. Obviously when we received this threat there was a further, more specific threat related assessment of the embassy's security. The answer is that the security at the embassy is assessed to be appropriate at this time.

Senator FAULKNER—I do not want to go into the details of this, but was the mission in Phnom Penh a beneficiary of any of the extra security funding that was announced in the last year or so?

Mr McKinnon—Yes.

Senator FAULKNER—Are you able to indicate—and I do not want to go into the elements of it—what dollar figure was involved in any upgrades or spending at the embassy?

Mr McKinnon—Can I take that on notice and see whether I can come back to you with the details?

Senator FAULKNER—Yes. Thanks for that.

Proceedings suspended from 10.27 am to 10.49 am

CHAIR—Order! This estimates hearing is now back in session. Do you have any matters that you wish to complete from before the break, Mr McKinnon?

Mr McKinnon—Yes. Just before the break, in response to a question from Senator Faulkner about money which had been spent at our mission in Phnom Penh I undertook to check and see what sort of a response I could provide. I am afraid it is not much of a response. I can tell you that money has been spent over the last couple of years in upgrading security and there are processes under way over the next two years to further upgrade security for our diplomatic personnel in Phnom Penh, but that even indicating what magnitude of money had been spent might indicate what sort of security measure had been taken, so that is as much as we would say.

CHAIR—Thank you, Mr McKinnon.

Senator FAULKNER—I ask Ms Williams and Ms Thorpe to assist me with finding the right place to ask those questions about the Israeli diplomat.

Ms Williams—It is output 1.4.

Senator FAULKNER—Are we at 1.4 yet?

Ms Thorpe—No, we are still on 1.3.

[10.51 am]

CHAIR—We will move on to output 1.4, Services to diplomatic and consular representatives in Australia.

Dr Raby—As I explained yesterday, that will be handled under 1.4.1, services to diplomatic and consular corps, so I invite Ms Hand to comment on this.

Senator FAULKNER—Thank you, Dr Raby. Ms Hand, are you able to indicate to the committee what the process was in relation to the Israeli diplomat by the name of Amir Laty? I hope I have given an accurate pronunciation there. This diplomat was prematurely returned

to Israel, as I understand. Are you able to provide any indication of what the process was that led to that?

Ms Hand—I understand you are talking about Mr Laty, who was the second secretary of the Israeli embassy. We were advised by the embassy on 5 January that he had ceased his duty and departed Australia on 28 December.

Senator FAULKNER—So did he return voluntarily to Israel?

Ms Hand—I cannot comment on the details of individual officers' arrivals and departures from their missions.

Senator ROBERT RAY—Was it ever suggested to him he might like to go back to Golan Heights or somewhere thereabouts?

Ms Hand—I really cannot comment on that.

Senator ROBERT RAY—Sounds a bit like Francis Urquhart to me. I ask this question: this particular individual made several public comments reflecting on his departure from Australia and reasons therein. Surely those comments reflect an attitude of the Israeli government, otherwise he would not have been allowed to make them. That is what struck me about this particular issue.

Senator Hill—I think that is an issue for the Israeli government to address. I do not think that we want to enter into that debate.

Senator ROBERT RAY—With respect, it reflects on the relations between the Israeli and Australian governments. That is why I raised the question. We have not had the circumstances of the departure described, but he has certainly commented on it from overseas—and I would have thought if the Israeli government allows him to it points to a degree of authorisation, the same as if an Australian diplomat did. If an Australian diplomat came home in questionable circumstances, I cannot imagine you or Mr Downer authorising or allowing them to make public comments about their departure.

Senator Hill—But you are assuming that it was authorised or in some way condoned by the Israeli government. I do not think we are in a position to assume that.

Senator ROBERT RAY—I think that, given the way governments and diplomatic departments behave, it is a reasonable assumption because it flies in the face of everything they normally do. Put it this way: have we sought an explanation from the Israeli government as to why one of their foreign officials is commenting on matters in Australia to do with that person's departure from Australia?

Senator Hill—Have we sought an explanation? I suspect we have not, because we would say it is a matter for the Israeli government to address, but have we? We might have; I do not know.

Dr Raby—I do not know, but it is a matter for the Israeli government, as you say. I do not think you can infer anything about the bilateral relationship from the behaviour of an individual in that way. The bilateral relationship is in very good shape.

Senator ROBERT RAY—I am not inferring that it is not in good shape; I just find it passing strange that an individual is allowed to make all these comments—and it was more

than once—without either discipline action or direction from his own government. Therefore I wonder if it is authorised.

Senator Hill—That is a reflection. You are thinking aloud as to what is happening on the Israeli side in this regard. That is a legitimate thing for you to do, but I do not think that there is a question that arises out of it that needs to be answered by Australian officials.

Senator ROBERT RAY—Other than me drawing the possible conclusion that, whilst relations are very good between the two countries, this may have been a blip in that relationship.

Senator Hill—We think that is a long bow to draw. It is certainly unusual in our terms and in terms of our diplomatic culture and, I would hope, the Public Service administration. We would regard it as a very strange piece of behaviour.

Senator ROBERT RAY—Getting back to Senator Faulkner's original question, I want to be quite clear here. The Australian government is not going to in any way comment on this individual's departure.

Dr Raby—That is correct.

Senator ROBERT RAY—Why is that?

Senator Hill—We believe, in the interests of the bilateral relationship, we should not do so. A public debate is something that could have a detrimental effect upon the bilateral relationship and on that basis it is inappropriate to make public comment here. I remind the committee that, in this instance, a confidential briefing was provided to the Leader of the Opposition, the opposition's foreign affairs spokesman and the opposition's defence spokesman.

Senator ROBERT RAY—I understand that.

Senator Hill—What I am saying is that there is nothing that we are seeking to hide from awareness. In a different forum, there may be different answers but in this public estimates committee today we believe that to canvass these matters is not in our national interest.

Senator ROBERT RAY—At the moment what we are canvassing is why we will not canvass them; I am not saying that we will proceed any further. But you say that we will not canvass them because it may do damage to the bilateral relationship between the two countries. I understand that. To some extent I think you are implying by that—and you can either answer this or not—that there is some security aspect to this. If there were confidential and binding discussions as you describe, as you know we do not probe on those issues in this committee and we never have.

Senator Hill—But we have also got to have a basis to decline to answer questions.

Senator ROBERT RAY—I respect that.

Senator Hill—That is an accepted basis that I think can be fairly applied in this circumstance.

Senator ROBERT RAY—I just think the whole issue would have resolved itself more quickly and more gracefully if I had not been reading in the *Jerusalem Post* a daily commentary from the person that left the country. That is all. It has left a lot of questions

unanswered and, if you like, some people on the Australian side disadvantaged because they cannot have their say and he has had his say.

Senator FAULKNER—Are you able to say whether the fact that this particular diplomat returned to Israel or the events leading up to it have had any impact on our bilateral relationship with Israel?

Dr Raby—I think I have said the bilateral relationship is in very good shape. I do not have day-to-day carriage of it but I am advised and I can detect that there has been no adverse impact on the bilateral relationship.

Senator FAULKNER—You are advised there has been no impact on the bilateral relationship.

Dr Raby—That is my understanding.

[11.02 am]

CHAIR—We will move to output 2.1, Consular and passport services.

Senator ROBERT RAY—We have already covered a couple of the cases, involving Kuwait and the Maldives, so we will not return to those.

Senator FAULKNER—Are you able to provide some broad background to the committee? If there is a standard of proof for a travel advisory or some threshold in relation to the integrity of information that needs to be met for it to be included in a travel advisory, could you explain to the committee what that standard of proof is for inclusion of information in a travel advisory?

Mr R Smith—I do not think I could say that there is a single burden of proof applying to that kind of information. The information that we draw on in the preparation of travel advisories is varied. Essentially, there are five sources of information. One is assessments that we receive from the post with responsibility for the country concerned. We receive their assessment of the security environment in the country and other issues that they judge need to be included in travel advisories for the benefit of Australian travellers. It is not limited to information about the security environment; it can relate to a whole range of other issues, including visa requirements, health and safety issues and a wide range of issues of that nature.

We look very closely at our own consular experience, the kinds of problems that Australians habitually face in that country. If you look at the way our consular services operate you can identify different trends in particular countries, and we try and address those in the advisories. Again, it is part of our effort to try and inform the Australian public about how they can best avoid risks.

We have a very close consular relationship with a number of countries. We work with them cooperatively to help us best assess the sorts of issues I refer to—the security environment and other factors—so that, while there may be some differences in our own individual national travel advisories, there is broad comparability there. We also will be guided by the formal threat assessments that are prepared by ASIO essentially on the specific threats, the politically motivated violence threats and terrorist threats in particular, in a particular country. On that issue, that is quite a formal process. We have certain protocols in place with ASIO

that guide the information and the way we use the information that they provide in threat assessments and the way that that is then reflected in travel advice.

Senator FAULKNER—I was struck by the travel advice for Thailand dated 29 April 2005. I will just read two sentences to you:

There have been a number of instances of sexual assault, food and drink spiking, assault and robbery against foreigners. This risk is particularly acute in popular backpacker destinations, especially around Khao San Road in Bangkok and the night-time entertainment zones of Bangkok and Pattaya, including the monthly Full Moon Parties at Koh Phangan.

I asked you that earlier question to get some understanding of what level of information or quality of evidence, if you like, is required so you can include in a travel advice for Thailand the concerns about sexual assault, say, in Khao San Road. What quality of evidence is required?

Mr R Smith—As I said, what we do is monitor very closely the trends, if you like, the kinds of problems that Australians—not just Australians but other Westerners—for example, might face in a particular country or in a particular part of a country. Where we judge that they reach a certain threshold, we will include advice in a travel advisory about those risks or those threats. The threshold is not something that is fixed. It is a qualitative rather than a quantitative judgment and it is one that draws on the collective assessments of our embassy, our consular staff in Canberra who are dealing with cases of this kind and also on the experience of our consular partners. We look, again, at not just what has been happening to Australians but what might have been happening to other foreign nationals.

Senator FAULKNER—Would this sort of evidence include, say, arrests or convictions? Is that the sort of thing we are talking about?

Mr R Smith—Not necessarily. Some assaults, for example, would certainly be investigated but would not necessarily have led to a conviction. So the presence or not of a conviction for a crime would not generally be part of the equation. Again, it is a question of looking at the trends and what we judge those trends to mean in terms of the risks that are faced by Australians.

In the case you mentioned of the sexual assaults in Thailand, I think quite a number of Australians have faced these kinds of problems—not just Australians but other foreign nationals, Westerners, broadly speaking, if you like. We are talking about scores of incidents that clearly meet the kind of threshold we are talking about.

Senator FAULKNER—You say ‘scores of incidents’.

Mr R Smith—Not necessarily applying to Australians but if we look at the experience of Australians as well as the experience of other foreign nationals—other Westerners, for example—I think it would certainly be in the scores over a period of years.

Senator FAULKNER—One issue, of course, that raised very serious concerns in the public mind was at least two separate incidents of child sexual assault in child-care centres in Bali. I am sure you would be aware of that. There have been formal approaches, as I understand it, within government for a change to the travel advisory for Bali as a result of those incidents—is that correct?

Mr R Smith—I am not sure what you mean by formal approaches within government. Certainly that suggestion has been made by a number of commentators.

Senator FAULKNER—I had thought that the justice minister had written directly to the Minister for Foreign Affairs on this matter.

Mr R Smith—The justice minister did ask that the issue be considered by Mr Downer. That is correct.

Senator FAULKNER—Doesn't that fit the definition of a formal request? If one minister writes to another minister, that is pretty formal, isn't it?

Mr R Smith—Yes, it is.

Senator FAULKNER—Can you inform the committee what the justice minister requested of Mr Downer?

Mr R Smith—I do not have the letter amongst my papers but my recollection is that he drew Mr Downer's attention to these incidents you refer to and asked that consideration be given to the inclusion in the travel advice for Indonesia, which covers Bali, of this problem or these incidents.

Senator FAULKNER—What has been the response to that?

Mr R Smith—There was a reply from Mr Downer to Senator Ellison. Again, I do not have the response amongst my papers but, broadly speaking, I think the response said that the judgment that was made was that, in the absence of conclusive evidence about these allegations, which were properly investigated, it would not be appropriate to make a specific reference of that kind in the travel advice for Indonesia.

Senator FAULKNER—But isn't it true that the justice minister said that there was, to use his words—and I quote directly—'compelling evidence' that these assaults had taken place?

Mr R Smith—As I said, I do not have the papers with me so I cannot recall the precise language Senator Ellison used.

Senator FAULKNER—I think you will find that that is an accurate reflection—a precise reflection—of what was said. Are you able to outline to the committee why Mr Downer was able to suggest that these investigations had been inconclusive?

Mr R Smith—Investigations were conducted by Indonesian police authorities into both these incidents. In both instances the investigations did not conclude that there had been any negligence on the part of the hotels involved, and neither investigation led to any convictions. That was part of the judgment that we made that, in the absence of conclusive evidence, this issue, as seriously as we took it, did not meet the threshold for inclusion in the travel advice for Indonesia.

The issue for us here was not just a question of whether or not we should include something in the travel advice. As I said, we took these allegations very seriously. We were very robust and rigorous in ensuring that the Indonesian authorities investigated both incidents properly. We made a number of representations to local government authorities. We worked closely with hotel management to ensure that they looked into the issue as well—looking, for example, at their management of the child-care centres in the hotels. We talked

with the Indonesian police and we talked with other foreign governments represented in Bali, with their consulates-general, to try to get a sense of whether or not this was a broader problem. That led us to understand that these incidents, although unproven, but ones which we nonetheless took very seriously, were isolated incidents. In other words, none of the other governments nor the Indonesian police were able to tell us of any other instances of child sexual abuse in child-care centres. That, again, was part of a judgment that we made that these incidents did not meet the threshold. This risk, if you like, did not meet the threshold for inclusion in the travel advice.

Senator ROBERT RAY—One of the problems we have is that there seems to be a distinction between a lack of evidence to convict a particular individual and whether there is enough evidence to suggest the incident occurred, which is precisely the point Senator Faulkner was making in terms of Thailand, where there were not necessarily convictions but nevertheless incidents occurred. The evidence I have heard today does not yet satisfy me that there was inconclusive evidence as to whether the incidents occurred; I accept that it is totally inconclusive evidence as to who the perpetrator might have been. That is why we are having difficulty coming to grips with what you have said so far. Would you like to respond to that.

Mr R Smith—I think I said earlier, Senator, that the presence or otherwise of a conviction in a case is not necessarily material to the judgment that we make. It is a question of looking at a number of factors. I also said that in the police investigations that were done into both Bali incidents, there was no negligence found on the part of the hotel. In other words, we could not be sure that the incidents were as a result of any failing on the part of the child-care centres. They could have happened anywhere, I guess is the conclusion you could draw from that.

Senator ROBERT RAY—Isn't that a bit like saying it is not the fault of the tour operators when you go across to the full moon festival? But the fault is still there; it is still something to be warned against, irrespective of who takes ultimate responsibility.

Mr R Smith—Again, I want to emphasise that we took these incidents very, very seriously; they are of great concern. The question is whether or not two incidents met the threshold for a specific warning to Australians, given the number of Australians who travel and given the number of children who attend these child-care centres. In our judgment that did not meet that threshold that I have described.

Senator FAULKNER—But you have not been able to say to the committee what the threshold is.

Mr R Smith—What I did say was that it is a qualitative judgment that takes account of a number of factors.

Senator ROBERT RAY—I hope that one of the factors was not the extreme Indonesian sensitivity at the moment to travel warnings. This is an issue I raised yesterday. I have not even said that the attitude of the general populace on this is well based, but it is there—as though somehow we are picking on Indonesia in terms of travel warnings. I was asked constantly, 'Why not have a travel warning for New York?' More people have been killed by terrorists there than in Indonesia. It is not necessarily a rational issue for them. But I hope that

it does not inhibit us in future from applying the normal criteria to travel warnings, irrespective of how the host nation thinks.

Mr R Smith—I can give you an absolute assurance that that is not an issue.

Senator ROBERT RAY—I appreciate that.

Mr R Smith—I might note also that we do in fact have a travel advice for the United States.

Dr Raby—If I could add something, Senator, I think our record speaks for itself on this. The government takes a very risk averse approach. We have had travel warnings in a number of places where it is on the public record that it has caused issues to be raised in a bilateral relationship. It is a very robust approach; you can rest assured on that.

Senator ROBERT RAY—Thank you.

Senator FAULKNER—Let us get back to the threshold issue. You say that it is a qualitative judgment and that this does not meet the threshold—that in the case of a specific warning in relation to Bali it does not meet the required threshold. That is correct, isn't it, Mr Smith?

Mr R Smith—That is correct. That is broadly the judgment we made about this risk, if you like.

Senator FAULKNER—You then say that the threshold is a qualitative judgment.

Mr R Smith—Yes.

Senator FAULKNER—Who makes the judgment?

Mr R Smith—It is made by the officers who are responsible for the preparation of travel advice, drawing on the range of factors—the range of inputs that I described earlier.

Senator FAULKNER—But you have used the words 'qualitative judgment'. Would it be fair for me to use the word 'subjective'?

Mr R Smith—It is a very careful assessment that is made by officers who are experienced in these matters—the travel advisories—when they are drafted. They are reviewed, at a minimum, every three months, but in many cases they are reviewed more often than that as new information comes to light. They are then considered at senior levels in the department, including by the head of mission of the responsible post, and they are then approved by the minister.

Senator FAULKNER—The qualitative judgment of Australia's justice minister—not to mention the families involved in this—was that a Bali specific warning should have been made. That is true, isn't it?

Mr R Smith—I cannot add to what I said before about the letter that Senator Ellison—

Senator FAULKNER—The issue here is that we have effectively two ministers in the government taking different views on matters—I accept your assessment and I accept the spirit the assessment is given in—that are very serious matters indeed. You have Senator Ellison, the justice minister, saying on the *Lateline* program on 12 April this year:

I certainly think there's compelling evidence that would indicate that child abuse had occurred in the first case, medical evidence which was quite shocking, and in the second case, compelling evidence that certainly the child in that case had been abused.

That is Australia's justice minister saying that there was compelling evidence. What did Mr Downer say? That it was inconclusive. They are your words too. You are picking up his words. The justice minister is saying that there is compelling evidence, and we have Mr Downer saying it is inconclusive. This is totally unacceptable. One minister in the government, the justice minister, is saying there is compelling evidence; the foreign minister is saying that it is inconclusive. Is it on this sort of basis that these subjective judgments—qualitative judgments, to use your words—are made in relation to travel advisories? That is not good enough.

Senator Hill—If you think there have been inconsistent comments by ministers, you can make that point, and you have just made it. But I think the point that the official is making is that the preparation of these travel warnings is a separate process and we have been at pains to politically remain at arm's length from the officials who make these judgments. It has been a strength of the process that we have publicised from time to time. As far as I know, it is a strength that we want to continue. You are critical that the official says it is a qualitative process, but in the end it seems to me that it has to be, because you find criminal behaviour in every jurisdiction. In all the circumstances you are not going to issue a travel warning in relation to every jurisdiction. Otherwise there would be a lot of travel warnings out against Australia.

Senator FAULKNER—Look, I am going to the processes of government here. It is true, isn't it, Mr Smith, that Senator Ellison wrote to Mr Downer on behalf of one of the families concerned in one of these cases in Bali who suffered these horrific circumstances. Senator Ellison, the justice minister, wrote to Mr Downer seeking a change in the travel advice for Bali. That is true, isn't it?

Mr R Smith—That is correct.

Senator FAULKNER—The justice minister having sought a change to the travel advice to Bali, Mr Downer has declined that request. That is true too, isn't it?

Mr R Smith—That is correct.

Senator Hill—Is Mr Brown—

Senator FAULKNER—That is correct, Senator Hill.

Senator Hill—Give someone else a chance.

Senator FAULKNER—You want to ask questions of the officials now, do you?

Senator Hill—No. I think that you are confusing the political judgment with the officials' judgment in terms of the preparation of a travel advisory.

Senator FAULKNER—I am confusing nothing.

Senator Hill—I think you are.

Senator FAULKNER—You are now realising there is a massive inconsistency with two ministers in your government, so immediately you jump in and start suggesting that

somebody or other is confused and you are starting to ask questions of the officials yourself. You always do it. You clear it up with the official and then we will go on.

Senator Hill—What I am doing is protecting the integrity of the travel advisory system, which we think does not need to be politicised in the way that you are seeking to do.

Senator ROBERT RAY—No, but it does need to be scrutinised. Don't push that old, tired line, Senator Hill. That is what we are here to do.

Senator Hill—Did I say it does not need to be scrutinised?

Senator ROBERT RAY—That is what you always imply when you make these offhanded comments. It is going to be scrutinised. At the end of the day the officials and the department may well be proved to be right, but it has to be tested and it has to be tested here—especially when another minister pushes it so hard and he is responsible for justice in this country.

Senator Hill—I have got no objection to that. I have got no objection to a question therefore being asked, 'If the official has reached a different conclusion, what is the basis for reaching that?' That strikes me as legitimate. What I am trying to do is to separate the statement of ministers from the advisory prepared by officials. That is what we do. The minister does not write travel advisories.

Senator ROBERT RAY—I think you mentioned some evaluation of the child-care facilities of hotels there. Has the department or our consular representatives gone along and raised these issues and asked for a tightening of procedures or surveillance or even surveillance of who they employ in these particular centres?

Mr R Smith—We have done a number of things. I said that we engaged the management of the two hotels in question very closely. They were obviously very concerned about this themselves. We satisfied ourselves that they were looking properly at the problem. We have gone further. We have worked very closely with an organisation called Child Wise to develop, if you like, some training programs directed at improving standards in hotel child-care centres. In Bali, we have worked with them to see what more can be done to bring those child-care centres up to Australian standards, if you like, to the extent that they are not. We are not in a position to judge that ourselves; our consul staff are not experts in these matters.

As I said, we have been working very closely with Child Wise to develop some of this training. The government announced in April of this year, for example, funding of about \$590,000 to Child Wise—this is through an AusAID program—to conduct training in 35 popular Asian tourist destinations over the next two years to educate locals about child sex tourism. There is a particular training program that Child Wise is running that I think takes place next month in July in Bali. It is funded by DFAT and will look at training for staff working in child-care centres. We have worked really quite actively to try and not just assess the extent to which there is a problem but to take practical steps to improve the issues that we and others in the community are concerned about.

Senator FAULKNER—Can the department point out where in the *Hints for Australian travellers* brochure there is a reference to the risk of child sexual assault in child-care facilities?

Mr R Smith—I did not bring a copy of that with me, but there is certainly a reference in the hints booklet and in another publication that we have called ‘Travelling with children’. There is a reference to the importance of parents satisfying themselves about the standards of child care in other countries, including in child-care centres. It provides, firstly, some advice about the things to look for and, secondly, some links to other sources of information on these issues.

Senator FAULKNER—Does it? I have read that and I could not find it. In the hints, I have read the part headed ‘Child sex crime’, and it does not mention child-care centres that I can see.

Mr R Smith—As I said, I did not bring a copy of either of those publications with me, but I will see if I can have one brought up to us quickly and see if I can identify the relevant reference.

Senator FAULKNER—You can check it. I have it in front of me and it is not in the copy I have. I assume it is the most recent one, but I cannot be absolutely certain.

Mr R Smith—I will certainly check that and get back to you, I hope before the end of today’s proceedings.

Senator ROBERT RAY—As we say, there may be different copies. If it transpires that it is not there, can you look at including that the next time it is published?

Mr R Smith—We do have references, as I said; I am certain of that. I might also make the point that we are in regular dialogue with Child Wise and with, I think, the national centre for the accreditation of child-care centres, or the government agency with responsibility for these matters. We are in regular dialogue with them and the language that we have inserted into these consular information publications is language that we have worked through with them as the most appropriate and practical information for travelling parents.

Senator FAULKNER—I cannot find it in either of the documents that you mention: *Hints for Australian travellers* or *Tips for travelling parents*. I do not think it is there.

Mr R Smith—I will have to get the latest published versions of those and—

Senator FAULKNER—Having looked at the date that I got this off the internet, which is 30 May 2005, unless there has been a pretty quick revision I don’t think it is there.

Mr R Smith—I will check that and get back to the committee as soon as I have something which I can—

Senator FAULKNER—To be fair to you, if there is nothing in *Hints for Australian travellers*—I don’t think there is—and there is nothing in *Tips for travelling parents*—I don’t think there is—there might be some other departmental publication which informs parents about the risk of child sex assault. If you could check that and provide that too, because there might be something else; I don’t pretend to have done an exhaustive search on this.

Mr R Smith—I will check on the question of publications, all of which are of course available on the SmartTraveller web site. There is other information there on a range of those issues, including a number of links to other relevant agencies that have more expertise in these matters than the consular service does.

Senator FAULKNER—You check that out for us. But that leaves us with two substantive conflicts between ministers in the Howard government. Firstly, the justice minister, Senator Ellison, says there is compelling evidence about these two cases of child sex abuse in Bali, and the foreign minister, Mr Downer, says it is inconclusive. That is the first major difference between ministers in the government. Then there is the second major difference, where Senator Ellison, the justice minister, writes to Mr Downer and seeks a change to the travel advice for Bali, and Mr Downer says no. I say that sort of conflict between ministers on this sort of serious issue is absolutely unacceptable and government as a whole ought to get it sorted out forthwith—not just in the interests of these two families who have been so badly affected by this but also for other Australian families who are travelling overseas. And it ought to be done quickly.

Senator PAYNE—Can I just clarify something with Mr Smith on this issue which Senator Faulkner and Senator Ray have been pursuing. I understood you to say, Mr Smith, that on the department's web site there is advice in relation to child care overseas—

Mr R Smith—That is correct.

Senator PAYNE—and that Senator Faulkner was saying he had not been able to locate that.

Senator FAULKNER—No, I have located that. What I have been questioning Mr Smith about is the advice. I have read two but I have indicated quite clearly that there might be more. I don't know that it is an exhaustive search but it is a recent search—as exhaustive as could be organised in the time available. But I asked specifically where this advice refers to the risk of child sexual assault in child-care facilities. This is the issue that Senator Ellison has been progressing with Mr Downer.

Senator PAYNE—I understand. Thank you.

CHAIR—Senator Ludwig, do you wish to continue on output 2.1.2?

Senator LUDWIG—I only have one follow-up question, really, from yesterday in relation to Ms Solon. I asked a question of DIMIA this estimates in relation to the movement of Ms Solon, which might have been under the name of Vivian Alvarez Young, I think, in terms of your records. You mentioned there were three passports. One had not been picked up, but there were two others. What I was trying to confirm was how many times prior to 2001 Ms Solon had entered and exited the country. DIMIA indicated there were 14 times in that period. I was wondering whether your records would show which passport was used on each occasion for both entry and exit.

Mr R Smith—We do not maintain those records. Only the department of immigration maintains those records.

Senator LUDWIG—So are you only the issuing authority?

Mr R Smith—That is correct; we issue the passport.

[11.40 am]

CHAIR—Senator Ray, do you wish to go back to 2.1.1 now?

Senator ROBERT RAY—We could very quickly and then we will go back to passports. Was DFAT made aware of the Customs report detailing security problems at Sydney airport prior to it appearing on the front page of the *Australian* this week? In other words, were you consulted about the report and given a copy of it prior to reading about it in the *Australian*?

Dr Raby—Our understanding is no. We have not done an exhaustive trawl around everyone who may have been approached or could possibly have had access to it, but certainly when we discussed it earlier this week when it appeared in the newspaper that seemed to be, to the best of our knowledge, the first we knew of it.

Senator FAULKNER—What sort of protocols are in place for reports like this that have an impact on international travel and international travellers? Do such reports as a matter of course end up on the desk of some officer in DFAT?

Dr Raby—No, not as a matter of course. There is no standing instruction or requirement. This seems to be an exception given the confidential nature of the work that went into it. Most reports tend to go through some interagency process. This does not appear to have been the case with this, but it is understandable given the content. It is usually through the interagency processes that agencies become aware of reports and are able to have their views reflected in them.

Senator FAULKNER—Are there any established interdepartmental committees or task forces that DFAT is involved with, with agencies such as Customs, that broadly deal with issues such as security problems at airports and the like?

Mr Nash—From time to time we have involvement with a number of agencies and we discuss a number of security related and other issues. I suppose the most common one in recent times was the adoption of biometric technology, but there have been on occasions discussions about a whole range of issues involving the movement of passengers through airport terminals and so on. These are not, however, carried out on any particular formal basis, nor is there an established schedule for such meetings. They are usually held when there appears to be a need to do so.

Senator FAULKNER—So there is no formal mechanism within government for agencies such as Customs and DFAT to get together on these important issues?

Dr Raby—The task forces or the interdepartmental committee processes tend to be specific to certain sets of issues. The people from our international security division are not here now; they have gone. We had not anticipated this would come up at this time. I think they participate in a number of such interdepartmental committees. Certainly regional transport security is one that comes to mind. I can only take this on notice at this stage and get back to you. But I think you will find that there are a number of committees dealing with specific aspects of this general issue on which DFAT is represented.

[11.44 am]

CHAIR—We will now go back to 2.1.2, Passport services.

Senator ROBERT RAY—I have a few factual questions to ask initially. Do we have a figure for how many Australian diplomatic passports are currently recorded as missing or stolen?

Mr Nash—We would have that figure. Unfortunately, I do not have it available but I can take that on notice.

Senator ROBERT RAY—You might say ditto to a few questions in that case because I was going to ask you the same question—that is, how many Australian official passports are currently recorded as missing or stolen.

Mr Nash—As you have anticipated, I will need to take that on notice.

Senator ROBERT RAY—Could you also take on notice the same question with regard to ordinary passports?

Mr Nash—I can take on notice the exact number but I can tell you that it is currently estimated that close to 200,000 passports have been at some point in their life recorded as lost or stolen. It works out to be that an average of about 30,000 per year are recorded as lost or stolen.

Senator ROBERT RAY—Do we know what percentage of passports have gone missing in the post? This again will have to be a ballpark figure. I understand that.

Mr Nash—The percentage of passports lost in the post is much lower than it has been previously. Prior to our having resumed the use of registered mail, it was about 2½ thousand of the average of about one million per year that we issue. In the previous year, the year ended 2004, the number lost in the mail from memory was about 500. This year so far, in the first nine months, around 120 have been lost in the mail.

Senator ROBERT RAY—That is the financial year.

Mr Nash—Yes.

Senator ROBERT RAY—So you would be pleased with going back to registered post, I take it. It has delivered a bit.

Mr Nash—We have been pleased with being able to achieve such a substantial reduction in the number of passports that are lost but of course we are never totally satisfied whilst we continue to have a situation where any go missing.

Senator ROBERT RAY—Let us say 120 go missing via registered post. What is your follow-up procedure then? You paid the extra money and you hope there will be a higher level of security. When you discount those that in fact lost them at home and put them out with the garbage or whatever, what is your follow-up? Is it with Australia Post?

Mr Nash—The very first thing that happens when we become aware of a passport missing in the mail, as opposed to it having been declared lost—and I make that distinction—is that we cancel it and we cancel it in the system so that it cannot be used to exit Australia or to re-enter Australia. We follow up with Australia Post. Australia Post conducts an exhaustive investigation. A lot of the passports that are lost in the mail do subsequently end up being recovered.

Senator ROBERT RAY—Do you get an explanation of the most likely reason that they were diverted somewhere else—why they had not turned up? After these exhaustive investigations by Australia Post, can you give us some examples as to why this would have occurred?

Mr Nash—That is really quite a difficult question but an example is that things were taken to addresses, people were not there to collect them, they were actually given to or signed for by other individuals and were not subsequently passed on. As strange as this may sound, some odd things happen. We are talking about very low percentages here, of course. Once passports are returned to the post offices they have to be redelivered. The more you handle these things, of course, the more they become susceptible to that sort of problem.

Senator ROBERT RAY—Do you have a watch list for missing passports?

Mr Nash—We most definitely do.

Senator ROBERT RAY—I see. Who maintains that? Your section?

Mr Nash—All passports that are declared lost in the mail or otherwise are flagged in our system. If they come to notice they will be impounded.

Senator ROBERT RAY—What is the missing rate of passports that are issued overseas compared to domestically in Australia?

Mr Nash—It is much higher overseas, but I suppose that is very obviously as a result of the fact that people are using these to travel. Of the 30,000-odd that I mentioned, on average, that go missing each year—reported lost or stolen—about 7,000 of those are lost overseas.

Senator ROBERT RAY—Are all locally engaged staff overseas vetted or supervised in the issuing of passports?

Mr Nash—Yes, they are very closely supervised and we are currently in the process of introducing an accreditation process which ensures that everybody who is involved in the process knows precisely what it is that they have to do and that they are held accountable for it.

Senator ROBERT RAY—Have there been any cases of fraud committed by locally engaged staff in regard to passports that have come to your attention?

Mr Nash—No. There is no record of any fraud having been committed overseas, certainly for a number of years.

Dr Raby—Senator, could I add that with the new M series passport, the number of processing centres has been substantially reduced. That is a major contributor as well to a much tighter control regime.

CHAIR—Do you have any serial offenders to whom you will not issue a passport, in the sense of having lost their passports continually?

Mr Nash—We have those few individuals that we refer to as serial losers.

Senator ROBERT RAY—Any senators amongst them?

Mr Nash—No, I am pleased to report—not that I am aware of, anyway.

Senator ROBERT RAY—I was referring to serial losers rather than—

CHAIR—I think we get your drift, Senator!

Mr Nash—Those people who are repeat offenders in terms of losing passports—and I am talking about those who have been determined by us to be careless rather than those who have

been the subject of a robbery or whatever—have always been the subject of notice and appropriate action on our behalf. From 1 July this year, the new Passports Act which comes into effect will introduce sanctions that we have not had before. Those sanctions include what amounts to a fine. It is called an additional passports fee but it amounts to a fine. The way that it works, simply, is that the more you lose, the more you pay. But you eventually get to a point very quickly where, if you have lost more than three—at least, this is what is proposed—in a five-year period, you will be looking at the possibility not only of paying quite a substantial fee but also of having issued a replacement with somewhat limited validity. In some cases—and we have sought and have this under the new act—there is the power to deny somebody a passport. If, under those circumstances, somebody is required to travel overseas urgently, such as to visit a sick relative or whatever, those persons could get a document of very limited validity if they had the sort of history that you are referring to, Senator.

CHAIR—Thank you.

Senator ROBERT RAY—How many instances, going back two or three years, of discovery have we made of people falsely using Australian passports—that is, caught at the barrier or come to our attention overseas by way of criminal arrest or other things? Give us a ballpark overview on that.

Mr Nash—Given that we issue a million passports a year, it is a relatively low figure. I will take that on notice because it is a complex question. When we talk about fraud, there are a number of things that constitute fraud. There are people using forged documents, for example; although we have not found a forged version of the new passport, they have appeared in the previous series. Then there are impostors—those who are using a genuine passport that belongs to somebody else. Then there are the data substitutions—genuine passports that have had the data altered and have been used or attempted to be used to re-enter or exit Australia or have been picked up in other countries. Then there are those people who have in their possession for inexplicable reasons Australian passports that do not belong to them. They have not actually done anything with them except that they have managed to get hold of them through one means or another. So when we talk about passport fraud, there are many, many categories. I would be more than happy to provide you with a breakdown, Senator.

Senator ROBERT RAY—What is the follow-up when it is discovered someone is impersonating someone else, as you said before, and using a valid passport? Is it immediately a police matter?

Mr Nash—No, we are heavily involved in the investigation of all of these matters. At some point in that process, we would liaise with the Australian Federal Police and they would take over and complete the investigation and take it to the point of prosecution, depending on the evidence that was available. I might add here, though, that probably the most important thing that we have done in the fight against impostors is the development of the use of biometric technology.

Senator ROBERT RAY—I am coming to that. I know how enthusiastic you will be to share information on that. I ask you to limit it to the absolute essentials when I am asking questions. We will move on to that.

Senator PAYNE—I want to hear as much detail as possible, so encourage Mr Nash.

Senator ROBERT RAY—We have plenty of time. Just give us a quick overview of how you are going with biometrics and where you are up to with it and then a few questions will flow from that.

Mr Nash—Certainly. The biometrics project is on track for the release of computer chip enabled passports in October of this year as a result of research and development that goes back to early 2001. A number of budget funding arrangements have not only enabled us to prove that the technology works but also enabled us to be involved in the broader introduction of this sort of technology on a worldwide basis. There are currently about 25 countries that are developing biometric programs. There is an international standard, the setting of which was aided to a great extent by us. At this stage, we are happy to report that the remaining issues have been identified and addressed. We have mass-produced biometric passports. We were one of the first countries to do that. We currently have 2,500 of those on issue to Qantas staff who are using them to re-enter Australia through the customs SmartGate.

Senator ROBERT RAY—Are there any exceptions to compatibility here? Are all those 25 countries going to biometric passports going to have the same readability, for instance?

Mr Nash—That is what the international standards are all about. The microchip technology is developed in accordance with an international standard. The equipment that is used to read the data from these biometric passports is all developed in accordance with an international standard. We have been heavily involved in the testing of biometric passports in a number of countries. The most recent one of those testing arrangements was conducted in Japan.

Senator ROBERT RAY—Is there a problem in differing depths of security? I understand the Europeans are probably looking at fingerprints, whereas Australia and the US are not. Do you perceive any problems there?

Mr Nash—No, there are not really any problems there. The standards have been written in such a way as to make it clear that the primary biometric identifier for those countries that adopt this technology is facial recognition. The secondary identifier, for those who wish to add that, is fingerprint technology, and the third one is iris technology. We in Australia chose from the very beginning to develop facial recognition as our principal biometric. There is not any work being done in Australia on the use of the other two. They were discarded fairly early on because of the impracticalities involved in trying to introduce that sort of technology.

Senator ROBERT RAY—What is the error factor of facial recognition?

Mr Nash—There is a lot of argument about that. It depends on which set of statistics that you use, but I understand from our colleagues in Customs that it is currently returning a match rate of about 98 per cent plus.

Senator ROBERT RAY—I have heard—I have not heard it validated since—that the two per cent error rate means you are not admitted; but that there is no two per cent error rate the other way, where you are admitted when it is wrong. Do you know what I mean?

Mr Nash—Exactly. It is the issue of what we call ‘false accepts’ as opposed to ‘false rejects’. When I talk about 98 per cent, we are talking about systems that are calibrated so that

that two per cent is made up of false rejects—in other words people who had not matched using the technology—not people who had been wrongly matched. I think it is important to make that distinction, for fairly obvious reasons.

Senator ROBERT RAY—I assume that, with iris recognition, even though it is far more accurate than facial recognition, it was a question of cost?

Mr Nash—It was a question of cost and infrastructure, as you can imagine with over 1,600 locations of Australia Post, where you can apply for a passport. Putting that technology into all of those locations would be an issue. That technology was not, and still is not, as developed as facial recognition, so there were some question marks over that. And there are some other concerns within the community in relation to health aspects. People simply do not like the idea of having a camera put into their eye.

Senator ROBERT RAY—What do you say about that, Minister, seeing that the Department of Defence is going to do exactly that?

Senator Hill—Putting a camera into your eye?

Senator ROBERT RAY—Yes. It is okay. It was rhetorical. Let's move on.

Senator Hill—It is part of the new world, isn't it?

Senator FAULKNER—Have there been any judicial trials for passport fraud? How often does this happen?

Mr Nash—Quite regularly, and it is reported quite widely in the press. I do not have the exact numbers with me, but I do believe that, under the new legislation which comes into effect on 1 July, we will see a substantial increase. A number of the passport fraud related issues that we deal with simply do not attract sufficient penalty in order for people to be attracted to the idea of those being prosecuted. That is currently.

Senator FAULKNER—What about the conviction rate?

Mr Nash—Generally speaking, the success rate is good, and that is because quite a deal of thought is probably given to those cases that are likely to succeed. A number of the cases that are dealt with are simply dealt with by other means.

Senator FAULKNER—Could you take on notice providing those figures? Also, I wonder how many passport decisions have been challenged in the AAT. Do you have any feel for those numbers?

Mr Nash—Do you mean by cancellations and refusals—those sorts of decisions, presumably?

Senator FAULKNER—Yes.

Mr Nash—Probably about a dozen per year, but I could confirm that for you, Senator.

Senator FAULKNER—What normally are the grounds for challenge before the AAT?

Mr Nash—Cancellation and refusal. Refusal goes hand-in-hand with cancellation, obviously. They are the only ones that I am aware of. Occasionally there are things referred to the AAT in relation to the issue of passports to children, particularly where one parent has not provided consent.

Senator FAULKNER—Would you know how many matters are currently before the AAT? You are saying it is about a dozen a year normally.

Mr Nash—I would not have the precise figure with me, but I could get it for you.

Senator FAULKNER—All right. Thanks very much.

Senator ROBERT RAY—Those people who have their passports cancelled on security grounds: is that an automatic action by your department at the request of another agency? Or do you have discretion there?

Mr Nash—Essentially the way it works is that we act as a post office. We get the assessment and we forward it to the minister with a recommendation based on that assessment.

Senator ROBERT RAY—The real reason for this question is: when an aggrieved person then takes it to the AAT, are you the department or agency that has to go and defend the decision, or is the agency that made the recommendation to you—acting as a post office, as you say—the one that has prime carriage?

Mr Nash—It is actually both, as I understand it, but for slightly different reasons. The complainant can appeal against the assessment, in which case that would be an appeal that would have to be dealt with by the other agency, and/or they can appeal against the decision to cancel or refuse, in which case that is dealt with by our agency.

Senator FAULKNER—How often would the minister himself be involved in a cancellation decision?

Mr Nash—Of the sort of which we are currently talking, he would be involved in all of them.

Senator FAULKNER—With the statistics you are going to get for me in relation to the AAT and those matters that have gone to court, could you also indicate what the success rate has been?

Mr Nash—Certainly.

Senator FAULKNER—Thanks.

Senator ROBERT RAY—Getting back to facial recognition, as I understand it, but correct me if I am wrong, the microchip and the information contained therein is essentially what would have been contained on a normal passport and no more?

Mr Nash—That is absolutely correct.

Senator ROBERT RAY—What protection is there for an individual that holds such a passport not to have that material read by way of scanning anywhere other than for a legitimate purpose of a port of entry or departure?

Mr Nash—As you are no doubt aware, Senator, this has become an issue of major concern to privacy advocates. To be quite honest, we have not been able to prove that you can actually skim data from microchips in passports, but we have assumed that eventually somebody will be able to do it. We are as concerned, of course, with the perception as we are with the reality. So what we are currently working towards is the introduction of a technology called basic

access control, which essentially inserts a code into the passport. A code equivalent to a PIN number, I suppose, would be the best way to describe it—a code which is then used to unlock the chip at the point of reading, so it would not be possible then to eavesdrop or skim the data from that document remotely.

Senator ROBERT RAY—To introduce a biometric passport in Australia I assume it is basically going to be a 10-year program, because it is only on first issue or reissue.

Mr Nash—That is correct.

Senator ROBERT RAY—Let's say you had a passport that was valid until 2009. Are you entitled to seek to bring forward a reissue of a passport so you have a biometric one?

Mr Nash—Anybody who wishes to purchase one would be entitled to do so, provided they pay the fee.

Senator ROBERT RAY—Yes. No free lunch—I understand that. I know it is not necessarily your direct responsibility, but do you anticipate—let's say you arrive at Heathrow or somewhere like that—over time there will be two queues, one for biometric passports and one for regular passports? That is why I ask the question. Some people may in fact want to pay the fee because they think they will get through more promptly.

Mr Nash—I think it is safe to assume that that is what will happen. As I mentioned before, Customs already have SmartGate technology in place at Sydney airport. It is currently only being used in a test environment but it has been there for some time and has undertaken, I understand, well in excess of 200,000 transactions. One of the benefits of this technology is that not only does it provide increased security; it provides increased efficiency of processing. It looks like it gets people through airports quicker and more efficiently. If that is proven to be the case in much larger numbers then I think it is reasonable to expect that this technology will be adopted by a number of countries.

Senator ROBERT RAY—That is absolute nonsense, if I can say so. There is no point in getting through the Customs gate quicker if your bags are not there—that is where the problem is. Anyway, we can all mill around in the hall in future and socialise a bit more. I agree it has that advantage.

Senator FAULKNER—You're famous for that, socialising in the airport!

Senator ROBERT RAY—Seriously, years ago Immigration looked at how quickly people went through the gate. One of the big objections is that you do not want to get them into the bag hall too early. You mentioned 25 countries have pretty much signed up; at what rate do you think that will expand then? Twenty-five countries worldwide mean that not all of the European Union will be involved, obviously, at this stage.

Mr Nash—We could expect within the next three years all of those 25 countries to come on line—beyond that, perhaps another 20 to 25 countries, and I am not convinced that we will ever see the development of this technology extend much beyond that. What it does do of course is enable border control officials to focus more on those that do not have that level of security in their passports. This processing that I talk about being more efficient takes away the people who are currently doing that manually and presumably allows them to focus more on higher risk categories.

Senator ROBERT RAY—Is there any intention at this stage—this is only indirectly to you, because I assume it is more an immigration department question—for those that do have biometric passports to have them read on an incoming basis at the last port of embarkation—in other words, when they have passed the boarding-pass point. If they were read there, the information would come back within half a second and be known in Australia, so up to a point you could get a profile of some of the travellers about to arrive. Is that allowable, is it encouraged, is it intended?

Mr Nash—As you suggested, that really is a question for the people in DIMIA, but there is quite a bit happening with regard to this idea of moving the border offshore, which I understand is the sort of concept that you are alluding to.

Senator ROBERT RAY—I am alluding to that and to an early alert as to whether character A or B is on the way so we can have the appropriate officials and welcoming party at the airport!

Mr Nash—We have got that already in part in the relationships that we have developed with New Zealand and the United States and that we are seeking to develop with other countries in terms of exchanging information about lost and stolen passports, for example. We want to know at the check-in counter if there is a lost or stolen passport, before people get on an aircraft and try and use it to travel to Australia. Absolutely.

Dr Raby—Wearing my hat as former Ambassador for APEC, APEC has a number of initiatives in this area which are potentially very exciting. They are run by our DIMIA colleagues and they involve advanced passenger information systems of the sort that you are describing. So as part of APEC's counter-terrorism security work this is a very active area, led by Australian efforts.

CHAIR—Mr Nash, you said that iris recognition was not the primary method by which we had proposed to proceed. Is there any country where iris recognition is the primary method that will be pursued?

Mr Nash—No. As I said before, the primary biometric identifier, as determined by the International Civil Aviation Organisation, is facial recognition. However, in addition to facial recognition, others have chosen to adopt fingerprints and/or iris recognition. I am not aware of any country that is actually putting irises onto a microchip, but there are a number that are currently developing iris programs. One that comes to mind has been around for a while. It is being used for frequent flyers at the airport in Amsterdam, but not in huge numbers.

CHAIR—Thank you, Mr Nash. Thank you, Dr Raby and the officers of the department. Did you have something you wished to say?

Dr Raby—With your indulgence, Mr Smith would like to come back and respond to some of the earlier points that were in contention with Senator Faulkner.

Mr R Smith—Thank you, Chair. Just to clear up this issue of what language we have in our consular publications on child care, I now have copies of three of our publications: *Hints for Australian travellers*, a brochure on *Tips for travelling parents* and a brochure on *Tips for women travellers*. All of these have a section on child care. I am happy to table the

documents, but for the record I am also happy to read out the relevant paragraph. It has a bold heading 'Child care' and it reads as follows:

Parents planning to place their children in childcare facilities or employ the services of baby-sitters or nannies overseas may wish to research the standards of childcare provided in their country of destination. Standards of childcare may vary considerably from those provided in Australia. Some of the factors which parents might wish to consider are: the qualifications of the staff caring for children; the ratios of staff to children; the hiring and screening procedures for staff; training of staff in first aid and emergency procedures; personal liability insurance and the accreditation standards of childcare providers.

For useful ideas on how to select reputable childcare providers please visit either the National Childcare Accreditation Council's website or Child Wise's website.

It also provides a telephone number for Child Wise.

Senator FAULKNER—If I could just stop you there, what is that document called?

Mr R Smith—I was reading from *Tips for travelling parents*, published in June 2004. Again, this is available on the web site.

Senator FAULKNER—I have seen that. So you can confirm that in that document there is no mention of child sex abuse in relation to child-care facilities?

Mr R Smith—There is no specific reference to child sexual abuse. There is guidance on how to investigate the standards of child care.

Senator FAULKNER—I know that. That was not the point I was making, though. I was talking about specific reference to child sex abuse. Thank you for reading that and tabling it, but it was in fact one of the documents I had been able to access myself on the web.

Mr R Smith—Again, I might just make the point that the language we included in this publication, *Hints for Australian travellers*, and in the brochure on *Tips for women travellers* was prepared in close consultation with Child Wise and the National Childcare Accreditation Council. So we took advice from the experts in providing this advice.

Senator FAULKNER—You have got two other documents that you were going to mention?

Mr R Smith—*Hints for Australian travellers* contains the same language I just read out. *Tips for women travellers* contains very similar language—slightly different.

Senator FAULKNER—So in none of those documents is there specifically identified the risk that we were talking about earlier. That was the point I was making, but thank you for confirming it.

CHAIR—Thank you, Senator Ray and Senator Faulkner, and Dr Raby, and your colleagues. Thank you, Minister. This section of the estimates is now closed and we look forward to seeing you again later in the year.

Proceedings suspended from 12.18 pm to 1.29 pm

AusAID

CHAIR—I welcome the Director-General of AusAID and AusAID officers. The committee has before it the particulars of proposed budget expenditure for the year ending 30

June 2006 and the portfolio budget statement for the Foreign Affairs and Trade portfolio. When written questions on notice are received, the chair will state for the record the name of the senator who has submitted the questions and the questions will be forwarded to the department for an answer. The committee has resolved that Thursday, 21 July 2005 is the return date for answers to questions taken on notice at these hearings. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the parliament. The minister will be here shortly. Mr Davis, do you wish to make an opening statement?

Mr Davis—No.

CHAIR—There being no opening statement, we will move to the portfolio overview. We will conclude hearing AusAID at 3 pm before we move to Austrade.

Senator HOGG—My first question goes to the announcement in the minister's statement in the budget about the aid white paper this year. What consultation will be put in place for the drafting of the aid white paper?

Mr Davis—The consultation process will be quite extensive. There is a core group of both people from within the agency and, importantly, experts from outside the agency who will be engaged in the review work associated with the preparation of the white paper. As well, there will be significant opportunity for consultation through seminars and other targeted opportunities for discussion. As part of the broader engagement, there is one particular area that we will be focusing on. That is called community engagement work. That is something that will provide lots of opportunities for people from around the country to engage in the process.

Senator HOGG—There are two things arising from that. Firstly, you said there were going to be two groups guiding it—one from within and the other from outside. Have they been determined at this stage?

Mr Davis—Yes, they have.

Senator HOGG—Is it possible to know who will be the people operating from within and who will be those operating from without?

Mr Davis—Sure. We can give you a full list. There is a core group of people who are engaged in the preparatory work. They include Professor Ron Duncan, from the University of the South Pacific; Dr Meryl Williams, who until recently was the director of the World Fish Centre; and Dr Stephen Howse, who is about to join AusAID as its chief economist. That is the core group. Then there are a large number of other people engaged as well. We can give you a full list of them.

Senator HOGG—That would be helpful. When will the community engagement commence? What sort of time frame is it?

Mr Davis—We are working through to having the discussion paper, prior to the formal preparation of the white paper, completed by the end of this year. A lot of the currently planned seminars are for the period around July and August this year. I should add as well that another key group that will be engaged in the process will be the minister's aid advisory

council, which has broad representation from government, community organisations, business and academic institutions.

Senator HOGG—It will be well advertised?

Mr Davis—Yes.

Senator HOGG—Where will the seminars be held?

Mr Davis—The actual locations have not been determined.

Senator HOGG—Where are they likely to be held? Will it be the major centres throughout Australia?

Mr Davis—The major capital cities.

Senator HOGG—In terms of the review, I note in the minister's statement that it says it will examine the future directions of Australia's engagement in our key development partnerships—namely, Papua New Guinea, the Pacific, Indonesia and Asia. Will it go beyond that as well?

Mr Davis—The white paper in the end will also include, for example, an examination of the best means for our engagement in Africa. Yes, it will go beyond that as well.

Senator HOGG—In terms of the clients of AusAID, what client base will you tap into?

Mr Davis—Within the Australian community. That will include academic institutions, the private sector—part of which of course is the contracting industry that we are engaged in—and community based organisations, those that are associated with overseas aid activity and more broadly. It will also importantly engage with other government departments and agencies that have an active interest in development issues in the region.

Senator HOGG—What about NGOs?

Mr Davis—Yes, certainly the community based organisations will be strongly involved.

Senator HOGG—Is this costing anything additional to the budget of AusAID?

Mr Davis—The people engaged to be providing expert advice will be paid for their services, certainly.

Senator HOGG—I accept that. I presume there will be a substantial amount of money involved in the overall cost of the coordination, the putting together of the seminars, the consultation process and so on.

Mr Davis—There will be costs associated with that, yes.

Senator HOGG—Do you have any idea of the cost?

Mr Versegi—We are roughly calculating an upper level of around \$1 million.

Senator HOGG—How many personnel from within AusAID will be involved?

Mr Versegi—On the actual core group there is one who will be our incoming principal economist, Mr Stephen Howse, and then we have six individual analyses—four are geographic, two are thematic, one is on HIV-AIDS and another is one on the Australian engagement. We have an internal person as part of a two-person team on each of those

analyses. In total there is seven within that the main body, but of course all parts of the agency are going to be engaged one way or the other at various stages of the white paper process.

Senator HOGG—Does that make seven?

Mr Versegi—Seven in the core group.

Senator HOGG—I do not want to get down to the minute figures here. Will those seven basically be taken away from their normal activity for the duration of the development of the white paper?

Mr Versegi—They will not be full time. For instance, the individual analyses will need to be finished by the middle of August according to our current timetable. There will be a period of intense work for those people when they will be taken off line, but then they will return to their normal duties after that and then come in and out of the process.

Mr Davis—If I could just add to that. Beyond that a lot of the work they are doing, which is looking at the long-term strategic directions for our engagements around the region, is pretty well core business in any event. It is not as if the sort of work that, say, a chief economist is doing is not very similar to that work.

Senator HOGG—I understand. It is relevant to the work and there will be a benefit to the organisation. That is accepted. In terms of the additional \$1 million expenditure, is AusAID going to be supplemented for that or do you have to find that out of the existing budget?

Mr Davis—That is from within our overall budget.

Senator HOGG—Moving to the OECD Development Assistance Committee DAC peer review, there are a number of comments in the review which I seek the view of AusAID on. Firstly, on page 12 of the review, under the heading ‘Need for a strengthened poverty focus’, it says—and this is in respect of our aid program—it needs:

... more clarity about how principles and values guiding the Australian aid programme contribute to poverty reduction. Australian programming should give greater prominence to poverty reduction to ensure consistency with AusAID’s policy objectives.

Can AusAID comment about that? Is that a fair way to characterise our aid contribution?

Mr Davis—We would certainly put to the committee that that poverty focus was already very strongly there and we have a quite detailed poverty alleviation framework which underpins all of our key country and regional strategies.

Senator HOGG—Their comment, as I read to you, calls for more clarity about how principles and values guiding our program contribute to poverty reduction. Was that taken on board at all and, if so, was there any attempt to give more clarity to those principles?

Mr Davis—It certainly is taken on board in the context of the preparation of our future country and regional strategies.

Senator HOGG—How is that translated in the day-to-day runnings of AusAID?

Mr Davis—It is not so much in the day-to-day runnings; it is much more to do with the approach, as we articulate forward strategies for country and regional programs, that that will be clearly articulated.

Senator HOGG—Again, at page 12, they seem to focus very much from what I could see on the issue of poverty reduction and they contrast this with governance. On page 12, it says:

Australia should highlight the relationship between poverty reduction, and governance, security, and the whole-of-government approach in its future policy statements, aid programming and country operations. Poverty reduction efforts and cross-cutting priorities should also be closely monitored ...

Again, what is your response to that? Do you have a response?

Mr Davis—I think in part it is language. We certainly will be, as we are doing work on the white paper, for example, articulating quite clearly the range of linkages that are essential for effective development. Those linkages do cut across the range of issues that you have just mentioned. As for the issue on poverty focus, it is a case of how that is articulated in the future strategy development work and the future work at the broader policy level like on the white paper, and we will be taking account of that.

Senator HOGG—Again, they say at page 13:

... poverty reduction focus should be followed through more consistently in implementation, monitoring and evaluation.

I have given you those three quotes. If you would you like to respond to the last one as well that would be interesting.

Mr Tapp—Perhaps a way of being able to answer this question is looking quite specifically at a couple of examples. If one takes, for example, the work we are doing in the Solomon Islands, we have made it very clear, quite explicitly in the context of the work under the auspices of RAMSI and also the wider aid program, that there is a very clear linkage between poverty reduction and the issues of good governance and security. The whole problem in the Solomon Islands was created by a breakdown in security. It is impossible for there to be growth and development for the broader population within a country when there is a complete breakdown of law and order and security. Hence we have very specifically looked to focus our attention upon the issue of law and order in the Solomon Islands and work that we are doing on the rebuilding of the organs of government within that country. Without that—there is plenty of international evidence to support this—it is impossible to be able to see reductions in poverty. Any work one is doing in basic health care and education may lead to arresting the rate of decline but, if those very basic functions of good governance and also in terms of law and order and the basic security environment are not there, essentially it is very difficult to see an improvement in poverty levels.

Similarly within the context of Papua New Guinea, again the issue of law and order, of security and in governance are absolutely critical prerequisites to be able to be making headway in relation to reduction in poverty. Bear in mind that a number of those countries have population growth rates which are very high. Per capita growth has been falling even if nominal growth has been rising. Therefore we have made very explicit in our work the linkage between the importance of governance and security and poverty reduction.

Senator HOGG—I was putting those statements in the context that they came out of that DAC peer review. Can I put also to you that it has been given to me that, in terms of our expenditure on aid, expenditure on projects related to governance, including law and order, will increase to 36 per cent of ADA compared to 33 per cent in 2004-05. On the other hand,

expenditure on infrastructure will decline from I think it is nine per cent to seven cent and rural development projects from 12 to nine per cent over the same period of time, whilst health and education will remain static in terms of the percentage of ADA. Is the statement therefore from the DAC peer review a warning bell that we may be focusing too much on the issue of governance? I am the first to concede, having been to PNG and to the Solomons before the interdiction from Australian forces, of the problems that were there. I am the first to concede that, but are we running the risk of the focus going away from those basic areas that I have just outlined by the shifts that are taking place?

Mr Davis—Not at all, and particularly if you look at the proportions for health and education having remained constant. That actually means there have been more dollars in those areas, because the overall size of the program has grown. As Mr Tapp was mentioning, in a number of our key interventions, not least in the Solomon Islands, getting an early focus on some of the basic elements of governance, not least law and order, is a prerequisite for being able to engage in further fields.

Mr Tapp—I might pick up very specifically the question that you flagged in relation to infrastructure. Investment in infrastructure is absolutely critical in ensuring growth. As a bilateral donor it is often not particularly appropriate for us to be using bilateral funds for direct investment in infrastructure except in very targeted cases. PNG and Indonesia are a couple of examples of that. What we have been doing is working very assiduously in the context of our engagement with the development banks to ensure that they have been increasing their allocations to expenditure on infrastructure within our region. We have had quite considerable success in that through both the Asian Development Bank through the ADF replenishment process, which is a concessional arm of the Asian Development Bank, and also through the IDA process, which is a concessional arm of the World Bank. Both institutions have made some very clear policy statements recently in terms of the increased focus on and importance of infrastructure. While you may be interpreting in terms of reduction of our own direct expenditure on infrastructure, in fact our focus on infrastructure has been very strong in terms of looking to where in many cases others who have a better comparative advantage on the broader scale are able to increase their investments.

Senator HOGG—I accept that. It is very helpful to know that, because on the surface it looks as if the reduction is not being met through other channels, but your explanation clears that up fairly well. What about the rural development projects? The figures I cited seem to have gone from 12 per cent in 2004-05 down to nine per cent in 2005-06.

Mr Tapp—In that classification of governance there is a fairly significant amount of work and attention in relation to the governance arrangements within various sectors. One of the things that we have been working on quite strongly in terms of the rural development side has been looking at ways that we can improve the enabling environment to ensure that people may be able to have better access to markets, better trading arrangements and what have you. So within the framework of those governance numbers that you see there has been some increased attention that we have been placing in that area. Indeed we recently recruited as one of our new principal advisers Dr Geoffrey Fox, who came to us from a senior position in the World Bank. He has been working very closely with the various program areas in looking initially at some of that work on the enabling environment, at the way that we may be able to

leverage others such as the banks to increase their investments in the area of rural development and also at ways that we can stimulate growth ourselves. So there is quite a lot of work in progress on that one. Again we would be very concerned lest there was an interpretation to be read into it that rural development was clearly not important—it is exceptionally important. But I think that, as I say, some of the classification of that will also fall within the governance numbers as well.

Senator HOGG—With respect, I do not think I was inferring there was a concern in that sense. I think the concern was in respect of the DAC peer review and also the fact that this just seemed to be the way things were going. I was looking for some comment to get a feel as to where you people felt things might be progressing. That indeed is helpful. One of the other things that came out of the DAC peer review was that at page 14 it said:

In the context of the 2002 Monterrey Conference, Australia was one of the few DAC countries that did not make a specific commitment to maintain or increase ODA.

What is the current situation?

Mr Davis—The current situation is that the government looks at the overall level of expenditure for ODA on an annual budgetary basis.

Senator HOGG—So there is no prospect that we will be making a specific commitment to maintain or increase ODA?

Mr Davis—That is really not something for me to say. That is really for the government.

Senator HOGG—I accept that. But since that conference where other countries did commit, we have not made a specific commitment to maintain or increase ODA? That is a different question.

Mr Davis—We have looked at the level of ODA on an annual budget basis.

Mr Tapp—And in the most recent budget the level of ODA has increased quite considerably.

Senator HOGG—Moving on in this area, I notice the minister's statement again at page 7 under 'Supporting the millennium development goals'. I will just quote the appropriate paragraph. In the middle of the page it says:

In the Asia-Pacific region, significant progress has been made against key poverty indicators. The success of some countries such as Vietnam, a low-income country that reduced poverty by 37 per cent in 12 years, illustrates what can be achieved. However, progress has not been uniform. Serious challenges remain for some goals, for example, health and education in Melanesia.

With regard to the minister's statement—their priorities—are we putting sufficient resources into those through the budget process to address the health and education issues that exist in Melanesia? Obviously there are some success stories and in the minister's own statement he draws attention to that area. Could you just elaborate on that?

Mr Davis—We can give you the figures for engagement in the health and education sectors in Melanesian countries—principally Papua New Guinea, Solomon Islands and Vanuatu. In each case you would find that a very significant proportion of the program is in those very fields. They are significant areas of focus in each of the major Melanesian countries in which we are engaged. We could give you the figures if that would be helpful.

Senator HOGG—If you can. If you have them in a reasonably transportable form today in which you can give them to the secretariat that would be interesting. Coming back to the funding of the aid program in the sectors of education, health and infrastructure, as I mentioned, there was an indication that there had been a fall in the figures last year—and you said this may come about because of a redirection in other areas. But, over the last five or six years, has there been a fall in terms of the percentage spent in the budget on those areas over a period of time? Has it been static or has it increased? Are you able to give me any indication there?

Mr Tapp—In health, education and infrastructure?

Senator HOGG—Health, education and infrastructure.

Mr Tapp—We will take that on notice and provide that information for you.

Senator HOGG—An interesting comparison also might be to see how the change has happened for governance in that period. It is not that I doubt what you said before, but it might be a useful exercise.

Mr Tapp—Yes.

Senator HOGG—At page 9 of the minister's statement, diagram 3 gives a sectoral breakdown of Australian ODA for 2005-06. It comes again to the question of rural development. That is shown as nine per cent, infrastructure is seven per cent and governance is 36 per cent. I hear what you are doing in the other areas, but how does this impact on many of the countries that we give our aid to where they have great dependence on the rural sector for their existence and development? Does that imply that we are not giving enough—that our focus is in too heavily in one area and not in the other?

Mr Tapp—Again, I might use Papua New Guinea by way of an example. As you are very well aware, by far the bulk of the population of Papua New Guinea live in rural areas, often quite remote. Some of the principal problems they are facing include issues of basic service delivery in health and education and also their ability to obtain access to markets and participate within the economy. So the principal causes for the problems they are facing tend to come down to a breakdown in the effective functioning of government and the provision of those government services. Again, if one is looking within that broad framework of governance, there is a significant investment on our part in looking to try and improve the functioning and machinery of government whereby the resources of the Papua New Guinea government are able to be allocated to those who should be benefiting from that most—that is, the bulk of their population in rural areas. We have therefore been working very closely with the Papua New Guinea government in terms of their budgeting and expenditure processes and expenditure controls, the relationship between their central ministries in Waigani and those out at the provincial level, and the functioning of the provincial government to ensure that services are achieved and received by the population.

If we take the infrastructure sector, for example, in Papua New Guinea we have been very successful in using our assistance to leverage additional funding from the Papua New Guinea budget for road maintenance, secondary road maintenance, and reorganising and restructuring of the department of public works and some of their tendering processes, which has meant that significant additional resources from the government of Papua New Guinea are now

going into supporting infrastructure for the rural population. Those resources which are being allocated are also being spent much more efficiently—that is, there is much less wastage within the system.

So a key objective for what we are trying to do is to help the Papua New Guinea government and many other governments within our region to improve the effectiveness and efficiency of the allocation of their resources. So while one looks at the aid budget, in a sense one should also be looking at how the aid budget is able to start leveraging the broader development budget of those countries. That is a very important objective that we would have, and it is absolutely and totally predicated on the fact that the objective we have in terms of our poverty alleviation framework is to see improvement in the delivery of services and access to markets for the broader rural population in the countries where we are working.

Mr Proctor—Just to raise something germane to your question and moving from the Melanesian Pacific side, I make the point that on the East Asian side rural development is very important as well. There is a continuing major focus, for instance, in the Vietnam and Cambodia programs. The point I would like to make is that the change in opportunities in East Asia is quite rapid. You are seeing real growth and, as was pointed out with Vietnam before, a substantial reduction in poverty in a lot of these countries through opening up trading and having direct foreign investment.

So the balance of investment for some of those countries in terms of what will effect the greatest reduction in poverty is changing. As I said, we are still heavily involved in rural development in many of them but in China, for instance, there are 200 million very profoundly poor people and we are probably seeing something like 10 million a year moving out of rural activities into urban based manufacturing or otherwise. So I just want to make the point that what we therefore invest in and what we are asked to invest in by individual countries can change over time. That said, there are reasons to maintain a strong focus on rural development as poverty reduction in itself but also to assist in the reduction of damaging internal migration to, say, urbanisation because of rural poverty. Finally, we need to accept that, beyond China itself, a lot of other countries now look to the opportunities that China is providing in terms of its trade growth by providing resources to or direct investment in their country. So it is quite a complex picture.

Senator HOGG—I do not doubt that at all. I pick up the point you made about leveraging. I do not reject that argument at all. I think it is a very valid argument, but the problem is that it is not reflected, as I read the documents here. That may be a weakness in the way in which the issue is presented. It is a valid point and, if you say that it is happening, I think it would be helpful if we could be given some direction in the future as to where the leveraging is taking place and how that leveraging is affecting the budget that is brought down by this government.

Mr Tapp—I note that point, and it is something that is certainly well in the development of the white paper process. Through our consultations on the white paper process as well, we will be having further conversations about it and what have you. While some of that is touched on in some of the minister's statements and things like that, we recognise that may not have been properly translated across into this document.

Senator HOGG—Thank you very much. With regard to the millennium development goals, have they been adopted by the department? What action is taking place on them? They did warrant a comment in the minister's thirteenth annual statement to parliament. I am curious as to where you are at.

Mr Davis—The goals have been accepted by the broader international development community since 2000 and they have been reflected in the minister's parliamentary statements and in the budget papers since that time.

Senator HOGG—In his statement of 10 March, he said:

Like many other donors, Australia is preparing a report on our contribution to goal 8, "Develop global partnerships for development".

Mr Davis—That is correct.

Senator HOGG—What stage is the report at? When will it be prepared? When will it see the light of day and so on?

Mr Davis—The report is in the final stages of preparation at the moment. It will focus on goal eight, as noted in that statement, because that is the goal dealing with partnerships that each of the developed-country participants have been asked to prepare. It will follow a fairly similar style to a number of similar documents produced by other donors. It is, as I said, in the final stages of preparation. When do we expect it to be available?

Mr Versegi—Probably by the end of this month.

Senator HOGG—It raises the issue of the other seven goals. I understand that that is the eighth goal. What is happening in respect of the other seven? Are they being addressed in a similar manner?

Mr Versegi—Goal eight is a specific goal which has certain actions and requirements for trade and stuff.

Senator HOGG—Yes, I accept that.

Mr Versegi—With regard to goals one to seven, what we were going to do with that MDG8 report is more explicitly explain how what we as Australia are doing is contributing to achieving those outcomes. Part of the challenge of that is to recognise the centrality, for instance, of broad based economic growth and stability and how that links in with our investments more directly in sectors such as health and education to achieve the outcomes. What will be in the MDG8 report will be coverage of how the various bits and pieces work together: what we are doing in terms of governance, rural development—

Senator HOGG—So you will not necessarily be addressing the individual elements of the other seven goals.

Mr Versegi—It will have a specific approach and some examples of how some of the things that we are doing are addressing the goals.

Senator HOGG—Where will that be?

Mr Versegi—That will be in the MDG8 report.

Senator HOGG—When is that due?

Mr Versegi—That is due at the end of this month.

Senator HOGG—All right. Thanks very much for that. I want to have a quick look at the role of other government departments in AusAID. If we look at table 1 at page xiv in the minister's statement on AusAID, it says that for 'Other government departments (not attributed to country/region)' there is \$173.2 million. I understand from the 'other government departments' that, where it can be attributed, it is attributed to the various programs listed above in the table. I can understand that. What would constitute the \$173.2 million, though? It is a substantial amount of money for it not to be attributed.

Mr Tapp—Some examples of that would be the contribution from the Department of Agriculture, Fisheries and Forestry to the Food and Agriculture Organisation of the United Nations, and the Department of Health and Ageing's contribution to the World Health Organisation in terms of core contributions. There are a number of those types of figures which are included within that amount.

Senator HOGG—Is it possible to get a breakdown of that?

Mr Davis—Yes.

Mr Tapp—Yes, we can provide that.

Senator HOGG—That would be helpful indeed. Then, if I turn over the page to table 2, it says that the contribution in 2005-06 from other government departments is \$563.9 million. I presume therefore that if I take the \$173.2 million away from the \$563.9 million, the balance would be what is distributed throughout the other programs?

Mr Davis—That is right.

Senator HOGG—Is it possible to get that breakdown as well?

Mr Davis—Yes, it is. We can give you that breakdown. If it useful, the major categories that that would be broken down into are law and justice, humanitarian and refugee assistance, training and technical assistance, contributions to international development agencies, peacekeeping, defence cooperation, debt relief and some specific support to the Solomon Islands.

Senator HOGG—I presume that if you can give it to me for 2005-06 you can give me the comparison with the previous budget figure or expected outcome figure.

Mr Davis—Yes.

Senator HOGG—That would be helpful. Can you explain to me, though, why in table 2 there is a substantial increase from the budget figure of \$432.4 million to the expected outcome figure of \$491.9 million. What has led to that increase?

Mr Tapp—This was principally due to the costs associated with PNG and the Enhanced Cooperation Program.

Senator HOGG—With PNG and?

Mr Tapp—The Enhanced Cooperation Program within PNG—the policing costs, the deployment. Obviously, as you are aware—

Senator HOGG—I am going to come to that in a few minutes and ask some questions about that.

Mr Tapp—The AFP were actually able to get some of their deployment in place earlier, at the beginning of the financial year, than had initially been predicted.

Senator HOGG—The reason I ask is that when I go to the 2005-06—

Mr Tapp—Sorry, Senator; the other issue that should be added to that is the tsunami. There were some other government department costs in relation to the tsunami which of course were not predicted at the time of the budget's preparation.

Senator HOGG—All right. Given that the tsunami effect is going to be there in the next four out years, it still leaves a substantial increase in 2005-06 given that the ECP seems to be suspended at this stage. Was this prepared—

Mr Tapp—This was before the—

Senator HOGG—So when we come to additional estimates is it likely that we will see a shift in that figure again?

Mr Tapp—The expected outcome figures will probably be a little different, depending on how the negotiations go with PNG on being able to reinstate the police back up into Port Moresby.

Senator TCHEN—I have a couple of questions. I am not sure whether I should direct them to Mr Davis or to one of the other gentlemen. I refer you to Minister Downer's statement, tabled in parliament with the budget, on Australia's overseas aid program. In this statement it is obvious that Australia's aid as far as possible is in cooperation with other international efforts. But the minister also made mention of Australia's effort to harmonise our efforts with other major donor countries in two specific instances. The first is in reference to the aid to Vietnam and Cambodia and it refers to Australia's effort to harmonise the donor practices. The second is in reference to the Pacific. On page 37 the minister's statement said:

Australia will work to harmonise approaches and funding mechanisms with other key donors in the Pacific region ...

It seems to me that these two harmonisation processes are quite distinct because one case is a case of getting everyone to pick up the same hymn sheet; the other one is actually getting everyone to sing together. Can you confirm that my assessment is correct?

Mr Davis—In fact, it is right to say that the approach to harmonisation does differ a bit depending on the country's situation. It depends on the number of donors. It depends on whether there is an interest in working through shared approaches to, for example, selection of scholarship holders, or whether you are talking about it in the much broader sense of working together to establish individual donor countries' responsibilities with different sectoral engagements. The case you mentioned first of our work in Vietnam and Cambodia is a particularly innovative one. I will get Mr Proctor to comment on that.

Mr Proctor—The situation in countries such as Vietnam and Cambodia is quite different from the Pacific, if only because there are a lot of donors there. In terms of harmonisation, say in Cambodia, a number of things are being done. One is that Australia as a donor can have a bigger impact by being rather selective on the sectors it seeks to be involved in. In doing so,

along with other donors it can improve its impact by working within the government's poverty reduction strategies. Sometimes this means that donors might agree to be part of a broader sector wide approach where they all agree to select different parts of the country—for instance, in health, possibly—or at least to work in a common way in a particular sector.

The other thing that we have been doing in Cambodia is to invest very heavily in donor coordination activities more broadly. This is not only in working out that we are all doing the right thing in a coordinated way but also in terms of a dialogue with the government on areas where donors feel important policy decisions need to be taken. The example I would give you is our involvement with the agriculture group of donors. In the annual meeting with the Cambodian government last December, we made a statement on behalf of all donors on what we would recommend the government do in order to increase agricultural and rural development prospects.

Senator TCHEN—What about in the Pacific? I notice that the statement says 'particularly with New Zealand', and it quotes a particular program in the Cook Islands.

Mr Davis—That is right. In the case of the Cook Islands, we have moved through to an arrangement where we actually work through the New Zealand aid program for the provision of our support. I guess it is the final stage of harmonisation when the actual dollar amounts have been combined to be one program.

Senator TCHEN—Is this a formal arrangement or is it just a working arrangement? In other words, is it a treaty level arrangement or is it just an officer level working arrangement?

Mr Davis—No, it has not been done at a treaty level, but it is certainly done with a significant collaboration between ourselves, New Zealand and, of course, the Cook Islands.

Senator TCHEN—Between agencies?

Mr Davis—Yes.

Senator TCHEN—Between agencies rather than between governments, at this stage.

Mr Tapp—It has been done, very clearly, between ourselves and the government of the Cook Islands. We have found that there are a number of the smaller island states who find it exceedingly difficult to be able to engage with the variety of different donors who may be providing assistance. You have very small governments and, when you have different donors coming in for different forms of dialogues, design missions and what have you, you can actually eat up a very large part of the capacity of the total national government—just in servicing visits from donors. So there has been a fair amount of interest within the region. The Pacific Island governments' transaction costs can be reduced by the donors working more closely together, or harmonising in the way that they work.

In the case of the Cook Islands, very specifically, we have put in place an arrangement on a sort of trilateral basis between ourselves, New Zealand and the Cook Islands government. At the time of the determination of how resources are going to be made and the policy dialogue, that becomes very much a tripartite arrangement between the three governments. We sit down and talk that through together. In terms of specific implementation—

Senator TCHEN—Could you explain a little bit about the process of how these three parties actually got together? That is the really interesting part, I think.

Mr Tapp—Each year there are development consultations between the government of the Cook Islands, the New Zealand government and ourselves—the New Zealand government through NZAID and ourselves through AusAID. We then sit with the government of the Cook Islands and essentially review the progress in relation to how the development expenditure has been going. We look at the policies that the Cook Islands government has and determine prioritisation in terms of how our resources should be applied. We have quite clear requirements, though, for specific recognition. If the New Zealand government is actually implementing activity, very clear recognition needs to be provided in relation to when the resources are coming from Australia. So the concept of badging is ensured, in the sense that we do not lose any visibility.

From the perspective of the government of the Cook Islands, the thing that they value most in this process is the three parties being able to sit down together and to determine the priorities and how resources are going to be allocated over the coming 12 months—within a broad, multi-year development framework that the Cook Islands government has developed itself.

Senator TCHEN—Has this been an evolved process or a planned process?

Mr Tapp—I suppose the best way of describing it is both. It has evolved, as I commented before, out of some of the issues and concerns that have been raised in relation to the transaction costs of engaging with host governments. In a sense, it has also been planned in that there have been conversations between ourselves and our colleagues in New Zealand and between ourselves and the Cook Islands government. It is part of an evolution of our development cooperation relationship, and we have been looking at ways in which we can ensure that our programs provide more effectively without draining the very limited Cook Islands resources and capacities.

Senator TCHEN—Are there any similar processes ongoing?

Mr Tapp—We have a variety of different forms of engagement in the Pacific region which can fall under the broad rubric of harmonisation, greater donor alignment or what have you. For example, we and New Zealand are engaged in joint high-level aid consultations with the government of Samoa. Some of the trust fund arrangements that we support in terms of Tuvalu and Niue are clearly examples of areas of harmonisation, and those involve not just us and New Zealand but other donors. In the context of, say, the Solomon Islands, we are trying to build up the level of the donor coordination and engagement under the RAMSI umbrella. The New Zealand government and the European Union are now engaged in a joint program in the education sector, for example. We are having conversations at the moment with the European Union, the World Bank and the Asian Development Bank on joint programming in the Solomon Islands in the infrastructure sector in road, port and interisland shipping. There are a number of examples of different ways in which this is happening across the Pacific.

This falls within the broader rubric that the Pacific Islands Forum leaders have been highlighting in terms of the need for greater pooled regional resources and regional governance. That has been translated in the way that donors are engaging with Pacific Islands countries in looking to avoid having a whole lot of different parallel activities and a plethora

of demands on government. That is evolving, and there are some very interesting lessons coming out of it.

Senator HOGG—I thought it would be appropriate to cover a few issues regarding the Enhanced Cooperation Program with PNG. The minister's statement indicates that the budget figure for 2004-05 was \$435.6 million and the expected outcome was \$366.6 million. Is that still the expected outcome, given that the enhanced program has been suspended?

Mr Tapp—At the moment it is difficult to say.

Senator HOGG—Given that it is difficult to say—and I accept that—there is still an underspend of about \$70 million, based on the budget figure. That seems to be a substantial underspend. Is there a reason for that?

Mr Tapp—A lot of this depends on the rates of deployment under the ECP.

Senator HOGG—So the rates of deployment were not nearly as fast as what was expected originally?

Mr Tapp—Yes, in some cases they were slower than what had initially been seen in the budget context.

Senator HOGG—I understand that the figure projected for 2005-06 is \$492 million. I take it as a given that we are dealing with the situation where the ECP is suspended for the moment. Putting that to one side, it is still a very substantial increase over the budget figure of 2004-05. What is the reason for that?

Mr Tapp—These numbers were based upon the prediction there would be a full deployment of the Australian assisting police in Papua New Guinea. This document was produced prior to the Wenge decision and the outcomes of the Wenge decision.

Senator HOGG—All right. In simple terms then, the full deployment was not reached to start off with in the 2004-05 year and that accounts for the substantial increase over the 2004-05 budget figure and even over the expected outcome to the 2005-06 figure. That would have meant there would have been a full deployment.

Mr Tapp—Yes, the 2005-06 figure would be on the basis of a full deployment.

Senator HOGG—Was there a delay in deploying? If so, how long was that delay?

Mr Tapp—In terms of the deployment of and the reason for deployment of the Australian assisting police, that would be a question for the AFP. I am not in a position to be able to answer that.

Senator HOGG—I accept that. So it was nothing that involved AusAID in any way?

Mr Tapp—Not in terms of having an impact on the overall numbers there.

Senator HOGG—The negotiation of the agreement and so on—that had nothing to do with AusAID?

Mr Tapp—We were involved in some of the ECP negotiations, yes. But in terms of the operational requirements of police deployment, that is clearly not something—

Senator HOGG—I know; I accept that. I am talking about involvement in the overarching agreement which saw the police force being placed in PNG.

Mr Tapp—We had no involvement in relationship to issues relating to the police. Our involvement is in relation to the civilians deployed.

Senator HOGG—Yes, I accept that. Did you negotiate an agreement separate to that, but incorporated within your agreement was the AFP component as well?

Mr Tapp—No, the broad agreement with Papua New Guinea was something negotiated by the Australian government. The treaty arrangements were coordinated by the Department of Foreign Affairs and Trade.

Senator HOGG—So it was DFAT?

Mr Tapp—They had the responsibility for those negotiations. Various parts of government were party to negotiations, but DFAT had the responsibility.

Senator HOGG—So questions relating to the substance of the agreement should really be directed to DFAT?

Mr Tapp—Yes.

Senator HOGG—Are AusAID—or your civilians—involved in the suspension of the program?

Mr Tapp—The civilians who were working under ECP in Papua New Guinea have not been withdrawn from Papua New Guinea. Some of those civilians who were working in in-line positions are now working in advisory positions.

Senator HOGG—So they are not affected by the decision of the courts in PNG?

Mr Tapp—Those who were working in in-line positions, as I say, have been moved into advisory positions. So in that sense they have been affected by the Supreme Court decision.

Mr Davis—And of course there are ongoing discussions between the Australian government and the Papua New Guinea government about the longer term approach to ECP more generally.

Senator HOGG—I accept that. Given that the AFP section has been withdrawn, that AFP contribution is nonetheless reflected in the figures that we have just discussed at table 1?

Mr Tapp—Yes. There has been no amendment to those figures.

Senator HOGG—Who is responsible for reporting on the total cost of the ECP? Does that come through you, as it is reflected in this statement, or is that up to the individual agencies?

Mr Davis—It is up to the individual agencies but, if anyone were to draw it together, that would most appropriately be the Department of Foreign Affairs and Trade in their coordinating role. We include the figures in our documents here to reflect all aspects of support to countries and organisations which are accountable as providing official development assistance.

Senator HOGG—With the ECP coming on line, did AusAID get any feedback about the consequences of a large number of people being injected into the local community? I have heard reports that some of the locals, for example, were removed from their accommodation to make way for Australians. Is there any experience of that from AusAID?

Mr Davis—I do not completely understand the question.

Senator HOGG—I understood that, as a result of Australia's commitment to the ECP, when the Australian contingency moved into PNG some of the locals were effectively thrown out of their accommodation and the like to make way for some of the Australians. Is that an experience that AusAID encountered in any way?

Mr Tapp—I cannot comment on that. I am not aware of that. The issue would be that the accommodation was provided—and I only speak for the civilians here; I cannot speak for the police, who far and away comprise the most substantial numbers of those deployed to PNG—on the basis of going out onto the commercial market and being able to identify available accommodation, as would be the perfectly normal way. The concept of throwing people out certainly would not seem to apply.

Senator HOGG—I am just curious if that had been the experience of your—

Mr Tapp—The overall experience that we have seen in Papua New Guinea has been a very strong and positive public support for the ECP, particularly in relation to the deployment of the police.

Senator HOGG—Is AusAID the area where I would get an analysis of the expenditure under the ECP?

Mr Tapp—With regard to the civilians, we can provide some information on that.

Senator HOGG—All right. With regard to salaries, accommodation, logistics, operational costs and technical assistance? It is just that I have a previous question on notice that occurred at the additional estimates on 19 and 20 February and 2 March 2003-04 where such a table was given on a five-year break-up. I do not know if that was out of AusAID or whether it was out of DFAT.

Mr Tapp—It depends. If it was an overall view of the ECP including the police, I imagine it would have come from DFAT. If it related just to civilians, it would probably have come from AusAID.

Senator HOGG—Can you give us the AusAID component then?

Mr Tapp—I can certainly take it on notice to come back to you with a breakdown on some of those costs.

Senator HOGG—All right.

Senator PAYNE—Could you give us some details of the minister's announcement in New York today that coincides with the high-level summit on the global fund contribution?

Mr Versegi—Yes. My understanding is that the announcement today was for the additional \$15 million to the global fund as part of the \$75 million commitment, so it is the next payment tranche of that \$15 million. I think that is on top of the \$25 million that has already been provided.

Senator PAYNE—When is that extra \$15 million due to be paid? When will we start paying that?

Mr Versegi—I think the payment goes through soon after today.

Senator PAYNE—The cheque is in the mail.

Mr Versegi—Basically.

Senator PAYNE—What sort of level of participation do we have in the global fund at the moment for the contribution that we are making?

Mr Versegi—That participation is on a number of levels. We have just joined a constituency now on the global fund board, something we have been trying to negotiate for the last six to eight months. That is with the UK, Switzerland, Germany I think and Canada. That gives us a seat into the board. Although we do not actually sit in a chair, we are part of the constituency, so it gives us an opportunity and an avenue to give an Australian perspective and view at the global fund's global board. On top of that we have an ongoing relationship at the country level mainly through our posts. They have in most of the countries that we are dealing with in our region what they call country coordinating mechanisms, which are a group of government and non-government people and donors and other UN agencies who sit around and work on how to work with the global fund with national HIV-AIDS strategies and the plans of other donors. So proposals for global fund support will come through that country coordinating mechanism. I have not got the complete list but I know we are on one in Vietnam, for instance, and Papua New Guinea. Those are the two main mechanisms we have in terms of engagement with the global fund.

Senator PAYNE—How does AusAID characterise its relationship with the global fund?

Mr Versegi—I think we characterise it as one that is evolving. We took a while to jump on board with the global fund because of concerns around the governance structure and whether it would be relevant in the Asia-Pacific. We are now comfortable that the global fund has its governance structures in place and has a sufficient focus on the Asia-Pacific. What we would like to do in the future is to engage more and try to influence the global fund in terms of the sorts of things it might be doing in the region. One of the issues we have with the global fund as well is that for some of the smaller members, some of the smaller states in our region, it is very difficult for them to actually access the global fund money because of the sheer transaction costs. I think we see one of our roles as to help bridge that gap between the global fund and their mechanisms and their procedures. Brazil, China and India have tremendous capacity to do the necessary proposals to access global fund money. Countries in our region do not have that as much, so we see our role as playing a role in helping to bridge the gap between those global fund mechanisms and relevance to some of the smaller countries that we deal with with a weak capacity.

Senator PAYNE—You said we had joined a constituency. Who takes our seat at that table?

Mr Versegi—It rotates. I will have to check this, but the Canadians are in the chair at the moment. I think it rotates with the major donors. Because of the constituency pool, our money is not as big as some of the other donors, and I am not aware of any stage where we will actually be sitting in a chair. But we do not see that as insurmountable; we just work through those people we are dealing with.

Senator PAYNE—Who in AusAID has the role of making the input into the constituency group?

Mr Versegi—Essentially Annmaree O'Keeffe, our special rep.

Mr Davis—In terms of the areas of engagement and influence, obviously now with the appointment of Helen Evans as the deputy to Professor Feachem—

Senator PAYNE—I was coming to that, Mr Davis.

Mr Davis—That is another good opportunity for Australian engagement and contact.

Senator PAYNE—The job you are describing of facilitating, is it the plan that that is done by AusAID representatives in the region, facilitating between the small countries in the global fund, for example? Facilitating is my word; if it is not an appropriate word you can always change it.

Mr Versegi—Someone else might comment on this, but certainly I know that in PNG there were certain requirements on the PNG government to produce appropriate documentation and we were looking to see what support we could actually provide to the PNG authorities to do that.

Senator PAYNE—Do we do that from here or from PNG?

Mr Versegi—In PNG primarily.

Senator PAYNE—And that would typically be the case?

Mr Versegi—Yes.

Senator PAYNE—I want to move on to two other quick areas on this subject. The first is the APLF and what progress has been made since the meeting in Papua New Guinea on that.

Mr Versegi—As you know, the APLF was established in 2001—

Senator PAYNE—It was announced in 2001.

Mr Versegi—as part of the ministerial thing, and established soon after—it has that broad objective of trying to promote national and regional leadership at all levels with people. As you know, we have had some concerns about the pace at which they have been able to go about their work. I think that, to be fair to them too, it is a pretty difficult task they have been given. But what we have noticed in the last six months or so has been much more substantial progress in the sorts of things that we would like to see the APLF do. They have now appointed a manager—just trying to find a name—to UNAIDS in Geneva who is actually Filipino. She just started earlier this month; it is an in-line position.

Senator PAYNE—Where is that position based, Bangkok?

Mr Versegi—Bangkok, in UNAIDS in the regional support office, I think they call it now; there has been a change of names. So she is now in place. I think the steering group, which met in February, is now taking a much more active engagement as well. They resolved in the February meeting they had in Papua New Guinea that they would do a lot more canvassing themselves of political and media leaders in the region, so that is another positive step. I think there are a couple of other things that they have been able to facilitate. For instance, a parliamentary forum on HIV-AIDS has now been formed in Bangladesh. In Sri Lanka they are coordinating a high-level event in June focused on HIV-AIDS which is going to be attended by the Sri Lankan President. They have also identified new HIV-AIDS leadership champions, including the Speaker of the Fijian parliament and the Samoan Minister of Finance. They are also now assisting with the current review of the second ASEAN work plan

on HIV-AIDS. Much of what we are seeing from the APLF is due, I suspect, to Dr Piot's engagement. We are seeing much more results on the ground now. With the appointment of the manager, we are pretty encouraged by how they are moving.

Senator PAYNE—When is the next meeting of the steering group?

Mr Versegi—It is usually every six months, so I would assume there is one in September or October.

Senator PAYNE—My next question is on the seventh ICAAP in Kobe. Do we have any understanding of the number of registrations and how they break down into local Japanese attendees and other attendees from the Asia-Pacific region, with an emphasis on the Pacific end of that?

Mr Versegi—Yes. We are advised by the ICAAP secretariat that they have received 2,921 registrations. I do not have a breakdown of that total number in terms of governments, Japanese and other things. I can say that we are sponsoring 33 people from Papua New Guinea and the Pacific—that is part of our \$200,000 grant—as well as another 20 from South Asia: from India, Bangladesh, Sri Lanka and Nepal.

Senator PAYNE—So that is 53 in total.

Mr Versegi—Yes. There is a wide representation there. We have not just government but also NGOs and networks. But I do not have the exact break-up yet of the full 2,900 registrations.

Senator PAYNE—Could you take that on notice for me, please, and see what detail you can get for me on that. This is in July, I think, isn't it, the conference?

Mr Versegi—Yes, from 1 July.

Senator PAYNE—Do you know who is opening the conference?

Mr Versegi—No, I don't, sorry.

Senator PAYNE—Is there a ministerial meeting associated with the conference?

Mr Versegi—Not as far as I am aware, no.

Senator PAYNE—Do we know what level of involvement JICA has with the development of the conference?

Mr Versegi—I would have to take that on notice.

Senator PAYNE—Finally, there is the structure within AusAID, the staffing structure that works in the HIV area broadly. You don't have to answer it now, Mr Davis, but if you could take it on notice to provide some information to the committee on the various positions, responsibilities and roles, specifically in relation to HIV. And then I imagine there are people in other parts of the agency, obviously, who have regional and other responsibilities in that regard. Getting that information as fully as possible would be helpful.

Mr Davis—I can give you a full breakdown but broadly, beyond the role of the special representative on AIDS, we have a separate AIDS task force, which is headed by a director. As you mentioned, each of our key programs has an area that has AIDS as part of its

responsibility. We have a separate adviser of AIDS in Papua New Guinea, for example, and within the AIDS task force we have a separate adviser to assist the special representative.

Senator ALLISON—What percentage of the overseas development assistance program will be spent on sexual and reproductive health?

Mr Tapp—We may have to take that on notice. We may not have that information immediately available.

Senator ALLISON—Can I prompt you with the commitment by the Prime Minister, which was four per cent, and ask you if that will be achieved?

Mr Tapp—I will get back to you on that one.

Senator ALLISON—I think the grant under the Australia-Indonesia Partnership for Reconstruction and Development is \$155 million. I ask the same question about that. Also, what percentage and dollar figure is likely to be spent on contraceptive supplies, including emergency contraception? Has there been a recognition of the particular circumstances in Aceh for women, where I understand women were killed at four times the rate of men, and the likely social and reproductive health issues that arise out of that?

Mr Proctor—I will just respond to you on the AIPRD. That is the billion dollar initiative announced by the Prime Minister, which involves Aceh and many other parts of Indonesia in the longer term, of course. I will just ask Alan March in a moment to respond on the immediate spending in that area in the relief phase. You are correct that there does seem to be a disproportionate death rate amongst women. There are quite significant and enormous problems to be dealt with. We are already engaged in the longer term with rehabilitation of hospitals and other services. But for an answer to your specific question, I will turn to Alan March.

Mr March—I will make my comments in two forms. Firstly, our support for reproductive services per se was through financial support to UNFPA and also to UNICEF. To UNFPA we provided half a million dollars for Indonesia. To UNICEF we provided \$3 million in Indonesia and also \$2 million in Sri Lanka. So they were the major components to the multilaterals. The second part of my answer would be that, as you noted, the impact of the tsunami was disproportionately on the poor, and child protection needs were a major consideration for us. The approach we took was both to put specific interventions in place and to work through those agencies that have a child protection mandate, such as UNFPA and UNICEF. Right at the start there was some discussion about whether or not orphan children should be—

Senator ALLISON—This is very important, I know, but I was raising the matter of female reproductive health issues. It is my understanding that, where you get such a disproportionate number of women killed in these circumstances, it increases the sexual violence and rape that occur in these regions. I was asking what consideration had been made of that in our allocation of moneys.

Mr March—My apologies. The account that we took of it was through our support to the UN agencies that I mentioned and also the provision of psychotrauma counselling in Indonesia and in Sri Lanka.

Senator ALLISON—So you are not able to indicate a dollar value specifically on sexual and reproductive health spending?

Mr March—I would have to take that on notice and I would be pleased to do so.

Senator ALLISON—Are there any faith based agencies involved in the implementation of reproductive health activities through AusAID? If so, how does AusAID ensure that women are able to get the full range of contraceptive choices from those implementing agencies?

Mr Proctor—Are you still relating to the tsunami or to the general delivery of development assistance?

Senator ALLISON—More general.

Mr Tapp—An example in Papua New Guinea—and it is associated with our work in HIV—has been the role that the churches have been playing. I assume that falls under your framework of ‘faith based’.

Senator ALLISON—Yes, if they are faithful.

Mr Tapp—Some of the churches in Papua New Guinea have been very active in relationship to support being provided for HIV-AIDS and reproductive health activities. We have been working very closely with them to ensure clear and adequate access of the population to reproductive health services and condom distribution as well. So that is something in the Papua New Guinea context on which we can provide you with more information, if you want.

Senator ALLISON—That would be useful. And more broadly, beyond PNG?

Mr Davis—Beyond PNG, for all family planning activities within the aid budget we are governed by a set of guiding principles for assistance for family planning activities. This reflects the consensus reached at the ICPD. In addition to regular reporting requirements, obviously activities are also monitored through their life. We have these guiding principles that also apply to support for international funds that we support, in particular the UN Population Fund and IPPF.

Senator ALLISON—What happens when it is a faith based agency delivering the services if they do not agree to provide condoms, for instance?

Mr Tapp—It would be taking each situation on the ground as required. Certainly we would always be looking to try to promote the full and proper provision of reproductive health services, consistent with the guidelines that the government has in relationship to those. If specific organisations or what have you were refusing to do so, we would be looking at other alternative means to provide those services.

Senator ALLISON—So you can give the committee assurance that that would be the case in all circumstances?

Mr Tapp—Not being across every single bit of detail in terms of what it is that we are doing in reproductive health across the whole agency in all countries, I would not be able to provide that assurance.

Senator ALLISON—Even though you would have to acknowledge our overall aim of poverty reduction depends largely on sexual and reproductive health choices being made available, would you not?

Mr Tapp—Absolutely. Well, there are numerous things which are going to impinge in terms of issues of poverty reduction. Certainly the question, as I have mentioned to the committee earlier, in terms of the problems faced in a number of countries in a region with very rapidly increasing population growth is a very significant issue. When you have declining per capita income within many countries that we are facing, the issue of population and therefore of reproductive health issues is therefore very, very important.

Senator ALLISON—Yes. And what we want to know is what you are doing about it.

Mr Proctor—On the Asian side of things it is very different from the Papua New Guinea example. It would be very unusual to have faith based organisations providing health services.

Senator ALLISON—Indeed.

Mr Proctor—Much more common is engagement through people such as UNFPA and those types of organisations, where faith preferences do not come into play.

Senator ALLISON—I understand that the situation in East Timor is particularly difficult at present. I think East Timor has the highest fertility and maternal mortality rates in the world. They are probably fairly close to those of PNG and the Solomon Islands. What are we doing in East Timor, or Timor Leste?

Mr March—We have a very modest health program in East Timor at the moment. I will give you some figures on that on notice, if I may. Our program in East Timor focuses on law and justice and economic governance, but we do have a small footprint in the health sector. I can provide those details.

Senator ALLISON—Why is it modest?

Mr March—The health sector is particularly well run. It is a strong ministry. The minister, in our estimation, is very effective and there are a range of other donors, including the European Union, the UK and the USA, who are strong donors to the sector. In looking at where Australia should appropriately focus its \$40 million a year, we have taken a decision that the sector is relatively well provided for.

Mr Proctor—I know, having been at the annual consultations three weeks ago with the government, that they have endorsed our focus on the sectors that we are seeking to be involved in.

Senator ALLISON—Has an audit been done of the state of health services in Timor Leste in recent times?

Mr March—The WHO provided information to the development partners meeting one year ago. That was the last summary that I have seen. It would now be approximately 13 months old.

Senator ALLISON—As I understand it, malnutrition rates, maternal and child mortality rates and fertility issues are as bad now as they were some years ago, if not worse.

Mr March—I would have to take that on notice. That could well be the case.

Senator ALLISON—I thought we were providing \$43 million a year to Timor Leste. Is it \$40 million?

Mr March—It is \$42 million this coming financial year, 2005-06. Minister Downer has made a general statement that he anticipates, subject to budget outcomes, that the aid program to East Timor will be in the order of \$40 million a year.

Senator ALLISON—Is that consistent with the last few years—we have not increased or decreased the amount overall in that time?

Mr March—Yes, that is correct in broad terms.

Senator HOGG—Who is the lead agency in the management of the tsunami relief?

Mr March—The lead agency for the Australian government, as it was a whole-of-government response, was the department of foreign affairs. They chaired the emergency task force. As far as the response was concerned, it was essentially through AusAID. We worked in partnership through a standing plan, the AusAssist Plan, that we have with the Emergency Management Australia arm of Attorney-General's. That also drew on the Australian Federal Police and substantially on the Australian Defence Force.

Senator HOGG—I have a number of questions that I need to put on notice. I do not want to distribute them wrongly. Should they be directed to AusAID to find out AusAID's response or should they go to DFAT? Where should they be directed?

Mr Davis—If they are to do with the immediate post tsunami effort, they should come to AusAID.

Senator HOGG—For example, should things such as the management of the expenditure of funds come to AusAID?

Mr Davis—For the immediate emergency response, yes.

Senator HOGG—So, even though the lead agency is the Department of Foreign Affairs and Trade, you people are taking the management role.

Mr Davis—We have taken responsibility for the \$60 million that was provided as the immediate emergency response.

Senator HOGG—What about the ongoing response?

Mr Davis—The best coordination point for that ongoing response is the secretariat within the Department of Foreign Affairs and Trade, which has overall responsibility for the Australia-Indonesia partnership program.

Senator HOGG—For example, if I needed to know who are the Australian contractors who were engaged as a result of the aid that has been given, that would not come from AusAID, it would come from DFAT.

Mr Davis—It is whether it is the work that was done in the immediate emergency phase. That would be from us.

Senator HOGG—And in the post phase?

Mr Davis—In the post phase operational details, we would be able to take those on notice. But if they are the sorts of broader policy issues associated with the way in which the program

is to be organised and areas of focus, for example, that would be better done through the secretariat within the Department of Foreign Affairs and Trade.

Senator HOGG—One of the difficult things I have found going through the minister's statement and looking through the PBS is to find where questions need to be directed, given that there is the money that is coming from the other government departments, and that is why that question was asked, because I was eventually going to try and find out where responsibility for the reporting of this lies. It seems as if it is under the umbrella of AusAID but nonetheless it is attributed to each of the individual agencies and departments, which makes it very difficult, I would put it to you, unless you can assist me, to have proper scrutiny of the whole of the operation.

Mr Davis—In the end what we do and should take responsibility for is the funds that are actually appropriated to AusAID. As I mentioned earlier, the blue book that you have been referring to really does try to capture, beyond that funding appropriated to AusAID, the full amount of official development assistance provided by the Australian government, along with other donors, and we think it is important to be able to provide that more comprehensive picture of engagement throughout all of government, not just that which comes through AusAID.

Senator HOGG—I accept that, but it does lead to difficulty in terms of the scrutiny and accountability to the parliament when one comes to a committee such as this and one finds that some of the questions one needs to ask really are not appropriately asked here at all but are appropriately asked in some other committee whose estimates may well have passed by this stage.

Mr Proctor—Can I try and put a little bit of light into this—

Senator HOGG—I would love you to put some light into it.

Mr Proctor—It is only a little bit of light. You may be aware that the minister was very concerned to provide an ongoing report to the Australian public of what taxpayers' dollars have been spent on in the emergency relief phase post tsunami. This document, which obviously you have, he released yesterday on what was expended in the period 26 December last year to 15 April. It is quite detailed on what has been done.

Senator HOGG—That is good and it is well welcome, but I think the ability to scrutinise it in its totality becomes the difficulty. Anyway, I raise it as much as that, and obviously there are a number of questions I will put on notice for AusAID not only in respect of the pre and post tsunami periods but also I want to look at issues affecting the Solomon Islands just briefly and so on. You will get those in the normal electronic form in the next day or so.

CHAIR—Thank you to AusAID. We look forward to seeing you at a later time of the year. Thank you, Mr Davis and Mr Tapp.

Australian Trade Commission

CHAIR—The committee will now consider the estimates for Austrade. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. Questions will be forwarded to the department for an answer. The committee has resolved that Thursday, 21 July 2005 is the return date of answers to

questions taken on notice at these hearings. Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. Mr Doody, we will shortly have the minister back. Do you wish to make an opening statement?

Mr Doody—No, we will not make an opening statement. We just appreciate the opportunity to appear before you.

Senator HOGG—The first thing I want to ask you about is the processing of the applications where expenditure was incurred in 2003-04. Have all of those been processed at this stage?

Mr Doody—Applications for what, please?

Senator HOGG—For EMDG. That is what I am going to concentrate on to start off with. Then I have a few other general questions.

Mr Doody—I will pass that to Ms Ward, who is head of our grants area.

Ms Ward—We process claims of the 2003-04 grant year over the course of the current financial year. We will be processing up to the latest date we can in June, which we expect will be approximately 17 June. The minister will determine a balance distribution date, at which date we must finalise processing. We have to close off in order to be able to calculate financial arrangements and pay all grants out before the end of the financial year. So at this point in time, no, we have not finished processing. We have processed approximately 91 per cent of the claims at this stage.

Senator HOGG—Ninety-one per cent equates to how many claims, roughly? And what is the value?

Ms Ward—The figures I have got with me in detail are to the end of April, so it will not be 91 per cent to that date.

Senator HOGG—I understand. Indicative is fine.

Ms Ward—At that stage we had paid grants to 2,676 recipients from that last financial year. There were also a few that had been paid as a result of applications outstanding from earlier years. So, in total, there were 2,697 to the end of April. I think you asked me about the value of grants paid. Up to the end of April, \$72.2 million had been paid out in grants.

Senator HOGG—If that is 90 per cent—

Ms Ward—It would have been somewhat less than 90 per cent at the end of April.

Senator HOGG—How many more would there be outstanding?

Ms Ward—For the year, we received 3,588 applications.

Senator HOGG—Were any of those rejected?

Ms Ward—There are always some that are rejected because, on auditing, they are found to be ineligible. I do not have the figures with me. I would have to take that on notice.

Senator HOGG—Could you take that on notice. Again, not holding you to this, it looks as if there are about, say, 800 to 900 left to be processed, just in ballpark figures.

Ms Ward—In fact, to give you some indication of the number that may have been not accepted, the number that had been determined—that is, that had been fully audited at that date—was higher than the number of grants paid. That number was 2,823. You can tell that the difference between those two is the number that were not eligible.

Senator HOGG—So that is about 130 or thereabouts which have been rejected in that time. You are at 91 per cent now but you cannot give me a figure, and I accept that. At the end of April, 2,676 claims have been acknowledged and paid, for a value of \$72.2 million. There is a further number of claims that were outstanding for the previous period, which takes the total to 2,697. There is a total of 3,588 claims all up. Remind me what the 2,823 was.

Ms Ward—Out of the number of 3,588 received for the year, to the end of April we had processed 2,823.

Senator HOGG—So that gave us the number of those. That is fine.

Mr Doody—If you want greater precision on that, we can always come back on that.

Senator HOGG—I am sure that when we come to the next round there will be more. It is just to get a feel for where you are at in terms of processing.

Ms Ward—May I add one point of clarification. With those grants paid, some of those recipients paid to date will get a second payment at the end of the year, which is one of the reasons we have to finalise processing before the end of June.

Senator HOGG—Do you know how much that second payment will be worth?

Ms Ward—They will get their full entitlement. It will be worth 100 per cent of their outstanding amount.

Senator HOGG—I accept that, but can you relate it to the \$72.2 million that has been paid already? Do you have some sort of feel for how much the second payments will be worth?

Ms Ward—I do not have those figures with me.

Senator HOGG—Could you take that on notice?

Ms Ward—Certainly.

Senator HOGG—Would it be fair to say that it will be no greater than the \$72.2 million but that it will be somewhat less?

Ms Ward—Considerably less. Of the order of 25 per cent of our total recipients for the year will be in the position of getting a second payment.

Senator HOGG—Again not holding you to this—I am trying to get a feel for this—in my figure of 25 per cent of \$72 million, while I know you cannot do a straight translation, the second payment will be in the order of \$18 million to \$25 million.

Mr Doody—Maybe we should come back to you on that.

Ms Ward—These are the figures I have; I just do not have the—

Senator HOGG—Could you come back to me with the true figure. I am not going to hold you to that now, but is that a reasonable assumption on my part?

Mr Doody—I think it is probably better that we come back with a more precise—

Senator HOGG—I accept it could be less; I accept it could be more. If 25 per cent of the payments are outstanding, while I am not trying to get into rocket science on this, I just want to know—

Mr Doody—The problem is that it is not linear—it is a bit more complex than that to get to the answer.

Senator HOGG—If you can come back to me with an answer on that, that will be appreciated.

Ms Ward—Can I clarify: when we come back, would you like the answer to be at the end of April or would you like it at the date we come back to you?

Senator HOGG—If you could do it at the date that you come back to me on, that would make sense. Obviously things will have moved on since this point in time. Could you do that in relation to the figures as well and give me an update at that time.

Ms Ward—Certainly.

Senator HOGG—I understand that \$150 million has been allocated for the program: is that correct?

Ms Ward—\$150.4 million in the current financial year.

Senator HOGG—Sorry, I did not meant to leave the .4 off; I knew it was there. Is all of that likely to be used in 2003-04? Did it apply to the 2003-04 year?

Ms Ward—Our appropriation is for the current financial year of 2004-05.

Senator HOGG—That is the appropriation for 2004-05?

Ms Ward—That is correct. But we are, as you referred to, on the whole processing the grant applications for the 2003-04 grant year.

Senator HOGG—I understand how this is done. Will the payments that will be made for the 2003-04 year see the full quantum of what was allocated under the budget used up? That is what I am trying to work out. Is that your expectation?

Ms Ward—In the current financial year, we will not use the full amount of the \$150.4 million.

Senator HOGG—How much will you use?

Ms Ward—In the budget papers, our current estimate is \$136.2 million.

Senator HOGG—Does that underspend surprise the department?

Mr Doody—No.

Ms Ward—In fact at the time of additional estimates we had an estimate then of \$134 million, I think. We were very close to the same estimate at that time.

Senator HOGG—So you are actually going to exceed the PAES estimate?

Ms Ward—Our estimate remains an estimate until we have finished processing—

Senator HOGG—I accept that. I understand the vagaries of what you are dealing with. I am trying to get a feel, as I say. There is no capacity for the department to roll any of that over, is there, if it is unused?

Ms Ward—Of the unused amount?

Senator HOGG—Yes.

Ms Ward—In fact, in this current budget the government has moved forward \$10 million of the outstanding amount into next financial year.

Senator HOGG—Is that to cover 2004-05 claims?

Ms Ward—It will cover what we process in the financial year 2005-06, which will predominantly be for 2004-05.

Senator HOGG—Is the allocation of \$150.4 million meeting the requirements of the scheme at this stage and into the future?

Ms Ward—The \$150.4 million has met the requirements, as we have indicated, in that the full budget will not be used. The government has moved forward an additional \$10 million into next year and has also allocated a further additional \$10 million for next year. As shown in the budget papers, the EMDG appropriation for next year is \$170.4 million.

Senator HOGG—So 2005-06 is \$170.4 million—is that correct?

Ms Ward—Yes, that is correct.

Senator HOGG—So that is an increase of \$20 million. Why is there an increase of \$20 million? Is the demand there for that extra \$20 million?

Ms Ward—The government originally said that they would allocate an additional \$30 million to the program over a period of three years. The first additional \$10 million of that was to be allocated in this current financial year. At additional estimates time, we were able to advise that we would not call on the full original appropriation of \$150.4 million. So, as a consequence, at the additional estimates period the additional \$10 million for this year was not appropriated. As I have already explained, subsequently in this budget process the government decided to continue to allocate an additional \$10 million next year plus move an additional \$10 million forward. That is the reason we have \$20 million extra next year.

Senator HOGG—So you do not really know whether that full \$20 million will be expended; it is there in the budget if you need it.

Mr Doody—If we need it.

Senator HOGG—That is an obvious decision by the government to allocate more money, and I accept that. In respect of the number of applications that you are receiving, are you able to tell me whether they are static in terms of numbers from year to year or are they reducing or increasing? Just give me some sort of idea of the trend.

Ms Ward—The underlying trend from the previous financial year to this year has been an increase. However, the total application numbers in aggregate came down. That was a result of legislative changes that were made in 2003, which flowed through this year. So the total numbers dropped. However, it is the underlying number—

Senator HOGG—Can you tell me what the drop was, please?

Ms Ward—It was a 10.8 per cent drop in application numbers this year in total terms.

Senator HOGG—Do you have a number? That would be helpful.

Ms Ward—The number has dropped from 4,022 in 2003-04 to 3,588 in the current financial year.

Senator HOGG—That is 2004-05.

Ms Ward—Correct.

Senator HOGG—There are no outstanding applications, are there? That is the sum total of applications for that year—for 2004-05.

Ms Ward—That is correct. The application period ends at the end of November.

Senator HOGG—There has been a 10 per cent drop but you did say that there has been an increase in the allocation, if I understood you.

Ms Ward—In the budget allocation?

Senator HOGG—No, sorry; in the amount of money that has been expended. Is that a correct interpretation?

Ms Ward—No. I said there has been an underlying increase in the number of applications, not in the budget expenditure.

Senator HOGG—Where is the underlying increase? How is that the case?

Ms Ward—It is if we adjust for the effect of the legislative changes. For those that would have been eligible under the current arrangements, the increase in applications was 2.9 per cent.

Senator HOGG—That is allowing for the adjustment.

Ms Ward—Yes. Significantly, we had a 10 per cent increase in first time applicants in total terms. Allowing for the changes to the scheme, it was in fact an 11.4 per cent increase in first time applications.

Senator HOGG—So you have got an 11.4 per cent increase in first time applications. The interpretation you are placing on the trend in the scheme at this stage is that, whilst there is a 10.8 per cent drop in terms of absolute numbers, adjusted for the changes that have been legislated there is in effect a 2.9 per cent increase. Is that correct?

Ms Ward—That is correct.

Senator HOGG—But an 11.4 per cent increase in first time applicants.

Ms Ward—That is correct.

Senator HOGG—What is the nature of the new applicants that have seen the 11.4 per cent first time increase based on your assessment?

Ms Ward—We are seeing an increasing number of applications coming through to the scheme as a result of Austrade's wider activities of growing the Australian exporter community. I have the figure and I can check it for you but, from memory, 22 per cent of

those first time applicants, just as an example, had been through Austrade's New Exporter Development Program. So that is one source of increasing numbers. Also, the year before that we had had a reasonably strong outcome from the scheme, which I think would have encouraged people to apply for the scheme. Economic factors are clearly always a reason that people may be engaging in export promotion.

Senator HOGG—Clearly the change in criteria has had an impact on the scheme. Is that a reasonable assessment? You said it has brought about more first-time applicants.

Ms Ward—The change in criteria has had an impact. That is largely the explanation for the drop in aggregate numbers. I would not suggest that that was the reason why we had an underlying increase in numbers; I think other factors are causing that. In making the changes to the scheme, the government did say its intent was to focus it more closely on new and emerging exporters. That is what we are seeing in those figures that I showed you of the underlying increase. That is exactly the area we are seeing the increase in—people newly moving into exporting through first-time applications to the scheme.

Senator HOGG—Can you give me any idea of the average payment that is made under the scheme now compared to, say, in the previous financial year?

Ms Ward—Again, my current figure is up to the end of April.

Senator HOGG—Yes, I accept that.

Ms Ward—In the calculation I have here we have allowed for people who are still to get their second payment. As we know, it will be 100 per cent. That was included in the calculation. Last year the average grant paid was \$38,591 and to the end of April it was \$36,258.

Senator HOGG—That would not include some of those who are yet to get their second payment. Is that correct?

Ms Ward—The calculation has allowed for the second payment. So they are comparable figures except, of course, that this calculation is to the end of April and the other figure was for the full year. Otherwise, they are like for like.

Senator HOGG—Given that we are not looking at a full year, it still seems to me that the average is down. Is there any reason for that?

Ms Ward—There are two reasons. The first is that the average value of applications is down this year. I have already referred to a large number of first-time applicants. Typically these are smaller applicants, so the average value of applications is down. The second reason is that the maximum size of grants is down this year. As part of the package of legislative changes the maximum amount has come down from \$200,000 to \$150,000.

Senator HOGG—So we are seeing the impact of the change to the legislation now flowing through into the system. Is that a fair comment?

Ms Ward—Yes, that is correct. This is the first year of the impact of that legislation change.

Senator HOGG—Is any review being made of the scheme to see how the changes are impacting on the budget or whether the scheme is achieving its goal now that the criteria have been changed? Is any review in place?

Ms Ward—A review has been going on through the course of this financial year, which is required under the EMDG legislation, the act of parliament, under which the scheme is run. That review is looking at a range of criteria. Terms of reference were provided to Austrade and, while it is not as such focused on the changes, clearly that issue will be picked up as part of the review, to the extent that it is possible at this very early stage to take account of those changes.

Senator HOGG—You may well have done this before—have the terms of reference been made available to the committee?

Ms Ward—Yes.

Senator HOGG—If they have, I can assure you I am not asking for them again.

Ms Ward—I believe they have been provided before. Certainly they are publicly available.

Senator HOGG—If that review is proceeding, what stage is it at? When is it due to report and to whom will it report?

Ms Ward—Under the act the Minister for Trade is required to ask Austrade to do the review and to provide a report to him by 30 June 2005. Austrade is currently finalising that report and will report to the minister by that date.

Senator HOGG—I do not want to go to the substance of the report, but are there any issues that have emerged in relation to the report that you can tell the committee of at this stage?

Ms Ward—It is a requirement of the act that we report to the minister, and the minister will table the report, so it is not appropriate for me to comment at this stage.

Senator HOGG—I understand; that is fair enough. Who is doing the report—Austrade or someone independent of Austrade?

Ms Ward—The report as such is being done by Austrade. That is what is required under the act. However, Austrade has called on a wide range of sources in conducting that review. There has been a very wide consultation process through public submissions. We contracted a review facilitator, who did wide consultations all around the country. We have also contracted some independent research, and as part of that a survey was done of EMDG recipients. All of those things are being used as well as Austrade's own operational experience as the administrator of the scheme.

Senator HOGG—Is the cost of the review being met out of general running costs or has there been additional supplementation to meet the cost of the review, and what is the cost?

Mr Field—The cost of the review is one of the items making up Austrade's budgeted operating loss for 2004-05. It is a one-off cost and it is being borne that way this year.

Senator HOGG—I accept that. How much will that be?

Mr Field—We set aside \$500,000 for that and it will be used.

Senator HOGG—Will it exceed that \$500,000?

Mr Field—I will need to take that on notice. I believe the whole lot will be used. But I can get an answer to that.

Senator HOGG—I would appreciate that. I understand that on 16 April 2003 Minister Vaile, when announcing the new scheme, said:

... the EMDG scheme's annual \$150.4 million budget was best invested in helping small business as the key to doubling the Australian exporting community.

Is that being achieved at this stage?

Mr Doody—I will ask Mr Tim Harcourt, our economist, to comment on that. Maybe after Mr Harcourt, Ms Bennett can comment in the context of Austrade's own actions, but Mr Harcourt can comment in a more macro sense.

Mr Harcourt—Thanks for your question, Senator Hogg. I want to answer your question in four parts. In the fourth part I will ask Ms Bennett to assist. I will first talk about the setting of the target to grow the exporter community in terms of the rationale. It was basically put together to grow the numbers of exporters in the community. One reason was to grow what we call the 'heartland' or the natural rate of exporting so that we have a strong foundation when things happen to exchange rates and commodity prices and so on. A second reason was to do with the benefits that exporters provide to the economy. For instance, Senator, you would be interested to know that exporters provide 60 per cent higher wages, more employment stability and better occupational health and safety standards. They on average are more innovative, introducing new goods and services each year, and they also provide more dynamism in the microeconomic side of the economy.

The second part of the growth story is that we have noticed, since the ABS started measuring the size of the exporter community, that we have increased the number of exporters who export every year, are regular and are part of the heartland. They are people who do it year in, year out, no matter where the dollar is, no matter where commodity prices may be and so on. We have found that, since we have undertaken this task to grow the community, around 60 per cent of exporters export every year, whilst in the nineties it was around 55 per cent. I think that, before Australia reduced tariffs and undertook trade liberalisation, a lot of exporters just exported as a bit of an afterthought. They mainly concentrated on the domestic market. But now as we have opened up the economy more exporters do it on an ongoing basis.

With regard to the measurement side of your question: when we started this task there was not actually a measurement of the number of exporters. There was some work done by the ABS using the business longitudinal survey. We were given an estimate of around 25,000 in 2000-01. The last time we measured the total exporter community, there were around 30,788 goods and services exporters. I might also mention that, when we undertook this task to grow the exporter community, there was not a lot of measurement being undertaken. We are actually getting better at measuring it—or the ABS is getting better at measuring it—but there are still some issues of methodology. For instance, we do not count inbound services exporters such as tourist exporters who provide tourist services to foreigners within Australia and universities or colleges that provide services to foreign students. The ABS has made a commitment to us to do some more work on how we count inbound service exporters such as

those in tourism and education. We are actually meeting with the Australian Statistician about this.

Thirdly, there is an environment question. I guess when we started on the task to grow the community there were a number of things we did not know about the world environment. On the demand side a number of external shocks hit the world economy, including Australia—things that are well known, such as terrorism, SARS, bird flu and political stability problems. Oil prices have certainly changed since then and of course the exchange rate is at a much different level from when we first embarked on this project. On the supply side there were things we could not predict, like the weather, in terms of the drought, and capacity constraints in manufacturing.

But the important thing is that we have been able to improve the foundation in the exporter community and grow the natural rate, and that makes the Australian economy overall much more flexible and much stronger in terms of being able to absorb external shocks. The other thing that has occurred with having an external measure is that it has helped Austrade in growing our own client base, getting new exporters into the exporter community, being able to help with sustainability and being able to reach out into new parts of the business community. I will hand over now to Hazel Bennett, who is in charge of our analysis and planning section.

Senator HOGG—Before you do, this might assist Ms Bennett with a couple of issues. You gave the figures for 2000-01 in terms of the number of exporters—

Mr Harcourt—That is right: 25,000.

Senator HOGG—and went to 2003-04. I have got the other figures as well from the ABS. I am just wondering—is that the total number of exporters that we know of?

Mr Harcourt—That is using the Customs entries, which the ABS does. That is the total number of goods and outbound services exporters that go through Customs. There would be some exclusions to that. For instance, if you send a jar of vegemite over to your aunty in Scotland, it would not count—that sort of thing.

Senator HOGG—I accept that. Thank God I have not got an aunty in Scotland.

Mr Harcourt—It would not count then either.

Senator HOGG—That is right.

Mr Harcourt—So it is the best measure that the ABS has come up with for this task, but—

Senator HOGG—All right. I do not want to get too involved in that. I just want to find out, though, if Austrade are able to use those figures so that you can get a feel for how many exporters out there are eligible to apply for the EMDG. Is that the sort of purpose that you would use these statistics for or are they pretty much irrelevant?

Mr Doody—It is probably in a broader sense. It is across all of our activities, not just in the grants context but also the services that we deliver to exporters as well and companies here in Australia, both onshore and throughout our network offshore. So it is in the broader sense.

Senator HOGG—They are ABS statistics, but do you get a breakdown of whether they are SMEs or major corporations?

Mr Harcourt—Yes, we do.

Senator HOGG—That is what I am heading to. You are able to get some idea of what your client base should be and where you should be pitching.

Mr Harcourt—That is right.

Senator HOGG—Let me just pluck a figure out of the air. You might be able to say that 10 per cent of the 30,788 are potential clients of yours—that is not the correct figure. Is there some basis on which you do work—is it 10 per cent, 20 per cent or 50 per cent of those who are your potential clients?

Mr Doody—Can we pass that to Ms Bennett, because I think—

Senator HOGG—Is Ms Bennett going to cover that sort of issue?

Mr Doody—Yes.

Senator HOGG—Okay.

Mr Harcourt—Just before we hand over to Ms Bennett I will quickly say two things. One is that the data are very useful as a benchmark for us. It is also good to know what proportion of exporters in the economy we are touching. You would say that in a market such as that in China or Peru we help a lot of clients because they need a lot of help, while it might be a little smaller in a Western, more advanced economy. You would not want to have our share being so low that we did not touch anyone, but you would not want to have it too high. If it was 90 per cent of everyone, it would be Cuba or something like that.

Senator HOGG—Yes. I am just trying to get the feel for the budgeting of the program now and into the future. Clearly, from what you said there was no real idea of the base from which you had to recruit your clients for the scheme back in 2000-01, because there was a number which was not really sustainable —25,000—given by the ABS. Now you seem to have a more rigorous figure, although there are some difficulties associated with that, and I accept those difficulties in terms of the inbound service exporters. I accept that, but I am trying to get a feel as to how you go about your planning. If you can fill me in on that in your presentation, it would be very helpful, Ms Bennett.

Ms Bennett—Picking up that context of your question, since the start of the doubling strategy we have moved, for example, on the new exporters from essentially zero new exporters in terms of advanced trades direct assistance. Currently this year we are forecasting assistance to some 1,600 new exporters—

Senator HOGG—Sixteen hundred?

Ms Bennett—yes—and over 4,000 new and established exporters.

Senator HOGG—Sorry?

Ms Bennett—Just over a total of 4,000 exporters, and that is in the context of delivering services to some 12,000 exporters. But obviously in any particular period they will not all achieve an actual export transaction in the period. So the quantum that we are assisting is around 12,000 to 14,000 in any given year and, as I say, we are forecasting this year for about 4,000 of those to come through to export success.

Senator HOGG—Roughly, again, it is about a seventh of the number of exporters that were in existence in 2003-04—whilst you do not have figures for 2004-05, and I accept that. So that assists you then to work out the possible take-up of the EMDG scheme; is that correct?

Ms Bennett—Certainly. That is the base of clients who come to Austrade for direct assistance—for the coaching services, for matching with opportunities in the external markets. With the population of clients who take up the EMDG scheme, there is some overlap with the number who also come to Austrade for direct assistance—the coaching, the matching and the other services we provide. But quite obviously that is not entirely a 100 per cent overlap, as Ms Ward has already indicated.

Senator HOGG—There would be a core in there as well—

Ms Bennett—There would be.

Senator HOGG—in the total of those who have previously accessed your services, have used them to the fullest extent and are not able to access them again.

Ms Bennett—In terms of EMDG, there is an eligibility criterion which would confer that ‘not able to access them again’ status. In terms of other Australian exporters, we offer a suite of programs that can assist both new exporters and continuing exporters and there is now eligibility—

Senator HOGG—I am looking solely at the EMDG scheme.

Ms Bennett—That is right.

Mr Doody—Maybe if we pass that back to Ms Ward. But in clarification the services that we offer to companies can go on ad nauseam. On the grants side, no—

Senator HOGG—It is the grant side that I was looking at.

Mr Doody—there is no particular restriction. So maybe we can come back to you on that.

Ms Ward—Senator, there would be a range of reasons why there would not be a full overlap between the figures that Ms Bennett has been talking about, which are services provided by the broader Austrade, and the EMDG scheme. The EMDG scheme has a series of eligibility criteria, as set out in the act, and these relate to the eligibility of the business, the product that they are looking to export and the expenses. There are certain defined export promotion expenses and there is a threshold of how much must be spent before being eligible for the scheme. So there are a range of reasons why there will not be a total overlap between those figures. Indeed, you have also touched on one, which is that a recipient of EMDG after seven grants is no longer eligible for further grants.

Senator HOGG—I understand that. That is why I was trying to make that point. In terms of the inbound service exporters, you said there are issues of methodology, I think, Mr Harcourt. How will they be resolved? What is the method of resolution with the ABS?

Mr Harcourt—I think the ABS would know the technicalities, but as I understand it, not being a statistician, they will look at the way in which they collect trade and services data, which they have worked at for a long time—and it is not perfect but they are quite good by international standards—and then see if they can translate that into numbers of companies

whilst again having some sort of threshold. For instance, you could argue that every taxi driver that took a foreigner is an exporter, but you do not want to double the number of taxi drivers in Sydney necessarily. Certainly the Taxi Drivers Association would not want you to. So there are certain judgment calls that they would have to make on measurement in that respect.

Senator HOGG—Does that impact on Austrade's capacity to deliver the EMDG program—not having a definite definition of the client base out there?

Mr Doody—Maybe if I could pass that to Ms Ward. The grant scheme has very particular definitions that they work to and it is a non-discretionary scheme.

Senator HOGG—Yes, I understand that but I am looking now more at the capacity to project what use might be made of the scheme in the future. Does it have an impact?

Ms Ward—I am a bit lost with your question. But I do not think the sorts of difficulties in the definition that are being talked about will impact. Because our eligibility criteria are set out quite clearly, the difficulty in definition is not an issue here.

Senator HOGG—That is fine. Let us leave that. I want to move on. Do the exporter numbers out of the ABS indicate that there is actually a decline in the number of people who are exporting? How is that to be interpreted?

Mr Harcourt—The way the ABS described it was that the difference over the past three years was not statistically significant. The way that they describe it is basically as holding constant.

Senator HOGG—It is static, basically.

Mr Harcourt—It is static, but the proportion of core regular exporters is increasing.

Senator HOGG—Can I ask some questions about the administrative costs of the EMDG program itself. I understand that there is the allocation of \$150.4 million for the scheme. Are the administrative costs of the scheme included in that \$150.4 million or are they additional?

Ms Ward—They are a part of that allocation. It is set out in the act of parliament that administration costs of the scheme should be limited to not more than five per cent of the appropriated funds for the scheme. So there is a limit: up to five per cent of that budget may be allocated to administration.

Senator HOGG—Is it the case that the up to five per cent is not exceeded at this stage or has not been exceeded?

Ms Ward—It would be illegal for us to exceed it; so, no, it has not been.

Senator HOGG—I am sorry; what I am trying to get to is: do you spend the full five per cent?

Ms Ward—Not necessarily. Our current estimate for this financial year is \$7.4 million, which I think is around 4.9 per cent. It is under the five per cent. In the previous year we certainly did not spend the full allocation. We always attempt to administer the scheme as efficiently and cost-effectively as possible so that we do not draw on money that would otherwise be available for grant payments.

Senator HOGG—I am just trying to get a feel. With that \$7.4 million and \$150.4 million, the balance of that is for distribution to the recipients of the grant.

Ms Ward—It is available for distribution.

Senator HOGG—So that is how that works. Not that it seems to have happened but, if it were to go beyond the five per cent, I assume that would have to be funded out of the ordinary operating costs of Austrade, would it? Is that how it would operate?

Mr Field—It has not happened.

Senator HOGG—Is that reasonable to surmise, though?

Mr Field—There is no other source. If the costs were to go over, they would simply be capped.

Mr Doody—Perhaps I could highlight that, as a consequence, we do run it extremely tightly and efficiently.

Senator HOGG—I was not implying anything else, Mr Doody; let me assure you of that. Does that \$7.4 million also include costs associated with the advertising of the scheme?

Ms Ward—It does. We have EMDG specific advertising, and that is included in that budget.

Senator HOGG—Give me an idea of what the \$7.4 million is allocated to. I presume it is staffing, advertising—

Ms Ward—Correct. The majority of it is in staffing. Around 70 per cent of our administration cost is in staffing and add-on costs for staffing—travel et cetera. Other costs are our rental costs; our communication costs, like IT and telephone communication costs; legal costs, to the extent that, at times, we have appearances before the Administrative Appeals Tribunal, for which we get outside legal assistance; our marketing, as I have just referred to, for example we put ads in newspapers to advertise when applications open and again to advertise the closing date, and we do a range of brochures to make available to make sure people are aware of the benefits of the EMDG scheme; and the application forms, which themselves cost of the order of \$40,000 to be printed and distributed. So there is a range of costs which are in that admin.

Senator HOGG—Within that total admin figure.

Ms Ward—Yes.

Senator HOGG—You are not given any supplementation for the advertising costs of the program.

Ms Ward—No.

Senator HOGG—What media do you advertise the program in?

Ms Ward—Through newspapers and magazines. We have targeted a couple of magazines which are likely to be read either by accountants who often have clients who might be potential applicants or by potential applicants. Otherwise, we advertise in major newspapers in each capital city. In major regional areas we use newspapers to try to spread the message about opening and closing dates, in particular, of the scheme.

Mr Doody—Also, on our web site there is quite extensive promotion of the scheme.

Senator HOGG—How many hits on the web site as a matter of interest? Do you keep a tally?

Mr Doody—On the grants scheme or in general?

Senator HOGG—No, on the scheme—EMDG.

Ms Ward—I would have to take that on notice. I do not have that with me.

Senator HOGG—It is one of the mediums, it is emerging now, that people are referring more to than to a lot of others.

Mr Doody—We also cross-promote the scheme. If we are promoting other services for the organisation or particular initiatives or opportunities that may be running, in turn we would be mentioning the scheme in that environment as well.

Senator HOGG—Finally, going back to Minister Vaile's statement where in announcing a change to the scheme back in April 2003 he said:

... small business as the key to doubling the Australian exporting community.

Is the aim of the scheme to try and double that export community and, if so, is that achievable under the scheme?

Ms Ward—In making that statement, the minister was emphasising the focus of the scheme on assisting new and emerging less experienced exporters and using the scheme to help them to grow to be the sustainable and successful exporters of the future. I believe it is one tool in growing the Australian export community.

Senator HOGG—Of itself, it is only one part of the strategy.

Mr Doody—That is correct.

Senator HOGG—It will not of itself double the number of exporters.

Mr Doody—No, it is one plank.

Senator HOGG—What will the other planks be?

Ms Bennett—Under the client advisory work of Austrade we have a scheme, the New Exporter Development Program, where we specifically target and identify Australian businesses that are capable and committed to exporting but have not yet done so. That was the number I referred you to, where this year we anticipate assisting in the order of 1,600 new exporters that have not previously exported. That is one of Austrade's main programs for assisting specifically new and irregular exporters into export.

Mr Doody—The other thing we do as a consequence of what Ms Bennett has just mentioned is take them into market and assist them around the world into those markets and into doing business with their customers.

Senator HOGG—I have got nothing but praise for Austrade in many respects—

Mr Doody—Thank you.

Senator HOGG—I am not trying to bring into doubt what you are doing; I am just looking at whether this program is achieving what you want it to achieve as the people responsible for the management of program. Is it doing that?

Mr Doody—It is a significant contributor for us.

Senator HOGG—While it is significant, it will not necessarily go down the path of doubling the number of exporters, for example.

Mr Doody—It will be one of the major planks to achieve that.

Senator HOGG—All right. How has the client base using the EMDG program increased? Has that increased significantly?

Ms Ward—As I alluded to in those figures that I gave you earlier, there has been that underlying increase in numbers this year so certainly—

Senator HOGG—The underlying increase allowing for the adjustment of 2.9 per cent. Is that the figure you are referring to? I think it is. Trust me on that one. I think that is the figure you are referring to. Is it?

Ms Ward—I think the figure was 2.9 per cent underlying increase—

Senator HOGG—Yes, that is what I said.

Ms Ward—but there was a particularly large increase in first time applications, yes.

Senator HOGG—Thanks very much. I do not think I have any more questions on the EMDG program, unless anyone else has. I just want to ask a couple of questions about export performance. What is Austrade's view of the overall performance in recent years of our exports? Is there a view?

Mr Harcourt—I can probably answer that question. Our comparative advantage is helping new exporters at the margin. That is basically what we focus on and that is why we were so keen on the ABS measuring numbers of companies. That is why we refer to numbers of companies in what we do, particularly in our performance results. With respect to export performance, we have noted the consensus of opinion with the Reserve Bank, Treasury, ABARE and so on that in the past 12 months there has definitely been a rise in export values, particularly due to strong commodity prices, and that now we have also seen an improvement in volumes as well.

On the last occasion, we noted the Reserve Bank analysis on supply constraints. After 2000, most of the issues were more to do with demand and unusual events that I referred to before—the drought here in Australia, SARS, terrorist attacks and so on. However, I think more of the focus now is on supply issues, whether it be climate or capacity constraints or the effect of the exchange rate. Like all agencies that are involved in export promotion, we look closely at the analysis that is on record.

Senator HOGG—I will come back to the issue of volumes and values in a moment. In terms of export dollar volumes, the ABS have given me figures which show that the exports have gone 60.1 billion in 2001, 59.9 billion in 2002, 59.2 billion in 2003 and 60.3 in 2004. whilst I take into account what you have just said in terms of changing volumes in the most

recent period of time, it would seem from their figures, though, that things have been reasonably flat. Is that a reasonable assessment?

Mr Harcourt—What was your reference?

Senator HOGG—I understood that they were ABS figures.

Mr Harcourt—But are they export volumes?

Senator HOGG—Export volumes.

Mr Harcourt—That is right.

Mr Doody—Presumably that is not both goods and services, because goods and services is in the vicinity of about 150 billion.

Mr Harcourt—You are talking volume numbers from the ABS.

Senator HOGG—Yes.

Mr Doody—I beg your pardon.

Mr Harcourt—That is right, Senator.

Senator HOGG—I am just curious.

Mr Harcourt—We talked about this with Senator Conroy last time. With volumes in the resource part of the economy so important to us, there have been views put by the Reserve Bank, in their statement of monetary policy, that resource export volumes were being held back by infrastructure capacity constraints on the one hand and, on the other hand, by a lack of investment just after the Asian financial crisis—plus some oilfields and other resource projects were being renewed and they had not yet come into the ABS figures. An example would be that we have not seen a lot of the LNG, liquefied natural gas, projects come into the figures yet.

Senator HOGG—When will they come into the figures? They are substantial.

Mr Harcourt—They are substantial. I think the Treasury suggested they would come in not this financial year but next financial year, at least. That is from memory, but I can get to that as we go through. People have also talked about manufacturing export volumes. One thing we have noticed is that what is occurring in manufacturing export volumes is quite similar in a lot of industrialised economies. Australia had very strong export volume growth in the nineties, partially due to the fact that it was the first time we had opened up the economy and the first time manufacturers had looked to export. In the nineties we had average annual growth of manufacturing exports of around 12 per cent. Now we have just under three per cent. Similarly, Canada had 12 per cent and now that figure has fallen.

Senator HOGG—Canada had 12 per cent?

Mr Harcourt—Canada had 12.9 per cent. Now they have 0.7 per cent. Finland had 10.2 per cent, and in the 2000s, or the noughties, they have 3.2 per cent. Italy had 9.7 per cent in the nineties. They now have 4.7 per cent. There seems to be a story that perhaps Australia is not Robinson Crusoe in this regard. It could reflect the downturn in the world economy until the last couple of years but also some structural change in terms of China picking up some of the growth in manufacturing. Also, a lot of the growth in manufacturing export orientation

over the last 20 years has occurred in areas where we also have import penetration. A lot of the time we are basically exporting manufacturing components to China which are then re-exported to the rest of the world.

While I was getting to that answer, you asked me about LNG exports. ABARE have forecast the value of LNG exports to grow by 60 per cent to \$3.5 billion in 2004-05, and then by a further eight per cent in 2005-06. They have noted that there is increased production from the exports of petroleum in the Bayu-Undan oilfields as well. That would answer your question on LNG.

Senator HOGG—Going back to the statement where you indicated that this year there has been an increase, an improvement, in the volumes: what has brought that about?

Mr Harcourt—I remember the Reserve Bank referred in their statement to a ‘nascent’ recovery. I did not know what ‘nascent’ meant at first, but I asked my colleagues and it means a ‘soon to come’ recovery in resource volumes. The Reserve Bank said:

Export volumes posted a modest rise in the December quarter, driven by a nascent recovery in resource exports and solid growth in manufacturing exports.

Basically we have seen enormous demand from East Asia, from China, in terms of coal, iron ore and some metal products. We have had very large price rises and that is starting to come through in the data. But now I understand that, in the nine months to March, even notwithstanding the results that came out a few hours ago, volumes have been picking up around three per cent.

Senator HOGG—Volumes increase by three per cent. What about export values?

Mr Harcourt—If you look at the nine months to March, notwithstanding today’s results, values were up 13 per cent higher and volumes were up by about three per cent.

Senator HOGG—Does Austrade have any options that it is providing for ways to improve our export performance over and above what already might be taking place? What sort of options are there, apart from marketing your schemes and programs? Is there a specific strategy that you are engaged in?

Ms Bennett—As we move forward, in Austrade, we have been evolving our strategy to complement the government’s policy. Specifically, we are trying to leverage the advances the government has achieved in trade agreements to specifically target the markets that we now have trade agreements in. We are also working very closely in the growth economies, China and India. Again, we have a number of strategies around all those countries. We are being very particular about where we place our staff in order to be in the areas of these markets where we have high opportunities and can have the appropriate understanding of trade agreements, or of future potential trade, that we identify in particular industries, for example. We can then take advantage to the greatest extent. We are really trying to assist Australian businesses to, in essence, fast-track into some of these countries now that we have different trade arrangements. You mentioned the general raising and promotion. We also are increasing our skills and the way in which we reach the Australian businesses through our export advisers. We have a new ability to reach people through our web site. There is a specific government web site, for instance—www.fta.gov.au—which enables Australian businesses to

get first-hand knowledge of and insight into some of the new arrangements and opportunities now into Singapore, Thailand and the United States.

Senator HOGG—Is the activity in this area putting pressure on the Austrade budget and staffing arrangements? Will there be a need, if you are seeking to enhance our export performance, which we are all very pleased with? Nonetheless, you must have the capacity and the resources to be able to do it. Are they under stress or being stretched as a result of the activity?

Ms Bennett—I will answer part of that and then pass to Mr Field. In an operational sense, whilst in some ways we try and proactively identify the opportunities and raise the awareness in the business community, we also, by nature of being a services organisation, respond to demand. There is a cycle that then happens, which the Australian businesses quite naturally feel, whereby certain markets present a very strong opportunity for them. They also, in tandem, shift their expectations. So, in some ways, it is not us forcing an alignment of our resources; it is then the Australian business community picking up on those new arrangements and wanting to go into some of those countries. We can work very well with the Australian business community to then suit their demands into some of those markets.

Senator HOGG—So really you have to be ahead of the market, in a sense, to provide the service.

Ms Bennett—Indeed.

Senator HOGG—And your staffing arrangements need to be ahead of the market as well. Is that a fair characterisation?

Ms Bennett—We certainly need to understand where the future demand might be, as you discussed with Mr Harcourt. Some of the insights we can get, for example, are from the ABS data. That tells us where Australian businesses are choosing to do business, and that obviously is a very important point of insight for us. We combine that then with the market insight we have from our presence in 57 locations. So we are in essence trying to bring together a number of different points of information to try and make sure we are in the right place to assist the Australian businesses in the best way possible. From a funding capacity—Mr Field?

Mr Field—To add to that, Senator—

Senator HOGG—Funding and staffing, Mr Field.

Mr Field—First of all, on the funding side we are constantly looking at ways to save money, as you might imagine, and we have got a program in place to do that. When it comes to, for instance, next financial year, we are looking at saving money in the areas of telecoms and fringe benefits tax. One major area that I mentioned at the additional estimates hearing was in relation to travel, where we have now got a pretty effective global video-conferencing network and so we are finding that our people need to travel less than they previously did.

Senator HOGG—So, what has the result of that been to date—how much in savings?

Mr Field—As I mentioned, it is in relation to the 2005-06 budget and so we are targeting quite significant savings.

Senator HOGG—In the order of what?

Mr Field—In the order of millions. To back up the repositioning of—

Senator HOGG—Can you be a little bit more precise than ‘in the order of millions’?

Mr Field—In relation to travel, in the order of \$2 million.

Senator HOGG—That is not an insignificant amount of money, to say the least.

Mr Field—That is right. And what we are doing is substituting video conferencing for other ways of communicating.

Senator HOGG—Are those savings required for an efficiency dividend?

Mr Field—They are going to fund our base budget requirements; that includes the efficiency dividend.

Senator HOGG—But some of that has been offset.

Mr Field—It also includes a repositioning of resources and the extra resources that Ms Bennett mentioned.

Senator HOGG—All right. So part of that is to offset the efficiency dividend, which I understand is 1¼ per cent. That does not impact, though, on the way in which you staff your operation?

Mr Field—No. In terms of staffing—Hazel, do you want to talk about that?

Ms Bennett—In terms of staffing, in the 2004-05 year we were estimating a staffing complement of 1,056 staff and, as we move into 2005-06, our staffing numbers will have risen to approximately 1,094, being accounted for by the 30 additional export facilitators who are part of the government funded program for the US free trade agreement, and a number of new personnel to assist in the security program that we obviously need to carry out, given we have so many offshore locations.

Senator HOGG—Thanks for that. Are you able to identify the main issues that need to be addressed in our export performance?

Mr Harcourt—I think I can help you there. You may be aware of the export barometer that we produce in conjunction with DHL that looks at exporter confidence. We realised there was a gap in the market: there were various business confidence surveys and consumer sentiment surveys but there was not much on exporters per se. We basically use the export barometer to ask people what they are feeling and where they think there may be some logjams or difficulties. For the most part we have found that exporters mention of course the exchange rate, although they are getting used to living with it in the 70s. They mention capacity constraints at some stages. What was interesting was that a lot of them mentioned business culture and regulations and different economies. For the most part their concerns about trade barriers across the board have been reduced, which probably suggests that we have had some success in market access in terms of negotiation.

Senator HOGG—But it is the non-tariff barriers that cause the problems in many of these places, as I learnt many years ago in the conduct of an inquiry into APEC by the Senate foreign affairs committee. That is correct, isn't it?

Mr Harcourt—Yes.

Senator HOGG—And that still remains the problem today.

Mr Harcourt—That is right. With respect to the formal trade, the tariff schedules have come down and quotas have been lifted but there are still these other issues which may be called non-tariff barriers. Often there are issues of market regulation and competition policy within an economy as well, and issues of finding the right match. That is where we feel we can provide on-the-ground networks for them.

Senator HOGG—The DHL export barometer that you referred to noted that while 60 per cent of respondents are confident export orders will increase over the next 12 months, optimism is still below the level of November 2004. Is there a reason for that?

Mr Harcourt—When we released the last barometer for May 2005, as you say, 60 per cent of people thought their orders would increase and 36 per cent thought they would at least maintain their market share. For factors that are negatively impacting sales, people mentioned the exchange rate—58 per cent mentioned the exchange rate over the last 12 months whilst 56 per cent thought it might be a factor over the next 12 months. That has come down since we have done the survey but it still remains the No. 1 factor.

Senator HOGG—There is no worry about the downturn or slowdown in the world economy or anything like that?

Mr Harcourt—That was the second factor. We asked about economic-political conditions abroad and 45 per cent of exporters mentioned that.

Senator HOGG—The 45 per cent and 58 per cent figures would make those reasonably significant issues.

Mr Harcourt—That is right. They are the first and second issues.

Senator HOGG—You mentioned manufacturing capacity as one of the problems. What is the difficulty there?

Mr Harcourt—There has been a fair bit of public discussion about bottlenecks and capacity constraints with the Reserve Bank and the Treasury and so on, so we asked exporters: do capacity constraints matter? One in four in the survey suggested they did but, of those, manufacturing capacity was the most important one and people made comments about there being plenty of demand for manufacturing exports but they have not got a large enough scale or they cannot get skilled labour.

Senator HOGG—Is skilled labour the problem that they are referring to predominantly in that area?

Mr Harcourt—Yes, that was one of the key things they mentioned and also anecdotal evidence. When we asked people to volunteer reasons, a lot of them mentioned not being able to get skilled tradesmen or skilled engineers. What we wanted to get at was: do people feel there is not enough demand for Australia's manufacturing exports or is it supply? This survey seemed to suggest that there is plenty of demand and plenty of business but they were hitting scale and labour issues when they were trying to expand.

Senator HOGG—They would see the skills issue as being a real constraint to them being able to expand their export markets. What other constraints are they identifying?

Mr Harcourt—First of all, on the skill issue, we always ask them: in the next 12 months are you going to increase your profitability, your wages bill and employment? Fifty-nine per cent said they would increase profits, 36 per cent said they would increase employment and 69 per cent said their workers would get a wage rise—we wanted to see the benefits of exporting go through to the work force. We found that there were skill shortages in some key sectors that were expanding, particularly in Western Australia and Queensland. Even in some service sector industries, people talked about classroom sizes and tourism numbers, so it was not only an industrial type issue involving manufacturing.

Senator HOGG—I will move on. I note there was an article in the *Age* on 24 May this year, coincidentally by you, Mr Harcourt.

Mr Harcourt—It is a good paper, the *Age*.

Senator HOGG—It is one and the same person. Could you explain something from that, or you might expand on it for me. The article refers to the Gregory effect and the effect it has on Australia's trade performance. Can you elaborate on that?

Mr Harcourt—Sure. The Gregory effect is named after Professor Bob Gregory of the Australian National University. There is a picture of him in the article you have, I think. Bob Gregory is one of Australia's greatest economists and a great Australian, I would like to say. He has been on the Reserve Bank Board and has been a very important contributor to Australian economics.

The Gregory effect was a theory developed by Professor Gregory in the late seventies, at the time of the last resources boom. The Gregory effect refers to an economy that has an abundance of natural resources, such as Australia, and, as the economy went through a resources boom, people who held shares in resources would invest strongly, thus causing the exchange rate to appreciate. Gregory developed the thesis to say that as resource prices increased and profits in the mining sector increased, the exchange rate would get stronger, thus adversely affecting manufacturing or import competing businesses. They may be manufacturing, they may be rural or services. That is where the Gregory effect came from. It is sometimes referred to Dutch disease because Holland had a similar situation in the seventies.

Senator HOGG—So you are saying that that applies to manufacturing. Does it apply to service exports as well?

Mr Harcourt—Potentially it can. The article looked at the Gregory effect and also some work done by David Gruen of the Treasury, looking at whether you could apply the Gregory effect to today's economy. But there are some differences in the Australian economy and the Australian exporter community that are slightly different from what Gregory and Gruen have both put together. Firstly, at the time that Gregory came up with the Gregory effect, manufacturing was predominantly domestic in focus and had to compete with imports whilst now manufacturing is also export orientated. Secondly, he also referred to services, but not to quite the same extent because services are much more export orientated now than they were when he came up with the Gregory effect.

The other issue in the article goes to some of the issues in the export barometer because we decided, with all this debate about capacity constraints or the exchange rate, to see what the

exporters say themselves. One thing that was apparent in the manufacturing part of the survey was that a large proportion of manufacturing exporters in the survey are also importers simultaneously. About 31 per cent of them are importers and 55 per cent of their product is re-exported. So when you have a large rise in the exchange rate, it may adversely affect the export revenue side of the business but they also might get some benefit in terms of costs.

Senator HOGG—Are there any policy implications for the Gregory effect as you have outlined it?

Mr Harcourt—The main issue that was important with the Gregory effect was to see what we could find in the survey that would fit the Gregory effect. It is only one survey but it gives some insight. I think the main issue to come out of the Gregory-Gruen hypothesis is that, when there are infrastructure issues together with a high exchange rate, the important thing is to fix the infrastructure issues for the long-term capacity of the economy. Basically the important thing about infrastructure is to improve long-term competitiveness so that you can handle changes in the exchange rate.

Senator LUNDY—Mr Harcourt, what trends have you observed with respect to elaborately transformed manufactures over recent years?

Mr Harcourt—I refer to the ABS data on manufacturing exports, which have grown by six per cent in the nine months to March 2005. As you know, ETMs, elaborately transformed manufactures, account for around 70 per cent of the sector. So far the strongest growth of ETM manufacturing exports has occurred in industrialised countries such as New Zealand and the United States. If you compare the growth in the nine months to March this year with the same period of the previous year, you see there has been about 4.8 per cent growth to New Zealand and there are over 13,000 companies exporting to New Zealand. There has been a slight fall to the United States of minus 3.6 per cent and very strong growth to China. I think that is quite an important point. People think of China as principally a market we import a lot from but we also have very significant ETM growth in terms of exports to China, as well as in resources. In fact, China is the third largest market for ETM exports. With the current growth in China, even if we get a slight slowing due to the actions of the Chinese monetary authority, we are still expecting that there will be a continuation of ETM export growth in China. That is also reflected in the numbers of exporters going to China and New Zealand.

Senator LUNDY—Do you have the figures which show ETMs as a proportion of manufacturing exports over, say, the last five years?

Mr Harcourt—I do not. I know they are around 70 per cent in value terms and overall manufacturing exports have grown by around 50 per cent in the last nine or so years. As stated in an answer I gave to Senator Hogg, manufacturing export growth was around 2.7 per cent in the noughties compared to about 12 per cent in the nineties.

Senator LUNDY—Thank you. Could you take on notice to provide those statistics of the proportion of ETM exports compared to the whole manufacturing sector exports back to 1990.

Mr Harcourt—Okay. ETM exports on total manufacturing exports from 1990 to now?

Senator LUNDY—Yes, please.

Mr Harcourt—The total values.

Senator LUNDY—The total values, yes.

Mr Harcourt—It would be a pleasure, Senator Lundy.

Senator LUNDY—I do not know if we are at this point in the program, but is it possible for you to provide me with details about the awarding of EMDG grants, broken down on the basis of exporters who can be classified as exporting ETMs and grant recipients?

Ms Ward—Senator, are you referring to the current year?

Senator LUNDY—Actually I would like to go back at least five years.

Ms Ward—We could not give you exactly the same answer in terms of ETMs. We do classify our grant recipients by the ANZSIC definitions—the official definitions which are used by the Australian Bureau of Statistics. Those will have manufacturing in them.

Senator LUNDY—But they do not have an ETM distinction.

Ms Ward—We do our own classification, but again it might not quite give you what you want in that it refers to things like consumer products and industrial products. It is perhaps not entirely what you want.

Senator LUNDY—No, it is not what I want. Is it possible to do an analysis based on exporters classified as exporting ETMs or not?

Ms Ward—I suspect not, to be honest, but I will take it on notice. I will have to look at how the ETM definition is put together in those official statistics to see if there is any possibility of us classifying ours like that. If we were able to, I suspect we could only do it currently, not going backwards, but I will take it on notice and come back to you.

Senator LUNDY—Thank you. Industry were not very helpful, so I was hoping that you would be. Mr Harcourt, are you familiar with a report to the Manufacturing Industry Consultative Council by the Centre for Strategic Economic Studies, dated 1 December 2003?

Mr Harcourt—I am aware of the report. I have not read it in detail.

Senator LUNDY—The report opened with a summary identifying a sharp slowdown in ETM export growth from the period post 1997. It said that since 1997 the growth in ETM exports has slowed sharply, increasing in the 1997-2003 period by only 1.8 per cent per annum, only half the rate of the growth in total exports of 3.8 per cent per annum. Can you comment on those findings?

Mr Harcourt—I do not know the rationale behind the numbers but I will take that as given and I will read the report myself. I would say two things. Firstly I will refer to an answer I gave to a question Senator Hogg asked about manufacturing exports. We were looking at the slowdown in manufacturing exports in the noughties. The average annual growth rate was around 12 per cent in the nineties and around 2.7 per cent in the noughties. We wanted to see whether that was something specific to Australia. In looking at other industrial economies, we saw that Canada had growth in the nineties of 12.9 per cent and in the noughties it has been 0.7 per cent. Finland had growth of 10.2 per cent in the nineties and 3.2 per cent in the noughties. Italy had 9.7 per cent in the nineties and 4.7 per cent in the noughties. The US had 7.5 per cent in the nineties and 2.1 per cent in the noughties. That may suggest one thing:

perhaps we are not Robinson Crusoe if other industrial economies, OECD economies, are experiencing the same thing.

The second point might be that the nineties were a hard act to follow. They were quite a special decade. I guess the nineties were the first time—after we had had a period of reform, where we opened up tariffs, floated the exchange rate and so on—that manufacturing companies got into the export game. So you would expect a big burst of growth when you first did it but it would be hard to maintain it after a huge reform period. Thirdly, the period which the report refers to—1997 to 2003—would, I assume, take into account the Asian financial crisis and a world slowdown which did not include Australia domestically but which would certainly have included a lot of our major trading partners. So it could be something to do with the time period picked as well.

Senator LUNDY—Thank you. You mentioned earlier the increase in ETM export to China. To what degree are they re-exports?

Mr Harcourt—In the case of the DHL barometer—I think you were here when I was talking to Senator Hogg about it—we found in that survey that 31 per cent of exporters surveyed were also importers. Of what they imported, 55 per cent was re-exported. From that survey alone, that would give some credence to your suggestion that there are re-exports. From my understanding, a lot of the segments of the manufacturing sector that are now very export orientated are also very import orientated. A lot of that is to do with your hypothesis about re-exporting but I think also about the nature of global supply chains, where one automotive component will be part of a larger global supply chain where they would obviously import raw materials or other products as well, as part of the production process.

Senator LUNDY—In terms of the import activity conducted by those re-exporters, are you able to assess the source of those imports or be able to map where those imports are coming from and then contributing to a product before subsequently being re-exported?

Mr Harcourt—The work I have seen by the ABS and the Reserve Bank allows you to see where import components come from. Re-export is a little more difficult. There is re-exporting of gold and so on that affects the figures, but there is some basis for that. The survey—and it is a small survey, but it is still statistically vetted by the ABS and the Reserve Bank, so we could get a representative sample—seems to suggest that you get a lot of re-exporting within the same industry. When you look at a lot of the international trade literature, there seems to be a lot of interindustry trade going on in any case. You would expect that, as you open up your economy, the segments of the manufacturing sector that were export orientated would simultaneously be the ones that had import penetration.

Senator LUNDY—I do not know to what degree you discussed earlier the presence of Austrade officers and services within China. Did you cover that in any detail?

Mr Doody—No.

Senator LUNDY—Could I ask for a general description of the level of resources devoted to the Chinese market.

Mr Doody—I will ask Ms Bennett to answer that question.

Ms Bennett—Certainly. In China we currently have 62 full-time marketing and business development staff. We are spread across four large hub offices in seven smaller regional offices. The major offices are in Beijing, Shanghai, Guangzhou and Hong Kong and then there are seven subregional offices in the major regional centres. We are also trialling a network of using essentially trade correspondents. These are people who have great standing and great networks in the local community, where they can go and help us to identify the export opportunities for the Australian businesses, and we operate that model in a further 12 cities. The pattern changes over time, so we are really trying to go to test, essentially, hot parts of the China market.

Mr Doody—It is becoming an increasingly important market to us.

Senator LUNDY—What proportion of your resources in all of your international operations are devoted to the Chinese market?

Ms Bennett—I would have to take that on notice. You are correct; that is the number we have deployed in-market. There would then be support from our onshore Australian export advisers.

Senator LUNDY—Perhaps you could outline what those resources are.

Ms Bennett—In numbers I could not, but in terms of the way we work, we have people in China who understand the market. They would communicate back into our Australian operations. That means we have people specifically targeting the Australian business community to raise awareness and encourage Australian businesses into export. So there would be some people who would be working very much more closely with our China operations. As we move into working with the Australian businesses who want to move forward into export, again, we would be trying to understand the volume of the Australian business community, the demand, and be putting resources from our export adviser pool to assist those businesses. We try and present, essentially, a direct pipeline so we can take people from the Australian business community, provide assistance and move them through into the China market with our offshore people.

Mr Doody—If I may, coming the other way as well, our posts in China—as they do around the world—may well identify opportunities that are appropriate to then bring back and we try and match relevant companies to those opportunities.

Senator LUNDY—I note the minister is not at the table and this might fall into the category of a policy question, but what status does the government afford the Chinese market in terms of the export potential for Australian businesses? Is it the priority? It is obviously one of the fastest growing markets, but what sort of political status is it afforded in the practical sense of identifying resources within Austrade?

Mr Doody—I think in the policy sense, please, yes, could I ask that that be referred to the minister; but in the context of importance around the world, yes, it is an extremely important market to us.

Ms Bennett—In terms of Austrade strategy, we fundamentally have three priorities: the FTA markets, growth markets—we have specifically nominated China and India as nominated markets where we are now directing particular attention—and then development industries.

Mr Doody—On the growth market side, it will depend on particular initiatives that may come along. For example, in the context of what regrettably happened in Indonesia and around the rim there earlier in the year with the tsunami, we are looking quite significantly at where Australian companies can assist with the reconstruction. That is something that is happenstance, but we have responded to it.

Mr Harcourt—When we survey exporters themselves, China is always a very high priority each time. The North-East Asia head, Laurie Smith in Shanghai, says that you do not have to market China; it markets itself. It is a matter of getting people into the key segments of the Chinese economy where they will do well.

Senator LUNDY—What has Austrade's role been in advising the government on matters relating to the proposed China free trade agreement?

Mr Doody—At this stage we work very closely with our portfolio colleagues, the Department of Foreign Affairs and Trade. At the end of the day, though, they are the lead agency on starting to craft the China free trade agreement. For example, there was a meeting last week in Sydney where some very senior Chinese bureaucrats came out and we assisted, together with DFAT and Invest Australia, to ensure that we brought Australian companies together to meet with these people as a forerunner to all of the dialogue and discussions going on.

CHAIR—I will interrupt you if I may, Senator Lundy. By prior arrangement, we were going to cease with Austrade at this time.

Senator LUNDY—I will ask one more question and then I will place the rest on notice.

CHAIR—Would you like to put some more questions on notice?

Senator LUNDY—I will. I want to ask Austrade: to what extent were you consulted during the preparation of the feasibility study and the economic study that underpinned the feasibility study? If you cannot answer that now, I am happy for it to go on notice, including the dates of specific meetings with DFAT.

Mr Doody—Can I take that on notice. Dates of specific meetings? That is going to be interesting!

Senator LUNDY—Industry managed to come up with a few.

Mr Doody—There is a lot of discussion back and forth all the time.

Senator LUNDY—I have asked the question; it is up to you to answer it.

CHAIR—Thank you, Mr Doody and your officials. We look forward to seeing you again later in the year. We appreciate the effort you made to come up.

[5.17 pm]

Department of Foreign Affairs and Trade

CHAIR—I welcome back Dr Raby and officers of the Department of Foreign Affairs and Trade. The committee will now examine output 1.1.5, the bilateral, regional and multilateral trade negotiations, and output 1.1.6, trade development and policy coordination.

Senator HOGG—If it assists you, Dr Raby, I have had a word to the chair and, with the concurrence of everyone, rather than take a dinner break, we will try to work through.

CHAIR—I have had a discussion with Dr Raby about this.

Senator HOGG—In those circumstances, I will try to get through the questions quickly. Most of them are fairly pedestrian in nature. I can give an idea of the areas I want to talk about: Australia's trade performance, the export growth forecast, the World Trade Organisation, the Doha Round, free trade agreements and in particular the China FTA and the US FTA and then, if time permits, I will get onto Vietnam and the WTO accession. I hope there is a reasonable flow in the way that proceeds.

CHAIR—The code, I think, is to keep your answers short, Dr Raby!

Senator HOGG—I did not say that, Chair. You might say that; the rest of us can think it.

Dr Raby—I know we have a reputation for loquaciousness.

Senator HOGG—A number of statements have been made in respect of Australia's trade performance in recent years. I will read them and then I would like you to comment on them. The first statement is:

Net exports have made a significant detraction from GDP growth over the past three years.

The second statement is:

In volume terms, export growth still remains below what could be expected for this stage of the world economic cycle.

The third one is:

... export volumes for rural goods have not grown over the first half of this decade.

The fourth one is:

... manufactured export growth has still been considerably below the average recorded through the 1990s.

Last but not least:

Service exports have been broadly flat in recent years ...

Is that a reasonable summation of where we are at in terms of trade performance?

Dr Raby—I will invite Mr Deady to comment on that.

Mr Deady—There are a number of points I would make about Australia's trade performance over the period from 2000-01. It is certainly true that the overall volume of average growth for exports in that period was somewhat lower than in the previous five-year periods, but I think there are a number of factors that contributed to that. I heard some of the conversation you had with Mr Harcourt from Austrade and we would certainly concur with many of the things he said about what you looked at in that period from 2000.

Certainly there has been an impact from the slowdown in the global economy. In the years 2001 to 2003 there was certainly a slowdown in world trade growth. A number of factors contributed to that. Events like the SARS epidemic also contributed to reduced growth in Australia's trade in that period. We did see a strengthening of the Australian dollar over that period, which also would have affected the competitiveness of some aspects of Australia's

exports. Lastly, the very severe drought that we faced in the early part of that period—of course that is not to say that we do not have ongoing problems with drought and rural exports—also contributed to that slowing in growth in exports. I would emphasise the point that it is a slowing in growth. We still achieved average annual growth in total exports over that period of, as you say, fairly modest levels—around one per cent. Nonetheless, given those factors, those external shocks, I think that that is something that is worth recording.

The other point to make it is that in our most recent performance—in the nine months to March 2005—we have certainly seen a very strong recovery and strong growth in Australia's exports. Total exports are up 13 per cent in the nine months to March compared to the nine months of the previous year. Right across the board, all categories of exports grew strongly over that period. Again this was in a period where the dollar was continuing to strengthen. You made the point about volumes. I mentioned that the average volume growth over the past four years has been about one per cent. We are looking at growth of close to three per cent for the nine months to March compared to the previous nine months. So we are seeing a recovery in volume growth in this year.

Finally, today we have seen a very significant growth in exports in the month of April. That pick-up in exports has been expected, certainly with the strong growth in exports to China in the resources sector, and particularly the strong pick-up in contract prices which came on board fully from 1 April. We saw those things reflected in the numbers that came out just today on the trade side.

ACTING CHAIR (Senator Hogg)—I hear what you say, but those comments actually came out of a budget document put together by Treasury. Those sorts of comments surprise me. I know the caution with which Treasury approach these issues, but it seems to me that they do not paint a very bright picture of where we have come from in our trade. I accept that there is good news today. One swallow does not make a spring, but things are heading in the right direction. Do you share the caution expressed in those comments from the Treasury documents? I am not asking you to give me an assessment, but do you share that assessment? Are they too cautious?

Mr Deady—I am not sure precisely which Treasury forecast you are talking about.

ACTING CHAIR—It came out of the fiscal and economic outlook part 2, pages 320 and 322.

Mr Deady—We do not do forecasting ourselves. We rely on the forecast of the Treasury, and we have no reason to question those. My understanding of the Treasury forecast outlook for the external sector is for a continued pick-up in the volume of exports over the course of 2005-06. I think they are looking at around 5½ per cent growth, building on the three per cent that we have had in the current fiscal year. I think that people, including the Treasury, do see a growth on the export side over the course of the next 12 months, particularly as we will get the full-year effect of the very significant price increases for iron ore, coal and other commodities which will flow through in 2005-06. If you are talking about the net contribution to GDP growth in the external sector, I think Treasury forecasts are that they would take one per cent off GDP growth on the external side. Again, they are the Treasury forecasts. They reflect the very strong growth in the Australian economy and the fact that that growth in the

Australian economy does lead to continuing strong increase in imports. That is certainly the mathematical outcome that you get with import growth continuing quite strong. But, on the export side, certainly there will be a continued pick-up in export volumes and the price effects on the commodity side.

ACTING CHAIR—What about the situation in respect of the drought? That surely must have a significant impact on the forecasts that are around.

Mr Deady—I really cannot comment on what impact the drought might have on export forecasts for 2005-06. Right through the period that you mentioned, from 2001 until now, you are certainly right: there has not been strong growth in volumes of agricultural produce over that period. There has, however, been very slight positive growth over the period. That certainly reflects the ups and downs of the droughts in that period. But, in this current financial year, we do have a strong pick-up in rural exports, reflecting the better winter season—for much of the country, at least—in the current fiscal year. As I say, we are not in a position to forecast rural export growth and the impact of the drought in 2005-06 beyond what Treasury, ABARE and others would say about that.

ACTING CHAIR—With today's trade figures, what was the result in terms of major resource items such as iron and coal?

Mr Deady—My colleague Mr Brown might have a fuller answer, but broadly the trade data on a monthly basis does not give you a great deal of breakdown. For exports for the month of April over the month of March, we had a nine per cent increase in total. We had 13 per cent growth in total goods exports over the month of March.

ACTING CHAIR—That is goods, not goods and services.

Mr Deady—That is just goods. The only breakdown we have at this point is that rural exports were in fact up seven per cent in the month and non-rural exports, which of course would be manufactures as well as resources, were up 14 per cent. That is the breakdown. That is the month of April over the month of March.

ACTING CHAIR—You have no more detailed breakdown than that?

Mr Deady—At this stage the commodity breakdowns come later.

ACTING CHAIR—Did I understand you to say that you do not make an assessment of our trade performance over a period of time?

Mr Deady—The Department of Foreign Affairs and Trade does not make forecasts.

ACTING CHAIR—You do not make forecasts. You make an assessment, though, of what has happened.

Mr Deady—Certainly we monitor the trade trends and we do a lot of work in trade analysis underpinning much of the trade policy work that goes on. With all the economic and trade analysis work that goes into the department to support our negotiators—on free trade agreements or the negotiations in Geneva—we certainly watch the trends for all of those factors. But we do not produce forecasts, no.

ACTING CHAIR—I accept that. With Austrade I went through a series of export volume figures from 2001 to 2004. Were you present for that?

Mr Deady—I heard those, yes.

ACTING CHAIR—It seemed to me that, whilst there is a pick-up at this stage, they are fairly flat-lined. Is that a reasonable assessment of what happened there?

Mr Deady—I do not dispute the numbers. My understanding is that the average annual volume growth for total exports over the period from 2001 to 2004 was around one per cent. That is lower than for the period from 1996 to 2000, for example, when the volume growth was just a little over seven per cent. So we certainly had an overall slowing in the volume of exports in the first four years from 2001. As I said, there are a number of factors, both internal and external, which reflect that. If you are looking at more recent data then you see that growth picking up this year, 2004-05, and you see continuing volume growth in 2005-06. I think Mr Harcourt explained there are a number of factors there—the drought and the things I have mentioned.

On the resources side we do have new projects coming on stream. The North West Shelf certainly will add to volume growth there. There is a lot of investment planned. The Minerals Council of Australia talk about \$8 billion worth of investment. The expectations are that there will be significant volume increases in coal certainly over the course of the next three or four years as that investment takes effect and those projects come on stream. There was certainly a slowing in the volume of growth throughout agricultural exports. Agricultural exports were a drag on growth in that period, largely because of the very dry conditions over the whole of that period. There were also reductions in volumes of our petroleum fuel exports in that period, reflecting the fact that some of those fields are not as productive as they were.

ACTING CHAIR—Has DFAT identified any factors that impact on our export performance that need to be addressed?

Mr Deady—In the department, the trade agenda is certainly a significantly expanding one. Over the course of the last several years, the department has undertaken activities in relation to improving market access—going out there negotiating trade arrangements bilaterally but also through APEC processes and through the multilateral negotiations which Mr Gosper can talk about. All of those are targeted at improving market opportunities, improving market access for Australian exporters. That has certainly been very much a focus of the department's work in the trade policy sense in those areas. Equally, the negotiating of these trade agreements is critical. It is a very complex and detailed task. The government also recognises that the department has been very active in ensuring full implementation of those agreements, both the enforcement of the conditions that we negotiate and then encouraging, along with Austrade—and Austrade certainly have main carriage in this but nonetheless we also contribute—Australian business, ensuring that Australian business understands the opportunities that we have opened up, the market access improvements that we have generated as part of these negotiations, and encouraging Australian industry to take advantage of those.

ACTING CHAIR—If I can in a shorthand way characterise what you are saying, the drive to improve our export performance is not solely dependent on but is dependent to a certain extent on our ability to get the best out of the free trade agreements that have been negotiated and will be negotiated.

Mr Deady—As a key element of trade policy, that has certainly been one of the things we have been trying to achieve.

ACTING CHAIR—Are there any other factors?

Mr Deady—More broadly, the factors that impact upon the ability of Australian industry to achieve export output include aspects of competitiveness, the strength of the Australian economy and all of those factors. There has been comment more recently about some of the supply constraints and other factors that perhaps have had some impact on limiting exports. We contribute to some of those discussions. We have been involved in some of that work looking at some of those supply constraints that have impacted on Australian exports in recent times.

Dr Raby—Essentially the issue of domestic settings resides with other agencies.

ACTING CHAIR—I accept that. I was looking for the DFAT view. Obviously you are focused on external factors. I understand that there are other agencies involved in the internal factors, but I was trying to get the balance between the DFAT view on the external factors vis-a-vis the internal factors. Whilst you do not project trade performance, is there, broadly, a time when DFAT believe that export performance will improve for us?

Mr Deady—Yes.

ACTING CHAIR—What will be the trigger for that?

Mr Deady—We agree with the forecasts that you have mentioned—the expectations of the Treasury that there will be a pick-up in export volumes over the course of 2005-06. I think Treasury has forecast about a seven per cent growth in volume in 2005-06. We understand those official forecasts and they certainly point to solid growth. I think there are strong factors that underpin that. Certainly, the coming on stream of some of the key resource projects supports those forecasts. ABARE, of course, does a lot of work in the forecasting area. They are expecting the value of Australia's commodity exports to rise by 16 per cent in 2005-06 with the higher demand from China and the higher prices I mentioned. There are also some volume gains expected there. The latest forecast for farm export earnings from ABARE is also for modest growth—about 0.8 per cent, less than one per cent, in 2005-06. We certainly look at those forecasts and share that view. The factors indicate that growth in exports has picked up over the course of this year. The fact is that we are heading for what will likely be a record level of exports in the 2004-05 fiscal year. We expect those trends to continue.

ACTING CHAIR—I hear what you say but in Budget Paper No. 1 Treasury forecast export growth for 2001-02 and 2002-03 et cetera at five per cent, six per cent, six per cent, eight per cent and seven per cent respectively. But the outcome was minus 1.5 per cent, minus 0.5 per cent, 1.62 per cent—and no outcome, of course, is possible for the 2005-06 year. It seems to me that it is an inexact science, to say the least. The projections just do not seem to hit the mark at all. Is that fair? Is it one of the vagaries of trade forecasting?

Mr Deady—Of course, forecasting has its limitations. I think you do have to look at the actual trends and the precise numbers that are being produced by the ABS each month, though. We have certainly talked about those. You look at the performance in the nine months to March, which is the period for which we have a fuller picture for both value and volume.

We have seen strong growth occur in exports in that period. I think that, certainly, that can be explained and identified.

Certainly we, along with other commentators, recognised that the very substantial contract price increases achieved for iron ore and coal—I think 70 per cent for iron ore and well over 100 per cent for coal—would start to flow through, particularly from 1 April. That is what we have seen in the official statistics for the trade side in the month of April. Also I think the outlook for the world economy is relatively strong for 2005-06. Clearly all of those factors have an impact on the demand for Australian export products. At the moment China is a significant player in that demand; there is continuing growth in exports to that market. The outlook for world economic growth is generally reasonable. A substantial amount of investment has taken place in Australia and a number of projects are coming on stream. We are confident and comfortable with the forecast of seven per cent growth that Treasury are talking about.

ACTING CHAIR—In the 2004-05 period I think the forecast was for eight per cent and the actual outcome was two per cent. You are saying that you have confidence in the seven per cent projection of Treasury and that is based on the uplift that has taken place in the last few months. Is that a fair enough assessment?

Mr Deady—Yes. We have confidence in those Treasury forecasts. Certainly the performance of exports over 2004 has been strong and is growing. That, combined with the factors that we know about—the price increases that we spoke about, the reasonably strong outlook for world economic growth and the growth in China—does give some comfort that those expectations will be realised.

ACTING CHAIR—You see the likes of coal and LNG being the leaders in that area.

Mr Deady—And iron ore. One thing we have not spoken about is services. They have also had a bit of a bumpy ride since 2001 with SARS and other things. But you are seeing solid growth in services exports and, of course, they are becoming much more important in the overall mix. Tourism numbers are strong and expected to increase, and some of the education services are also growing quite strongly.

ACTING CHAIR—Tourism and education have long been on the list. Do you have a year-to-year analysis that you can give us to support your confidence?

Mr Deady—In the nine months to March 2005, services exports grew by 4½ per cent, with volumes up by 1½ per cent. In manufacturing, exports increased by six per cent, with volumes pretty much unchanged.

ACTING CHAIR—And you have no idea of the breakdown for tourism and education services?

Mr Brown—I will take you through the services performance. Services exports rose by about 4½ per cent in the nine months to March 2005, compared with five per cent in the corresponding period in 2004. In breaking up services, first of all for tourism, according to the ABS tourism satellite accounts, tourism rose by four per cent in 2003-04 to reach in excess of \$17 billion. We received 5.2 million international visitors—that is, short-term arrivals—in 2004, which was a 10 per cent increase from the previous year after three years of consecutive

declines, as alluded to by Mr Deady. Demand for Australian tourism services remained strong in the early months of 2005. This rebound in tourism arrivals has been led by increased visitors from China, up 43 per cent; from New Zealand, up 23 per cent; and from Japan, up 13 per cent. I think it is also worth while mentioning here the forecast—

ACTING CHAIR—Just to go through those again, China is up by what amount?

Mr Brown—China is up by 43 per cent, New Zealand is up by 23 per cent—

ACTING CHAIR—You haven't played the Bledisloe Cup this year—

Mr Brown—and Japan is up by 13 per cent. They were the three I mentioned. I might mention the outlook forecast by the tourism forecasting committee, and that is for international visitor arrivals in 2005 to be around 5.6 million, which is a 7.7 per cent growth from the previous year. Looking out further ahead, growth in 2006, according to the committee, is expected to moderate but still remain quite robust with nearly six million visitor arrivals forecast that year.

ACTING CHAIR—What about education?

Mr Brown—The other two main areas of services exports are education and business services. Education related travel, which currently accounts for around 95 per cent of all education services exports, grew by 13 per cent in 2004 as enrolments of international students, particularly from Asia, continued to rise. Total education services contributed \$5.9 billion in export revenue in 2003-04, which was 13 per cent above the previous year. Education exports, in short, have become a major export earner for Australia. Indeed, total overseas student enrolments in Australian onshore institutions were six per cent higher in December 2004 than in December 2003. This growth in enrolments was driven largely by increased demand from North, East and South Asia. This region accounted for over 80 per cent of total overseas enrolments. China—and by China, I include Hong Kong—remained Australia's No. 1 source country for international students in 2004. The majority of overseas students enrolled in Australian tertiary institutions were in business commerce type courses, but information technology and engineering courses were very popular.

I might just briefly mention some other services. Business services, more widely, have also become a very important export. Exports of financial and insurance services, for example, rose by one per cent in 2004, exports of construction services rose by 14 per cent and exports of computer and information services rose by four per cent. To give you an idea of how important these services are these days, communication services, for example, were worth \$783 million in 2004, insurance services were worth \$686 million and financial services were worth almost \$1 billion. Computer services were worth almost \$1.2 billion, and then we go to legal, accounting, management consulting and public relations services, which were worth \$447 million, so that is getting up towards half a billion dollars. There are various other services—for example, research and development gave us \$350 million last year. All up, these sorts of services were worth over \$9 billion in 2004.

ACTING CHAIR—Thanks very much for that. I want to move on now to the WTO and the Doha round of trade negotiations. Can I get an update on how the Doha round is proceeding? I understand there are meetings later in the year, but what is the current view of the department?

Mr Gosper—At the moment members are working towards the ministerial meeting to be held in Hong Kong in December this year. That is seen as a critical meeting, with the objective of concluding this round presumably some time during 2006. At the moment and since the so-called July framework agreement was concluded in Geneva in July last year, the work has very much focused on developing texts on key areas for the Hong Kong meeting. At the moment, of course, members are particularly focused on making as much progress as possible by the end of July. This was an objective that ministers set for themselves earlier this year. In particular, what they are looking for is elaboration of an approach to agriculture, industrial tariff reduction, a critical mass of offers on services as well as progress on some of the other issues—development issues and some of the rules issues.

ACTING CHAIR—So it is agriculture, industrial—

Mr Gosper—Industrial tariffs, services, special and differential treatment or development issues and the so-called rules issues. Over the last six months, however—

ACTING CHAIR—Sorry to interrupt, Mr Gosper, but just so I can get this correct: these arose out of the Geneva meeting in July last year; they decided that these were the core issues—is that correct?

Mr Gosper—In July last year, members agreed a framework package which addressed in detail some particularly important issues—agriculture, industrial tariffs and some of these other issues. Earlier this year, members reflecting on these issues and how work needed to be progressed for the Hong Kong ministerial meeting identified five key areas that needed to be progressed most critically and particularly in the lead-up to July this year when there is a normal break in the work pattern in Geneva with the Northern Hemisphere break.

ACTING CHAIR—Good luck to them.

Mr Gosper—If I can go on, these five areas are the key focus at the moment, but over the last six months most attention has been on agriculture, which is seen by I think all members as the critical area for these negotiations. Progress has been very difficult, focused on market access issues. Many months have been spent on working through a few key technical issues that need to be resolved so that we can actually develop the first approximations of what a market access text for agriculture would look like. So it has been a very difficult process over the last few months. It has required intensive negotiations involving senior officials from capitals as well as ministers, particularly those most critically involved and interested in agriculture. That process is continuing this week in Geneva, for instance.

ACTING CHAIR—Yes, I understood that. I presume we are playing a part in that set of negotiations and discussions?

Mr Gosper—Indeed, Senator; in particular it has involved agriculture, where Australia has been involved in its own right through its Cairns Group role and as a member of the so-called five interested parties process, which is a small group of members who are looking to address some of the critical issues in these negotiations.

ACTING CHAIR—In terms of the target for July—trying to reach some texts in these five key areas—is that likely to have an impact on whether or not the ministerial meeting in Hong Kong proceeds or will it proceed regardless?

Mr Gosper—The meeting will proceed. We are looking to ensure that as many of these difficult issues as possible are progressed as quickly as possible. Let us not leave all the difficult issues for the last couple of months or the meeting itself, which is a meeting of only five or six days and which will have a very full agenda of difficult issues to manage. So Australia's objective is to move the critical linchpin issues of agriculture, in particular, but also industrial tariff negotiations and services forward as much as possible and as quickly as possible.

ACTING CHAIR—Has there been any success noted to this stage of the negotiations—without going into the detail?

Mr Gosper—It has been a difficult process. In the last few weeks we have been able to resolve this critical gateway issue that has been blocking the market access component of the negotiations, so that has been a useful development; but we have lost a number of months in doing that, and so there is a very full agenda in front of us if we are to conclude some level of specificity by the end of July. In the interim, of course, because agriculture is so critical, other parts of the negotiations have been very hampered in what progress has been made.

ACTING CHAIR—Are there any other key meetings between now and the Hong Kong ministerial meeting?

Mr Gosper—Within the WTO itself, of course, there will be the regular pattern of meetings of the general council and the trade negotiations group, as well as the specific Doha negotiating groups that have been set up for all the different areas of negotiations, including agriculture and industrial tariffs. There are also meetings outside the WTO which are important. There are the APEC meetings that are happening now in Korea, and there will be other meetings of the G8 leaders and so forth. All of them have an important role in stressing the importance of progress on the Doha round.

Dr Raby—There will also be an important mini-ministerial of the WTO in Dalian in China on, I think, 11 and 12 July. Minister Vaile will be present there, as I understand it. I should note that he also hosted an important mini-ministerial in our embassy in Paris on the margins of the OECD, and we have a very successful Cairns Group meeting in Cartagena in April. I think the Cairns Group is continuing to play a very vital role in helping to move forward the negotiations. Mr Gosper mentioned the five interested parties—

ACTING CHAIR—Could I stop you there. I was going to ask about the Cairns Group. I am interested in the rest of your answer, but if you could expand: how often has the Cairns Group met to project its role into these negotiations?

Dr Raby—At ministerial level, it has met once this year, and that was at Cartagena in April. It meets regularly in Geneva at head of delegation level, and that is convened by our ambassador in Geneva. That is very senior. It has met almost constantly at technical level to work through technical issues. I think what you are finding is that the work that is done on the Cairns Group feeds into the five interested parties process. That also meets at—

Senator Hill—And that feeds into another process, and that feeds into another process.

ACTING CHAIR—Minister, you are starting to make things sound complex.

Senator Hill—It is really quite simple.

Dr Raby—At the end of the feeding process—or the end of the food chain—are ministers; and, when ministers meet, they have actually been able to resolve some issues. In Paris there was a meeting of five interested parties at ministerial level, which resolved this very important gateway issue—

ACTING CHAIR—What is the gateway issue?

Mr Gosper—The gateway issue, to put it as simply as possible, is converting ad valorem tariffs into percentage equivalents. And you need percentage equivalents of tariffs to apply a reduction formula.

ACTING CHAIR—Thank you.

Mr Gosper—And can I add that the Cairns Group has met 33 times since July last year, at various levels.

ACTING CHAIR—I am just trying to get a fix on how influential the Cairns Group has been in moving this along, because it seems to me that the Cairns Group has played significant roles in the past and I was wondering if that influence was still there. It seems from what you say to me to be quite influential.

Mr Gosper—Dr Raby referred to the ministerial meeting held earlier this year, which involved not only representatives and ministers from the 17 Cairns Group countries but also the US Secretary of Agriculture, the EU commissioner for agriculture, the trade minister from Kenya and the chair of the Negotiating Group on Agriculture. Presumably they came because they see some interest and utility in the role of the Cairns Group.

ACTING CHAIR—That is not unexpected, in some sense. Having referred to the Cairns Group, is the G20 still functioning and operating?

Mr Gosper—Very much so.

ACTING CHAIR—What influence is it having?

Mr Gosper—A very significant influence.

ACTING CHAIR—As well, in the set of negotiations?

Mr Gosper—Indeed.

ACTING CHAIR—Are the two groups, the G20 and the Cairns Group, working together?

Mr Gosper—They work together very well. In fact, this was something that was addressed in the ministerial meeting in Cartagena—the particular value that both groups put on cooperation between them, and of course there is a big overlap in membership. What the Cairns Group in particular has an interest in is market access. Market access is an issue that cuts across the full membership of the Cairns Group in a much more significant way than it does in the G20, so there is a particular role and perspective that the Cairns Group brings to the agriculture negotiations, and I think that is recognised by all the major players including the G20.

ACTING CHAIR—When it comes to our position in these negotiations, who actually determines the position? Is that done through cabinet or is it done through the minister's office or what?

Mr Gosper—Our negotiating position?

ACTING CHAIR—Yes.

Mr Gosper—Our negotiating position is determined at critical periods by the minister in consultation with his colleagues and usually follows very detailed consultations with industry groups but also more widely—and I am talking here of agriculture in particular.

ACTING CHAIR—That is one of the major focuses for us, so I am quite happy to talk about that.

Dr Raby—It does end up in cabinet at various points in the negotiating process.

ACTING CHAIR—All right. How are the Cairns Group viewed by other parties to the negotiations? Are we seen as just wanting to ensure that we get access for our agriculture, demanding that we get the market access there, or do they see us as offering other things in return in the round?

Mr Gosper—In the context of agriculture?

ACTING CHAIR—In the context of agriculture.

Mr Gosper—I think all the key players have long familiarity with the Cairns Group—20 years now—and are aware that the Cairns Group brings to the table not just a particular interest in market access but well-developed positions across all the pillars of the agriculture negotiations—so, on export competition, exports subsidies and other areas, the Cairns Group brings forward negotiating positions, proposals and suggestions of one sort or another.

ACTING CHAIR—In respect of the agriculture negotiations, are the EU and some of the North Asian countries still pushing the idea of multifunctionality?

Mr Gosper—Multifunctionality, or non-trade concerns, yes, are a key area of interest for a number of WTP members.

ACTING CHAIR—What concerns in particular are they raising?

Mr Gosper—Essentially they argue that, on the basis of what they might call the multifunction or character of agriculture, high levels of protection should be maintained for the agricultural sector.

ACTING CHAIR—And that would apply particularly in places like the EU, where they say they have got to keep these people out on their farms and out there doing what they have done for the last few thousands of years.

Mr Gosper—Yes; in particular, that they need to maintain high import barriers to enable them to do that.

ACTING CHAIR—Do we have a view on multifunctionality? Do we accept it? Do we oppose it?

Mr Gosper—We recognise that agriculture has many functions in economies, not just producing food but providing rural employment, environment and so on. But the important thing is that the agricultural sector is protected in a way that is minimally production or trade distorting. It is not to be used for a justification for maintaining high import barriers.

Senator HOGG—The reason I raise that is that the other day the Prime Minister, when commenting in relation to the recent drought package, said:

... we are also talking about the maintenance of a critical mass of rural people which is part of this country's identity and part of the character of this country and there has to be a determination to preserve a viable farm sector in this country. I do not accept that you can just relentlessly say we'll let them all go, doesn't matter, doesn't matter ...

And so it goes on. Given the stance that has been adopted by the EU and some of the North Asians, would they interpret statements like that as supporting their stance, or is there a difficulty created for us in that situation?

Mr Gosper—I would say that perhaps they would reflect on three things: firstly, the fact that Australian agriculture has undergone very significant restructuring over a couple of decades now; secondly, that we provide agricultural support in a way that is, in the jargon, minimally production and trade distorting; and, thirdly, that we have an open market. We do not have large tariff or quota restrictions on imports into this market. That is in some contrast to many of the other countries that argue for a multifunctional protection of agriculture.

Senator HOGG—I am just trying to get this straight. They would not interpret the comments that had been made, in your view?

Mr Gosper—I cannot speak about how they might choose to interpret the comments but I am saying that if they were to draw some inference that such comments support their position they would clearly be wrong.

Dr Raby—There is no inconsistency in the position. As Mr Gosper has said, any state is free to pursue whatever policy objectives it so chooses. It is the instruments. We have never taken issue with the policy objective but it is the how. What the Europeans and others do in pursuing those particular policy objectives is to shift the cost burden off pursuing those objectives onto other countries. There is nothing in this package which would do that.

Senator HOGG—The comment was made the other day. Seeing this had been such a fairly critical issue, as I understood it, in terms of the EU and some of our North Asian people, I was just curious as to whether or not that was going to be the case.

Dr Raby—If they try in Geneva to make mischief we could easily rebut it.

Senator HOGG—I have no doubts that they will. I think that is the nature of trade negotiations.

Dr Raby—We will be on very solid ground in rebutting it.

Senator HOGG—That is good. I am pleased to hear that. Does the Cairns Group have a view on multifunctionality as such?

Mr Gosper—It is more or less along the lines that Dr Raby in particular has described: there is a need to take such things into account—and those are words that are used in some of the relevant negotiating mandates—but, in taking these things into account, it must be done in a way which does not act against the basic reform and liberalisation imperative of the negotiations and it must not be delivered in ways that are trade or production distorting and so forth.

Senator HOGG—So we are at one within the Cairns Group on the view of multifunctionality. Is that a reasonable way to describe it?

Mr Gosper—That is a basic Cairns Group position. There will be nuances of difference, of course, given the diversity of the group.

Senator HOGG—But it is one of the sticking points when it comes to the EU and some of our northern neighbours.

Mr Gosper—Yes.

Senator HOGG—They have a quite contrasting view. Thanks very much for that. Last week, I understand, Australia submitted its new services offer. What are the key areas of advance on the initial offer?

Mr Gosper—We did. We were the second member to meet the deadline that all members set for themselves last July and one of only nine countries to submit revised offers. We made an offer which we think is an important addition to our additional offer. It covers so-called mode 4—that is, temporary movement of natural people—which is a particular area of interest to developing countries. It covers legal services, other business services, telecommunications services, construction and related engineering services, environmental services, health and related services, transport and freight logistics and a number of additional commitments that cut across various sectors. In all of these areas our proposal reflects our current domestic regulatory settings. It followed a very intensive process of consultation with industry groups, Commonwealth agencies and each of the states, who confirmed their agreement to the proposals.

Senator HOGG—So you have the support of the industry groups and the states on that range of issues in the revised offers?

Mr Gosper—That is right.

Senator HOGG—Is there any specific detail that can be made available?

Mr Gosper—The proposal has been made public. We are one of only three members who have made their offer public. We have made it available on the web site in full detail, as we did with our initial offer in 2003.

Senator HOGG—And the response to the revised offer?

Mr Gosper—It is too early to say. It was only tabled in Geneva a few days ago. Only a handful of revised offers have been so tabled, so it is too early to say and certainly we have not had the opportunity to sit down with other members and work through it and explain it and so on, but we are quite confident it will be seen as a very credible offer and consistent with the ambition we are looking for across the negotiations.

Senator HOGG—Do we get additional credibility and—I do not know if this is the right word—carriage as a result of meeting these deadlines and putting forward a revised offer?

Mr Gosper—I think so. We have got very substantial commercial interests in freeing up services trade globally. We have a lot of industry groups who want us to be very active in these negotiations. We also want to see the round, which of course is a package of

negotiations across many areas, carried forward. So we are looking to do that wherever possible, particularly in a key area like services.

Senator HOGG—Moving back to the Doha round, which has had what I think is best described as a pretty bumpy ride, what are the prospects for long-term settlement of the round? Is there an increasing expectation that there might be a settlement as opposed to running into the blockages that have previously been encountered in negotiations? I am not trying to ask you how long a piece of string is, by the way.

Mr Gosper—There are obviously a series of challenges that people are working through. A lot of work is still required in key areas like agriculture and there are other distractions of one sort or another from many key members. But, equally, I think members agree by and large that Hong Kong will be essential if we want to conclude the round in the next year or two, and that means 2006. If it drifts beyond that, a sort of closed window will emerge and it will be very difficult.

Senator HOGG—How does the encouraging, if I can use that word, movement in this area stack up against the likes of what is happening in APEC? Is there still a function or role for trade liberalisation within APEC, and how solidly are we pursuing that?

Dr Raby—I will take that in my role as former APEC ambassador. We see the role of APEC as quite complementary to what is going on in the Doha round. APEC has never been conceived as a forum in which you negotiate trade liberalisation on a reciprocal basis in the same way as you do in the WTO. Over the last couple of years, though, APEC has made some important contributions. At the junctures where the round has found itself in some difficulty, the ministerial meetings of APEC have proven very effective. Subgroups of the WTO, if you like, try and crunch issues. After the very difficult period following the collapse of Cancun, the Bangkok meeting of trade ministers in the margins of the leaders meeting in October really brought together a consensus to move forward on the round and also to start to work away some of the difficult issues. That culminated in Pucon in Chile last year at the trade ministers meeting with agreement that three of the so-called Singapore issues—investment, competition policy and government procurement—would be off the table.

In APEC you have a very good cross-section of the entire WTO membership, from some major developed countries through to some very poor developing countries. So it has proven very effective in that way to build consensus around difficult issues that have fed back into the round. Again, that progress tends to be achieved at the ministerial meetings of APEC. That is the complementarity between APEC and the round.

But I think there is another component to your question—that is, what is happening generally within APEC with liberalisation. Again, through a range of ongoing activities—peer group review, peer pressure and technical assistance—the, if you like, intellectual framework that supports and sustains trade liberalisation policy is nourished, nurtured and sustained. You then have the trade liberalisation track, which, although it seems mind-numbingly dull in many ways, dealing with the electronic customs clearance procedures or whatever, actually reduces the cost of doing business. That is a very dynamic and live part of the APEC agenda. So I think it is both complementary through the ministerial processes and the way it feeds into

the WTO but also in its own right building and sustaining policies of liberalisation and reducing transaction costs for business through its trade facilitation agenda.

Senator HOGG—Have the Bogor goals been abandoned to a certain extent?

Dr Raby—No, not at all. This year, which is the Korean year, there is going to be a so-called mid-term review of the Bogor goals. The arithmetic is not all that precise—

Senator HOGG—I did not think it was precise, but I would not worry about that.

Dr Raby—We have got the Bogor goals of 2010 for developed and 2020 for developing. The work we have done—we are contributing quite actively to this mid-term review—suggests that certainly amongst the developed members of APEC it is a very encouraging picture. This is a constant theme that emerges from the APEC country reviews, that the developed countries are very much on track. There will be some, and we do not have to name them, in certain sectors which we can imagine will not quite get there, but you are going to be very close by 2010 for the developed countries. I think it is also an encouraging picture for the developing countries.

Senator HOGG—Thank you for that. I now move to free trade agreements. I have a number of questions here which I think we might be able to get through reasonably quickly. How many FTAs is the department currently negotiating?

Dr Raby—I will do sums on my fingers, if you do not mind—

Senator HOGG—Name them and I can tick them.

Dr Raby—We are doing a China FTA, which has just started; an FTA with ASEAN, jointly with New Zealand; an FTA with Malaysia; and an FTA with the United Arab Emirates. I think they are the only ones that are currently under negotiation.

Senator HOGG—What stage are the negotiations at in each of those: ASEAN, China, Malaysia and the UAE?

Dr Raby—It is mixed. I will ask Steve Deady to talk about ASEAN, Malaysia and the United Arab Emirates as they are all under his purview. I will comment on China quickly because it is the easiest one to comment on.

Senator HOGG—I thought it might be.

Mr Deady—I will start with the UAE. We are actually heading off this weekend for the second round of negotiations with the United Arab Emirates. We started those negotiations midway through March when a delegation from the UAE led by the UAE trade minister met with Mr Vaile here and they agreed to start negotiations at that time. We met for a day here in Canberra and we are meeting again, as I said, over the course of next week in the Emirates.

Senator HOGG—What was the trigger for that? I understand that they are our 20th largest export market, 31st largest source of imports and 24th largest partner overall. What was the trigger with the UAE? It seems there might have been a lot more priorities up the list rather than the UAE.

Mr Deady—That is a very good question. I think when you look behind some of those it is a relatively small economy but certainly the trade relationship with the UAE has been a very strongly growing one. It is an important one in some of the traditional areas of trade,

agriculture certainly, but also in elaborately transformed manufactures. That part of the world, the Middle East, is our largest export market for passenger motor vehicles and the Emirates is a very important market for Australian passenger motor vehicles. There is a strong interest in the motor vehicle industry in those negotiations. Also on the services side there has been very strong growth in Australian services exports to the UAE in education, in construction and in a whole raft of environmental and agricultural type services. Tourism is also growing quite strongly from the Emirates. There are 6,000 Australian personnel now on the ground in the UAE. It is a very strongly growing set of economies. When you look at that and you also realise that the UAE has commenced negotiating with the United States, it is important—

Senator HOGG—Who initiated it? Was it us or the UAE?

Mr Deady—Mr Vaile has had a number of discussions with UAE trade ministers over the course of probably the last two years or so. I think it is something that he talked to his counterpart about. I think it was something that we certainly indicated we were interested in doing. They are looking to expand their activity. As I said, they are negotiating with the United States. They want to play an active role in the multilateral negotiations. I think they see themselves very much as a player in this international trade agenda—and increasingly so.

Senator HOGG—That is interesting. Next?

Mr Deady—Michael Mugliston is the chief negotiator on the ASEAN and Malaysia FTA, so I will defer to him if I can.

Mr Mugliston—First of all with Malaysia: the first round of negotiations were held in Kuala Lumpur on 19 and 20 May. The next round is scheduled for 20 to 22 July also in Kuala Lumpur.

Senator HOGG—What is the likely length of the negotiations?

Mr Mugliston—Both sides have agreed to work to achieve a comprehensive and high-quality agreement by mid 2006.

Senator HOGG—What are the major issues on the table?

Mr Mugliston—There are quite a lot of issues.

Senator HOGG—What are the major ones?

Mr Mugliston—We have received a lot of input from industry in response to the scoping study that was undertaken by the department and released on 7 April. There were 60 submissions received in the context of that scoping study. We have received around a further 20 submissions and more are coming in identifying particular interests in these negotiations. They span across the board. On goods, there is interest in getting some elimination of tariffs, and substantial reductions to existing high tariffs in some particular sectors such as autos and steel. There is also interest in addressing some non-tariff measures that range across the board, including import licensing requirements and arrangements. There is a lot of interest in getting some liberalisation in the services sector, particularly professional services, legal services, accounting, architecture, engineering and those sorts of professional services, as well as in the financial services sector, telecommunications and a range of other sectors.

Senator HOGG—I get the drift. What is their interest in us? Do we have an expression from them?

Mr Mugliston—Yes. At this stage, we have not actually launched into substantive negotiations, but that will take place shortly. It is clear that they have observed very closely some of the outcomes that we have concluded with Singapore and Thailand in those concluded FTAs. One can expect that they will be seeking similar preferential access, particularly in particular sectors where they want to have these same tariff advantages in electronics and other areas where they are very competitive.

Senator HOGG—What about ASEAN?

Mr Mugliston—The first round of negotiations was launched in Melbourne on 21 February. The second round was held in Manila on 20 March and the next round has been scheduled for the end of this month, 29 June to 1 July, in Auckland.

Senator HOGG—Again, what are the issues of interest?

Mr Mugliston—This is a negotiation involving ASEAN—that is, 10 countries—Australia and New Zealand. You have 12 countries involved. Within ASEAN, as I mentioned earlier, we have concluded FTAs with Singapore and Thailand. We are negotiating an FTA with Malaysia at the same time. As well, within ASEAN we have three least developed countries, and they are already enjoying duty-free access to this market in view of their LDC status. So it is a mixed bag, and we are going to have to work through a lot of issues. In terms of our trade interests, Malaysia, Indonesia, Thailand and Singapore account for about 85 per cent of our merchandise exports.

Senator HOGG—How does this cut across the FTAs that you have been able to secure already with some of the members of ASEAN and those that you might be negotiating? Does it add complications to the negotiations and, if so, what?

Mr Mugliston—The way we are approaching this is that we are able to move on both tracks, and they are mutually reinforcing. What leaders agreed on last November were an important set of guiding principles for these negotiations. It is actually quite a long list of principles—13 main points. One important principle there is that these negotiations should not result in any dilution of preferential arrangements that have already been negotiated within this grouping of countries. Clearly, a major objective and priority that we have in negotiations will be to preserve and, if possible, expand on the market access and other gains that we have secured in concluded agreements with Singapore and Thailand.

Senator HOGG—What about China?

Dr Raby—The first round of the FTA was held on 23 May. Mr Vaile and the Chinese Chairman of the National People's Congress, Mr Wu Bangguo, had the official launch of the negotiations. There was a negotiating session—largely procedural, but it has now started. I would like to take the opportunity to introduce you to Mr Ric Wells, who heads up the China FTA task force. He can perhaps enlighten you some more on the progress to date and some of the upcoming discussions that are planned.

Mr Wells—As Dr Raby has said, we had our first meeting with the Chinese on 23 May and it was very much a procedural meeting focused on housekeeping issues—issues that are

nevertheless important for the conduct of the negotiations, such as the calendar of meetings and the rules for negotiations. We are expecting to hold a more substantive meeting with the Chinese early in the second half of this year.

Senator HOGG—So you have not settled the calendar or the rules at this stage. You have a general framework undoubtedly, but you have not settled these formally—is that a fair assessment?

Mr Wells—We have a general calendar but, as you would appreciate, these things do need to be discussed in advance of each meeting—in particular, the Chinese have a lot of other commitments.

Senator HOGG—What formal planning arrangements do we have within DFAT for these negotiations in terms of consultations? Have you commenced consultations with industry, the state governments and so on or is that part of the program that you will be putting together?

Mr Wells—As you will appreciate, the important preparatory step before beginning the free trade agreement negotiations was the joint feasibility study by the two governments. The preparation of that feasibility study involved extensive consultations with industry. However, we have also begun another program of consultations now that we have commenced the free trade agreement negotiations.

We have already conducted one round of what could be called preliminary consultations in advance of the meeting on 23 May. We have now begun a second phase of more intensive industry consultations to prepare for the next meeting with the Chinese. Those consultations will involve meetings with a range of industries in most state capitals over the next two months. Of course, the process of consultation will continue throughout the life of the negotiations.

Dr Raby—A few days after the Prime Minister announced that we would enter into formal FTA negotiations with the Chinese, we advertised nationally for submissions from interested parties. So that part of seeking the views of stakeholders is already well and truly under way.

Senator HOGG—Is a part of the negotiations that we have given China market economy status?

Dr Raby—Yes. That was part of a package when the two prime ministers in April agreed to launch formal FTA negotiations. We had agreed 18 months earlier, in the trade and economic framework that had been signed in Canberra during President Hu Jintao's visit to Australia, that, if we decided as a result of the feasibility study to enter into formal negotiations on an FTA, we would at that time grant China market economy status for the purposes of antidumping so that we would be negotiating on the basis of equality. The meaning of all this, really, is that we treat China in the same way as we treat all other WTO members.

Senator HOGG—So knowing that they are on the same standing is really an incentive on our part for the Chinese to enter more fully into the negotiations—is that right?

Dr Raby—Yes. The Chinese made it clear, and not unreasonably, that they would not enter into negotiations unless it was on the basis of equality. So unless we established that basis of equality, no negotiations would ever have taken place.

Senator HOGG—I wanted to make sure I understood that. Media reports last week were that the government told industry that cuts to textiles in Australia would not be accelerated ahead of the scheduling of the China FTA—is that correct?

Dr Raby—The media reports?

Senator HOGG—Yes. There were media reports. Are those media reports correct?

Dr Raby—We are aware of the media reports. The government is looking at all its positions across all areas. These are still very early days. But I do not see, given our industry phase-out plans at present, why we would want to come forward with an offer in that area when we are already planning a substantial cut in our tariffs in this area.

Mr Wells—Realistically, the first phase of our negotiations with the Chinese will focus on further exchange of information. Certainly, Australian officials are expecting that. That is where the focus will be—on the exchange of information. It will not be a question of either side tabling possible offers with regard to tariff reductions or opening of service sectors. It is just not an issue at the moment.

Senator HOGG—Correct me if I am wrong, but you are saying that we are really in for a long set of negotiations. It is not going to be as simple as some of the other FTAs that have been negotiated. And that is not saying anything adverse about the Chinese. It just may well be a reality of the environment and the issues that are placed on the table. Is that a fair assessment?

Mr Wells—I think all of my colleagues at this table would say that there is no such thing as a simple FTA! But in the case of—

Senator HOGG—I am talking comparatively, of course.

Mr Wells—In the case of the Chinese, ministers have said only that the negotiations will take years, and I think that is about as specific as it is useful to be. They will be long, complex and difficult negotiations, yes.

Dr Raby—That is our working hypothesis. Of course, in any negotiation it depends on the political will, ultimately, and we really need to see how that develops in the course of the negotiation.

Senator HOGG—I want to raise the issue of labour standards because they were in the US Free Trade Agreement. Are they likely to be part of the Australia-China free trade agreement?

Dr Raby—Labour standards have only been taken up in the context of the US FTA. They have not been addressed in the feasibility study.

Senator HOGG—Why is that? It seemed to be, as I understood it, fairly important. Whilst it was only a small part, it was nonetheless an important part of the US-Australia Free Trade Agreement.

Dr Raby—I think it is just a pragmatic position. Mr Deady, who has the negotiating history in his head, can enlighten us further on this, but as I understood it—and I stand to be corrected by Mr Deady—it was an issue that the United States insisted on. However, the Australian government's position is that, preferably, non-trade issues should not be taken up in trade agreements.

Senator Hill—Chair, why doesn't the committee organise a briefing session? This is a committee meeting for questioning on the appropriations. We haven't got within a mile of that in this last session. It is an extremely interesting and important discussion, but that is what it is, and that is not the purpose of this estimates hearing. I am rather surprised that you haven't brought that to the attention of the questioner.

CHAIR—Thank you for your advice, Minister. It was something that I—

Senator Hill—It is not advice. I am just expressing what I was thinking.

Senator HOGG—There is a contrary view to that being offered by the minister. I am entitled to pursue this in terms of the Senate estimates process; that has clearly been stated in preambles that are read out at Senate estimates. I think I have been fairly precise in my questioning on the issue, and I am leading to some issues.

Senator Hill—What's it got to do with appropriations?

Senator HOGG—It's got to do with how the resources of this parliament are used.

Senator Hill—There hasn't been a question on the use of resources.

Senator HOGG—Yes, there has.

Senator Hill—No, there hasn't.

Senator HOGG—Yes, there has, because our people are involved in the various negotiations.

Senator Hill—But they haven't been the questions that you have been asking.

Senator HOGG—Minister, contrary to what you might believe, there are resources being used and I think the questions are completely relevant. I think we are trying to make reasonable progress to get out of here—I am doing my best—and I don't think, if we are going to sit here and argue for the next 15 minutes about whether or not I should ask questions, it is going to—

Senator Hill—Of course you should ask questions, but it should be done under a different head.

Senator HOGG—Minister, what you think is relevant and what I think is relevant are obviously two different things.

CHAIR—I think, Minister, you have made your point and I cannot say that I disagree with you. But I think that the Senate has also resolved that there is no area of public expenditure that these estimates committees cannot be used for to ask questions. Senator Hogg has indicated that he is hoping to finish by 7.30 and I don't think we want to prolong him any further on this occasion. The suggestion that you have I will take up with him privately.

Senator Hill—Let's see if the next question relates to public expenditure.

Senator HOGG—I don't think, Minister, that you are necessarily helping the whole process. I think—

CHAIR—I would ask you, Senator Hogg, to ignore the minister's comments and proceed with your questions.

Senator HOGG—Well, just as you can express a view, I can express a view. We don't want to be sitting here at 11 o'clock tonight expressing views to each other.

Senator Hill—I am not going to be sitting here at 11 o'clock.

Senator HOGG—Neither am I, Minister.

Senator Hill—I'm not going to be sitting here for any more than another 15 minutes.

CHAIR—Senator Hogg, can you please proceed. Thank you.

Senator HOGG—I wanted to come back to the issue of the calendar of events. What—

Senator Hill—What's that got to do with the appropriations?

Senator HOGG—There are going to be resources associated with that, and if we need to we can get a costing.

Senator Hill—That would be a good question; that actually would be pertinent!

Senator HOGG—Tickle the minister's fancy and answer the question, please, Mr Wells.

Mr Wells—Senator, as you would appreciate, it is very hard to predict how any negotiation will proceed. I think all I can say at the moment is that—

Senator Hill—There will be a lot of meetings and a lot of travel and lot of expense.

Mr Wells—As the minister has said, there will be a lot of meetings. I think the only safe thing to say at the moment is that possibly for the next six months or so, which could be up to two rounds of negotiations with the Chinese, we will have to focus on the further exchange of information so that both sides have the complete and detailed understanding of each other's policies that they will need to embark on the more rigorous part of the negotiations. I think to say what would happen after then would be pure guesswork.

Senator HOGG—All right. Now, this will make the minister's day. How many officers are working on each of the FTAs—

Senator Hill—Hear, hear!

Senator HOGG—and what resources are allocated? Minister, if you had just waited a minute, you would have saved yourself—

Senator Hill—Well, a preamble that goes for an hour is a bit much.

Senator HOGG—Oh, no, not a preamble that goes for an hour—one needs to get an appreciation of these things, as you know.

CHAIR—Minister, would you like to be excused?

Senator HOGG—How many officers are working on each FTA and are there resources additional to the normal requirements of each of those sections being used in pursuing the FTAs?

Dr Raby—Senator, if you will bear with me, I have got some numbers on this.

Senator HOGG—The other question, of course, is: are there overlaps with, say, the FTA for Malaysia and the FTA for ASEAN?

Dr Raby—With the heads of the task forces here we can give you the numbers seriatim—I do not have an aggregate number in front of me. The structure we have put in place for the FTAs is to have, as you see here, separate task forces. The ASEAN and the Malaysian FTA task force is one.

Senator HOGG—So that is one task force?

Dr Raby—That is one task force. It is headed up by Mr Mugliston. We are able to do that because of judgments we make about, if you like, the speed at which a negotiation will progress and the pressures that will be generated by the two negotiations. We anticipate the ASEAN one will move at a more measured pace compared to the Malaysian one. Then we have the China FTA—

Senator HOGG—How many officers are working on those?

Dr Raby—Can I explain the structure, just so you get a picture?

Senator HOGG—All right.

Dr Raby—Then we have the China FTA task force and the United Arab Emirates task force under Steve Dedy. So there are three task forces covering four negotiations. To service the four negotiations but also to ensure proper implementation of the existing FTAs, we have created an FTA unit and we are in the process of staffing that up. That FTA unit will have functional areas of goods, services, rules issues and legal issues.

Senator HOGG—Is that reflected in the PBS anywhere—this new department, the FTA unit?

Dr Raby—It is not a new department; it is just a unit and it is still being assembled, because these FTAs have just been launched and there is a slow take-up in terms of putting in place the new structure.

Senator HOGG—Does this mean that the staff will be pooled from existing units within various areas?

Dr Raby—That is correct.

Senator HOGG—So we are not looking at additional staff?

Dr Raby—Not at this stage but there will be additional staff. It is a process of building up the resources as the negotiations develop and demand additional resources. Part of it is redeploying resources from the US FTA negotiating group, part of it is deploying resources from the China scoping study group and part of it is pulling specialised resources from the Office of Trade Negotiations into this FTA unit—resources that already, in the Office of Trade Negotiations, are being used to some extent, sometimes a large number of them that are already servicing the existing FTAs and the FTA negotiations. We will backfill the resources into the Office of Trade Negotiations but it is a phasing exercise. That is the structure that we are putting in place. We will put that structure in place to avoid duplication of resources. It has not even been formally signed off by the secretary as far as I am aware but it is essentially agreed within the department that this is the way we are going to go.

Senator HOGG—So when is it likely to be signed off?

Dr Raby—In days, I think.

Senator HOGG—Does that affect the staffing as outlined in the PBS?

Dr Raby—Not total numbers at this stage.

Senator HOGG—If you are going to take people away and then backfill—

Dr Raby—Over time.

Senator HOGG—So there will be changes over time that we will need to look for.

Dr Raby—Yes, absolutely, and the next PBS—

Senator HOGG—The PAES will probably—

Dr Raby—It will reflect those changes. That leads to actual staff number and I do not have it all in my head so perhaps Mr Mugliston can comment.

Mr Mugliston—At the moment, there are five members in the Asia Trade Task Force, as of today.

Dr Raby—Including yourself.

Mr Mugliston—Including myself.

Senator HOGG—That is four plus one. You can take this on notice: can you give us some break-up of the staff arrangements—the level of the officers that are serving in each team, if I can call it a team, or unit.

Dr Raby—Task forces. We will do our best to give you the information now but then we will come back with a consolidated response on notice for you as well. But we will give you a feel.

Senator HOGG—I would appreciate that.

Dr Raby—We are just trying to be helpful to the process this evening.

Mr Deady—On the United Arab Emirates, the task force, as Dr Raby has said, is coming out of existing resources of the Trade Development Division. So there is me and four other staff who are working on the United Arab Emirates as a task force. But all of those officers have ongoing work in other areas of the division.

Senator HOGG—If I understand what is being said, these people will be taken away from those other—

Mr Deady—We will be organising our priorities, working flexibly, so they will not be working full time solely on the UAE negotiations; they will have other ongoing roles in the division's work. So it is a matter of managing that, establishing the appropriate priorities and working flexibly. That is the approach. Just as Dr Raby said, each of the task forces also draw on the trade negotiating expertise in Mr Gosper's division, the Office of Trade Negotiations.

This is very similar to how we handled the negotiations with the United States. I had a core of about five or six working solely on the United States negotiations. We drew on other resources from the Office of Trade Negotiations to carry out those negotiations. Those officers spent various amounts of times on the US FTA negotiations but equally on other parts of the trade agenda. I think that that is very valuable because it does ensure consistency and a great level of cohesion in the negotiations, so I think they are really pluses for us as we work

through these processes. Officers get very rapid experience in a number of these very complicated trade negotiations. That is a very positive thing and I think it has worked very well for us.

Senator HOGG—How many additional staff do you anticipate there might be as a result of the reorganisation? Just roughly. I am not holding you to it.

Dr Raby—Roughly in the order of 15 or thereabouts.

Mr Wells—There is a task force dedicated to the China FTA which comprises six people: me and five others. I should mention that Mr Mugliston and I also share two administrative assistants. Already in these very early stages of the China negotiations, we have drawn extensively on officers in both Mr Deady's and Mr Gosper's divisions, so it would be difficult to give you a number of people aggregated, as it were, but it is certainly more than the number of people in the China task force who are already working on the China FTA. It goes back to the point that Mr Deady was making about the flexibility and the use of resources.

Dr Raby—As I said, I do not think that the FTA unit is formally established at this stage. Mr Gosper, perhaps you can indicate what we are thinking in terms of resources for that.

Mr Gosper—The FTA unit will include six positions to cover particular sectoral components of negotiations across all of the FTA work. It will include a goods coordinator; a services coordinator; an agriculture coordinator; a coordinator for standards issues; a coordinator for a basket of issues covering e-commerce, telecoms and so forth; and a legal advisor for the negotiations. We will adjust the specific duties of people within that unit according to the agenda as it develops in the negotiations.

Dr Raby—I will make a general comment picking up on the comments that Mr Deady made. It is a very interesting process to see what is happening with the FTAs. As you recall, we did not have any about three years ago. We may have just been starting the Singapore FTA negotiations. Since then, we have concluded the major one with the United States, which was a massive undertaking, and a very significant and commercially valuable one with Thailand. We have started these ones now. It is quite clear that we have developed a tremendous amount of intellectual capital around FTAs. There is a certain pattern and a template almost. I do not say that we go to the negotiations to demarche the other side, but the industry interaction and the dealing with stakeholders illustrate that there are real economies of scale, if you like, in this process. It is not like every time you do a new FTA you start up cold and from scratch. It is quite obvious to us when we sit down at the negotiating table with our partners that we now have a very well-developed knowledge and skill base and intellectual capital to do these negotiations.

Senator HOGG—It is not your fault, but I am sorry the minister left when we started to get into budget savings.

Senator PAYNE—I was asked to report back. I am making meticulous notes.

Senator HOGG—Thank you. That is welcome.

CHAIR—The minister has taken his calculator and gone home.

Senator PAYNE—I think he wishes he could go home.

Senator HOGG—So do we all. As a final issue, has this all been signed off by the minister, or is it yet to be signed off finally by the minister for implementation? I am talking about the concept.

Dr Raby—It is the responsibility of the secretary. It is internal to the department. It is a management issue for the department. Obviously, both ministers take a keen interest in being reassured, which the secretary is able to do, that the department is able to deliver on this very big agenda.

Senator HOGG—I look forward with interest to when we visit this issue at the next estimates. I have a couple of other issues that we should be able to get through reasonable quickly now.

CHAIR—You mean we are not going to be interrupted.

Senator HOGG—I think we are not going to be going to be interrupted, so we will pursue the issues. I want to talk about the US free trade agreement for a moment because an issue has been raised. We have had an approach from the Screen Producers Association of Australia with some policy proposals to protect local production after changes to the media ownership rules. Can anyone assist me there?

Dr Raby—Yes. This might be a sort of split responsibility and in the end we may have to take it on notice.

Senator HOGG—I suspect that you may well have to take this on notice.

Dr Raby—Because we have just been talking about how we organise ourselves, I think it might be useful to introduce Jeremy Newman to the committee. He is First Assistant Secretary, Americas and Europe Division. Once an FTA has been negotiated we shift back into the geographic area responsibility, for the implementation of the FTA and monitoring how it is going, and to work with Austrade—as came up in the previous session—to support the trade promotion effort to ensure that we are able to take advantage of the market access that has been negotiated. In the case of the US FTA, given the nature of some of the issues and the complexity of some of those issues, it is moving rather more slowly back into the geographic area in total than is the case with, say, some of the smaller FTAs. That is partly because of the expertise that is required. With that caveat, I will I invite Mr Newman to respond.

Senator HOGG—Dr Raby, in the interests of time, would it be easier for me to go through my questions and then see if they can be addressed?

Dr Raby—Okay.

Senator HOGG—I think that might be the easiest way. As I said, a number of proposals have been put to us by the Screen Producers Association of Australia. The proposals are to impose Australian content quotas on the ABC and to require any acquirer of a free-to-air broadcaster to be subject to an Australian independent production quota. Those proposals have been put to us in the light of the changes that might come into effect with media ownership rules. We would like see if we can find out the effect of the US free trade agreement on the viability of some policy proposals that have been made recently in relation to the carriage of local content of Australian broadcasters. Is the department familiar with the

proposals from the Screen Producers Association of Australia for the introduction of an independent production quota on Australian free-to-air television? SPAA have proposed that the government should require that 75 per cent of all qualifying Australian content broadcast on television, excluding news, current affairs and sport, must be produced by an Australian independent production entity. I understand that they do not suggest that this requirement should apply to existing media players but rather only to future majority purchasers of broadcasters, regardless of the nationality of the purchaser. Would this be consistent with the US FTA? If not, why not?

Dr Raby—I have just done a quick check amongst my colleagues and we will have to take that on notice.

Senator HOGG—I suspected that you might. Another proposal made by the SPAA is that the ABC should be made subject to local content quotas that apply to commercial broadcasters. Is such a course of action open to the Australian government under the FTA? Would the standstill provisions in the FTA prevent the imposition of these quotas on the ABC? If you can take that on notice, I would appreciate that. Or can you give me some initial advice?

Dr Raby—If we can, we will take those all on notice.

Senator HOGG—All right. The other issue that I have—and this will complete the evening, in spite of the restlessness of some of our numbers—is on Vietnam and WTO accession and then one other broad issue, which I do not know if you will be able to assist me on, in respect of Vietnam. How are Vietnam's WTO accession negotiations with Australia proceeding? Is there anyone who can give me an update?

Dr Raby—Mr Gosper can help.

Mr Gosper—The negotiations are proceeding on both the multilateral and the bilateral level. Multilaterally there is a working party process in Geneva which last met last month and is scheduled to meet in September. Bilaterally we are continuing to meet, in particular in Geneva, but we had a Vietnamese negotiating team in Canberra on 4 and 5 May.

Senator HOGG—That was during the visit of the Prime Minister.

Mr Gosper—Yes, it was during the visit of the Vietnamese Prime Minister. We spent a day and a half with the negotiating team going through the bilateral negotiations.

Senator HOGG—Are you able to tell me what the next milestones in the negotiation process will be and whether there is a timetable?

Mr Gosper—From a bilateral perspective, we have each undertaken to do some further work with respect to our bilateral interests. At the moment Australia is revising its request of Vietnam and undertaking industry consultations. We will be consulting with the minister and then we hope in coming weeks to re-engage with the Vietnamese team, initially by correspondence, to see if we can take the negotiations forward.

Senator HOGG—When would you expect negotiations in this area to conclude?

Mr Gosper—As is common in most accession negotiations, which are all about the applicant country bringing its regime into conformity with certain standards and rules and

making certain concessions to trading partners, it is most importantly in the hands of the Vietnamese. We have said we are willing to work as hard as possible to facilitate their desire to complete the accession process during this year. We are doing that most importantly now by revising our request of Vietnam and we will be submitting that to them in coming weeks. How Vietnam responds to us and other members is the most important factor in determining how quickly this process overall moves forward.

Senator HOGG—That was my next question—how are they going with other WTO members?

Mr Gosper—Vietnam has made significant progress in its bilateral market access negotiations with around 21 members and it has concluded a number of those negotiations, including with the European Union, Argentina, Brazil, Chile, Cuba and Singapore. It has not yet concluded with Japan, Korea, the United States or Australia, all of which are very important trading partners for Vietnam. So it has made some progress in the bilateral negotiations. In the working party process it has made a good deal of progress, but there will need to be a concerted application by Vietnam to conclude it this year.

Senator HOGG—Are we making any progress with respect to Vietnam allowing the importation of Australian newspapers, internet content, music and other printed material?

Mr Gosper—Vietnam has made offers on tariff lines that affect books and periodicals at a generally satisfactory level, but we have not concluded specific negotiations there.

Senator HOGG—Are there any difficult areas that might cause concern in the negotiations?

Mr Gosper—In particular, Vietnam has a very highly protected sugar market and a very highly supported salt producer market, both of which are the subject of market access requests from Australia. So they are quite sensitive for the Vietnamese, but reasonably important for us as well.

Senator HOGG—I take it from your comments that progress was made as a result of the visit by the Prime Minister and his entourage in May?

Mr Gosper—The negotiating team, which happened to be here at the time of the Vietnamese Prime Minister's visit, did bring with it some improved offers, particularly in the services area, and we made some significant progress in that area. On the goods front—that is, the tariff lines that apply to a large number of goods—we had some requests over some 1,200 eight-digit-level tariff lines and we got very little progress on any of those key tariff lines. We are now going through the process of trying to fine down that list of 1,200 tariff lines to a much smaller, more targeted, more important number of lines and we will be going back to the Vietnamese and looking for them to improve their tariff reduction offer.

Senator HOGG— I will come back to a budget question because I think it is important. Given that there seem to be a range of things happening from the various free trade agreements and so on, are your resources being stretched in this area? Have you been funded additionally to cope with the additional workload that seems to have been put on the plate of the departmental office?

Mr Gosper—I am fully satisfied that we have the necessary resources.

Senator HOGG—The last question I want to ask—and I think I have been fairly good in terms of time—is in respect of the Vietnamese Prime Minister’s visit. The question does not go to trade as such. I was at the luncheon and I thought that Prime Minister Howard indicated that there was an offer of some assistance to Vietnam in hosting APEC in 2006. Is that correct?

Dr Raby—I cannot comment on what the Prime Minister may or may not have said.

Senator HOGG—It was a public speech.

Dr Raby—I am not aware of it.

Senator HOGG—I accept that.

Dr Raby—We can take that specific aspect on notice.

Senator HOGG—Is the department aware of any assistance to be given to Vietnam in respect of APEC 2006?

Dr Raby—What I can say is that there is an intention to provide some support. What I do not believe a decision has been made on is the quantum or type of that support. But there is certainly an intention to.

Senator HOGG—That was obviously my next question: what is the quantum and the type of support?

Dr Raby—To my knowledge, a decision has not been made on the quantum or type at this stage—after all, it is only June and it is some time off. If there is anything more on that, I am happy to take it on notice.

Senator HOGG—I am sure there is probably a transcript of what the Prime Minister said at the luncheon. Could you check it against the delivery of that speech at the luncheon and then, if it does confirm that there is an offer of assistance for APEC 2006, would you take on notice, then, the other issues that I have raised: the quantum, when the decision will be made, who will make the decision and the level of support that will be offered to assist. I think it will be more in the administration and running. I suspect that, at most, it would be one, 1½ or two officers. That is a guess on my part, and I am not asking you to commit here tonight. I do not think that would be correct. But could you take that on notice and get back to me?

Dr Raby—I am happy to do that.

Mr Deady—Senator, you are correct. We are talking to the Vietnamese APEC officials about providing some assistance to them in 2006. I think those discussions are still going on with the Vietnamese. We will certainly be happy to provide that information once those agreements have been made. I will just add that it is quite usual for Australia to provide that sort of assistance. We had an officer in Chile last year assisting the Chileans as part of the preparations, organisation and other aspects of their chairmanship of APEC for that year. So, yes, you are right; it is not unusual. It is something that we are still talking to the Vietnamese about—what would be the best way to provide that assistance and what sort of assistance.

Senator HOGG—Could you advise me if that is from within your existing budget or if you get supplemented for it?

Mr Deady—We would make that out of our existing APEC budget.

Senator HOGG—Thank you. And thank you, Chair, for your kind chairing of the meeting.

CHAIR—Thank you for your expeditious use of the time. It may have well gone on later than this.

Senator HOGG—There may well be some questions that I might have overlooked in my questioning of all agencies—AusAID and Austrade and also the DFAT officers. But I think I have covered most of it. If there are questions outstanding, I will have forwarded through the committee in the normal process to the officers.

CHAIR—I thank Dr Raby, the officials from the Department of Foreign Affairs and Trade, the minister and members of the committee.

Committee adjourned at 7.15 pm