



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

ESTIMATES

(Budget Estimates)

TUESDAY, 30 MAY 2006

CANBERRA

BY AUTHORITY OF THE SENATE

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SENATE**FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE****Tuesday, 30 May 2006**

Members: Senator Johnston (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Bishop, Ferguson, Payne and Stott Despoja

Senators in attendance: Senators Allison, Bob Brown, Conroy, Faulkner, Ferguson, Forshaw, Heffernan, Hogg, Johnston, Ludwig, Ian Macdonald, Milne, Nettle, Payne, Robert Ray, Stott Despoja, Trood and Webber

Committee met at 9.03 am

FOREIGN AFFAIRS AND TRADE PORTFOLIO

Consideration resumed from 29 May 2006.

In Attendance

Senator Coonan, Minister for Communications, Information Technology and the Arts

Department of Foreign Affairs and Trade**Portfolio overview**

Mr Doug Chester, Deputy Secretary

Ms Gillian Bird, Deputy Secretary

Ms Penny Williams, First Assistant Secretary, Corporate Management Division

Ms Ann Thorpe, Chief Finance Officer

Ms Bronte Moules, Assistant Secretary Executive Branch

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**

Mr Peter Baxter, 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

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 A. Ritchie, First Assistant Secretary, South Pacific, Africa and Middle East Division

Mr Marc Innes-Brown, Head, Iraq Task Force

Mr Paul Foley, Assistant Secretary, Middle East and Africa Branch

1.1.5: Bilateral, regional and multi-lateral trade negotiations

Mr Christopher Langman, First Assistant Secretary, Office of Trade Negotiations

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

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

Mr Ric Wells, Head, China Free Trade Agreement Task Force

Mr Peter Baxter, First Assistant Secretary, North Asia Division

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

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

Mr Tim Yeend, Special Negotiator, Agriculture

Ms Michelle Marginson, Assistant Secretary, Trade Commitments Branch

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

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Mr Ric Wells, Head, China Free Trade Agreement Task Force

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 Lydia Morton, First Assistant Secretary, International Organisations and Legal Division

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 John Carlson, Director General, Australian Safeguards and Non-Proliferation Office

Mr Les Luck, Ambassador for Counter-Terrorism

Output 1.2: Secure government communications and security of overseas missions

Mr Sam Gerovich, 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

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 Noel Campbell, Chief of Protocol

Output 1.4: Services to diplomatic and consular representatives in Australia

1.4.1: Services to the diplomatic and consular corps

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

Mr Noel Campbell, Chief of Protocol

Output 2.1: Consular and passport services**2.1.1: Consular services****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****3.1.2: Projecting a positive image of Australia internationally****3.1.3: Freedom of information and archival research and clearance**

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

Mr Stephen Deady, First Assistant Secretary, Trade Development Division

Mr Richard Andrews, Executive Director, Economic Analytical Unit

Output 4.1: Property management**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 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****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 Bruce Davis, Director General

Mr Scott Dawson, Deputy Director General Pacific, Papua New Guinea and International

Mr Murray Proctor, Deputy Director General Asia Division

Mr Alan March, Assistant Director General Humanitarian Coordination Public Affairs Branch

Mr Paul Lehmann, Assistant Director General Resources Branch

Ms Catherine Walker, Assistant Director General Papua New Guinea Branch

Mr Andrew Pope, Acting Assistant Director General Pacific Branch

Ms Julia Newton-Howes, Assistant Director General Fragile States and International Branch

Mr Peter Callan, Assistant Director General Asia Regional Branch

Mr Michael Wilson, Assistant Director General Asia Bilateral Branch

Ms Allison Sudradjat, Assistant Director General Indonesia Branch Senior Representative AIPRD

Mr Peter Versegi, Assistant Director General Office of Development Effectiveness
Mr Titon Mitra, Assistant Director General Australian Partners Branch
Mr Phillippe Allen, Director HIV/AIDS Taskforce

Australian Trade Commission (Austrade)

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 Hamish McCormick, Executive Director, Government and Corporate Services
Mr Greg Field, Chief Finance and Information Officer
Ms Margaret Ward, General Manager, Export Finance Assistance Program
Mr Tim Harcourt, Chief Economist
Ms Hazel Bennett, Group Manager, Analysis and Planning

**Australian Centre for International Agricultural Research (ACIAR)
Department of Foreign Affairs and Trade**

CHAIR (Senator Johnston)—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee.

Senator HOGG—Mr Chester, late in the day yesterday Senator Faulkner tabled a document and asked whether a date could be identified on that document. I think there was a bit of conjecture about some squiggles that were there. Have you or the department made any inquiries into the document overnight to see if you can ascertain the date that should be or was on that document?

Mr Chester—No, we have not been able to ascertain the date of that document yet.

Senator HOGG—Have you asked officers of the department to make inquiries to see if a date can be obtained? It is fairly important.

Mr Chester—I understand that somebody from the Iraq Task Force is seeking to ascertain that.

Senator HOGG—If that information becomes available during this morning's session, will you let us know?

Mr Chester—I will.

[9.05 am]

CHAIR—We will now move to DFAT trade issues—1.1.5, Bilateral, regional and multilateral trade negotiations.

Senator CONROY—I have some questions on the US FTA to start. I understand that under the Australia-US FTA there was no change to US protection on Australian sugar

imports. I believe there is a quota of 90,000 tonnes per annum and a tariff of 8c a tonne. Is that correct?

Mr Newman—You are correct, but it is not covered under the free trade agreement. I do not have the precise figures for the exports at the moment, but we have been increasing supplies of raw sugar to the United States over the past year.

Senator CONROY—I was going to come to that. I understand that there is a review mechanism for the Australia-US Free Trade Agreement and that there was a meeting in March. How was sugar raised at the review? Did Australia put a proposal on the table?

Mr Newman—Australia did raise sugar. We mentioned it at the joint committee on 7 March, pressing for better market access for Australian sugar producers. We underlined Australia's ability to fill the current shortfalls in the US domestic market, noting that Australian sugar access in the United States had increased by about 52,600 metric tonnes over the past year. We got a reply from the United States Trade Representative at that time saying that he was willing to consider market access for Australian sugar, and we said that improving sugar access remains a very high priority for Australia.

Senator CONROY—That increase was a short-term one-off due to Hurricane Katrina, wasn't it?

Mr Newman—Partly, yes.

Senator CONROY—Is there a permanent part to it, or is it just a one-off?

Mr Newman—The United States has needed to import sugar for quite some time, from even before Hurricane Katrina.

Senator CONROY—But that is mainly because of Hurricane Katrina?

Mr Newman—Yes.

Senator CONROY—Is there any suggestion that this 52,000 metric tonnes is a permanent increase?

Mr Newman—I would not say that.

Senator CONROY—But is there any suggestion?

Mr Newman—No.

Senator CONROY—So we asked for better access. Did we put forward a proposal?

Mr Newman—One of the proposals was to look at the current in-quota tariff, which is about US0.6c per pound for sugar.

Senator CONROY—What was the US response?

Mr Newman—That they would look into that.

Senator CONROY—Excellent. Are there indications as to when they would finish looking into it?

Mr Newman—No, not at this stage.

Senator CONROY—So they just said, 'We'll look into that,' and we did not ask them for a date?

Mr Newman—No.

Senator CONROY—When is the next meeting?

Mr Newman—We hope that it will be an annual meeting. We have not set a date.

Senator CONROY—We do not have a fixed set of—

Mr Newman—No.

Senator CONROY—Are we proposing another one soon?

Mr Newman—We have discussed with the United States the idea of having one in the next year, and the United States has said that that is acceptable to it.

Senator CONROY—So there is a general understanding that there will be another meeting next year without a date being fixed?

Mr Newman—That is correct.

Senator CONROY—How will the issue of pressing the Americans about sugar access be furthered between now and next year's meeting?

Mr Newman—It can be raised in the regular discussions that we have with the USTR to inquire as to whether they have been able to review issues that we raised at the joint committee.

Senator CONROY—Did the Prime Minister raise it on his recent visit with President Bush?

Mr Newman—We have not seen any reports of discussions on that.

Senator CONROY—Was there no preparation done to raise it with President Bush on the incredibly important trip that the Prime Minister recently undertook?

Mr Chester—The briefing for that visit would have been prepared by the Department of the Prime Minister and Cabinet, so—

Senator CONROY—But, surely, if they wanted to include some sugar questions they would have come to you.

Mr Chester—But whether it is included in the brief, as I said, is a call for them. I do not know what was in the briefing provided.

Senator CONROY—Were you contacted at all about sugar issues to go into the brief?

Mr Chester—I will need to take that on notice. I do not know. There is also a multilateral trade angle to this issue as well. Perhaps Mr Langman can briefly set out how we are pursuing this issue in the Doha Round.

Senator CONROY—Before I move on to the WTO I thought I might—

Mr Chester—It is in relation to sugar access in the US so, as well as it being a bilateral issue, as you know, there is a multilateral angle to it.

Senator CONROY—I am sure that if I have questions on the Doha Round and its glacial process we can get to that, and I appreciate that. But I think I will stick with my questions on the US FTA for the moment. Is the eight per cent per tonne paid for all sugar within the quota

or is it 90,000 tonnes and then the additional imports attract an eight per cent tariff? I want to clarify that point.

Mr Langman—My understanding is that we have 8.3 per cent of the US global sugar quota annually. They set the level of imports each year depending on a forecast of supply and demand. The tariff that you quoted applies to out-of-quota imports. The quota that Mr Newman referred to earlier as the ‘in-quota tariff’ applies to our normal imports of 8.3 per cent under the quota and any additional imports the United States decides to bring in as a result of a supply shortfall. So it would be 0.62c a pound.

Senator CONROY—Thank you. Given that the US has a restricted market for sugar, are you or anyone else able to estimate how much more US consumers pay above a standard world price for their sugar?

Mr Langman—That has been estimated many times. I do not have that number with me here. We can certainly supply it to you if you would like it.

Senator CONROY—Yes, thank you very much. The issue of sugar was discussed quite a lot prior to the signing of the US FTA. What was the initial proposal on sugar that Australia put to the US government at the time? I think they said, ‘No access—don’t bother talking to us.’ What was our position?

Mr Langman—I was not involved at the time but, as I understand it, we did want very significant access for all commodities into the US market, sugar included.

Senator CONROY—I am aware, as I am sure you are, that some countries have gained greater access to the US market. I am specifically thinking of Central American countries. They did gain greater access than we did; I think it was CAFTA. Is that correct?

Mr Langman—Yes, that is correct.

Senator CONROY—Were we unable to negotiate MFN status with the US? Was that part of our ambit?

Mr Langman—I am unaware.

Senator CONROY—Was that part of our ambition, so that if someone else got a better deal than us we would automatically get it? It is a standard trade negotiation tool, I understand.

Mr Langman—My understanding is that that is not there.

Senator CONROY—I know it is not there. I was just wondering: did we seek it? Welcome to the table, Mr Deady.

Mr Deady—There is a most favoured nation clause in the US-Australia Free Trade Agreement on all the services and investment issues, which is typical of these free trade agreements and certainly something that Australia looks for in its agreements. There is not, as far as I am aware, an MFN clause in relation to goods in any free trade agreement. It is something that is negotiated bilaterally. The market access deal on goods is a market access deal that both countries agree to.

Senator CONROY—Why do you think CAFTA were more successful than we were at gaining sugar access?

Mr Deady—I obviously was not part of those negotiations. As Mr Newman has said, some additional access was provided to the CAFTA countries on sugar as part of their negotiations with the United States. I think it is also true that, if you look at the detail of that concession from the United States, there are a number of elements to it, including the capacity for the US government to in fact buy out that quota. So there would not necessarily be a flow of additional sugar into the United States as a result of CAFTA.

Senator CONROY—It is a de facto export subsidy, from what I can work out.

Mr Deady—It is very complicated. I would have to think through exactly what that means. The fact is that sugar is not flowing into the United States.

Senator CONROY—How much access did CAFTA gain? What is the actual metric tonnage?

Mr Deady—I cannot remember. We could take that on notice.

Senator CONROY—Do you get any sense that the US may move on the sugar issue, Mr Newman?

Mr Newman—I could not predict.

Senator CONROY—That does not sound hopeful.

Mr Newman—We are always hopeful.

Senator CONROY—I said it does not sound hopeful. I have read some media reports that the trade deficit with the US has increased since the agreement became operational. Is that correct? If so, by how much?

Mr Newman—That is correct. In the balance of trade with the United States there was a deficit increase of 9.2 per cent between 2004 and 2005. We do not have all the final figures in for 2006 as yet.

Senator CONROY—Did you say the deficit has increased by 9.5 per cent?

Mr Newman—That is from 2004 to 2005.

Senator CONROY—When do you expect the next set of figures?

Mr Newman—We have some merchandise export figures for the nine months to March of this year. The most recent trade figures show that the merchandise trade deficit with the United States increased by 10.3 per cent in the nine months to March. That was mainly due to a 6.5 per cent increase in merchandise imports from the United States—mainly medicinal products. Our own merchandise exports to the United States grew by 1.6 per cent in that period.

Senator CONROY—Are you anticipating a surge in services to counterbalance that?

Mr Newman—Service exports have increased by about 3.6 per cent in 2005. Services at present account for about one-third of our exports to the US, so that is quite a large increase.

Senator CONROY—Would you anticipate that there would be a big enough surge to overcome the 10 per cent on merchandising?

Mr Newman—It is too early to say.

Senator CONROY—It would be a pretty phenomenal surge if there were one. Would that be fair to say? If we were going to offset the size of the merchandise deficit increase, it would have to be a pretty phenomenal surge in service exports to save us.

Mr Newman—I do not think we necessarily need to be saved on this. We are looking at the—

Senator CONROY—When I say ‘saved’, I mean rather than a total trade deficit increase.

Mr Newman—You will need a large services increase there. But I might add that just on the merchandise exports a number of the reasons for the increase in the deficit has been what we call ‘volatile reasons’. We have had crude oil that was formerly exported to United States being diverted to the Asian market. We have had beef exports that previously went to the United States being diverted to the Asian market. Also the Mitsubishi Magna sales were stopped to the United States. If you take away those short-term issues we actually had an increase in merchandise exports by about four per cent to the United States in the 2004-05 period.

Senator CONROY—What has happened to Australia’s trade balance with Thailand since the agreement came into effect?

CHAIR—Before we move off the US, Senator Macdonald has some bilateral FTA questions on the US.

Senator IAN MACDONALD—Has the change in the European market had any impact on the Americans’ attitude to sugar trading? There is a bit of light at the end of the tunnel with the Europeans through WTO with sugar. My understanding is that the Europeans are winding down their subsidies of sugar over a period of time. I am wondering whether that approach from the Europeans has had any impact on the Americans in relation to sugar trading.

Mr Langman—As you are aware, we prosecuted a WTO dispute settlement case with Thailand and Brazil in relation to the EC’s sugar policies on export subsidies and we were successful in that case. The EC is now implementing a reform of its sugar policy. It has a considerable way to go in implementing that reform. At this stage I have not seen a difference in the approach of the United States to its sugar policy but, as Mr Chester said earlier, it is our hope that through the Doha Round of trade negotiations we will be able to bring about some changes in the US sugar regime.

Senator IAN MACDONALD—Does it not normally follow in international trading negotiations that, if the Europeans make a concession, the Americans hopefully will follow?

Mr Langman—I think it is possible that in due course the reform of the European sugar policies will make it more possible for us to persuade United States to reform its sugar policies, but clearly these things are very solidly based in domestic factors.

Senator IAN MACDONALD—The projections for the sugar price over this year and next year are quite encouraging. Is there a one-sentence reason for that?

Mr Langman—I think that there are two reasons. One is that Brazil, which is now certainly one of the most competitive producers of sugar on an enormous scale, is diverting very large volumes of sugar into ethanol, and partly that reflects the price of oil. The second reason is that the markets have reacted generally positively to the fact that Europe is now

moving to reduce its exports subsidies—or at least it has lost a case in WTO on this issue. In the transition of reform toward a reform of its sugar policies there has been an increase in exports from Europe for a period of time. So that is also counteracting some of these other forces in the market.

Senator IAN MACDONALD—There is always a silver lining in every cloud and although we do not like the high petrol prices at least the sugar industry is seeing some benefit from it. On a slightly different note—still on the FTA—I understand that the review of the FTA is coming up shortly. I understand that when this occurred in previous times industry groups were involved—

Senator CONROY—It has already happened, Macca—in March.

Senator IAN MACDONALD—I wonder if the peanut industry is involved in that. It has a very big interest in trade with the United States and what the United States does.

Mr Langman—My understanding is that we had a first meeting of the joint committee in March. As Mr Newman noted, we will have another one next year. We do consult very widely with agricultural industries and in fact all interested industries. I am sure that the peanut industry was offered a chance to provide views. As to whether the industry did, I cannot be certain.

Senator IAN MACDONALD—I am certain they would have if they had been invited. There was some concern that they may not have been. My information is going back a number of months—certainly pre-March—and I have not caught up with them since. There was some concern that they were not fully consulted previously. It is a very significant industry and they have a new product—a high-oleic peanut—that can do good things in America. But they run up against a fairly poor outcome from the FTA. They are likely to have wanted to put their views in these prenegotiation negotiations, so to speak, or meetings. Could you take it on notice and let me know about it?

Mr Langman—Yes.

Senator CONROY—What has happened to Australia's trade balance with Thailand since the agreement came into effect?

Mr Grigson—In the year January to December 2005, Australia's exports to Thailand were \$4.1 billion. Its imports from Thailand were \$4.8 billion. So there is a surplus in Thailand's favour of about \$700 million.

Senator CONROY—So the deficit has widened?

Mr Grigson—It has. I draw your attention to two products. I think we have had discussions with committees before about this. The first is gold and the second is oil. Neither of them was covered by TAFTA. There have been significant increases in numbers there. From January to December 2004, gold exports to Thailand were \$495 million. In the following year they were more than \$1 billion. From January to December 2004, oil exports to Thailand were \$400 million and in the following year they were \$573 million. We have always put the view that you will need several years before you can make a judgment about the direction of those things.

Senator CONROY—You say that it takes time for the benefits of a free trade deal to emerge. Looking at our free trade agreement with Singapore, do you know when that came into effect?

Mr Grigson—In 2003.

Senator CONROY—What is our trade position with Singapore?

Mr Grigson—As to Australian merchandise trade with Singapore, exports to Singapore in 2005 were about \$4 billion and imports from Singapore were about \$8.6 billion. The total trade was \$12.6 billion.

Senator CONROY—Has that deficit increased since SAFTA?

Mr Grigson—As you will recall, Singapore was essentially a free port at the time of negotiation so the SAFTA focused more on services. Again, gold and oil have been significant features of that trade and they have shifted. The decline in exports since 2000-01 is essentially on the back of lower gold and crude oil. They accounted for \$2.4 billion of the \$2.9 billion shift between 2000-01 and 2003-04.

Senator CONROY—How have service exports to Singapore changed over the period of the deal?

Mr Grigson—I can check this for you, but from memory I think the trend growth rate is about 11 per cent a year.

Senator CONROY—I have seen an argument that the most advantageous free trade deals are between countries with complementary economies. In your experience, is that the case?

Mr Deady—I am not sure. I think the answer is probably yes, in broad terms. As we did in previous discussions, we often point to the deal between Australia and New Zealand. We have similar economies in many ways but, nonetheless, there has been very significant growth there. I think these questions are so complicated now because of globalisation and supply chains. Intra-industry trade is also a very significant part of world trade and I think that over time that is probably the part of some of these FTAs where you will see growth generated, as well as in the services associated with manufactured trade. I think, as Mr Grigson has said, the SAFTA was certainly, from Australia's perspective, about services and investment. We have seen solid growth in services exports to Singapore from Australia since the FTA. That is complementary in the sense of economies that lead to deeper integration, and I think that is what you see.

Senator CONROY—I have heard that the deal with the United Arab Emirates is unlikely to go ahead. Is that correct? Where are the negotiations at with the UAE?

Mr Deady—I can answer that; I am the chief negotiator with the Emirates. We have had four negotiating rounds with the Emirates and we are actually making some good progress with them. The most recent round was at the end of March, when we were in Abu Dhabi. We made some good progress by the end of those negotiations. Like all these things, there are always difficult issues and sensitivities that need to be worked through.

There is one additional issue in relation to the negotiations with the Emirates—that is, the UAE is a member of the Gulf Cooperation Council, a customs union of six of the Gulf States.

There are issues surrounding bilateral negotiations with countries that are members of a customs union, and that is something that we were aware of when we started the negotiations and we have continued to work through. We think that those issues can be managed. There is some pressure from some of the members of the GCC. Their preference would be to have these trade agreements with the GCC as a whole, rather than individual members, and that is an issue that we are talking about with the UAE. The UAE are talking to their colleagues in the GCC, most importantly—

Senator CONROY—So has this become a trilateral discussion?

Mr Deady—If there is a parallel, it is more like the ASEAN-Australia negotiations, where there is a group of countries on one side. It is a plurilateral negotiation. There is a group of countries on one side—that is, the GCC—

Senator CONROY—But I thought we were engaged in a bilateral discussion. It appears to have morphed, from your description.

Mr Deady—No, it has not morphed. You raise a good point. The fact is that, no, it has not morphed. We are negotiating a bilateral agreement with the UAE. That is the mandate we have and that is what we are interested in doing. At this point, we are not interested in negotiating with the GCC as a whole, and that is why there is this issue. As I say, it is something that the GCC and UAE are working through. The point I was trying to get to is that the UAE have made it clear to us that they are still committed to bilateral negotiations with Australia, and on that basis we are going forward.

Senator CONROY—It sounds fairly complicated.

Mr Deady—It is complicated. They are always complicated.

Senator CONROY—But this one sounds a little more complicated than normal.

Mr Deady—It is unusual. As I said, they are a part of a customs union. The point there is that the customs union of the GCC is not as well developed as, say, the EU, and they do not have common external tariffs, which is the normal feature of a customs union. So there are ways that this can be done. It is a complication. Like all these negotiations, they are all different and they all have their challenges. The UAE also have a large free port as part of their economy, and that raises another range of issues that we need to think through and work through, and that is the process that we are going through.

Senator CONROY—Is the deal conditional on Emirates airlines continuing to sponsor Collingwood?

Mr Deady—No.

Senator CONROY—Why not? It is a very serious issue!

Mr Deady—The free trade agreement negotiations suggest that air services issues are not part of the—

Senator CONROY—The Senate may take a very dim view! What are our major export items to the United Arab Emirates, and how much are they worth per annum?

Mr Deady—On the good side, the Emirates are a very important market for the motor vehicle industry. Our total exports to the Emirates are worth about \$1.7 billion. The largest

export item is passenger motor vehicles. Not only the Emirates but also many of the Middle East markets are major markets for passenger motor vehicles. Saudi Arabia is also very important.

Senator CONROY—How much do we import? What are the main imports?

Mr Deady—Again, you would not be surprised that crude petroleum is by far the dominant import—in fact, it is the major import. In 2005, imports from the Emirates were worth \$1.3 billion.

Senator CONROY—How are the Emirates ranked as an export destination for Australia?

Mr Deady—I do not have the precise ranking. I should have said they are also a very important market in the services side. We have a very strong presence—a number of Australian industries are active—in the Emirates, in Dubai and Abu Dhabi in particular, in construction, education, financial services and all the associated services. It has been a very rapidly growing market for that sort of trade. So it is a significant market. It is our second biggest market in the Middle East. Saudi Arabia is the largest.

Senator CONROY—Would they be in our top 10?

Mr Deady—I do not have those numbers. I can take that on notice. They may not be in our top 10, but they are a significant and growing market—an important market, as I said, for the motor vehicle industry, which is very interested. In the consultations, when going around the country and talking about this agreement, it is interesting that there was a strong level of interest in the negotiations and, I think, a strong desire on the part of Australian industry for us to be successful.

Senator CONROY—So we are going to be able to export some of those famous utes that we are exporting to the US to the Emirates as well?

Mr Deady—I certainly hope so. As I say, they are a very important market for us now. They obviously like Australian cars.

Senator CONROY—Where do you see the economic benefit from an agreement with the UAE? Is the industry structure of Emirates complementary to Australia?

Mr Deady—Yes. They are a developing and quite open economy in the Middle East. They are a very substantial trading hub. As I mentioned, the services side is where you are seeing a lot of activity by Australian service providers. A number of the universities are already there in the market. They are interested very much in growing that market: construction, professional services—the whole raft of things. As I say, on the good side they are an important market for cars, for other manufactured products and for traditional products. Dairy, grains and meat are all significant export items to that part of the world. The Emirates are doing a bilateral agreement and negotiation with the United States. The GCC as a whole is making agreements with the EU and with China. So there is certainly a defensive aspect to ensuring our competitive position in that market.

Senator CONROY—What econometric model do you use to estimate the economic benefits or otherwise of free trade agreements?

Mr Deady—Are you talking about the Emirates?

Senator CONROY—In general, but I was going to come to—

Mr Deady—There is no one answer to that. For example, with the Emirates we have not done any econometric modelling. We have certainly done an economic analysis of the market and Australia's interests in that market, but the trading relationship is not such that it was, in our view, worth doing any modelling work. Again, given the dominance of services and investment as part of that agreement, it is much more difficult to model those aspects of these agreements. But, as you know, for the FTA with the United States we did modelling with Andy Stoekel's group, the Centre for International Economics. With the other FTAs, it would be up to the leads to talk to you yourselves about what particular, if any, modelling work they did and who did it.

Senator CONROY—So, as far as you are aware, no other department has done any modelling on the UAE?

Mr Deady—No modelling work has been done on the UAE.

Senator CONROY—How many trips to the UAE have there been to negotiate the agreement?

Mr Deady—There have been four negotiating rounds. Two of those have been in Australia and two have been in the UAE. I have been there on three additional occasions for intersessional contact with my counterparts.

Senator CONROY—How many people, including you, have been involved in the negotiations?

Mr Deady—Probably around 25. They are not all DFAT officers. These are whole-of-government exercises.

Senator CONROY—Sure. I am just trying to remember our discussions about the US FTA. Twenty-five sounds like a pretty large team. Is that your entire section?

Mr Deady—As I said, that is not all DFAT; that is all agencies. We are talking about a comprehensive agreement. It is a negative list on services and investments—so it covers all aspects of that. Again, we are talking about government procurement; so we have colleagues from the Department of Finance and Administration. If these negotiating rounds run for a week, those people are not there for the whole week. We have three or four negotiating groups going at any one time, and there would be four, five or six people on the Australian side. That is 18 people just in three separate negotiations going on at once. They are resource-intensive exercises. We do not dispute that. They are complex negotiations, and they are the sorts of numbers that we run to.

Senator CONROY—How much money has been spent on negotiating the FTA with the UAE at this stage?

Mr Deady—Again, I can only speak for DFAT and my division. My first visit was in January 2005 and the first negotiating round was in March. So we have had basically a year. We got allocated some resources for that out of the department's funds. That was around \$300,000. I would have to take on notice precisely how much of that we have spent.

Senator CONROY—Could you take on notice how much it is costing your department and what it is costing other departments, if it is possible to pull together an estimate from the others? It is a whole-of-government exercise, so I am interested in a whole-of-government figure as well as yours.

Mr Deady—We can certainly do the DFAT but I am not sure about other agencies.

Mr Chester—I think it would be very difficult to get any meaningful number in trying to work out the cost, given the number of staff from a number of agencies and they are not working on this full time. Trying to go back and retrospectively allocate officers' time for these negotiations will be somewhat difficult.

Senator CONROY—Given that there has been no modelling of the benefits of the agreement, I was just wondering how you could estimate whether the costs of negotiating it were going to exceed the benefits.

Mr Deady—I think modelling helps in these exercises. We did it, as I said, for the United States. It provides indicators of what the benefits might be over a long period of time. We talk in great detail to Australian industry to see what some of the issues are that we face and what some of the obstacles and barriers are that we face to trade in those countries. That is what we attempt to address in these free trade agreements. If you look at the trade relationship we have with the Emirates and the sorts of products we are selling to those markets, some of the barriers that we face there and how we can deal with those in an FTA, I think there are certainly in prospect for Australia significant gains from a successful outcome to negotiations.

Senator CONROY—Have you discussed the Emirates agreement with the Department of the Treasury to establish their views on the economic benefit of the agreement?

Mr Deady—Treasury are certainly a part of our team. They are very supportive of the Emirates negotiations. They are an integral part of all of the FTA negotiations. To that extent, they certainly assist us in our negotiating processes. When we go forward with the commencement of these negotiations, that is a matter that cabinet will look at very closely, and those decisions are taken—

Senator CONROY—So Treasury are fully behind the negotiations and the discussions with the United Arab Emirates?

Mr Deady—They have certainly been very supportive of our efforts in the United Arab Emirates, as they are in all the negotiations. Investment is a very big part of these negotiations with the UAE. Treasury are right there with us in that process.

Senator CONROY—I have always appreciated your optimistic views on these things, Mr Deady. Where is the Wheat Australia deal with Iraq at present? Has a contract been signed?

Mr Deady—Before I came up this morning, I saw that there was some press from one of the officers of the Australian Barley Board. I cannot comment on that. I know that there have been ongoing negotiations for quite some time between Wheat Australia and the Iraq grain board. This is a commercial matter between those entities. A few weeks back, there were press reports—

Senator CONROY—But Mr Vaile led a delegation to Iraq on this matter a few months ago, didn't he?

Mr Deady—He did.

Senator CONROY—Did you go on that?

Mr Deady—I did, yes. That was very much to allow the entry of Australian wheat back into the Iraq market. That was the agreement that Mr Vaile extracted from the Iraq government—that they would agree to accept tenders from Australian wheat exporters other than—

Senator CONROY—So they have agreed to accept a tender; we are just not winning any?

Mr Deady—I cannot comment precisely on where those negotiations have got to. I know that they are continuing—they are probably continuing as we speak.

Senator CONROY—Who is heading them up?

Mr Deady—Wheat Australia is a consortium of three companies, ABB—

Senator CONROY—And there is no government involvement? There is no-one from DFAT or the minister's office or—

Mr Deady—No.

Senator CONROY—any ongoing participation?

Mr Deady—These are commercial negotiations between this consortium, Wheat Australia, and the Iraq grain board, which is the entity over there. The role of the department and the embassy in Baghdad is that we have facilitated some contact between Wheat Australia and the Iraq grain board. Clearly, communications is an issue from time to time, and we have certainly assisted and facilitated some of that contact. The negotiations, the deal, the contract, the tonnages, the prices et cetera are issues for Wheat Australia and the Iraq grains board.

Senator CONROY—I understood that the contract was signed in the presence of the Australian ambassador. Is that—

Mr Deady—I am not aware of that. I have not seen a report that says that.

Senator CONROY—The head of the Iraq grain board has stated, I understand, that it was signed in front of the Australian ambassador—

Mr Deady—I have not seen—

Senator CONROY—after they made some adjustments to the contract. He says he has not heard back from the firms at this stage.

Mr Deady—I am not aware that the contract was signed in front of the Australian ambassador. I cannot comment on that. I know that there have been extensive discussions between Wheat Australia and the IGB about aspects of that contract and again it has been in the press that some of those issues were surrounding some of the penalty clauses. One of the things that came out Mark Vaile's visit to Iraq was the Iraqi insistence that the wheat tenders should be on a free-on-board basis. That is something that was new for Australia. In the past, most of the deals with Iraq have been done on a CIF basis.

Senator CONROY—I am looking at a report dated Saturday 27 May which states that the Australian ambassador was present at a signing, which presumably meant it was signed on Friday, given it was a Saturday newspaper.

Mr Deady—I cannot comment on that. I do not know.

Senator CONROY—Are the cables coming through slower than usual from Baghdad at the moment?

Mr Deady—No, not as far as I am aware.

Senator CONROY—Have we received no cables from the embassy?

Mr Deady—We certainly have not received a cable saying that the ambassador was at the signing of the contract, and that makes me think that he probably was not. But I do not know.

Senator CONROY—Could you take that on notice? I am happy for the public record to be corrected about whether or not our ambassador was present, but if he was and the Australian government has been unaware for four days that he signed a contract—

Mr Deady—I am not aware of him having been at the signing. If he was it would have been a ceremonial—

Senator CONROY—There has been public concern about the ability of the Australian government to read cables from Baghdad. We are not having a repetition, are we? There isn't some poor bureaucrat five levels below you that might have seen the cable, Mr Deady, and hasn't passed it on?

Mr Deady—You are talking about a press report that our ambassador was at the signing. I do not know whether—

Senator CONROY—It is a Reuters report.

Mr Deady—he was there or not. My point would be that I do not see the great significance in whether he was there or not. It would have been a purely ceremonial—

Senator CONROY—I would have thought that meant you had received some information, that is all.

Mr Deady—You will have seen reports where Wheat Australia has said that they had taken it as far as they could and they were withdrawing their offer at that time. This is a commercial matter. Wheat Australia has continued to negotiate and to talk to the IGB. I saw the reports this morning. I understand that those negotiations and discussions have been continuing over the course of the past week or so and I believe that they are getting quite close. But I do not know whether they have finalised the deal. I hope the reports of yesterday are right.

Senator CONROY—I am just looking at an AAP report from Thursday, 25 May last week also outlining the terms of the deal, again reporting that the Australian ambassador was present at the signing. Some of those cables seem to be having trouble getting through. If this report appeared internationally—and it is a Reuters and AAP report—then the ambassador would have contacted you to say, 'Yes, I was there,' or, 'No, I wasn't there. Here is what is happening', five days later.

Mr Deady—I would not have expected our ambassador to report that he had been at a signing if he was there because this is a commercial matter and his presence would not have either validated or invalidated that contract. The signing of the contract and the agreement is between Wheat Australia and IGB and my understanding is that at the very time IGB were finally signing off a contract Wheat Australia was saying that there was an issue between

them that they believed they could not resolve on that particular contract and they had withdrawn that particular offer. I do not see the significance of whether the ambassador was there or not.

Senator CONROY—The only significance is whether or not the ambassador is aware that there has been a contract signed and the fact that we are operating off Reuters and AAP on what is a very important contract for Australia and the department four or five days later have not had a report from the ambassador one way or the other at all. I know that Baghdad is a difficult location and there are many other pressing issues for the ambassador to deal with. But I am sure he was not just wandering the streets and he bumped accidentally into a signing of an agreement with—

Mr Deady—This is an important issue and, as I have said, we have certainly done our best to assist Wheat Australia in facilitating these arrangements between them and IGB. I know that we have assisted in terms of some of the communications in getting drafts of contracts between the two parties. We have assisted in that through the embassy in Baghdad. But the actual final deal is something that is done between IGB and Wheat Australia.

Senator CONROY—But you do not ignore it and forget it after that. You have gone to all this trouble. You personally and the minister had gone to Baghdad and you have made sure that we could be included in the negotiations. You have not turned your back and walked away. You would be monitoring on an ongoing basis and there would be constant daily discussions, I would imagine, between Wheat Australia and the embassy. I am sure that given the proximity and the safe zone—they are almost living on top of each other—there must be almost daily contact between Wheat Australia and the embassy, if not—

Mr Deady—Wheat Australia have appointed an agent in Iraq—

Senator CONROY—Well, an agent of Wheat Australia and the embassy—given the importance that the government placed on this when the minister, a delegation and you all flew to Baghdad.

Mr Deady—That is right—to seek the agreement from the Iraqis to accept tenders of Australian wheat, which they did. Those negotiations now have effectively been going on for 10 weeks. You are talking about a contract that was signed on, you mentioned, 25 May. All I am saying is I do not know whether the ambassador was at the signing of that contract. If the contract was signed on that date it would have had to have gone back to Wheat Australia, and Wheat Australia would have had to have satisfied themselves that the final terms of the contract were the terms that they were looking for from the IGB for this deal to continue. I understand those discussions have been going on certainly throughout the last few days. I saw the report this morning from one of the members of that consortium who I think was at his annual general meeting. He was reported as saying that the deal has been done. My understanding is that it is perhaps getting very close, but I do not know whether the deal has finally been done. There are aspects of this that Wheat Australia are negotiating with the IGB, and it is clear they are also negotiating with AWB to source that wheat.

Senator CONROY—I noted that Minister Downer dismissed it, when the reports came through that the contract had not gone ahead, as just a commercial matter.

Mr Deady—It is a commercial matter. This is a contract. This is one tender, one contract. I think what the government have said is that it is certainly not the intention that we would do this deal at any price. There were issues that Wheat Australia have said publicly they had. There are aspects of that contract that the IGB were insisting on that they were not prepared to accept. When you talk about the contract being signed I do not know what version of the contract you are talking about, Senator. What we need to see is the final contract signed by both—

Senator CONROY—That is why I am trying to find out what the embassy is doing.

Mr Deady—It is working with Wheat Australia and IGB to facilitate those discussions.

Senator CONROY—Would you be able to contact the embassy and get back to the committee? Can you find out what the latest is, instead of just relying on Reuters and AAP?

Mr Deady—We speak to the embassy regularly on this. We can facilitate and assist in that, but the actual deal, this particular tender, is a matter between IGB and Wheat Australia. There is a limit to what we can do.

Senator CONROY—So if it falls over it has got nothing to do with the government.

Mr Deady—If it did fall over it would be one contract. We are still back in the market. Wheat Australia are already talking about a subsequent offer to the IGB. If this particular contract fell over it does not mean that we are out of the market at all. In fact, we are back in the market because of Mark Vaile's visit. But Wheat Australia have to do a deal that is commercially beneficial to Australian wheat growers. That is the commercial part of this that we cannot get involved in. And we are not going to tell Wheat Australia to do this deal at any cost. That is not something the government is prepared to do and it has made that very clear.

Senator CONROY—Thank you. I have some questions on the China FTA. I understand there was a round of talks on the China free trade agreement over the past week. Is that correct?

Mr Wells—Yes, there was a meeting last week in Beijing.

Senator CONROY—I understand the issue of casual visas for employment of Chinese nationals in Australia was raised.

Mr Wells—No, it was not.

Senator CONROY—Are you familiar with reports that it was?

Mr Wells—Yes, I am. They were not entirely accurate.

Senator CONROY—Which parts were not accurate?

Mr Wells—We do expect, at a later stage in the negotiations, the Chinese to raise the question of improved access to the Australian labour market, but that is something that we expect will come when we begin the market access negotiations. That particular part of the overall negotiations has not begun yet. All that has happened is that, during the course of our discussions with the Chinese over the last year, the Chinese have indicated informally to us that when the market access negotiations begin they will raise this issue. But they have not done so formally and they certainly have not indicated to us precisely what improved access they will be seeking. There were, however, discussions last week about the framework

provisions of a possible chapter in the free trade agreement covering what we describe as the ‘movement of natural persons’. But, again, I underline that is not the same thing as the Chinese giving us a request for improved access to the Australian labour market.

Senator CONROY—I have, for my sins—

Senator PAYNE—Considerable!

Senator CONROY—Thank you, Senator Payne—been through a sort of language initiation. I am familiar with the jargon, so I was perhaps using shorthand when I suggested it was raised. Let us go back a step. There were informal discussions where the Chinese indicated that they would be raising this at a later stage. Is that a fairer portrayal?

Mr Wells—I would rather be precise. During the initial stages of our negotiations, which have comprised, largely, Australia asking and receiving questions from China, the Chinese have mentioned to us that one of the areas of interest to them when the market access negotiations begin will probably be the movement of natural persons. That is as precise an understanding as we have from the Chinese.

Senator CONROY—They have indicated that they have an ambition.

Mr Wells—Yes.

Senator CONROY—‘Natural persons’—that is a new phrase for me.

Mr Wells—The movement of.

Senator CONROY—Chinese nationals was a simpler phrase.

Mr Wells—It is WTO jargon. It is the movement of natural persons. That is the terminology we are using with the Chinese. Essentially it covers, as you well know, temporary access to the Australian labour market.

Senator CONROY—Did they indicate what their ambition was likely to be?

Mr Wells—No. The Chinese negotiators have not told us precisely what their ambitions will be.

Senator CONROY—Have they given us a vague idea?

Mr Wells—No.

Senator CONROY—You used the word ‘precisely’; they obviously indicated something.

Mr Wells—Chinese negotiators have only said to us that they do have an interest in the movement of natural persons. I am talking about Chinese negotiators here because I think that is the most accurate thing on which to rely.

Senator CONROY—Fair enough. I believe the service industries, in particular business services, is a sticking point for the Chinese. What particular aspects of the business services sector are problematic for China?

Mr Wells—China has said repeatedly and publicly that the services sector in general will be the most sensitive part of the negotiations for it. That covers not just what we call business services but a range of other services.

Senator CONROY—What particular aspects? Have they indicated in general?

Mr Wells—The Chinese have said services such as telecommunications, financial services, professional services—

Senator CONROY—Are there any services left?

Mr Wells—Frankly, no, I do not think there are any left. The Chinese have made an effort to be frank about the difficulties for them of the whole services sector, which is helpful for us because we are left in no doubt about the difficulty of this sector.

Senator CONROY—This is just to get it on the table; this is not actually to negotiate it through.

Mr Wells—The market access negotiations have not begun. Everything I am describing has been or will be preparatory to those negotiations.

Senator CONROY—So this is just to get it included.

Mr Wells—No, the Chinese did agree before the negotiations began that the negotiations would cover services. That is one thing; but actually negotiating improved access for Australian services providers is another. The Chinese have, quite usefully, told us that it will be difficult for them to give us improved access. We have also told them that improved access is vital.

Senator CONROY—From a trade negotiations point of view, if any country—China—says, ‘It is all on the table,’ and you say, ‘Okay, we would like to talk about the services sector,’ and they say no, is that considered to be an acceptable way to negotiate? They say it is on the table and when you ask about it they say, ‘No, we are not going to make any changes.’

Mr Wells—If that happened it would not be acceptable. But that is not what has happened. What has happened is that the Chinese have said that services are on the table but they have also said to us that when we begin with detailed negotiations about removing specific Chinese restrictions we can expect very tough going.

Senator CONROY—Do you believe business services are a threshold issue for China? Is it that tough?

Mr Wells—I think services is going to be a very difficult issue for China and a very important issue for Australia.

Senator CONROY—Is it a threshold issue for us?

Mr Wells—It is a key issue for Australia. Services is one of the sectors where Australia stands to gain most from the negotiations because that is the sector where the Chinese restrictions are greatest.

Senator CONROY—What about access for agricultural products? I understand this is difficult as well. What are the main sticking points for China?

Mr Wells—China says that it is very concerned about the impact of the liberalisation of agricultural trade on the standard of living of its own farming sector. Thus, and I am reporting what the Chinese say, they are very reluctant to remove restrictions on agricultural imports from Australia.

Senator CONROY—Obviously the US said no to sugar from day one and never really budged. Are there any issues in agriculture where the Chinese are indicating a similar sort of intransigence?

Mr Wells—China has particular sensitivity over a range of agricultural commodities which are subject to tariff rate quotas. Those include wool, wheat, sugar, rice and cotton. They are particularly sensitive for China.

Senator CONROY—It sounds like they are prepared to let in everything that they have a comparative advantage in producing and nothing that we do.

Mr Wells—The Chinese have accepted that, in order to negotiate a high-quality free trade agreement, concessions will be necessary from both parties. Understandably, they have also indicated that when it comes to talking about the concessions they will try to give away as little as possible. We have indicated to them that we will try to obtain as much as possible.

Senator CONROY—What is on the table re manufactures? What will we give up?

Mr Wells—We are not at the stage where we can even begin to talk about what we will give up. We have not begun the market access negotiations.

Senator CONROY—Any chance those utes are going to get free access into China?

Mr Wells—China has comparatively high tariffs on auto products, including vehicles, and I imagine that that is one of the areas where we will try to obtain preferential concessions for Australian products.

Senator CONROY—Do you think we will be able to export Australian cars into China?

Mr Wells—Obtaining preferential market access is not necessarily the same thing as what the marketplace decides to do with that access.

Senator CONROY—Is it a win if we negotiate entry for things that we would not bother exporting to them because they would not be competitive?

Mr Wells—You do not know what you might export—if there are restrictions in place that deters exporters. What we as trade negotiators do is remove the barrier and that at least means our exporters can take a decision on what they want to do with that access.

Senator CONROY—I am getting a sense that we will get a long list of things where we have removed impediments to access yet none of them are in products that we would actually have a competitive advantage in selling into China. Would that be considered a good outcome? You have just made the point that it does not matter to trade if the market does not take advantage of it.

Mr Wells—We have told the Chinese that we will be looking for solid market access gains in agriculture, in resources and in those manufactured products that we do export to China. I imagine that when the market access negotiations begin we will be tabling quite ambitious requests for tariff and other reductions on those products.

Senator CONROY—Are you confident that after the negotiations, as a result of your successes, Australia will be able to flood China with its manufactures?

Mr Wells—My job is to negotiate the best outcome. I am neither confident nor pessimistic.

Senator CONROY—Mr Deady is usually an optimist. You are staying neutral, are you, Mr Wells?

Mr Wells—My job is to negotiate the best possible outcome. All we can do is focus on the barriers and try to remove them.

Senator TROOD—Mr Wells, this is the first kind of free trade agreement the Chinese have negotiated—is that correct?

Mr Wells—No, not quite, Senator. China does have free trade agreements or the equivalent of free trade agreements with, from memory, Hong Kong, Macau and the countries of ASEAN. But I think it is true to say, and the Chinese themselves say this, that their free trade agreement with Australia, which will be their first with a major developed economy, will have to be quite different from any of its other free trade agreements.

Senator TROOD—Yes, I was thinking in that context rather than the others. Do the ones that China have negotiated with other South-East Asian countries give us any indication of the kinds of concessions they might be prepared to make at this stage?

Mr Wells—No, not a lot. We have gone through all of China's other FTAs, and whatever those other FTAs have produced that will be of commercial benefit to us we will certainly be seeking from the Chinese. But, given the range of Australia's commercial interests in China, none of its other FTAs could be considered as a template for our FTA.

I should clarify that, in particular, China's free trade agreement with ASEAN is a 'goods only' FTA. Theoretically, it is a two-stage agreement. The first part covered goods; that was agreed last year. The Chinese and the ASEANs are supposed to be negotiating the second part of the agreement, covering services and investment, but I think the most charitable description you could give to those negotiations would be 'desultory'. One of the things we have been very keen to point out to the Chinese is that a 'goods only' agreement, whether in name or properly, would simply not be acceptable to Australia. There is no real precedent for the sort of agreement we are trying to negotiate with the Chinese.

Senator CONROY—Senator Trood, perhaps with Mr Wells's patience you would be able to help the Liberals and Nats in Queensland!

Senator TROOD—I am very grateful to you, Senator Conroy, for that advice, but I might just leave it on the table for the moment. Is this part of a wider Chinese trade strategy throughout the region? For example, do you think the successful negotiation of a comprehensive trade agreement with Australia will prove a foundation for negotiation with the Japanese? Have you turned your mind to the wider strategies which are underlying the Chinese trade position?

Mr Wells—It is certainly true that over the last few years the Chinese have become more adventurous in their FTA negotiation policy. In some ways that is not surprising, because for so long China's attention was focused on its accession to the WTO. That has been more or less digested, as it were, so the Chinese are focusing more on FTAs. However, the agenda of negotiations they have under way at the moment is not what you would call excessive. Essentially, it is Australia, and they are also negotiating with New Zealand. They have discussions—I suppose that is the best way of describing them—under way with the Gulf

Cooperation Council, the Southern African Customs Union and Iceland, and also, I think, some sort of process with Pakistan. Again I would say—and I think the Chinese would agree with this—that the negotiations with Australia are certainly in a somewhat different category from the other negotiations or discussions that are under way.

How China might use the FTA with Australia for its wider regional purposes is impossible to predict. Certainly, from the government's point of view what we would seek is a much higher quality FTA than anything China has negotiated or, I suspect, is likely to negotiate with other East Asian countries. We will be a much more demanding partner than they will be.

Senator TROOD—Perhaps you cannot answer this question, but do you get a sense that this FTA and the others that are being negotiated may at some juncture be tied into some kind of regional architecture or some of the regional structures, such as the new EAS or ASEAN Plus Three, or other organisations or institutions like that that are emerging in the region?

Mr Wells—That is a much broader question.

Senator TROOD—I understand that.

Mr Wells—On regional architecture, I would refer you to others. I can only answer with respect to China, and it would be fair to say that the Chinese have indicated to us a degree of scepticism about how far some of these proposals will go in terms of genuine trade liberalisation. Whether that would suit the Chinese or not is another question.

Senator TROOD—I learnt this morning that the Chinese are about to export some motor vehicles into Australia. I assume—and perhaps you can confirm this—that they will come under the same terms as other vehicle manufacturers from overseas exporting into the Australian market. Is that true?

Mr Wells—Yes.

Senator TROOD—The negotiations for the free trade agreement will not affect that particular activity?

Mr Wells—That remains to be seen. At the outset it was agreed that all issues would be on the table, but, as I have said to Senator Conroy, that does not mean that there will be concessions on all issues. The Prime Minister and Australian ministers have made it clear on numerous occasions that while China has sensitivities in these negotiations so too does Australia. The manufacturing sector is in some areas a sensitivity for Australia.

Senator CONROY—I want to ask about the WTO round. It is not my portfolio area directly anymore, but it seems to make the odd headline as it staggers, collapses or gets back up. Can you give me a quick rundown on where we are up to?

Mr Langman—First, I should make this point: the Uruguay Round—the last multilateral round that we negotiated—took a bit over eight years. We are just coming up to the fifth year of negotiations on the Doha Round. Although I at times, like you, am tempted to use the word 'glacial', when you are very close to this it is hard and you have to keep the big picture in mind. The other thing about glaciers that is important to bear in mind is that they can move very quickly and you do not want to be in front of them—you at least certainly want to have your running shoes on. To answer your question, the facts are that at the December meeting in

Hong Kong we made some more progress but we certainly did not break through the current impasse on a couple of key issues, which I will describe in a moment.

One thing that is very clear is that all the key players want an outcome this year and that we have a time frame that we are working to that everybody understands the importance of. That is determined by the expiry of the US trade negotiating authority in 2007. It is clear that we need to finish this negotiation this year so that the United States Congress can consider an agreement that we reach using the administration's trade negotiating authority. I think it is fair to say that we have in fact made considerable progress and that we have a very good sense of the structure that we need to deliver the outcome.

There are some important gaps. Let me describe what I mean in a little more detail. On market access for agriculture—a critical issue for Australia and an issue at the core of the impasse that we are dealing with at the moment—we know we will cut agricultural tariffs, using a tiered approach. Everybody agrees, but we need to agree on the tiers, where they fall. Critically, we need to agree on what the tariff cuts are. We also need to agree on how we will treat exceptions to the general tariff formula—the so-called sensitive products we agreed in the 2004 framework. How many of them will there be and how will we treat them? That is what I mean by structure. A lot of that we have.

On market access for agriculture the biggest gap is the way in which we treat sensitive products. On domestic support for agriculture we have a lot of the structure. We even have a broad sense of the parameters of where the cuts will fall, with some gaps. We have a very good sense of what we are going to do with export subsidies, because we agreed in principle on an end date in Hong Kong. We need to finetune the methodology for implementing that.

On industrial products, NAMA, we have a very good sense of the structure. We are going to be using what is called a Swiss formula, which cuts the high tariffs by more than the lower tariffs. That is something we have certainly advocated, and it is a positive thing that we will be using that. On services, we have a sense—it is much more something you negotiate bilaterally—of a time frame, set in Hong Kong, which is the end of July, and a process by which we are trying to improve the current offers on the table. So we have a sense of structure. What we do not have yet is a meeting of minds on the level of ambition. Clearly, we have some very big gaps there.

I referred to the impasse earlier. This is a bit of a caricature but the big issue that we are trying to deal with now is to bring the offers on market access for agriculture forward to make them more ambitious. The EC, Japan and some key developing countries have sensitivities here. At the same time, we need to improve the level of ambition on domestic support to some degree. The United States has some defensive interests here. We need to improve significantly the level of commitments on industrial products. There, India, Brazil and other key developing countries have defensive interests. Each of these is related to the others. So the EC says, 'We'll move a bit more on market access if we get something more on domestic support, more on industrial products and more on services.' Everybody else says the same, so breaking through that is very tough.

We are pushing really hard in Geneva. The minister was in Paris last week, talking with other key players, and in Geneva a few weeks before that, doing the same. So we are

continuing to push hard. I think we will see a significant effort over the next month and a half. We are certainly hoping to make significant progress on agriculture and NAMA by the end of June. There will be a very intense series of meetings in Geneva with that objective in mind. Obviously, there are a whole range of other issues that we will need to bring into this picture that are covered by the negotiations, but I think the ones I have described are the key issues. As I said, the objective is to do this by the end of the year. That means that we need the rules to do agriculture, the rules to do industrial products and the offers on services, and we need then to put all of those into countries' WTO schedules. That is a fairly lengthy process, as you are aware. It is still possible to do, but it is very tough.

Senator CONROY—Does Australia have a specific proposal, either of its own or as part of the Cairns Group, that it is pushing for? Could you just outline it?

Mr Langman—We have put forward a number of proposals either in our own right or with Cairns Group colleagues. I will give you a couple of examples. Last year we put on the table a proposal about how we would cut agricultural tariffs, with numbers. We put some ideas on the table then, and have put some other ideas since, on how to deal with sensitive products so the treatment delivers substantial market access. We recently, in the last week or so, agreed on a negotiating proposal between the Cairns Group and the G20 countries for removing export subsidies for agricultural products.

Senator CONROY—Thank you for that.

Senator TROOD—Are you encouraged by the position of the European Union in light of what seemed to be a rather intractable position they had taken previously? Is it an encouraging development?

Mr Langman—I have seen the press reports recently and I know that the EC trade commissioner said in a public speech that they were willing to do more on market access. The question really is: how much? We have not seen any real detail yet. They have indicated they might be able to increase the tariff cuts in the EC's proposal that was tabled in, I think, October last year—or at least in the latter part of last year. In our view, those tariff cuts are significantly too low and so there was a long way to move. But it is important to note that, on agriculture, tariff cuts will be very important but also how we deal with exceptions to those tariff cuts will be critical. For a number of our key commodity exports, that is likely to be where we will obtain market access, and it is not clear to us that the EC have yet moved on that issue.

It is of course encouraging that, in the last few weeks, major players have been saying, 'If we can move this combination of agriculture and industrial products and get a sense of confidence on services, we can all improve our offers.' The US has said the same on domestic support. The questions are: how much; how exactly will it be done; and, on agriculture, what is the combination of tariff cuts and treatment for sensitive products?

Senator TROOD—Is the same true for developing states as well—that is, that they are prepared to look at a more compromised position than the one they previously articulated if there is movement on these issues you mentioned?

Mr Langman—Again, it has been put in general terms, but my sense is that key developing countries will be willing to do more on industrial tariffs and on services if they are

confident that a genuinely reforming outcome on agriculture will be available. Of course, we have to see how much is done on agriculture and we have to encourage them to move as far as possible on those areas that they are bit more sensitive in relation to. But I have a sense that, yes, they can do more and will do more if the package can be brought together.

Senator TROOD—So presumably they need more in relation to agriculture in Europe, the United States and Asia—and Australia to some extent. Is that true? I could see, for example, that there could be trade-offs between Europe and the United States, but the expectation is that there would be trade-offs in relation to all of these principal areas where there are clearly obstructions to agricultural access.

Mr Langman—I think key developing countries, and Australia and other players also, look particularly to what the European Union will do on market access, partly because that will help set the benchmark, but not only there. We have a very strong interest in other markets, including Japan and Korea, for example, and including a number of key developing countries in our region. It really does partly depend on the product. The focus of reporting, particularly in the press, is on the major developed-country markets. Truth is, though, that developing countries have very strong interest in other developing country markets. Thailand is a very good example: it is a very competitive exporter of rice and sells rice into a number of countries in the Asian region.

Senator TROOD—Thank you.

CHAIR—We will adjourn for morning tea.

Proceedings suspended from 10.30 am to 10.45 am

CHAIR—I call the committee to order. Senator Forshaw is going to continue the questioning on behalf of the opposition.

Senator FORSHAW—Thank you. I am taking over from Senator Conroy for the remainder of this session with the trade questions. I have some general questions on the budget for the trade section of the department, but I understand, Mr Chester, that the relevant officers may not be present. Is that correct?

Mr Chester—That is correct. Our budget people are not here, but I may be able to help.

Senator FORSHAW—I will understand if you have to take the questions on notice, but they are fairly straightforward. Let me run through them. The first question is: what is the budget for the Trade Development Division?

Mr Chester—I will take that on notice.

Senator FORSHAW—I will put the questions on the record and I can provide you with this sheet as well. It might be the easiest way to proceed. What is the budget for the Trade Development Division? How many people are employed in the division? Stop me if, at any time, you think you have the answer. How has this changed over the past five years? What is the budget for the Office of Trade Negotiations? How many people are employed in that division? How has that changed over the past five years? What is the budget for the Economic Analytical Unit? Do you have an estimate of how much you spend on trade specific activities in the department? Do you have a response to that one or do you have to take that one on notice too?

Mr Chester—I do have a response; let me pick up that last issue. It will be difficult to come up with any meaningful answer to that question, given that we do now have a fully integrated Department of Foreign Affairs and Trade, and a large proportion of the total departmental resources are expended on trade related issues. For example, the staff at our posts are, in a sense, multiskilled. They cover both trade and foreign-security policy issues. It is very difficult to allocate resources across the department. Whilst we have two key trade divisions, the Trade Development Division and the Office of Trade Negotiations, our bilateral geographic divisions also pick up a large trade agenda. For example, the monitoring implementation aspects of the Singapore-Australia Free Trade Agreement are done out of the South and South-East Asia Division. It is difficult, as I said, to quantify what is trade work, how much is spent on trade work and how much is spent on other work in the department, because it is a fully integrated department.

Senator FORSHAW—But certainly you can provide answers to those other questions I have already asked that you have taken on notice. We can get a minimum position, if you like, can't we?

Mr Chester—On those questions relating to specific divisions, I will take that on notice and get you the figures on budgets and staffing resources. There are also other aspects of those divisions—obviously there are the various task forces that have been set up, including the China FTA Task Force and the Asia Trade Task Force, which picks up the bilateral negotiations with Malaysia and ASEAN—that are closely linked in with both the Office of Trade Negotiations and the Trade Development Division. We also have the APEC Task Force, in the lead-up to Australia's hosting of APEC next year. Again, a significant amount of resources have been put into that area, and those resources will build up over the remainder of this calendar year. I will be happy to take that question on notice and provide that information.

Senator FORSHAW—It is some time ago now, but when they were separately operating departments you still had the situation where, say, the then Department of Foreign Affairs would be undertaking duties and allocating resources to trade issues. I would have assumed that in those days Foreign Affairs may have been able to at least dissect in some general way what resources they would have been allocating to trade-specific activities, even though it was a separate entity. I do not know; I am just wondering whether you know.

Mr Chester—It was before my time. It may well have been able to do that. But, as I said, while we can describe the resources that are applied in prosecuting trade issues, I think it is close to impossible to put any meaningful dollar amount on that work.

Senator FORSHAW—What about if you take it on notice and respond as best you can, and we can take it up next time?

Mr Chester—I am happy to.

Senator FORSHAW—What is the breakdown between the spending on bilateral free trade agreements and World Trade Organisation negotiations?

Mr Chester—Again, I will need to take that on notice. If we can, we will do a meaningful comparison.

Senator FORSHAW—I have a copy of those questions that you can take at the conclusion. Can I now turn to exports. The Treasury forecast for 2006-07 is export growth of seven per cent. Do you agree with that forecast, Mr Deady?

Mr Deady—Yes, I agree. As I understand, Treasury's forecast is for Australian exports to grow by seven per cent in 2006-07.

Senator FORSHAW—I also note that they expect that, apart from exports of resources, other export categories are 'unlikely to grow at the strong rates experienced in the 1990s'. Do you see that as a problem for the economy—if services and manufacturing exports continue to remain flat or do not experience any significant growth?

Mr Deady—I would not agree that exports of manufactures and services are showing no growth. During the 12 months to December 2005 there was relatively strong growth in exports of manufactures and services. In the calendar year 2005, exports of manufactures grew by nine per cent and of services by four per cent. So that is growth. If you look over a 10-year period, there was certainly a slowing in growth of manufactures exports in the early part, beyond 2000, and I think there was some very strong growth in manufactures leading to that. These export performance numbers depend, like all statistics, on where you begin and end your analysis. But I think we have seen in the last year and a bit some recovery and return to solid growth of manufactures, and that is important.

Senator FORSHAW—I do not disagree that it is important. It is extremely important that we endeavour to get and continue growth in the areas of manufacturing and services. Does that lead you to make a forecast for the next couple of years?

Mr Deady—In DFAT we do not make forecasts of exports. As you said, that is a matter for the Treasury and, in the case of resources and such things, ABARE do a lot of that work. On the performance of manufactures, I think you have to look beyond the numbers. You certainly have to look at the fact that since 2000 the Australian dollar has appreciated considerably against the US dollar and other currencies, so that certainly is a factor in the competitiveness of Australian manufactured exports. Over the same period we have seen very strong growth in the domestic economy, and I think there is some suggestion or evidence that some of the expansion in manufacturing production over that period has been diverted away from exports into the domestic market. Having said that, the government is working hard through the various trade negotiations that we have spoken about to improve the access and opportunities for Australian exporters. Austrade is the part of the government responsible for export development and, again, a large part of their work is to inform Australian industry about what are some of these new opportunities and encouraging Australian industry to be outward looking and to take advantage of those export opportunities.

Senator FORSHAW—You said a moment ago—and I anticipated that would be your answer—that DFAT does not make forecasts. But does DFAT have any input into Treasury's trade forecasts? Do you have meetings with Treasury and, if so, how often?

Mr Deady—We do not have any input into Treasury forecasts. We talk to Treasury colleagues from time to time on a whole raft of issues, but we do not have an input into the forecasting exercises and models that Treasury run.

Senator FORSHAW—Would it be fair to say that DFAT is not consulted by Treasury in their preparation of export forecasts?

Mr Deady—On the forecasting—

Senator FORSHAW—I know you are talking about the forecasting.

Mr Deady—We have talked to Treasury but we do not have any formal input into the process.

Senator FORSHAW—Thank you. I note that Treasury in the budget papers identified the diversity of ownership of various aspects of infrastructure as being one of the reasons that the volume of resource exports has not risen by more. Does the department play any role in providing information on bottlenecks affecting trade?

Mr Deady—We have some discussions with Treasury and others on this area. My colleague Mr Brown might be able to add a bit more here. We talk to other agencies, the Treasury and the Department of Industry, Tourism and Resources about some of these issues. The various reports on infrastructure that were done for the government last year are certainly things that DFAT's Trade Development Division looks at and monitors very closely.

Mr Brown—We were involved in the report that was prepared last year concerning the coal supply chains and the problems that existed in particular in Newcastle and up in Queensland. Since then we have had occasional informal consultations with the Department of Industry, Tourism and Resources and we monitor the issues quite closely, if only because we are interested in how these bottlenecks are performing in terms of resources exports and just tracking how the investment we know exists, or is coming forward, in the resources sector is feeding through into higher exports.

CHAIR—In terms of those bottlenecks, what did you identify as the principal cause?

Mr Brown—I think the short answer is that there was an unanticipated surge in demand for commodities, in particular for coal, and the industry was not ready for the increase in capacity that that involved. There were constraints all along the supply chain, from the mine right through to the port, and there was no single contributory factor.

CHAIR—You talk about constraints in the supply chain—so the infrastructure was incapable of bearing the increased burden and load of the demand: road, rail, whatever, electricity, the generation of energy to drive rail and road transportation was not capable. What about, in Queensland, the common-user facilities? In Western Australia we are having this debate with respect to the export of iron ore and the access to infrastructure that has been there for some 30 or 40 years now. What, if anything, did you see in terms of the common-user facilities in North Queensland under the current pressures of demand for minerals, particularly coal?

Mr Brown—I really cannot comment in detail of that. I think that is something that you really need to direct to the competition authorities. They can provide a much more detailed survey of the issues than I can.

CHAIR—There was a scramble for scarce resources in getting things from the mine site.

Senator FORSHAW—What about skills shortages? How are they affecting trade?

Mr Deady—We have not done in DFAT any particular work on that. We have a very strong economy and low levels of unemployment, as you know. We have certainly seen the debate in Western Australia in particular where there are suggestions of certain skills shortages, but this is not a matter that DFAT has done particular work on.

Senator FORSHAW—Mining is one of the industries where there has been identification of skills shortages, and the view is expressed that it is slowing down expansion of mining output. But you are saying that DFAT haven't done anything on that, either as a broad issue or as a specific industry skills shortages issue?

Mr Deady—No. We look at these issues in broad terms in looking at the trends in our export performance but they are not issues that we particularly spend time on.

Senator FORSHAW—Do you have any meetings at all with the Department of Employment and Workplace Relations or DIMA about skills shortages and how we might seek to deal with those issues to ultimately increase the export potential?

Mr Deady—We certainly have regular contact with colleagues in DIMA on a range of issues and also with DEST in terms of education services and those sorts of issues, but not specifically on this issue of skills shortages, no.

Senator FORSHAW—I think you said earlier that you had discussions with industry about investment related bottlenecks?

Mr Brown—On capacity constraints and, in particular, with the coal supply chain.

Senator FORSHAW—What did the discussions that you had with the other departments—DEWR and DIMA—focus on? Are they broad-ranging discussions or have you taken up the issues particularly to do with seeking to increase export capacity and bottlenecks that exist?

Mr Brown—The analyses are a combination. They are a broad-brush approach, looking at projections and demands over, say, 10 or 15 years. I think you will find the coal supply chain report on the web. You could see for yourself the sorts of issues that we considered. I do not recall skills shortages being one particular issue that was canvassed in any detail. It was just a matter of the investment that was needed in areas such as equipment and, of course, training. To that extent, skills would be involved, but it is an indirect issue; it was not an issue that was directly addressed in that context, as I recall.

Senator FORSHAW—I think Mr Deady said a moment ago that you have had some regular meetings, if you like, with DIMA. What would they be directed to? I am trying to think of another area other than looking at something like skills shortages and how it would be relevant to trade.

Mr Deady—In my case certainly, discussions with DIMA tend to be focused on issues in relation to some of our negotiations. The movement of natural persons that Mr Wells was talking about is an issue in free trade negotiations, as well as the movement of businesspeople and the processing times for visas. Those are the sorts of things that we take up with them.

Senator FORSHAW—Those specific issues?

Mr Deady—That is right.

Senator FORSHAW—Trying to remove the bottlenecks or whatever with business?

Mr Deady—Certainly. Business travel, tourism, health travel—all of that sort of stuff.

Senator FORSHAW—Mr Chairman, I have just a few questions on the current account deficit. Are there any other questions on exports?

CHAIR—Senator Trood has some questions on exports.

Senator TROOD—I have some questions about ASEAN trade et cetera. That is perhaps appropriate. Gentlemen, could you give us an account of the state of the AFTA arrangements within the ASEAN states and, more particularly, the relationship between AFTA and the Australia-New Zealand trade connection and the status of that?

Mr Deady—I will ask one of our colleagues to answer that.

Mr Mugliston—The question you raise relates, in fact, to the ASEAN Australia-New Zealand free trade agreement negotiations, which we are currently engaged in. One of the issues is the very issue that you raise: the question of the relationship between AFTA and CER. What we are focusing on right now is the issue of trade in goods. AFTA is confined to goods trade only. AFTA has its own internal arrangement that provides for the treatment of tariffs. That is essentially focused on the elimination of tariffs by 2010 with respect to the older ASEAN members—the ASEAN six. There are different times—2015, 2017—for the newer ASEAN members: Vietnam, Laos, Cambodia and Myanmar, or Burma. There is an issue that we are addressing in the negotiations about the treatment of the respective products that are covered in AFTA. Basically there are two tracks: one is the normal track, which is how it has evolved historically, and that provides for the complete elimination of all tariffs; the second is a sensitive track, which also includes a highly sensitive product component, and that provides for some special treatment of particular sensitive products within ASEAN.

Senator TROOD—Is that across all ASEAN countries, or is it confined to specific countries?

Mr Mugliston—It is across all ASEAN countries, but individual ASEAN members have different sensitive products. That is the issue. That has been an issue they have been grappling with internally within ASEAN. Australia and New Zealand are currently involved in the negotiation of modalities for the elimination of tariffs that would extend to Australia and New Zealand as part of this wider FTA.

Senator TROOD—What is the status of the negotiations? How many meetings have you had? Do you have a time line? Do you have any expectations about how long it may take to conclude these discussions?

Mr Mugliston—Reasonable progress has been made. We have had six negotiating rounds. The negotiations were launched in March last year. We had our last round last April. Our next round will be in July. We have done a lot of work and we are really engaged on the very specific issue you raised this morning regarding this goods area—about how we are going to actually negotiate the schedules of market access commitments on tariffs. But there are also some major non-tariff measures that we are seeking to address. However, we are engaged in very substantive negotiations on goods.

Work on the other areas of negotiation has not progressed as far—and these are the newer areas of services, investment and other trade related issues, such as intellectual property and government procurement. As I think my colleague Mr Wells indicated to the committee earlier, ASEAN's previous involvement in such negotiations has been with countries like China, and the focus there has not been on such a comprehensive FTA to be negotiated as a single undertaking but rather on sequential negotiations—so you start with goods, and after you have finished goods you move on to services, then investment et cetera. So this is a new experience for ASEAN in terms of negotiating this as a single undertaking with Australia and New Zealand.

There are very significant challenges ahead. As you will appreciate, the region is a very diverse one. This is also, from our experience, the first plurilateral FTA that Australia has been involved in negotiating, and there are a very broad range of interests and different levels of ambition at play. However, we are guided in our negotiations by the guiding principles that were agreed to and adopted by leaders at the Vientiane summit in November 2004, which do provide a very good set of guiding principles for us in the negotiations. Included in that set of guiding principles is the instruction to officials to conclude the negotiations within two years. So, if we launched this negotiation in March 2005, the indicative time line that we therefore have is early next year.

Senator TROOD—It has always seemed to me that the progress of the Australia-New Zealand side has been contingent upon the ability of the ASEAN countries to, to put it colloquially, get their act together. As you indicated, that is obviously a very complex process within the context of ASEAN. In light of that, is ASEAN negotiating as an organisation or institution, or are we having to negotiate individually with different governments in different centres? Is there a negotiating group representing ASEAN, and is it broadly reflected in the ASEAN 10 or only some members?

Mr Mugliston—We are really doing pretty much everything in this negotiation. I of course have a New Zealand counterpart and there is also an ASEAN coordinator, who is the senior official from Brunei. He is the ASEAN coordinator. The practice has been that ASEAN meets internally prior to our negotiating sessions to arrive at common positions. But, in practice, in our actual negotiations, we find that individual member countries also participate in the negotiations to advance or protect their own sets of national interests.

The issue varies across negotiating areas. As I indicated earlier, in the goods area there is a higher degree of comfort as to how much work the ASEAN have done internally in the AFTA context. But in some of the other areas, this is new territory for ASEAN. For example, government procurement is an extremely sensitive issue for ASEAN. They have made that very clear to us. We have yet to engage in the substantive negotiations on it because, in part, they have no internal mechanism that addresses that issue. They regard that as a matter solely for individual ASEAN member countries to determine their respective policies on.

Senator TROOD—Is it your assessment that one of the consequences of this negotiation with Australia and New Zealand may be that it is going to force or encourage ASEAN to move a much more comprehensive AFTA than they have at the moment—that one of the outcomes may well be a much more coherent sense of community amongst the ASEAN countries in relation to their trading activities?

Mr Mugliston—Certainly one of the guiding principles that I referred to in the set of guiding principles does state that the objective of this FTA should be to move towards deeper economic integration. The way we are approaching that is that it is between the two regions, but of course it is also in respect of the individual regions as well. ASEAN is also negotiating with China, Japan, the Republic of Korea and India at the moment. But, in our negotiation, we are pursuing a single undertaking in terms of arriving at a broad package in which we are seeking to address a very broad set of interests.

There is an issue of how this also relates to ASEAN's own internal agenda of building an economic community within ASEAN. That is subject to a lot of other processes with ASEAN, but I do think that this FTA negotiation should be seen as complementary to that. That is why we are seeking in our general approach to arrive at a structure for the FTA that can evolve and develop over time with ASEAN and, at the same time, provide for a reasonable, very credible set of initial market access commitments.

Senator TROOD—Are the discussions with the others—Japan and Korea, for example—proceeding in the same way? Are the same kinds of issues on the agenda—goods, primarily? Is it a parallel discussion or negotiation in the sense of the way in which they are doing it with Australia and New Zealand?

Mr Mugliston—No. The approach with China, Korea and India has been very much the sequential approach. So you start with goods and then you move on to services. Services is very difficult, as Mr Wells indicated earlier. With respect to Japan, the advice that we have received is that they are still working on how to manage that particular negotiation. As you would appreciate, Japan does have a particular set of its own sensitivities in such negotiations.

Senator TROOD—Are any of these more advanced than the others, or are they all on about the same level of progress?

Mr Mugliston—The China one was concluded last year on goods—at least in terms of the early harvest—and the Korean one was concluded late last year. But this is in terms of a framework agreement. This tends to be the approach and then you sort out a lot of the details subsequently; whereas, that is part and parcel of the negotiation for us.

Senator TROOD—So the details in relation to these others are details which they are still working through with the ASEAN countries and their bilateral partner.

Mr Mugliston—Yes. We have not yet seen the country specific schedules, so I cannot comment on how final that is.

Senator TROOD—Are you still confident that the two-year schedule that has been set in relation to the ASEAN, New Zealand and Australia agreement is likely or able to be met?

Mr Mugliston—We are working very hard to seek to achieve that.

Senator FORSHAW—I want to ask a few questions about the relationship between our trade position and the current account deficit. Can you tell me how much the trade deficit contributed to the current account deficit?

Mr Brown—The trade deficit narrowed from \$25.4 billion in 2004 to \$18.7 billion in 2005.

Senator FORSHAW—That was 2004?

Mr Brown—No, 2005. I do not have the exact figure for the full current account deficit in front of me. I might be able to find it. The net income deficit was of the order of \$30 billion, from memory. The biggest component of the current account deficit was that net income deficit, in particular, reflecting the repatriation of profits to overseas companies.

Senator FORSHAW—Have you managed to find that total figure? I understand it was \$55 billion in 2005.

Mr Brown—That sounds about right.

Senator FORSHAW—And that is about six per cent of GDP?

Mr Brown—Yes, that is right.

Senator FORSHAW—This is what I was endeavouring to confirm with you. You say the trade net deficit was \$18.7 billion. The net income deficit, you said, was about \$30 billion. I understood it might have been \$35 billion.

Mr Brown—Most of the balance was \$30 billion.

Senator FORSHAW—In round figures that is what we are talking about.

Mr Brown—Yes.

Senator FORSHAW—About a third of the current account deficit is directly attributed to the trade balance.

Mr Brown—Perhaps little more. It is about a third.

Senator FORSHAW—So the rest is the net income deficit. What comprises the net income deficit? Forgive me; I am not the trade expert. The people who asked questions before me are.

Mr Deady—Even trade experts struggle with the current account deficit, I can assure you.

Senator FORSHAW—Flattery will get you everywhere, Mr Deady.

Mr Deady—This is a statistical issue, and certainly the Treasury, as we said before, is the main department dealing with this. These are macroeconomic numbers and statistics. The main elements of that are interest payments, dividends and returns on profits that are earned by overseas asset holders in Australia.

Senator FORSHAW—So some of it is dividend payments that go overseas. Do you know what proportion of dividends from the resources industry goes overseas?

Mr Deady—We would have to take that on notice. Whilst I cannot speak absolutely for the detail, a lot of that information would be available and we can take that on notice. We do not have that sort of number here.

Senator FORSHAW—I would appreciate it if you would. As I understand it, according to the ABS estimates, the mining companies are 56 per cent—the majority—foreign owned. Less than 50 per cent of the profits from the mining industry are retained in Australia. Do you disagree with that?

Mr Brown—I would not disagree but I will take it on notice. We can furnish you with the details.

Senator FORSHAW—I am endeavouring to ascertain how that dividend stream that is going overseas actually impacts upon the current account deficit.

Mr Brown—The current account deficit is, as our Treasury colleagues have pointed out many times, the result of the imbalance between saving and investment in the economy. In particular, when investment is greater than the level of saving you have a current account deficit. That is both an accounting identity and a reflection of the fact that in Australia investment is higher than the level of saving. The national saving ratio, for example, has been quite steady over recent years but in recent years we have seen higher investment, which has flowed through to a higher current account deficit.

Senator FORSHAW—What I am particularly concerned about here is that even with the resources boom, which is so often talked about, the situation where more than 50 per cent of that profit is going out of the country is actually adding to our net income deficit, which is feeding into that current account deficit.

Mr Deady—These really are matters best addressed by the Treasury. They are macroeconomic instruments that you are talking about.

Senator FORSHAW—But they are matters that ultimately relate to trade as well.

Mr Deady—There is no doubt, as my colleague has mentioned, that there has been a very strong level of investment in Australia, a large part of it associated with the resources sector. That has generated high levels of income and growth in that sector and flowing through to the rest of the economy. As you say, it is a fact that a large proportion of that investment is owned or controlled by foreigners. Nonetheless, it is the wealth that is generated by that investment that has led to the strong growth in Australia. One number that is interesting is the capacity of Australia to service that debt. It is all in the hands of the private sector—these are all private sector investment decisions taken by private companies investing in Australia. They are certainly seeing that there is a strong return here. The percentage of export earnings that is required to pay back those borrowings—what they call the debt servicing ratio—is around nine per cent at the moment compared with 20 per cent in the early 1990s. So the capacity for the Australian economy to generate the income to service that debt is very high at the moment.

Senator FORSHAW—You have taken the specific couple of questions I have put on notice. If you can respond to those, particularly the proportion of the dividends in resources industries going overseas, I would appreciate it. Thank you; that is all I have.

CHAIR—As there are no further questions at this stage, I thank the officials for a very smooth estimates to this point.

Proceedings suspended from 11.28 am to 1.00 pm

Australian Agency for International Development (AusAID)

CHAIR—Order! I declare open this afternoon's session of the Senate Foreign Affairs, Defence and Trade Legislation Committee. The committee has before it the particulars of proposed budget expenditure for the year ending 30 June 2007, documents A and B, and the

portfolio budget statements for the Foreign Affairs and Trade portfolio incorporating funding details for AusAID. The committee may also examine the annual reports of the departments and agencies appearing before it.

When written questions on notice are received the chair will state for the record the name of the senator who submitted the question and the questions will be forwarded to the department for answer. The committee is due to report to the Senate on 20 June 2006 and has resolved that Thursday, 27 July 2006 is the return date of answers to questions taken on notice at these hearings. Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. Giving false or misleading evidence to the committee may also constitute a contempt of the Senate. The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth or a state shall not be asked to give opinions on matters of policy. He or she shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy, and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer, having regard to the ground that is claimed. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim. I welcome AusAID officers to the table.

Senator HOGG—Firstly, before I get to a couple of specific questions, just take me through where I can find the budget initiatives in the PBS. I am a little bit confused by some of the tables that you people have in here which do not seem to clearly outline where the additional expenditure is. If you just tell the best table, that might help me to start off with.

Mr Dawson—I think you should be looking at pages 128 to 129.

Senator HOGG—Interestingly enough, that is the table that I have got marked. They are the additional measures for 2006-07. In 2006-07 there it says: \$7.3 million for preparations for the implementation of the aid white paper—on what precisely?

Mr Davis—The amount set aside for preparations for the implementation of the aid white paper covers the range of initiatives that were contained in the white paper. For example, I am looking at infrastructure for growth, for educational services, health services and the like that are detailed in the white paper.

Senator HOGG—All right. Are those expenses detailed in the PBS?

Mr Davis—For the individual initiatives?

Senator HOGG—Yes.

Mr Davis—No, because at this stage we have funds—

Senator HOGG—You have a global fund?

Mr Davis—We have a global fund that will be drawn upon for the implementation of the planning required for the initiatives.

Senator HOGG—When will you be in a position to give us a break-down of the allocation to those various initiatives?

Mr Davis—That will really be ongoing during the course of 2006-07. We are going to have to go through the process of defining each of the initiatives that were contained in the white paper and, where additional funding is required to do that planning work on implementation, we will draw it down during the course of the year.

Senator HOGG—So we as a committee will have no way of testing at the end of the day that expenditure, other than in a global capacity?

Mr Davis—As the year progresses, we can provide further details, but at this stage we are not even into the financial year, so it is not possible.

Senator HOGG—I accept that. If you keep that in mind, that might be helpful for us.

Mr Davis—Sure.

Senator PAYNE—You are referring in general terms to the white paper initiatives and the funding for those. Will that preclude us from asking about specific issues in the white paper?

Mr Davis—Not at all.

Senator HOGG—There isn't any money in the out years for that aid for the white paper, is there?

Mr Davis—At this stage, no.

Senator HOGG—Is there a reason for that?

Mr Davis—Funding was provided for 2006-07. We will need to go back in the following budget process to put in any bids that are required. What will emerge much more in subsequent years are actual initiatives that will have their own funding associated with them.

Senator HOGG—On table 2.2, under the heading 'Multilateral debt relief initiative contribution' there is \$136 million, but again there is nothing in the out years. What is the reason for that?

Mr Davis—The reason for that is that the government made a commitment to meet the Australian contribution towards that multilateral debt relief initiative and the decision was taken to pay the full costs of that commitment in the first year.

Senator HOGG—The initiative, as I understood it, was over 10 years originally. Is that correct?

Mr Davis—That is right.

Senator HOGG—The money is being paid upfront?

Mr Davis—That is right.

Senator HOGG—Is that being paid for any specific debt relief or is it paid into a consolidated fund?

Ms Newton-Howes—The multilateral debt relief initiative is to cover the costs to IDA, the International Development Association of the World Bank. It is a 40-year initiative. The first 10 years of costs are being paid in this budget, but there will be a further 30 years. In 2017, further negotiations will occur. Those costs—

Senator HOGG—I trust I will not be here then.

Ms Newton-Howes—Those moneys are being paid to the World Bank to cover the lost reflows as it forgives the debt of countries that are eligible through the HIPC initiative—the highly indebted poor countries initiative. That money goes to cover the lost reflows for the World Bank.

Senator HOGG—All right. And that is quite separate from any bilateral debt relief?

Ms Newton-Howes—Yes.

Mr Davis—If it is helpful, our current calculation is that around 85 per cent of that amount would be for the benefit of Africa.

Senator HOGG—The other thing that I noticed about table 2.2 on pages 128 and 129 is that a whole lot of initiatives are mentioned which all have zeroes next to them. It makes for very interesting reading when you pick up a PBS and you have a table with all zeroes.

Mr Davis—This is in essence an accounting requirement that we have to show a range of initiatives that were agreed during the course of the year and do not have ongoing funding.

Senator HEFFERNAN—Did they actually pass that on or just use it to prop up their own means—blew it in fixed administrative overheads internally? Do we actually see what the effect was as well as measure the outcome and the injection of—

Ms Newton-Howes—Yes. We do that through the World Bank. The World Bank has done two reviews of the HIPC initiative—that is, the highly indebted poor country initiative—to see what the impact of debt forgiveness has been on the individual countries that have benefited from it. The overall findings of both of those evaluations were positive.

Senator HEFFERNAN—Could you make that available to us so that we can touch and feel it?

Ms Newton-Howes—Yes. The reports are publicly available through the World Bank. We can make a copy available to you.

Senator HOGG—Can I move on to our commitment to the Australia-Indonesia Partnership for Reconstruction and Development management. Where do I find the amount being spent there?

Mr Dawson—On page 132 of the portfolio budget statement there is a statement of the account balances from the special accounts in which the \$1 billion pledge resides.

Senator HOGG—How much is actually being spent in this financial year?

Mr Proctor—The initiative, as you recall, is partly spending grant moneys and partly loans. There has been no expenditure on loans in this financial year.

Senator HOGG—Was there any expenditure last year on loans?

Mr Proctor—No. There is a process under way to get both a headline agreement and specific project loan documentation finalised.

Senator HOGG—When will that be finalised?

Mr Proctor—The anticipation is that hopefully that will be within the next month. The first of those measures will be finalised and expenditure on an education project could commence in the coming financial year.

Senator HOGG—Do we know roughly what the draw-down on those loans would be?

Mr Proctor—From memory, \$55 million.

Senator HOGG—Yes, I have seen that figure.

Mr Proctor—The major loans will actually go to a roads project which will probably commence in the following financial year.

Senator HOGG—Can I go back to table 2.6 on page 132, where some of that is outlined. You are saying that \$100 million was spent in 2005-06, I presume, from that table, and \$120 million this year?

Mr Proctor—That is correct. That is the grant.

Senator HOGG—So that leaves a net of \$280 million to be spent and that is over a five-year period?

Mr Proctor—That is the remainder of the five-year period.

Senator HOGG—Then, in terms of the loan, you are expecting a draw-down this year of \$55 million, with a further \$445 million to be drawn down in the remaining five-year period—is that correct?

Mr Proctor—That is correct.

Senator HOGG—Can I take you to the issue of debt relief. Whilst we spoke about multilateral debt relief before, I understand that the budget provides for substantial debt relief for Iraq. Is that correct?

Mr Davis—Part of the overall reporting of official development assistance expenditure during 2006-07 is reporting of debt relief to Iraq.

Senator HOGG—Does that appear in the PBS or is that something that I can find in the ancillary documents?

Mr Davis—That is right.

Mr Dawson—It is not an AusAID appropriation.

Mr Davis—It is not an AusAID appropriation but it does count as an ODA.

Senator HOGG—So it counts for ODA purposes but it is not an administered expense through your department?

Mr Davis—It is not appropriated to us.

Senator HOGG—It is not appropriated to you in that sense either for departmental or administrative expenses?

Mr Davis—That is right.

Senator HOGG—What is the total aid that will be afforded Iraq this year? Page 50 might help you out.

Mr March—There is a commitment of \$45 million over two years, with a commitment of \$26 million expected in the forthcoming financial year.

Senator HOGG—I understand the debt relief is \$334 million.

Mr Davis—That is correct.

Senator HOGG—That is about \$360 million all up that is allocated.

Mr Davis—Yes, \$357 million.

Senator HOGG—I have just been told \$26 million and \$334 million. Where does the \$357 million come from?

Mr Dawson—If you go to table 4 on page 70 of the blue book, that details the total ODA flows to countries that are not bilateral partner countries, including Iraq.

Senator HOGG—I see that. Would the \$357 million include the \$334 million that will be bilateral debt relief?

Mr Dawson—That is right. I think the other figure is \$22.5 million, which is for the other reconstruction program.

Senator FAULKNER—What are the other programs that amount to—was it \$23.5 million?

Mr March—Apologies, Senator. The correct figure is \$22.5 million.

Senator FAULKNER—Can you disaggregate that into the major projects for us?

Mr March—The sectors in which we are operating in the Iraq program are agriculture and governance. At this stage the break-up is anticipated to be in the order of \$8 million on governance activities and around \$10 million on agricultural activities, with the balance unallocated at this stage.

Senator FAULKNER—What governance activities are planned?

Mr March—We have been supporting the election processes, we have been supporting the judicial processes and we imagine that that will continue. We have some residual commitments to deliver there. We will also be alert for opportunities in the provinces as they stabilise, so as to be in a position to support governance activities outside Baghdad. To date we have been concentrating on governance activities at the state level, predominantly out of Baghdad.

Senator FAULKNER—What about the agricultural activities?

Mr March—The agricultural activities have been a mix. Initially we were working in the provinces, as well as supporting agriculture through advisers and an advisory team in

Baghdad. As the security environment deteriorated, we were unable to continue working in the provinces and concentrated our advice and programs in Baghdad.

In addition, again because of the security situation, we have been bringing agricultural technicians and specialists to Australia for training courses. These courses have been around Australia's technical institutes and departments of agriculture, and the objective of that has been to give them both management skills and contemporary agricultural skills and advice.

Senator FAULKNER—Can you further disaggregate that \$10 million on agricultural activities? I now have the broad picture of what it has been for.

Mr March—I cannot, but I am happy to take that on notice. The reason why I do not have a specific breakdown is that, because of the impact of security, we have to keep a very flexible program and, at this stage of the financial year, we do not have all those details locked in.

Senator FAULKNER—Does this include the cost of AusAID consultants? Is that included in these figures?

Mr March—Yes. The cost of managing and delivering the program through consultants would be part of that figure.

Senator FAULKNER—One consultancy that I am aware of because of evidence here previously is the Trevor Flugge consultancy. Is that included?

Mr March—That issue is before the Cole inquiry and I am not in a position to answer.

Senator ROBERT RAY—What part of the issue is in front of the Cole inquiry?

Mr March—The Flugge consultancy is before the Cole inquiry. I am not in a position to answer.

Senator ROBERT RAY—When was it raised at the Cole inquiry?

Mr March—It was raised on a number of occasions throughout the Cole inquiry.

Senator ROBERT RAY—The consultancy was?

Mr March—Yes.

Senator FAULKNER—Mr March, are you seriously saying to this committee that you will not answer a question as to what bucket of money the costs of a consultancy come from? That is preposterous!

Mr March—Not at all. I beg your pardon, but I have answered that the administrative costs of delivering the program will come out of the allocation. What I cannot answer is specific questions on issues that are before the Cole inquiry.

Mr Dawson—If I may assist, any figure which is in the budget paper for 2006-07 is, by its nature, an estimate. We are not even into the financial year at this stage. As Mr March has said, the activities in Iraq are obviously ones that are subject to the security situation there. Most of the activities are in fact likely to be carried out in Australia, but that is why we do not have a detailed breakdown. Nor do we have a detailed breakdown of estimates for other programs at this stage.

Senator ROBERT RAY—Let us say there is an allocation of money made to assist in some aid project in Iraq. You have mentioned help in elections, which is something we have

done in a whole range of areas. Obviously, much of the money would be paid in Australia to Australians going there, but when you need to pay out for bills and other matters in Iraq how is that done?

Mr Dawson—If it was for an election, it would usually be done through an international organisation such as UNDP or other organisations that specialise in electoral support and assistance.

Senator ROBERT RAY—What I am asking is: when you need to pay bills within Iraq—if it arises; and we have not heard evidence that it does or does not—do you use particular banks in Iraq, or do you have to pay them from banks outside Iraq?

Mr March—We have used a number of mechanisms for making payments in Iraq, and that has included banking arrangements within Iraq, working through international organisations on the ground in Iraq and other processes.

Senator ROBERT RAY—Are there any instances where you have just dealt in cash because of institutional failures within Iraq?

Mr March—Yes.

Senator ROBERT RAY—How many instances of that are there?

Mr March—I would have to take that on notice, but it would be a number of occasions—perhaps four or five.

Senator FAULKNER—Does it bring particular challenges for AusAID in terms of your audit or accounting trail when payments have to be made in cash?

Mr March—It does add a degree that we certainly focus on when we are dealing in cash, but the audit principles that apply to any of the aid program transactions apply. All funds need to be fully acquitted; all funds need to be appropriately escorted in the case of moving cash.

Senator ROBERT RAY—Whilst you cannot recall the precise amount, what typically would be the sums involved and in what currency?

Mr March—Is very difficult to say. There would be different sums and a range of activities. The currency in Iraq would be US dollars.

Senator FAULKNER—Is there any protocol that AusAID has which says that there is a cap or a maximum amount of expenditure in any currency, but let us say converted to US or Australian dollars, above which in the view of AusAID it is not appropriate for transactions to be handled as cash transactions? In other words, is there an upper limit?

Mr Dawson—No, there is no protocol covering such issues. It is important to realise, though, that this is not a practice which is used with any frequency whatsoever. A situation early on after the coalition intervention in Iraq was obviously exceptional in that the banking system was not operating. I am not aware, for example, of any circumstance anywhere else within our program where we would have had to resort to large-scale cash payments because the banking system was not operating.

Senator FAULKNER—I am hearing evidence that there is no protocol about an upper limit for a cash payment. Is there a protocol in the broad that governs the behaviour of the department, departmental officers or those working for the department in relation to the

handling of these cash payments? I am surprised to hear that there is not an upper limit, but I certainly accept your evidence that there is no protocol governing that. Is there a protocol governing, more generally, the way such cash payments are handled and disbursed?

Mr Dawson—The key point is that any payments made that way would need to be fully and properly acquitted and there would need to be documentary evidence of that.

Senator FAULKNER—Is that your way of saying that AusAID has no protocol covering this broad area of how the department or its agents handle cash payments? It sounds to me as though you are really saying to us that there is no protocol, there are no guidelines, there are no rules and there is no guidance at all.

Mr March—That is not the case. We are governed by the Commonwealth financial guidelines and they apply across the board, and they apply in the case of advances should the aid program make them.

Senator FAULKNER—What do the Commonwealth guidelines say in relation to cash payments?

Mr March—I do not have those details before me but I can certainly provide them.

Senator FAULKNER—In how many areas of Commonwealth government activity, apart from these apparently fairly rare instances in AusAID, are these sorts of cash payments made for these sorts of amounts?

Mr March—I cannot comment for other government departments but in humanitarian and crisis situations we may from time to time equip staff with small amounts of cash when we know the banking system is not operating.

Senator ROBERT RAY—What do you define as a small amount?

Senator FAULKNER—Exactly.

Mr March—As has been advised, we do not have a set limit.

Senator ROBERT RAY—You said ‘small amount’. I am asking you for your conception of what a small amount is.

Mr March—It would be on a case-by-case basis.

Senator ROBERT RAY—Of course it is on a case-by-case basis.

Mr Dawson—It all depends on the circumstances.

Senator ROBERT RAY—Of course it does.

Mr Dawson—It will depend upon whether the individual officers are in an extreme conflict or humanitarian disaster zone, whether they are likely to have access to a banking system, whether those who they may need to provide immediate cash support for are likely to have access to bank accounts themselves, how long they are likely to be out of contact with the normal banking system and those sorts of things. It will depend upon the circumstances.

Senator ROBERT RAY—Of course it would, and we know that. We do not oppose any of that. The witness at the table referred to ‘small amounts’. I am asking what you conceive as a small amount. You do not know what a small amount is?

Mr March—It would depend—the decision is made on a case-by-case basis.

Senator ROBERT RAY—I will ask you the opposite question: what is a large amount? If you are going to characterise something as a small amount you should know what it is. If not, withdraw the evidence and we will move on.

Mr March—I am happy to characterise it as an amount.

Senator ROBERT RAY—Let us take a theoretical example, but it must have happened in four or five cases in Iraq: Mr X is given an amount because there is a failed banking system, he spends that amount and returns to Australia. Take us through the acquittal process from start to finish, if you could, so we can understand it. I assume the cash amounts in this case were probably more large than small—that is, well in advance of any of our salaries here. What is the process?

Mr March—The process for acquitting cash advances would be: reporting on the substance of the activity that was undertaken—the process of the particular activity; reporting on the achievements and the outcomes that the process delivered; providing certification on where the money was paid—receiving notations and certifications that it was received at various places; and then receiving advice of any balances retained.

Senator ROBERT RAY—When you are dealing with a failed state, how often does that certification involve receipts? I would have thought that would be a difficult task.

Mr March—It varies on a case-by-case basis. We do often have receipts in a variety of languages which we have translated as part of our record.

Senator ROBERT RAY—You basically told me about the person who carries the money in, spends it and comes out. I am still asking who checks it and what process is there in the department for checking what you say is reporting and certification? Who does that?

Mr March—For funds that I am involved in it would be me, and then there are the agency's audit processes that sit behind that.

Senator FAULKNER—Let us start with the report because I am not clear on this. Who is responsible for preparing the report? This is the person who has carried and disbursed the money, is it? They are responsible for reporting? Or is it someone else?

Mr March—They would be responsible for reporting. If there were multiple officers associated with the task they would also report.

Senator FAULKNER—The person handling the money definitely has to report and in some cases other officers who may have had an involvement would report.

Mr March—Yes.

Senator FAULKNER—What is the nature of the report? First of all, are these written reports?

Mr March—It varies on a case-by-case basis but certainly could include written reports.

Senator FAULKNER—Do you mean that some of these reports might just be verbal?

Mr March—Or photographic or otherwise—yes.

Senator FAULKNER—Photographic reports?

Mr March—Yes.

Senator FAULKNER—That would not even require the signature of the person who disbursed the money, would it?

Mr March—Again it varies on a case-by-case basis.

Senator FAULKNER—Some of the certification you speak of does not even require a signature from a person who might be disbursing literally hundreds of thousands of dollars. Is that right?

Mr March—We receive reports from a number of points. They are both written reports and reports by other means.

Senator FAULKNER—Who is responsible for ensuring that reports in whatever form have been received? Which officer in AusAID fulfils that responsibility?

Mr March—It would be the activity manager, and that would be senior officers in the agency in various program areas.

Senator FAULKNER—So the activity officer is dependent on whatever program the aid money is used for? Are you saying there are different activity officers?

Mr March—In the first instance, yes, there are different activity officers and then the agency's audit processes sit above that.

Senator FAULKNER—But when you say 'certification', there is no actual form or document that a person distributing these cash moneys has to complete?

Mr March—There is no single document, no.

Senator FAULKNER—There is not necessarily any document at all, is there?

Mr March—The acquittal process always requires documentation. There is documentation and other advice that we receive and act on.

Senator FAULKNER—But a photograph counts as documentation in this instance.

Mr March—It is part of the documentation, absolutely.

Senator FAULKNER—What else might be part of the documentation?

Mr March—Written reports and receipts.

Mr Dawson—I think it is important perhaps to distinguish between the documentation, which may be evidence that properly approved moneys have been properly spent, and the formal act of certification, which is an act of a delegated officer within the organisation under the Financial Management and Accountability Act. They may take different sorts of evidence as evidence that funds have been properly accounted for.

Senator FAULKNER—But who holds that delegation in the department? It is different activity officers, from what I have heard.

Mr Dawson—That is correct.

Senator FAULKNER—Different activity officers hold that delegation. Is there any upper limit on the delegation that the activity officers can handle or approve?

Mr Lehmann—The upper limit, it is probably worth remembering, comes through the delegation that the original approving officer for the activity would have under FMA section 9. That would be the ultimate ceiling.

Senator FAULKNER—I am asking what it is. What is the delegation? First of all, who does the delegation come from? Is it the departmental secretary, the head of AusAID—who?

Mr Davis—The delegation comes from the head of AusAID, and we have a quite detailed set of delegations that we can share with you.

Senator FAULKNER—If you would be prepared to table that, that would be helpful. Do you sign off on these?

Mr Davis—I sign off on the overall list of delegations throughout all the positions identified that can give that certification.

Senator FAULKNER—So if you sign off on that you can say to me what the upper limit is for an activity officer to approve. Can you say that to me?

Mr Davis—Yes. It depends on the level of the activity officer, starting in the SES grades, which is a much higher level of delegation, through to much lower levels of delegation down in the executive level grades.

Senator ROBERT RAY—What would be the highest for the SES first, then the lowest? Give us an idea of the range.

Mr Dawson—The director general has an unlimited delegation to approve funding. At the deputy level, I think the level in most instances is \$10 million. At the branch head level, I think the level is \$3 million in most instances, but it varies slightly according to the purpose. There are different levels of delegation for, for example, food aid commitments and other things.

Senator ROBERT RAY—So, with regard to the four or five that we have been told about today, at what level was the delegation approved?

Mr Dawson—Which delegation?

Senator ROBERT RAY—We have been told that there were four or five cash transfers because of the failed banking system. Was it the same person who approved all four or five, and at what level are they?

Mr Dawson—I think we need to backtrack. Four or five was an example that there were likely to have been a small number of cases of the use of funding which did not go through a banking system and needed cash transfers. I do not think it was a definitive answer that that was the number.

Senator ROBERT RAY—I accept as a statement that four or five is not definitive, but I would have thought that it meant that it was either four or five. Let us get that clear. In terms of Iraq, in a failed banking system, in the initial stages, how many delegations had to be made to cover that off?

Mr Dawson—We would have to take that on notice. We do not have that information with us.

Senator ROBERT RAY—You do not know? Who certified them when they came back? That person might know. Who actually certified them? Who was the certifying officer—if I have the terminology right?

Senator FAULKNER—Who was—to use your terminology—the activity officer?

Mr Dawson—It would have been an officer within the Iraq, Middle East and Afghanistan section.

Senator ROBERT RAY—I think even I can work that out. I asked you who it was so that we might be able to ask that person as they might have knowledge.

Mr Dawson—We would have to take that on notice.

Senator ROBERT RAY—Really? You do not know the answer? No-one here knows the answer to who certified—

Mr Dawson—There are hundreds and hundreds of certifications that go through every month.

Senator ROBERT RAY—I am certain there are, but those dealing with cash payments, as we have already heard, are remarkably low.

Mr Davis—We would have to take on notice who actually signed off on those particular things.

Senator ROBERT RAY—So you are saying that no-one here did? Otherwise, someone would put up their hand and say, ‘It was me.’

Mr Davis—I think there is every chance that there are people here who were actually involved in that approval process.

Senator ROBERT RAY—Do you want to find out?

Mr Davis—For individual cases, we would need to go and check the actual documentation.

Senator ROBERT RAY—I would accept that if we were trawling across all certifications coming out of Iraq, but we are not. We are looking at a very limited number when taking cash into the country to pay for expenses. Taking questions on notice is a tradition at these committees, but it is not meant to be used to delay answers where we have follow-up questions—and I am not saying that you are doing that—when officers assisting at the back of the room know the answers. Time and time again we have to face this dilemma. That is why we are pressing you on this. Is there anyone in the room who can help us?

Mr Davis—For the specific details, I think people need to be able to go back and check the documentation.

Senator ROBERT RAY—I wish you people would move over to DOFA and certify our stuff. Our lives would be a lot easier. Three hundred and thirty-five receipts was the last one I put in. I think Senator Ferguson may have done the same thing a couple of years before me. If I were an officer, I think I would remember if I signed off a cash one—though less likely a bank one—especially as I suspect the amounts were not \$US150.

Senator FAULKNER—We have been speaking about the reporting end of the process. Let us go to the beginning of the process, which might help me understand this. It is true, is it not, that on occasions cash money—I hope that is not a tautology but I want to make it clear—is taken into a country by either AusAID officers or those working on behalf of AusAID? That is my understanding of what I have been told, but I want to be clear on that. Is that right?

Mr Davis—Yes, that is right. On a small number of occasions there has been cash taken.

Senator FAULKNER—Because I do not have the energy, I will not ask you what a ‘small number of occasions’ means.

Mr Dawson—It would be an unusual circumstance. Usually, even in an emergency environment, there is an operating banking system within the country and funds would be transferred through normal accounts and drawn through the normal banking system.

Senator FAULKNER—So let me ask about the process—looking at the beginning of the process and not the reporting end, because it might help us understand. We have a small number of occasions, or this unusual circumstance—to use your terminology—when it occurs. I assume that the cash is not necessarily drawn in Australia; that it might be drawn in a third country. I assume that, but let us know.

Mr Dawson—It might be drawn in a third country. It is more likely in most circumstances to be drawn in the country in which the expenditure is to take place. For example, if an emergency officer needs to go out and buy on the open market 1,000 plastic containers to put water in for use where the local water supply has broken down, he will draw the money and go on to the shop and buy the goods.

Senator FAULKNER—But we do have situations, as I think Mr Davis has told us, where cash is taken into a country from outside that country’s borders. I thought that was the import of what I was told, but let me be doubly sure that that is the case: do we have any cases where cash is taken into a country from outside that country’s borders?

Mr Davis—Yes.

Senator HOGG—Is that by employees of AusAID or employees and contractors?

Mr Davis—Or, more likely, if it was a significant amount of money, by people with significant security infrastructure around them.

Senator HOGG—You had better translate that for me. I think I understand what you mean, but I am not sure.

Mr Davis—Normally, in that sort of situation, we would ensure that there was a strong security presence in the transfer of cash.

Senator HOGG—In other words, a couple of the wide boys would go too, would they, and that sort of thing?

Mr Davis—That sort of thing.

Senator FAULKNER—That is not the impression I got. In this situation where cash might be taken into a country from outside that country’s borders, are there occasions when that cash is originally drawn in Australia or is it normally drawn in another country? What is the situation? Do we have both cases?

Mr March—Both cases.

Mr Dawson—All these are hypothetical situations and it will depend upon what is most appropriate in a particular circumstance.

Senator FAULKNER—It is not hypothetical in the sense that we have been informed that it does happen. It is not hypothetical at all, is it?

CHAIR—But how it happens is probably what you mean.

Senator FAULKNER—I am trying to establish the process. The difficulty we have here, Chair, is that we know that no protocol covers this. Here is cash being drawn out of some Australian financial institution and being taken out of this country, possibly through other countries, into a third country or possibly being drawn out by Australian authorities in a third country and taken into another country, or whatever the circumstances are. The reason I am asking these questions is that Mr Davis cannot table a protocol that says how these amounts of money are handled. If he could, we would not be asking the questions. But there is not a protocol. There are no rules.

Mr Davis—We said there was no protocol for an upper limit. Clearly, processes are gone through in terms of both the approval process and the certification and audit process.

Senator ROBERT RAY—Tell me this, Mr Davis: if I go off to Iraq, where there is a failed banking system, and given a bag of US dollars, and a couple of heavies go over with me to make sure that I am not knocked on the head, how well briefed would I be about the areas where I can spend the money? We are going to come back to acquittal and certification in a moment. But before I actually arrive in Baghdad and get to the green zone, or wherever I am going, what sort of guidance would you have given me as to the proper areas of expenditure?

Mr Davis—That would be part of the original approval process, identifying what the purpose for the provision of any funding would be. As it is for any activity, there is always the stated purpose for the use of the funds against the approval.

Senator ROBERT RAY—The whole system really relies upfront on the integrity of the person you give the bag of money to, doesn't it? Isn't that the real key here, plus having the other processes to check it down the line?

Mr Davis—Particularly the acquittal and the audit process.

Senator ROBERT RAY—In terms of any money—and we do not know how many amounts there were; we thought there were four to five and there could even be fewer that would have gone in or out of Iraq—which section of the department would have been the certifying section for that?

Mr Dawson—It is likely to have been the Iraq, Middle East and Afghanistan section.

Senator FAULKNER—But by certifying here, let us focus on the original approval. You have used certification as a terminology on the basis of reports. It is also an approval process before this occurs.

Mr Dawson—That is correct.

Senator FAULKNER—I am not sure which terminology Senator Ray was referring to but I think it may be the approval process. So without getting mixed up with the terminology, you

have used certification in relation to the reporting mechanism. We are back before the money goes: someone ticks it off; someone approves it. Can you explain that process to us, please? Who does it?

Mr Dawson—It is done by someone who has a delegation under the Financial Management and Accountability Act to approve the expenditure of public money. That may be the minister, that may be senior officers within the organisation or it may be other officers within the organisation. But the levels of that delegation to approve the expenditure of funds become less the further down the organisation tree you go.

Senator FAULKNER—Sure. But, back a step, obviously it has to conform with policy priorities and goals of AusAID and government—that is obvious. Can you confirm that for us?

Mr Dawson—That is correct.

Senator FAULKNER—There is obviously an administrative decision about the appropriateness or otherwise of expenditure being utilised in a particular way. Once the decision has been made then you have an approval process. Go back a step and you have the policy decision making or administrative process that is behind that before we get to the approval step.

Mr Dawson—Every approval is based on a paper trail. Depending upon the circumstances, officers at different levels will prepare a proposal to spend public funds. They will indicate the amount, the purpose, the justification and any issues associated with it. That will be documented and that document will go to someone with the appropriate level of delegation to make that approval.

Senator FAULKNER—At what level is ministerial approval required?

Mr Davis—In a formal sense I have got unlimited delegation but, clearly, if there were a major policy issue involved for expenditure of public moneys it would go to the minister.

Senator ROBERT RAY—What level of expenditure in cash would you expect to be reported up the line to you? Clearly you would have more concerns, I would think, about cash as opposed to other trails. Have you got a limit where you think you should be told about it?

Mr Davis—I would be very surprised if I were not told about—and it is hard to actually put a figure on it—significant levels of funding. It would depend a bit on the circumstance but I would normally expect to be told if it was a significant expenditure. I am a bit loath to actually say a figure because it would vary a bit according to the circumstance.

Senator ROBERT RAY—Are we talking in the ballpark of hundreds of thousands of dollars or beyond that? Without you trying to put a capped level on it—

Mr Davis—Probably in the range of many hundreds of thousands, yes.

Mr Dawson—Your question goes more to information flows than any formal delegation. It depends upon the nature of the particular activity. If it raises policy issues then it is much more likely to be the subject of good information flows for the agency.

Senator ROBERT RAY—Departments do not just operate on delegations; they operate on conventions and information flows, all of which ultimately come down to value for money.

What external checks would be made on these sorts of expenditure? We know that within the Middle East and Afghanistan group they would probably be certified. Is there any process external to that or beyond that?

Mr March—Yes, there is a range of systems. It would start primarily with logging the activity and the financial details and processes that there had been to achieve the approval in a system that we call Aidworks, which logs the activity. Expenditures, when money is drawn down, would then be logged in a finance system, which is a separate financial system. I think I mentioned earlier that sitting over that is the agency's audit processes.

Senator ROBERT RAY—Does any training have to be done, especially of contractors, before they go into the field with their canvas bag? For instance, if you sent me off to Baghdad tomorrow—it is probably not too late to get today's plane—I would need to know how to spend that money. I would need to know what the processes are. I would assume that permanent AusAID officers would know, but what about contractors? Do you have to actually train them up?

Mr March—The process of approving the documentation and setting out the scope of the activity would, of course, be communicated to the contractor if there were a contractor involved. That briefing would be as complex and detailed as necessary.

Senator ROBERT RAY—Mr March mentioned before that some matters you do not feel confident in canvassing here because they are before the Cole commission. I just want to go to process rather than substance here. Was AusAID ever subject to an order to produce documents?

Mr Dawson—Yes.

Senator ROBERT RAY—When was that order issued? Was that the one in February?

Mr Dawson—The notice to produce was provided by the Cole inquiry on 21 February this year.

Senator ROBERT RAY—When were you able to comply?

Mr Dawson—AusAID provided in response to the notice to produce the relevant documentation on 27 February, which was within the deadline specified.

Senator ROBERT RAY—Yes. Has anything been produced subsequent to that time?

Mr Dawson—A further four documents were forwarded to the inquiry on 7 March after advice from the Department of the Prime Minister and Cabinet regarding the handling of the documents.

Senator ROBERT RAY—In the normal course of events, should those four documents have been involved in the tranche put in on 27 February or were they in a different subject area?

Mr Dawson—They were flagged with the initial response. They were classified documents.

Senator ROBERT RAY—So it was their classification that you had to seek advice on before they were produced?

Mr Dawson—That is correct.

Senator ROBERT RAY—Was AusAID part of—we do not know how to designate this—the informal group dealing with Cole matters? We have heard evidence that I think PM&C, Foreign Affairs and others were involved. It is not an interdepartmental committee or a working party—it is an informal group to coordinate. Was AusAID involved in that?

Mr Dawson—Yes, that is right. AusAID anticipated in the ad hoc meetings which were organised by the Department of the Prime Minister and Cabinet.

Senator ROBERT RAY—‘Ad hoc meetings’ is the best designation for them, is it?

Mr Dawson—That is how I understand it.

Senator ROBERT RAY—Were any AusAID officers required to give evidence at the Cole commission?

Mr Dawson—No.

Senator ROBERT RAY—Mr Davis, do you have a clear idea of what areas should not trespassed on to embarrass you by asking questions in this regard? It would save a lot of time.

Senator PAYNE—Are you a mind-reader, Mr Davis?

Mr Davis—I did not think I can answer that.

Senator ROBERT RAY—As a public servant, you have been given a direction by cabinet to not answer questions in order to avoid parallel public discussion before Cole. I think they are the exact terms. I did not know whether the department had done any work to find out where that applies to you as an agency.

Mr Davis—We have to look at it on the basis of what questions we are asked.

Senator ROBERT RAY—We were told that matters we might raise about Mr Flugge’s contract in Iraq, what cash he may have taken over, where he may have spent it and where it may have been certified are before the Cole commission, so you must have some knowledge of what is behind it. How do you get that knowledge?

Mr Davis—The documentation we provided in response to the notice to produce covered all of those activities.

Senator ROBERT RAY—That is a fair answer; that gives you a clear guide as to where AusAID activities may be before Cole, from the documents that you were required to produce. Is that right?

Mr Davis—That is correct.

Senator ROBERT RAY—It is not necessarily from being briefed by any other agency about what is going on at Cole?

Mr Davis—That is right.

Senator ROBERT RAY—That is a fair enough answer.

Senator FAULKNER—Is AusAID subject to the provisions of the Financial Transaction Reports Act?

CHAIR—Do you mean foreign transactions, like the ones that you have been canvassing here in terms of cash?

Senator FAULKNER—Is it called foreign transactions?

CHAIR—Cash transactions in different countries.

Senator FAULKNER—I thought that was the name of the act; I might have the name wrong.

Mr Davis—We are under the FMA act.

Senator FAULKNER—Isn't there a Financial Transaction Reports Act?

Senator ROBERT RAY—You are not exempt from AUSTRAC, are you?

Mr Davis—No.

Senator ROBERT RAY—So you would also have that in mind.

Senator FAULKNER—I will need to check, but I thought there was a reporting mechanism for cash transactions above a certain figure. Is that right or wrong? Let me ask you: do you have obligations to report outside your agency on financial transactions above a certain dollar limit? I thought there were some requirements. I have to admit that I am not an expert in this area.

CHAIR—I think it is only relevant to financial institutions.

Mr Davis—I think we would have to take that on notice.

Senator FAULKNER—What about customs regulations if amounts of money are being taken out of Australia to another country?

Mr Davis—Likewise, we would have to take it on notice.

Senator FAULKNER—Surely you can help me with that, Mr Davis. You have informed the committee that on occasions cash is taken out of Australia to another country—on some occasions through a third country or other countries. Surely someone from AusAID can tell me whether—

Mr Dawson—I do not think we have said that cash is taken out of Australia.

Senator ROBERT RAY—Yes, you have.

Senator FAULKNER—I am sorry; you did. I can assure you that you did.

Senator ROBERT RAY—You said, 'On some occasions one way, and some the other'. Let us not backtrack.

Senator FAULKNER—Just to be clear, I asked you specifically on two occasions—I do not know the answers to these questions, and if I did know I can assure you I would not be asking—whether cash is taken into a country. The answer I received was yes, and I also received answers to questions that indicated that often it comes from another country and sometimes it is taken from Australia. Either it is or it is not, but are you now saying that there are no occasions when cash originated in Australia and is taken into a third country?

Mr Dawson—I did not hear the previous evidence. Disregard my comment.

Senator FAULKNER—So where are we now? Are we back now to cash being taken from Australia on occasions? It was indicated that this does not happen often but that on occasions it occurs. Is that right?

Mr March—Yes. If we—

Senator FAULKNER—And that is a final? We can put that one into the frame?

Mr March—Absolutely. You can bank on that one.

CHAIR—If Mr Marsh were to finish the answer.

Senator FAULKNER—Are there obligations? In this circumstance, it is a reasonable question for me to ask whether certain obligations apply to AusAID when substantial sums of money are carried across borders. In this case, what are the specific requirements on AusAID when money is taken from Australia to another country? It is not a hypothetical question—it apparently has happened. Aren't you subject to a range of reporting requirements and aren't there customs regulations? I assumed that AusAID would have to fulfil all those requirements, and I am amazed that you cannot tell me that.

Mr Davis—We have to fulfil all obligations under Australia law.

Senator ROBERT RAY—Now we are asking whether you have. Do you have to report to AUSTRAC?

Mr Davis—We do not have the people here who can go through that sort of financial technical detail. As I said, I want to take it on notice, please.

Senator FAULKNER—Isn't there an obligation under Australia law—I think under the Financial Transaction Reports Act—that if you carry \$10,000 or above across borders it must be reported? Is that right or wrong?

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

CHAIR—When you say 'across borders' do you mean 'leaving Australia'?

Senator FAULKNER—Yes, that is right.

CHAIR—It is not 'across borders'; it is 'leaving Australia'.

Senator LUDWIG—But surely you would have expected to be asked about this here today. These are important matters. When you have officials who are carrying \$10,000 or more out of the country, why would you not know? That is what confounds me. Why do you need to take that on notice? It is a relatively simple question. You indicated that there are officials who take cash out of Australia. There are clear obligations and you will find them in travel tips—most backpackers know them. Anyone who leaves the country will read the items that indicate that if you are carrying cash of \$10,000 or more you should report it. Have you left this country recently? If you have, then you have probably read the travellers tips and guides, which also indicate that. I am surprised that you would want to take that on notice. Surely you know that.

Mr Davis—I said that I would take on notice the obligations that we have under various Commonwealth law in any such transactions.

Senator ROBERT RAY—I understand that you would not know, because basically you delegate things out and you should not have to worry about that. But what you are basically saying is that absolutely no-one in this room knows. That is what I find hard to understand or believe.

Senator FAULKNER—You are carting money out of the country and no-one has a clue how you do it or what your responsibilities are—that is what you are saying to the committee.

CHAIR—No-one here today.

Senator FAULKNER—No-one here today. The leadership of AusAID has not got a clue.

Senator ROBERT RAY—You can believe that, Chair. I do not.

CHAIR—I do. I have no reason to doubt him.

Senator Coonan—What the officer has said is that AusAID complies with Australian law and he wants to take on notice how they comply and what they do.

Senator ROBERT RAY—We have people in this room, Minister, delegated to do these things. I would have thought they would have known the law.

Senator Coonan—I can understand your point, but the officers at the table have said that they are confident that they comply. They just cannot tell you the process of how they comply.

CHAIR—There are probably a number of pieces of legislation that have to be complied with, and they want to get the answer right.

Senator FAULKNER—I assume that you do not only have to comply with Australian law; I assume that AusAID officers or people who you delegate these responsibilities to would have to ensure that they complied with the laws of other countries—the countries that you are taking the money into or through.

Senator Coonan—No-one disagrees. It is a matter of what the process is. That is my understanding of what the officers cannot tell you.

Senator LUDWIG—When will you be in a position to have an officer who can advise? They are relatively simple questions. Not a lot turns on this. I find it unusual that you do not know, given that, usually, if you travel overseas there is a declaration form and you declare on the back whether you have any cash and the value of it, if it is above \$10,000.

Senator ROBERT RAY—I have never managed it yet.

Senator LUDWIG—No.

Senator Coonan—Most of us will not have done it.

Senator LUDWIG—No, but you will have read the form and ticked that you are not carrying it. I am sure that next time you travel, Senator Coonan, you will reflect upon this questioning and say, ‘There it is.’

Senator Coonan—I will indeed. I will remember you fondly as always, Senator Ludwig.

Senator LUDWIG—I am sure you will. But the question is: when will you be in a position to know? The questions are relatively simple. They revolve around what amounts do

you declare and when do you declare them. What is the nature of the transactions? Do you declare them to AUSTRAC under the Financial Transaction Reports Act?

Mr Davis—There are a number of processes, just as you have mentioned there. We will get back to you.

Senator LUDWIG—The reason I did not want you to take it on notice and I wanted you to get back to me was that some questions might turn on that that I might want to follow up on. There may not be any, but it might give us an opportunity. If you take it on notice I cannot do that.

Senator FERGUSON—Chair, I have a point of order. If a witness at the table says they want to take a question on notice, they have a right to take that question on notice and they always have had.

Senator ROBERT RAY—On the point of order, Senator Ferguson: that is not quite true. If the answer is known here—

Senator FERGUSON—If.

Senator ROBERT RAY—I accept it when they say it is not known here. I have to accept that. But it is not adequate to take a question on notice so that there will be no more follow-through.

Senator FERGUSON—I understand that.

Senator ROBERT RAY—That does not mean that we do not take the officer's word; it just means that sometimes we have to follow through on questions. You will have sat at an estimates committee, like I have on occasions, knowing that the answer was there and we did not get it. I am not saying it is true on this occasion, but it has happened in the past. Therefore, you pursue it a little further.

Senator FERGUSON—It has been pursued a little further. Mr Davis and others have given the same answer on two or three occasions. If they have done it two or three times, you have to accept that they do not have the information here.

Senator LUDWIG—I asked whether they can, in a short while, find out and get back to the committee.

CHAIR—What is the answer to that?

Senator LUDWIG—I was actually waiting for Mr Davis to answer that one.

CHAIR—Let us give him a chance to answer that. Mr Davis, the question is: would you be in a position today to provide information on the compliance with the various legislative obligations with respect to AusAID moneys leaving Australia? If the person who has experience in this area is not available, simply say so and we will proceed on that basis.

Senator ROBERT RAY—I will correct that summary: cash moneys.

CHAIR—Sorry; cash moneys.

Senator ROBERT RAY—You said just moneys.

CHAIR—Sorry. Quite right.

Senator LUDWIG—There could be money orders.

Mr Davis—I think we should take it on notice so that we can give a comprehensive response.

CHAIR—I am inclined to agree, given that I think there are a number of pieces of legislation that might need to be complied with. I think we talked about this happening on four or five occasions?

Senator ROBERT RAY—No, that evidence has been retracted. We do not know whether it is four or five or anything. That is right, isn't it? You have retracted the four or five.

Mr Davis—No.

Senator ROBERT RAY—You have not?

Mr Davis—We said it was a small number of occasions.

CHAIR—Yes, four or five.

Senator FAULKNER—Don't go there again.

Senator WEBBER—But we do not know what 'small' means.

CHAIR—We talked about a small number; that was the problem. That question is going to be taken on notice.

Senator LUDWIG—Do they have an accountant who does the transfers for them who is available?

CHAIR—I think the question is larger than some senators have anticipated.

Senator ROBERT RAY—I want to return to the basic area of questioning. Chair, you have described them as four or five occasions. Mr Davis has said 'a small number of occasions'. I still have absolutely no idea, in the case of Iraq, how much money was taken out of the country. How much in cash was either taken out of the country or gathered elsewhere and then taken to Baghdad, presumably? Do we have any idea of the amount of money?

Mr March—That issue is before the Cole inquiry.

Senator ROBERT RAY—From that I take it that, regarding the four or five occasions that cash has either left Australia or entered Baghdad by way of AusAID, in each case there are individuals who are before the Cole inquiry. Is that your evidence?

Mr March—My evidence is that the general discussion about process is not before the Cole inquiry. Specific questions, such as the one you have just articulated, are before the Cole inquiry. I am not able to answer it.

Senator ROBERT RAY—Let me repeat it. This time, Chair, listen to the answer. I will not pursue it if you tell me that the four or five occasions are before the Cole inquiry. If not, I intend to pursue it to seek the amounts.

Mr March—The substance of your question is before the Cole inquiry. I am not able to answer.

Senator ROBERT RAY—By that are you affirming that in each case when AusAID cash entered Iraq these are matters that, in each instance, are before the Cole inquiry—that is, it

was not taken in by other contractors and other officers that were not in some form or other associated with the Cole inquiry or the Australian Wheat Board? Is that the evidence you are giving?

Mr March—Senator, the substance of your question is before the Cole inquiry. I am not in a position to answer.

Senator ROBERT RAY—I do not accept that. I cannot accept that unless all four or five instances are before Cole—then I have to accept it. If not, I am entitled to ask questions about other individuals who are not before the Cole inquiry that may have taken cash into Iraq.

CHAIR—I do not think that is entirely correct. If the process by which AusAID provides cash to people in Iraq, and has done so, is under examination by the Cole royal commission I think Mr March is quite right to maintain that he cannot—

Senator ROBERT RAY—And where, in heaven's name, is your evidence for that before Cole?

CHAIR—Because I think that is what he is saying.

Senator ROBERT RAY—Well, let him justify it. How do you know that is before Cole?

Mr March—We know that it is before Cole because it is included in the documentation that AusAID has provided to Cole under the notice to produce.

Senator ROBERT RAY—So, in effect, you are saying that those documents that you were ordered to produce are all relevant to Cole. There were not other individuals that are not relevant to Cole, not interviewed by Cole, in fact nothing to do with the Wheat Board, that took cash in—it was only Wheat Board people and affiliates that took cash into Iraq.

Mr March—The specifics of your question are before Cole. I am not in a position to answer.

Senator ROBERT RAY—This is disgraceful. Minister, that is a disgraceful answer.

Senator Coonan—I am sure he has done his best.

Senator ROBERT RAY—No—

CHAIR—I do not think it is a disgraceful answer.

Senator ROBERT RAY—I am sorry, that is just a cover-up.

CHAIR—That is not a disgraceful answer, and you should not attack the witness. The witness is in a difficult position. He has had to provide evidence to a royal commission. You should not castigate him for that. Ask questions, by all means. Be unhappy with the answers. But do not say things like that to him.

Senator ROBERT RAY—Chair, I agreed this should be an inquisitorial not an adversarial process, but we also have rights to answers. We have rights—

CHAIR—You do.

Senator ROBERT RAY—and we are not being treated properly. Some of these matters, just by definition, cannot be before Cole. It is being used as an excuse not to answer questions. That is not good enough, Chair.

CHAIR—Do you have any further questions?

Senator ROBERT RAY—No, I do not.

Senator FAULKNER—I think in this difficult circumstance it is perhaps best for Senator Hogg to continue. I would certainly like to explore the debt retirement issue. Perhaps Senator Hogg would like to continue with that.

CHAIR—We have some questions on Iraq.

Senator HOGG—This is Iraq. It seems a while ago but I was asking about the \$334 million that is the bilateral debt relief. I think we established that it is not an appropriation to AusAID—

Senator FAULKNER—Just stop there. The figure went to \$357 million, I thought.

Mr Dawson—That is total ODA flows to Iraq.

Senator FAULKNER—So debt retirement is \$334 million?

Mr Davis—That is right.

Senator HOGG—But that \$334 million, most importantly, is not appropriated through the AusAID budget—it is not represented in your budget through either departmental or administered expenditure. That is correct?

Mr Davis—That is correct.

Senator HOGG—Nonetheless, it is counted as part of our ODA and it is represented as being part of the increase in our ODA in 2006-07?

Mr Davis—That is right.

Senator HOGG—Was there any retirement of debt last year in respect of Iraq and, if so, how much?

Mr March—Debt retired in the 2005-06 budget was \$330 million.

Senator HOGG—So there is an allocation of \$334 million for this year. Is there any further debt relief in the out years?

Mr March—Not programmed at this stage.

Senator HOGG—If it is not programmed, what is the total debt—

Mr Lehmann—I am sorry, can I just correct that: in the out years there is an amount of \$222 million that is allocated but not programmed by year as yet.

Senator HOGG—So for 2007 on, it is \$222 million?

Mr Lehmann—It is \$222.72 million.

Senator HOGG—Is that the total outstanding debt?

Mr Lehmann—Yes. If you add up all those figures it will equal the amount that Australia has undertaken to forgive.

Senator FAULKNER—Are the out years in this instance 2007 to 2010 or 2007 to 2011? Is it the next four or the next three financial years?

Mr Lehmann—It is usually over four financial years, but I will have to check that.

Senator FAULKNER—I was just wondering whether it included 2006-07.

Mr Lehmann—No, it does not include 2006-07.

Senator FAULKNER—So you think it is 2007 to—

Mr Lehmann—It is 2007-08 and beyond.

Senator HOGG—2007 and beyond?

Mr Lehmann—The 2007-08 financial year and beyond.

Senator HOGG—I have just tallied those figures up quickly. That is a grand total of \$886.72 million. I presume that that is the total bilateral debt to be relieved. Is that the intention?

Mr Lehmann—That is right. That is not commercial debt, of course; that is just on the government side under the terms of the Paris Club agreement, where we forgive up to 80 per cent.

Senator HOGG—What is the nature of the debt? When you say it is commercial debt—

Mr Lehmann—No, it is not commercial debt.

Senator HOGG—So if it is not commercial debt, what raises the debt?

Mr Lehmann—It is government debt. I am afraid that I cannot really go into much more detail on that, as the Department of Foreign Affairs and Trade were involved in negotiating the MOU.

Senator HOGG—What would have raised the debt in the first instance?

Mr Lehmann—I cannot answer that question. The role of AusAID in this process is to account that debt—forgiveness against ODA. We have not been involved in the details of negotiating the MOU. I cannot provide that information.

Senator HOGG—I find this odd. You say you are given to account for the debt against ODA—and I can understand that—but it is not administered, it is not departmental and it is not accounted for by appropriation.

Mr Davis—It is like other elements of other government departmental expenditure that does not come under AusAID appropriations but are still part of the broader reporting that we do, as do all donor countries of total official development assistance provided. The Development Assistance Committee of the OECD is the organisation that defines what sensibly fits under that broader categorisation of ODA. Just in broad terms, last year, in the calendar year 2005, there was over \$US20 billion in various debt relief flows that were included within global ODA. That just gives you a sense of the extent to which this is not a particularly Australian thing; this is something where all donors do count against their ODA flows such amounts.

Senator HOGG—I accept that, Mr Davis. I think I can say that on at least two occasions I have had a pretty interesting discussion about that table that you people produce that I think is almost useless, but we might go to that again. If we relieve \$334 million in debt for Iraq—and

given that is, I think, greater than the whole of what we will give through aid to PNG and to Indonesia this year, excluding some of those special projects—what is the aid allocated for?

Mr Dawson—The origin of the debt relief goes to, as I understand it, a decision by the Paris Club in November 2004, where Australia, with other creditor nations, agreed to forgive 80 per cent of Iraq's debt. This represents the Australian government's share of the write-off.

Senator HOGG—Was this debt directly owed to Australia or are we assisting internationally in forgiving—

Mr Dawson—It is the Australian government's share of the write-off.

Senator HOGG—This was not debt that was directly owed to the Australian government?

Mr Dawson—It was official Australian debt.

Senator HOGG—That is debt that is owed to the Australian government, as such? What would that be for?

Senator FAULKNER—If it is official Australian debt, which we now know it is, then going back to Senator Hogg's earlier question you ought to be able to detail for the committee the nature of this debt.

Mr Dawson—These questions are more properly for the Department of Foreign Affairs and Trade, which has responsibility for international debt issues.

Senator FAULKNER—Are you saying that AusAID does not know?

Mr Davis—We were not a party to the Paris Club discussions, no.

Senator HOGG—We are aware of that but you are the people where this appears with any significance as being ticked off. If anyone can take me to where that appears—I know it is outside your responsibility—in the foreign affairs department, I would be surprised. It really shows up, not in your PBS because it is not an appropriation, but in the blue book—*Australia's overseas aid program 2006-07*—and, apart from it being mentioned there, there is no other mention of it whatsoever. It would be natural for me to expect that I could get some explanation from the officers at the table.

Mr Davis—In a sense it is the same as the expenditure that comes under 'other government departments' included as ODA whether it be Health, Immigration or whatever. It is not something that we as an agency can take responsibility for beyond being able to report it as a legitimate flow against official development assistance.

Senator HOGG—In respect of some of those other agencies we are not talking about amounts in the order of \$334 million. As I said, that is larger than the amount allocated for PNG and the amount allocated for Indonesia. It seems to me that it is something that should be transparently seen by this committee if you are dishing the report up to us.

Mr Davis—My understanding is that our primary responsibility to this committee is AusAID appropriations. What we then do beyond AusAID appropriations as a broader engagement with the rest of government draws together any other legitimate flows that count as official development assistance and that get reflected in the blue book and not in our appropriations.

Senator HOGG—The blue book is a bit of a nuisance in those circumstances, for you and for me. It really leaves us in an area where no-one, unless you are very adroit at these things—and even if you were it might be doubtful—knows where to ask the questions. That leads me to raise an issue I have raised before. You have an ODA table here at page xv, table 1. I presume that is the table we have had a discussion about on a number of occasions. That includes the contributions from the other agencies and the other departments in ODA. I notice also that at page 71, table 5, shows aid program expenditure. It does not really give any delineation between that and table 1.

Mr Dawson—Can I explain?

Senator HOGG—Yes, I was going to ask for the explanation. What does that table do?

Mr Dawson—Table 1 is, as it says, total Australian ODA flows to partner countries. It has a line towards the bottom: ‘Other government departments not attributed to country region’. In other words, there is other government department expenditure which is attributed to country region, which is shown in the individual lines above. If you want a total figure on ‘other government department’ expenditure you need to go to table 7, total ODA by subprograms, and the figure OGD. That is the total figure of ODA through other government departments.

Senator HOGG—I am sorry, what table was that?

Mr Dawson—Table 7 on page 73.

Senator HOGG—With the greatest of respect, that really does not assist me much either in trying to understand. That is the problem here.

Mr Dawson—The layout of this has not changed from year to year.

Senator HOGG—No, I know—and at least I have been consistent in my complaint about being unable to unravel what is before us. I am not doubting the explanation you have given or the sincerity behind what you say. But it makes it very difficult for people such as me to come along to an estimates such as this—given that this document is only associated with AusAID; it is not associated, or only in a very limited way, with the department of foreign affairs—and expect, quite reasonably, to get an explanation on what is clearly a significant item of expenditure: \$334 million in debt relief. I accept your explanation, Mr Dawson, that there is the single line down the bottom of table 1 on page xv. But is there any attempt to distil and attribute to the various agencies their contributions in the programs by country and by year? Do you have that as a working document yourself?

Mr Davis—We do have a working document. We have a document which identifies how much by each government department that we have been able to ascertain, as an estimate, is likely to be ODA relevant for the particular year, yes. We can give you the breakdown by individual agency of that amount.

Senator HOGG—The difficulty, though, is that the process as it is currently constituted is flawed, in my view, because I can only get that document now when I might ask for it and it does not allow me to see where these items are disaggregated and therefore to identify whether questions might need to be asked of other agencies or departments. That is the problem. As I say, at least I have been consistent in complaining about this now over a period

of time. One would hope that something will start to happen. If I can just return to the debt, for example—

CHAIR—Senator Hogg, if that document that Mr Davis has talked about was in the book would that be helpful?

Senator HOGG—I think that would be a great help. But I have made that suggestion twice now, and I just do not seem to be getting across the line with it. I am sure it would help not only me but a lot of others as well. Can I take the \$334 million as an example. You would have no idea whatsoever what that \$334 million is paying off. Is it paying off debt that was incurred by Iraq for purchase of military equipment? Or is it paying off debt incurred for medical supplies or—

Senator FAULKNER—Bribes.

Senator HOGG—for infrastructure? Are you able to assist the committee there?

Mr Davis—The relevant part of the system to provide that assistance is the Department of Foreign Affairs and Trade.

Senator FAULKNER—I just find that incredible, Mr Davis. You say that this is as a result of an MOU. That is fine. I assume you are saying that AusAID does not have a copy of the MOU—is that right?

Mr Davis—I am not aware of having seen one, no.

Senator FAULKNER—AusAID does not know what the MOU is about?

Mr Davis—We do know that—

Senator FAULKNER—What you are saying to the committee is that nearly \$1 billion of Iraq government debt to Australia is being forgiven and we do not know—

Mr Davis—The Department of Foreign Affairs and Trade track it very closely. They attend all the Paris Club meetings. They would know all the details. In this case, the relevant part of the system to provide that detail is the Department of Foreign Affairs and Trade.

Senator FAULKNER—Nearly \$1 billion is coming out of the aid budget—

Mr Davis—No, it is not. It is counted as ODA. It is included as part of the broader contribution Australia makes to official development assistance. It is not an amount that is appropriated to the aid program.

Senator FAULKNER—But if I were to go to the Department of Foreign Affairs and Trade and ask questions about this \$1 billion, they would immediately say, ‘Back you go to AusAID.’ That is what it is. We are caught on a roundabout here, and I find it extraordinary that you cannot say in relation to this nearly \$1 billion—not necessarily in any great detail—what these debts to Australia relate to. Can you answer this question. Senator Hogg asked about a range of possible reasons for this, and he mentioned military equipment and infrastructure. But what about wheat sales? Let us cut to the chase.

Mr Davis—The relevant part of the Department of Foreign Affairs and Trade has all that detail. I do not have that because we do not deal with debt relief as a prime responsibility.

Senator FAULKNER—I accept that it is not your primary responsibility. That is accepted. I am asking whether you can confirm that a very large proportion of this nearly \$1 billion of debt that is being forgiven here is for wheat sales.

Mr Davis—I can get details from the department of foreign affairs if that is going to be helpful to go to the composition of that amount.

Senator FAULKNER—But you cannot confirm it here for the committee?

Mr Davis—No, I cannot myself say what the composition of that amount is.

Senator FAULKNER—I find that incredible. It is \$886.72 million—nearly \$1 billion. I find that incredible. I give up.

Senator HOGG—Whilst you have nominated that there is \$334 million this year for bilateral debt relief in Iraq, is there any other bilateral debt relief being undertaken at this stage as well?

Mr Lehmann—Not in 2006-07.

Senator HOGG—Was there any bilateral debt relief for countries other than Iraq in the 2005-06 financial year?

Mr Lehmann—There was a program of debt relief for Nigeria, but I do not think we had any bilateral debt, so we did not participate.

Mr Davis—Over a number of years there had been a program of debt relief to Egypt. I think it is now completed.

Senator HOGG—What other countries hold a substantial debt with us, such that debt relief could be applied to them—if not now then in the future?

Mr Lehmann—I am afraid that I do not have a detailed knowledge of our debt portfolio. You might have to refer that question to the officers in the Department of Foreign Affairs and Trade who handle our debt portfolio.

Senator HOGG—So this is something that washes through not only your PBS but your other document here—the statement made by the Minister for Foreign Affairs—and you really have no idea of what other bilateral debt there is owing to Australia at this stage.

Mr Lehmann—It is not something that AusAID keeps a comprehensive tab on. Other agencies within government have that as part of their responsibilities and keep that up to date.

Senator HOGG—I can understand that.

CHAIR—So what you are really saying is that debt forgiveness is measured as an act of aid but the details are higher up the chain, in the Department of Foreign Affairs and Trade and beyond.

Mr Dawson—The amounts in the minister's budget statement reflect agreed debt write-offs in accordance with OEC development assistance committee guidelines.

CHAIR—And we put that into the aid category.

Mr Dawson—That is correct. This is categorised as ODA, but the responsibility for the management of those programs and the information on the detail behind those debts does not rest with this organisation.

Senator HOGG—I accept all of that but, by the same token, officers at the table were able to take me to table 2.2 in the PBS, which referred to the multilateral debt relief initiative contribution. So we have multilateral relief appearing in the PBS which is obviously handled in a manner differently from bilateral.

Mr Dawson—That is correct.

Senator HOGG—If you do not think people are confused by that, I cannot understand why. It must be confusing to anyone.

CHAIR—Is the question not: why is there a differential?

Senator HOGG—It is. Why is there a differential? Thank you, Chair—you have asked the question of the afternoon.

Mr Dawson—There is a differential because the payments to the multilateral debt relief initiative and under the heavily indebted poor countries initiative are multilateral payments made through AusAID appropriations.

CHAIR—So that is a program that is administered by AusAID. The multilateral program is one of your programs, the bilateral is not.

Mr Dawson—That is correct.

Senator HOGG—I accept all that. All I am saying is that this does nothing for consistency in assisting people such as me and other senators who may wish to ask questions about material that you publish. So I am asking once again that you go away and look at getting some consistency so that there is transparency and accountability for people such as me at the table. I think Mr Davis said, ‘This contributes to the way in which ODA is portrayed.’ I accept that. When one sees this happen, it tends to distort the real level—or what people would perceive as being the real level—of aid being delivered by AusAID. I make that distinction, and I have made that distinction before, because I think people want to see the level of aid that AusAID itself delivers. I accept that it is presented in the way it is presented, but without disaggregation it is very hard to tell whether there is an increase or a decrease or whether the allocation to AusAID itself is static.

Mr Dawson—You can see that from table 7, which I drew to your attention before. It disaggregates ODA by subprograms, which show AusAID country programs, AusAID global programs, AusAID departmental expenses, payments under the Australia-Indonesia Partnership for Reconstruction and Development, ACR payments and ‘other government department’.

Senator HOGG—With the greatest respect, Mr Dawson, that is about as clear as mud. I can relate the figures there that are in one of the other tables, and I think that is table 2 back on page xvi. But, for anyone trying to read this, it is not in simple easy understandable terms. And of course it is one area where a great many Australians do have an interest—they have an interest in what we as a nation are doing by way of contribution to assist those who are less fortunate than us. This is not the tricky end of politics or anything like that. This is purely and

simply about allowing those people who want to see where the money is being spent to see where—

Mr Davis—Senator, I do not think you even need to go to table 7. Table 2, on page xvii, captures it as well: AusAID, including AIPRD and ACR, and then ‘other government department’ expenditure, as the four basic lines.

Senator HOGG—That is right, but that does not disaggregate it. That does not show us where the increases are taking place at country level.

Mr Dawson—That is why you go back to table 7, and you go from table 7 to table 5, and table 5 disaggregates AusAID country program expenditure by individual country.

Senator HOGG—Yes, but it is not very easily read or understood. If you want to take me around some of these PBS tables and so on, I think I do reasonably well, but not even I can understand it on an easily read basis. Anyway, I am not going to take up the time of the committee much longer on that. I think I have made my point once again, and we will see what we can do about getting information on that \$334 million, a substantial amount of money that we need to identify as to where it went.

CHAIR—We understand that is a question on notice—you are clear on that?

Mr Davis—We can find that from Foreign Affairs and Trade.

Senator STOTT DESPOJA—I am not sure, given the discussion that has just taken place, if my question will be considered within the confines of the department. I want to ask very directly in relation to the issue of debt relief and the money that is paid to Iraq, in particular the \$334 million that is outlined in the portfolio budget papers, just how much of this was linked to AWB wheat sales?

Mr Davis—My response is the same: we can find out from Foreign Affairs and Trade the composition of the broader amount that came within the Paris Club debt relief process.

Senator NETTLE—Can you outline what criteria Australia uses to select countries for debt cancellation?

Ms Newton-Howes—For the multilateral debt relief that we provide we work through the HIPC process, which is managed by the World Bank. There was a process to determine which poor countries were heavily indebted, and a list of those countries has now been agreed by the World Bank. The debt relief becomes effective as they fulfil certain requirements which relate to improvements in governance, primarily improvements in macroeconomic management. So, in terms of multilateral debt relief, we work through the HIPC process with the World Bank.

Senator NETTLE—What about for bilateral debt relief?

Ms Newton-Howes—The HIPC process also includes some work with the Paris Club where countries reach completion point in the HIPC initiative and there are also discussions in the Paris Club. For example, when Ethiopia and Nicaragua reached the completion point of the HIPC initiative, through the Paris Club we agreed to forgive 100 per cent of their debt relief. So to the extent that your question relates to HIPC countries, we have some involvement in that process. Non-HIPC debt relief that is agreed at the Paris Club is managed by the Department of Foreign Affairs and Trade.

Senator NETTLE—Is that the category in which Iraq falls?

Ms Newton-Howes—Yes.

Senator NETTLE—The figure for Iraq is for 2006-07; was there any debt relief for Iraq for 2005-06?

Mr Davis—We gave that figure before. It was \$330 million.

Senator NETTLE—So \$330 million then \$334 million. I thought the \$334 million was for 2006-07.

Mr March—Yes, that is correct.

Senator NETTLE—Was there a 2005-06 figure?

Mr March—It was \$330 million.

Senator NETTLE—What OECD Development Assistance Committee criteria does AusAID use to include this debt reduction money as aid funds?

Mr Davis—We can give you a copy of the reporting guidelines that we work with in exactly the same way as every other member of the OECD. I can provide those guidelines for you.

Mr Proctor—There is a statistical area within the OECD Development Assistance Committee secretariat that issues guidelines as to what can and cannot be counted. Those are met by all donors and the categorisations come from those.

Senator NETTLE—I think other people have asked before about why Iraq was chosen for debt cancellation when all of the 66 other countries remain in line for debt reduction under the G8 initiative? Is there an answer for that one?

Mr Dawson—As we indicated, the bilateral debt relief for Iraq came from a Paris Club agreement.

Senator NETTLE—Is it likely that Indonesia or the Philippines—our largest debtors—will receive debt cancellation in the near future?

CHAIR—That is a matter of government policy, I would have thought.

Mr Davis—It is a combination of government policy and the broader, multilateral processes through the Paris Club.

Senator NETTLE—So neither of these two countries are being considered through any of the bilateral processes that you outlined?

Mr Davis—Even if it is bilateral debt, in the end it is not something that Australia would do on its own. It would do it through the Paris Club.

Senator NETTLE—What is the time frame for the bilateral debt cancellation process? Is there a time frame that Australia is committed to, with regard to a level by a certain time?

Mr Dawson—None that we are aware of. These issues of bilateral debt relief are issues for the Department of Foreign Affairs and Trade.

Senator NETTLE—No, sorry, I meant for the multilateral process. Is there a time frame and an amount that Australia has committed to?

Ms Newton-Howes—Yes, the multilateral debt relief extends over 40 years. We have committed to and paid up front the first 10 years of the multilateral debt relief under the Multilateral Debt Relief Initiative. We also continue to pay a share under HPIC.

Senator NETTLE—While we are still on Iraq, what proportion of the \$357 million is for the training of Iraqi police? I think that fell under the governance area that was outlined before.

Senator HOGG—Would it be quicker to put in a call to the AFP and ask them what the allocation is? Could someone use a mobile?

Mr March—I am sorry, I do not have the figures before me of the level of assistance for the training of Iraqi police. I can get that figure for you.

Senator NETTLE—Thank you. I will put some other questions on notice about the number of police involved, where the training is taking place and whether the ADF are involved in that training. Should those questions be put to you or to somebody else?

Mr March—I can answer those questions. There are two Australian Federal Police trainers. They are based in Jordan at a police training college and they are conducting the training. The Australian Defence Force is not involved in that training.

Senator NETTLE—So there is no training taking place in Iraq; it is all at the police academy in Jordan—is that right?

Mr March—The police training that we are involved with is undertaken at the police training college in Jordan. We had one adviser based in Baghdad.

Senator NETTLE—But they are no longer there?

Mr March—They are no longer there.

Senator NETTLE—Can you take on notice the date when they concluded their work in Baghdad?

Mr March—Absolutely.

Senator NETTLE—And they were additional to the two trainers in Jordan—is that correct?

Mr March—Correct.

Senator NETTLE—Has AusAID investigated claims that Iraqi police are in some cases operating as death squads?

Mr March—No, we have not.

Senator NETTLE—Would that be something that AusAID would do?

Mr March—No.

Senator NETTLE—Who would be responsible for that? The money is going through AusAID and I would have thought that would be an appropriate place to investigate any such claims.

Mr Dawson—The money for some out-of-country training of Iraqi police goes through AusAID. That does not make us responsible for issues to do with the conduct of the Iraqi police force.

Senator NETTLE—I would have thought it was important to determine whether or not Australian money was being used for activities that the Australian government presumably disagrees with.

Mr Dawson—Basic police training is being carried out by the college in Jordan.

Senator NETTLE—So you are saying that no-one would be responsible for checking such allegations?

Mr Dawson—I did not say that.

Senator NETTLE—Who would be responsible if it is not AusAID?

Mr Dawson—It is not an AusAID responsibility to comment on the activities of the Iraqi police force.

Senator NETTLE—Simply to provide the money—and we are waiting to find out how much money—is that correct? So it is about providing money but not about taking responsibility for checking how it is being used?

Mr Dawson—Funding has been used to provide training.

CHAIR—Out-of-country training.

Senator WEBBER—If I may intervene, with all due respect, how is it that we know where the training takes place and how many officers there are, but we do not know how much money we spend on it? I am a little perplexed.

Mr March—I do not have those figures before me.

Senator WEBBER—But you know where it is, who is employed, who is there and who has left, but you do not know how much money we are spending on it?

Mr Dawson—We just do not have the up-to-date financial details of that particular activity on hand with us. We can take it on notice and we will give it to you.

Senator NETTLE—That is all I have on Iraq.

Senator ALLISON—I understand that the aid proper to Iraq was \$26 million for this year. Could you confirm that is correct?

Mr Dawson—It is \$22.5 million. That is the estimate.

Senator ALLISON—You do not have with you a breakdown of that \$22.5 million?

Mr March—I provided a broader breakdown earlier: \$8 million for governance and \$10 million for agriculture, with the balance being made up of unallocated funds. I have no more detail than that.

Senator ALLISON—I see. I did have written down the \$8 million and the \$10 million, but I thought they were in addition to the \$22.5 million. Is there any plan to use any of this aid money in Fallujah where, I understand, most of the medical services were pretty much wiped out as part of the siege? Can you advise if this is a high priority for AusAID?

Mr March—We are looking at what support we might provide in the forthcoming financial year and talking with the Australian defence forces who have presence in a number of cases. We have not made a specific decision to put funding into Fallujah, no.

Senator ALLISON—Did we in the previous year or the one before that?

Mr March—No, to the best of my knowledge we have not placed funding into Fallujah. We have worked predominantly in the health sector in Baghdad.

Senator ALLISON—Has AusAID done an assessment of the needs of health services in Fallujah?

Mr March—No, we have not.

Senator ALLISON—Why is that?

Mr March—The focus of our assistance to Iraq is governance and agriculture. Of necessity, we have had to concentrate our efforts on those particular sectors. We do monitor reporting from the international institutions and the NGOs on other sectors, and from time to time have made modest contributions in the health sector, but we are not active in Fallujah.

Senator ALLISON—Who determines whether or not we will be active in Fallujah? What is the chain of decision making on this issue?

Mr March—The aid program assistance to Iraq is determined against a strategy that has been proposed, discussed and agreed, and that strategy gives us a focus on governance and agriculture.

Senator ALLISON—To the exclusion of all other forms of aid in Iraq?

Mr March—Not to the exclusion. As I mentioned, from time to time we have made modest contributions in the health sector, but the primary focus is governance and agriculture.

Senator ALLISON—Did AusAID meet with the Doctors for Iraq who were here in Canberra last week?

Mr March—Not that I am aware of. I can certainly check if my colleagues did meet with them. I do not believe we did but I can check.

Senator ALLISON—I will provide your department and the committee with a paper that was brought to Canberra by the Doctors for Iraq that describes health services being pretty much demolished by the attack on Fallujah. But you say the Australian government is not considering efforts to rebuild that health system?

Mr March—I would be happy to look at the paper. At this stage we do not have a specific proposal in mind.

Senator ALLISON—Are there other countries providing aid for health in Fallujah?

Mr March—I am sorry, I do not have that information before me.

Senator ALLISON—Could you take that on notice as well?

Mr March—Absolutely.

Senator ALLISON—In our strategy, does Australia consider the efforts of other countries? To what extent is that coordinated in the example of Fallujah?

Mr March—If I may, I will first answer in the broad. In deciding what it is Australia will focus on we are guided by three things: first of all, what the mix of needs is; secondly, what we are well suited to supply; and, thirdly, what other people are doing. A decision then is made on the focus. That is the priority setting in the broad: needs, activities that we can deliver, and the balance of what other donors are doing. As I said earlier, I am afraid I do not have the detail on what other people are doing in Fallujah.

Senator ALLISON—In the process of establishing the needs, how do you compile what the needs are? Is it the United States administration that is responsible for that? Does it tell Australia what we should fund in aid? How does it work?

Mr March—The Australian aid program would form its decisions and focus based on a range of reporting. It would come, particularly in the health sector, from considering UN reports and NGO reports. We would be in a dialogue with a range of donors that are active in the area. Most importantly, we would be in a dialogue with the national authorities to obtain their priorities.

Senator ALLISON—Does that suggest that, of all of those documents and those people you consult, none has said Fallujah has a high priority in terms of health?

Mr March—I would not say that none have said Fallujah has a health priority. I am not specifically aware of the Doctors for Iraq representations. But against the balance of needing to focus Australia's assistance in an area that is manageable both financially and in terms of being able to deliver and have an impact, our focus has been on agriculture and governance activities.

Senator ALLISON—I understand. The point that was made was that doctors are being targeted in some of the violent attacks in Iraq, and from memory I think 61 senior doctors have been killed just in the last 18 months. There has been an exodus of trained doctors because of these attacks on them. Is AusAID across that problem, and what does it consider to be the appropriate response in terms of aid?

Mr March—It is certainly aware of that reporting. At this stage we have not taken that consideration further. Might I add that in the immediate humanitarian stage of our response to Iraq we did provide \$A55 million through NGOs and international agencies including the Australian Red Cross, UNICEF, Save the Children and the World Health Organisation. So at the humanitarian, early stage we did have a profile; but subsequently, as I have said, we have had a focus on governance and agriculture.

Senator ALLISON—Yes, so you say. I would appreciate it if you were able to provide the committee with whatever advice you have been given—particularly with respect to Fallujah, which I understand to be a particular problem in terms of hospital services, doctors and widespread injuries that were sustained as part of cluster bombing and use of white phosphorus. What advice have you received on the needs in Fallujah as a result of that?

Mr March—Certainly, I understand you are asking me what advice we have received on the health sector issues in Fallujah and what we know of other donors' activities in response to this.

Senator ALLISON—Could you also take on notice whether—and, if not, why not—there is consideration for direct aid to overcome some of those problems?

Mr March—Certainly.

CHAIR—Following on from that, Mr March, you mentioned there is a strategy. How is the strategy for aid into Iraq formulated, and by whom?

Mr March—Very broadly, we formulate it—as I think I mentioned—by looking at our best appreciation of the needs—

CHAIR—Who is ‘we’?

Mr March—In the case of most discussions of an aid engagement it is primarily led by AusAID because we have the responsibility for the funds, but we have a strong dialogue across government. For example, we would be talking with various central agencies: the department of foreign affairs—

CHAIR—Is it an interdepartmental committee?

Mr March—No, it generally would not be an interdepartmental committee; it would be a slightly more informal grouping that would get together. In the case of Iraq it has included inputs from what was then DIMIA—now DIMA—on issues that we would look at across the range, and from the Australian Federal Police. Priorities and discussion papers would be put forward and then it would be the responsibility of AusAID to form a context analysis or a poverty and conflict analysis. That is, we identify the problem, come up with a range of potential solutions and then go through an internal process of determining the most appropriate mix of proposed solutions. That would be put to either a delegate in AusAID or the minister for approval.

CHAIR—So it comes through AusAID and a group of people who have input. In AusAID a senior delegate, as you say, signs off on it and it goes to the minister. So anybody wanting to highlight, as Senator Allison has, a particular area of apparent need needs to have somebody to talk to in AusAID. How do they discover that person?

Mr March—On the Iraq program, it is me.

CHAIR—So you are the go-to person; if there is an issue of humanitarian need that comes to a parliamentarian, you are the person to be approached and provided with information?

Mr March—Yes. As well as being the branch head for the Iraq program, I am also AusAID’s humanitarian coordinator.

CHAIR—Very good; I think that takes us a lot further. I think that is the end of questions on Iraq.

Senator PAYNE—My questions are not on Iraq, so I hope no-one minds if we change tempo slightly.

CHAIR—We will leave Iraq.

Senator PAYNE—So to speak. I have two sets of questions. The first is in relation to HIV matters. I note the appointment of the ambassador, which is a good thing to see. Mr Davis, the ambassador is not with us today?

Mr Davis—No, the ambassador is in New York for the high-level meeting on HIV-AIDS.

Senator PAYNE—Good. That was what my next question was about, so that is fine. In relation to the UNGAS high-level meeting and the review process, what is our role and contribution?

Mr Allen—We have had a very active role to play in the high-level meeting in New York. We have a delegation, as you know, which is being led by the ambassador. It includes a representative from Civil Society and the Department of Health—

Senator PAYNE—Who is that?

Mr Allen—Bill Whittaker, who has been nominated by AFAO as their representative. We have been very active in formal sessions around the negotiations of the draft declaration to be adopted on Friday. We have been pushing very strongly for language on the importance of prevention, in the global response to the spread of HIV. We have also been working closely with those like-minded, both here and in New York, on language around how we monitor and evaluate progress over the next few years as the declaration commitments are implemented. We are now on the ground in New York as the pointy end of those negotiations comes to a conclusion.

Senator PAYNE—In terms of the draft statement—I have skim-read the latest one that has been posted—there is not significant mention of the human rights impact of HIV, as far as I can tell.

Mr Allen—No. That is a fair observation. There was some mention of the human rights dimensions to it in the 2001 declaration of commitment. We are hoping that by recalling that document in strong terms we can address the human rights issues in this draft declaration. It is still, of course, a very fluid document and it has been changing every day or so. I know that new language on human rights issues is being introduced by a number of delegations—in fact, most recently on access to medications and health related issues more generally. So I expect that the text will change again and perhaps the language on that will be strengthened over the next couple of days.

Senator PAYNE—One would hope so. The other question I have on an HIV matter is about the Asia Pacific Business Coalition. I raised this briefly at the previous estimates, in February, but Ms O’Keeffe advised me that my interest was slightly premature, given that the launch was to happen, I think, the next week. Is there a program of activity for the coalition? Can that be made available to the committee?

Mr Allen—I think it can. Very broadly, the coalition now has a full-time CEO, Mr Stephen Grant. You will know that the chairman is the Chair of Qantas, Margaret Jackson. AusAID has made available one of our officers for a period of four to five months to assist in the set-up of the organisation. They are currently working on a business plan for the coalition. We expect that the inaugural board meeting of the coalition will meet in June or July. It will have around eight to 10 board members. We expect that the first board meeting in around June or July will endorse an indicative action plan for the coalition over the next two to three years.

Senator PAYNE—Mr Allen, would you please take on notice the provision of information about the program to the committee?

Mr Allen—Yes.

Senator PAYNE—Where is Mr Grant based?

Mr Allen—At the moment he is based in the Qantas offices in Melbourne.

Senator PAYNE—In relation to the APLF, I think Ms O’Keeffe advised at the last estimates that the next meeting was to be later this year, in either Indonesia or Cambodia. Have those details been firmed up?

Mr Allen—No. It is still going to be in either of those two countries.

Senator PAYNE—Do you know when?

Mr Allen—Yes. The next meeting is scheduled in November, in either Indonesia or Cambodia. That has not yet been determined.

Senator PAYNE—It is worth noting that I think their website is down again. It is a difficult process to get information about the APLF, either launching out of AusAID’s website or in their own website. I do not know what the problems are there, but I think it is worth having a look at that. Thanks very much, Mr Allen. I want to move on to questions about the white paper. Having had a detailed look at the document, I think it is particularly impressive. Its economic focus and its focus on growth, gender equity, the environment and the key component of building demand for better governance are all commendable. But I am interested in what I would describe as the glaring absence of a focus on or extensive reference to how effective aid can enhance human rights. In fact, in the entire document I can find only two references to human rights—one on page 22 that refers to the human rights of women and one on page 42 that refers, broadly speaking, to the protection and advancement of human rights under section 5.2 about fostering functioning and effective states. This is an issue that I have discussed with AusAID previously in relation to advancing human rights and the benefit of an effective aid program in doing that. So I am interested in whether it was consciously not a fundamental part of the white paper or whether it comes about in a different way.

Mr Davis—It certainly was not the former. I think to a large extent it reflects the fact that we see permeating all the aspects of the white paper an interest in human rights issues. We tried to keep this document quite a strategic one, without trying to cover every issue in every place. The main response I would offer is that we see the human rights agenda permeating all aspects of our operations.

Senator PAYNE—I understand that, and I think that that is entirely consistent with the observations that you have made before. But, given the importance of this white paper and, as I understand it, the fact that it is the first white paper into aid in particular in Australia, I do not think it would have hurt for the document to reflect what you have just said. It is going to be a tool for a very long time, and people will be making reference to it for a very long time—we hope. And they should be. On a couple of specific issues, under the economic growth section there is a reference to the Pacific Land Mobilisation Program, which I am interested in having an explanation of. You say the program has two objectives: ‘to survey and disseminate innovative land mobilisation practices in the Pacific’. What will that mean?

Mr Pope—There is a wide interest amongst many of the Pacific island countries about knowing other models that countries have adopted to mobilise land for economic benefits.

Within the context of their existing customary approaches to land, they are still very interested in following up on what innovations have been developed, so the purpose of the land mobilisation program will be to identify that information from a wide range of sources. We will be looking to have a very wide ranging survey that identifies particular examples of innovations and providing those through various forums to Pacific island countries for their discussion and deliberation.

Senator PAYNE—Thank you, that is very helpful. Also in that particular section there is some reference to PPPs, but it is a fairly broad reference. I am not really sure to what extent the white paper is suggesting a further engagement in that PPP process; either through the Public-Private Infrastructure Advisory Facility or independently of that. I would like some clarity about that.

Mr Dawson—As you indicate, the issue of public-private partnerships comes up perhaps first of all in the infrastructure area. In looking at the implementation of the infrastructure for growth initiative, one of the things we will be looking at will be models for the greater involvement of private sector deliverers in new infrastructure or the maintenance and operation of existing infrastructure. There are certainly models around which may be relevant in our region—for example, in the area of utilities. Public-private partnerships is something which a range of organisations are now looking at as a way of capturing not just the additional resources that might come through the private sector for infrastructure development but also the innovation and more efficient method of operation that might be relevant to the provision of infrastructure in a number of countries in the region. So we are at a quite early stage in looking at this. It may be that we will wish to recommend some contributions to some international funding mechanisms that are trialling new approaches to public-private partnerships. But that will be looked at as part of the policy process in developing the infrastructure for growth initiative.

Senator PAYNE—What sort of time frame do you put on that?

Mr Dawson—We would expect that that initiative, together with many others, will be brought to conclusion in the budget process for 2007-08.

Senator PAYNE—I have two questions, which I think I can conflate, on leadership issues. One is the reference to ‘building stronger leadership’ under ‘fostering functioning and effective states’. The other is the reference to the Australian scholarships initiative. I know they are separate, but the threshold question remains the same: in the countries to which we are referring, how will the process of identification of potential/emerging leaders be made? Similarly, how will the identification of candidates for scholarships—which I think are known as the Australian leadership awards—be made? I have had concerns raised with me in various parts of the region, broadly speaking, about how participants are identified now and that sometimes when a government might not be performing as well as it might the sons and daughters of the leaders of that government inevitably become identified as emerging leaders—

Senator HOGG—Quel surprise!

Senator PAYNE—and that has a habit of replicating itself in an unfortunate way, even with the Australian input. So how will the identification process at both of those levels be made?

Mr Davis—I will make a comment on the Australian leadership awards and then Catherine might comment on the broader leadership issue. The actual ALAs, the Australian leadership awards, are being advertised not only within government but throughout countries, so they will not be something just looked at by a bureaucracy to further their own interests. The awards are being advertised right now broadly throughout the countries. There have been lots of public advertisements in individual countries about them. The selection will then be done much more through an Australian process rather than, as has sometimes been the case, with too much control in a small group within a particular planning ministry or whatever. So both in terms of the way they are advertised and the way the selection process will be pursued, I think this model gives a lot more openness than might be the case in other scholarship programs.

Senator PAYNE—So the posts have input in that process?

Mr Davis—What we will be doing is consulting the posts as we go through. They have already been involved very much in the advertising process. We will be consulting them also in the selection process, yes.

Ms Walker—We will need to develop the detail in order to answer the question you have asked specifically around selection processes for the leadership initiative that we will take forward over the coming year. The detail around how we will select the emerging leaders as part of the Pacific leadership program and as part of any other leadership initiatives that we develop is clearly one of the most difficult issues that we will need to consider. I think Mr Davis has already given a lead in suggesting that this will be a process that will involve the Australian government in a much more hands-on selection of people who might qualify as emerging leaders. I think it is also clear that we are looking at expanding the turf beyond the bureaucracies of most of these countries. We want to look into the private sector, into academia and in a very broad range of areas so that we are not just targeting the people who have come up through the government ranks, as it were; we are also looking across the whole community spectrum.

There are particular risks because we are looking at taking a more proactive stance on developing leadership capacity in countries, many of which are weakly performing states. One of the problems that we have to weigh up is whether we are, in fact, stripping capacity out of some of those countries by providing leadership awards which may or may not be the traditional scholarship program. That is something that we also want to develop some new thinking about, because there may well be other sorts of programs that we can support that do not involve taking emerging leaders out of their own countries but, in fact, involve providing them with support in their own countries to develop their roles. I would have to say that this is an area in which we will need to do a lot of work.

Senator PAYNE—Could I say two things about that? Firstly, the committee would have an ongoing interest in the work of AusAID as you do that. Secondly, the parliament is an underutilised resource in this regard. You have members and senators who, for various

reasons, spend significant amounts of time both in the region and, obviously, more broadly—but the region is what is relevant here—and make contacts and encounter individuals who are worth Australia's investment, but I doubt that we are ever asked, to be honest. We are not often asked, at any rate.

Mr Davis—One specific thing that is picked up in the white paper is a reference to the need to work with women parliamentarians in particular—

Senator PAYNE—Yes, I note that.

Mr Davis—and clearly that would have to be an area in which the parliament itself should be a principal participant.

Senator PAYNE—It is fair to say that we find that women parliamentarians in the region are often either inadvertently or, conversely, purposely not included in the activities of their own parliaments. For example, it is not possible to include female parliamentarians from the Solomon Islands because there simply are none. Aside from that, it is an important emphasis. I saw that in the white paper and noted it.

CHAIR—We will have a break now. Mr Davis, it is clear that a number of senators will take us over the time that we anticipated, but I do not think that is necessarily a problem.

Proceedings suspended from 3.29 pm to 3.45 pm

CHAIR—We will resume the proceedings with questions from Senator Payne.

Senator PAYNE—I want to go to the question of the use of technical assistance in the 'fostering functioning and effective states' component. I read that in the light, for example, of Prime Minister Sogavare's discussions with foreign ministers Downer and Peters about the placement of foreign advisers in, say, the Solomon Island's government and the issues that he raised in their final press conference about wanting to see Solomon Islanders taking on those positions. I am wondering how we are going to effect that balance.

Mr Dawson—I do not think there is any dispute over this issue. Australia would eventually want to see all positions that are in-line positions filled by appropriately qualified Solomon Islanders.

Senator PAYNE—I was not restricting my question to the Solomon Islands; I was just using that as an example.

Mr Dawson—The generic point is that the job of technical advisers should always be to do themselves out of a job. Some forms of technical advice are relatively short—they have a specific purpose—but where activities are long-term, capacity-building activities then the work program and duty statement of those individuals have an extra strategy built into them that they understand what they have to do in training, mentoring et cetera so that when they have finished their assignment or a particular series of assignments there are qualified individuals who are able to undertake the work that they have been doing. That is a general principle of longer-term sustainability to move from technical assistance to broader capacity building.

Senator PAYNE—In relation to the investing in people component of chapter 5 and specifically the reference to tackling major diseases, there is a reference to the Global Fund to

fight HIV/AIDS, Tuberculosis and Malaria and in particular to strengthening the region's capacity to use potential grant funding from the global fund. This has clearly been a problem because the global fund has a set of parameters against which capacity has to be proven before they start allocating funds—to paraphrase. When we talk about strengthening the region's capacity to access or use grant funding, what do we actually mean?

Mr Alan—In the region there has been about \$1.8 billion of global funding committed to the Asia-Pacific and about \$364 million disbursed. What we mean by that reference is that because the fund is working often in fragile states or in small Pacific island states, the challenges of delivering and implementation are different from in Africa, where the model was largely conceived. We are keen to ensure two things: one, that the global fund's policies at the central level, as determined in Geneva, are sensitised to the needs of these particular interests in the region; and, secondly, we also see an important role for our own aid programs on the ground in countries like Papua New Guinea, Indonesia, the Pacific region and East Timor, for example, where there are significant global fund programs in operation. We can align the work we do there to assist the fund's operations because the amount of resources coming in from the fund is very significant. So we see essentially a role for the aid program in assisting the implementation of those grants providing assistance where there may be problems or bottlenecks in the delivery of the program.

Senator PAYNE—Thank you. I read that differently so I appreciate the analysis.

Mr Davis—The other thing we can add is that in the initiatives proposed in the white paper there is a lot of emphasis on health systems. That in itself—working to strengthen health systems—is going to provide a much stronger base for the global fund and others to be able to work effectively.

Senator PAYNE—In relation to education and the strengthening of national systems, the white paper says that Australia will ensure that education spending is of sufficient quantity and quality—does that mean our education spending or the education spending of recipient countries?—and that partner government policies promote efficient and equitable service delivery. It does not really explain how we intend to do that. Is that part of the incentive process that we are contemplating?

Mr Proctor—You are looking at a wide range of responses to that. The effectiveness in our aid delivery and assistance is as varied as the modalities through which we do it. Is it technical assistance or is it working with sector-wide approaches, say, with other people, other donors, in a particular country to make best use of money and best coordination, just to take one example.

Senator PAYNE—There is a reference, for example, in the delivering better education initiative, to tackling key issues of service delivery, including teacher training and deployment. How do you match that with the challenge of ensuring a public official like a teacher is paid adequately so that they are not inclined to receive corruption payments to turn up at school and teach children?

Mr Proctor—That is one of the core issues. When we talk education, people need to think about the delivery of education. Often it is a matter of the system—that it is appropriately budgeted for and that the money that starts off in the capital ends up at the furthest school as

required. In strengthening systems there is a financial accountability and systems improvement role as well as better planning and better curriculum. In terms of pay, in a number of countries we have been involved in core programs in, say, their departments of finance to improve the productivity of their public sectors and to reduce the number of ghosts on the pay roll in order for them to have more funds to allocate to areas such as education. Cambodia is one example in past years.

Senator PAYNE—Cambodia was exactly the one I had in mind.

Mr Proctor—Cambodia has, in this case, allocated significant resources for more teachers. The expansion of, say, universal education in the countries that do not have it carries with it the need not only for school buildings but also the training of more teachers and, as you pointed out, an adequate level of pay so they do not need to have a second job or just turn up to be given the money.

Senator PAYNE—I have a couple of questions on the delivery section of the white paper. The section on performance orientation strengthening makes extensive reference to the role of country strategies in that process, in particular the upgrading of country strategies. What sort of time frame do you envisage this process happening over?

Mr Davis—It is a process that we envisage will roll out over a couple of years. The two that we are focusing on first are the Solomon Islands and the Philippines. For various reasons they are both quite early candidates to look again at the broader strategy that we want to deploy and particularly to ensure that we pick up the sorts of broader initiatives that are contained in the white paper. We will be rolling out beyond those two countries over the next couple of years a new generation of strategies that will be much more comprehensive and will pick up the various sorts of elements of development engagement that we have in a particular country, whether it is through AusAID means or others, and then importantly linking the priority identification work in those strategies to the performance frameworks that should apply for ongoing monitoring of those strategies.

Senator PAYNE—Is the Office of Development Effectiveness, which strikes me as a very interesting innovation and something that could be a very valuable tool, a unique Australian response? Do similar activities exist elsewhere?

Mr Davis—There are different models in different agencies. There are some that are very large and comprehensive, like some of the multilateral development banks. Amongst the bilateral donors there is nothing quite like what we are proposing here—to have a separate but internal office where we can ensure that not only is there a degree of external input in terms of the effectiveness and evaluation work but equally importantly that that work then flows back as lessons learnt into program development longer term. It will be an office that not only works with people from within AusAID but also has a steering committee that includes people from across some of the other central agencies so that the degree of external scrutiny remains strong.

Senator PAYNE—I am interested in the anticorruption part of the white paper, in chapter 6, and particularly the whole-of-government suggestions. The white paper talks about one anticorruption strategy to be developed during this calendar year, leading to cross-government

policy funding for the 2007-08 budget. Who will coordinate that? It is not entirely clear to me. Is it to be coordinated through AusAID?

Mr Davis—Yes.

Senator PAYNE—And that will then incorporate the work of the Attorney-General's Department or Treasury or Finance or the AFP or whatever it might be?

Mr Davis—That is right.

Mr Dawson—All of the above.

Senator PAYNE—I want to ask about what I would colloquially call the incentive based approach to delivering to recipient countries. That could be described in some quarters as a blunt tool for dealing with some of these challenges. I wonder how, in a cooperative way, that works out with recipient countries and partners and what is envisaged in that playing out.

Mr Dawson—I do not think it needs to be, in practice, a blunt tool. The arrangements for providing incentives for good performance will be developed in each specific country context. It is not a case of one size fits all. The sorts of performance criteria are things which will need to be developed and agreed with partner countries, suitable to the particular circumstances of those countries. Some initial ones may have to do with more structure around the budgeting and development planning process so that it is more clear that a government's own revenue is going to key growth related or poverty reduction activities.

Some of the performance criteria may relate to specific sectoral areas where we are already working and where we can see the capacity for ongoing reforms to improve service delivery and, as part of a package, we may be able to agree further work against a reform agenda associated with additional funding. It is something which is going to need to be worked out in the context of every individual country. To the greatest extent possible we will be looking to make this not an Australian add-on but something which is consistent with the international dialogue with the partner concerned and the partner's own development objectives and development plans so that we build on that rather than try to introduce or impose some additional set of incentives.

Senator PAYNE—Does that have a link back to the donor coordination references that are made? I know Australia significantly already does this in a vast number of places through its efforts in donor coordination, but you are obviously ramping that up by the way it is included in the white paper—the level of attention given to it. Mr Dawson, does that process that you have just outlined fit with other donors and their work as well?

Mr Dawson—Absolutely. We want to see much more cooperation, consultation and joint action amongst donors on agreed national development priorities so that, increasingly, donors are using the same delivery mechanisms and are not each using their own individual delivery mechanisms with each having their individual sets of associated accountability requirements. We are trying to work much more within partner government systems rather than within parallel donor driven systems, to really get much more cooperation between donors in a particular country aligned with the country's own national development plan.

Senator PAYNE—Thank you.

Senator NETTLE—I might start out with questions on Timor. How much of the overseas development aid allocated to Timor was spent on the joint program with the AFP in training the East Timorese police force last year?

Mr Proctor—There has been an ongoing program on police for some years with the UK. To give you some background, Australia is not the lead donor in that regard—it is the United Nations system. I think Mr Wilson has the details.

Mr Wilson—The program that you mention is a \$32 million program. From memory, I think it is over four years. I can get you the exact figure that we spent in the last financial year, but I do not have it with me now.

Senator NETTLE—That's fine. Do you know how many AFP personnel were involved in delivering the training?

Mr Wilson—It varied over time over the programs. From memory, it is between nine and 15 at any one time; but it did vary over time, based on the needs of the program.

Senator NETTLE—Did Timorese police come into Australia to receive the training or did it all occur in East Timor?

Mr Wilson—The training predominantly occurred in East Timor.

Senator NETTLE—Were there some instances of Timorese coming here?

Mr Wilson—There may have been but, as that program is run by the AFP, I am not aware of whether that happened. If you would like further advice on that I can get it for you.

Senator NETTLE—That would be appreciated, thank you. There are reports that one of the rebel officers, Major Alfredo Reinado, received training under that program.

Mr Wilson—I am not able to confirm that, I am afraid.

Senator NETTLE—I would appreciate it if you could find out whether that training was in Australia or East Timor.

Mr Wilson—Are you talking about a police officer or an army officer?

Senator NETTLE—I think he is an army officer, but I am not sure.

Mr Wilson—In that case, that training would not have been provided through the policing assistance program.

Mr Proctor—If that were the case, a Defence cooperation program would have probably provided that training.

Senator NETTLE—Given recent events in East Timor, how successful do you believe the AusAID program to train Timor's police has been?

Mr Wilson—Again, we are in a situation of considerable tension in East Timor at the moment. But, certainly, our assessment prior to the first round of unrest on 28 April was that the police development program had made significant inroads in terms of building capacity within the PNTL—that is, the police service—particularly in general policing skills, but also in terms of some of the high-level investigation skills, development of professional standards and codes and appreciation of accountability and transparency type issues. While with any of these programs you like to look back on a good amount of time to make judgments, it is not

possible yet, because it has not been running long enough. Our feeling—and, I am advised, the AFP's feeling—is that it has made some fairly important contributions to a police service that was almost nonexistent, I suppose, not that long ago.

Senator NETTLE—I asked some questions yesterday which I was directed to ask here. They related to discussions between the East Timorese government and either the Australian government or the World Bank—I am not sure—about reform of Timor's agriculture. Are they discussions that AusAID have been involved in?

Mr Wilson—Yes. Australia is not a lead donor in the agricultural sector in East Timor at present, but we are providing support to the multidonor trust fund for East Timor, from which the World Bank manages the major program in the agriculture sector. The agriculture rehabilitation project is the name of that. As I said, there are a number of other donors and non-government organisations active in the agriculture sector in East Timor.

Senator NETTLE—There was some reporting—and I do not know if this is accurate or not and wondered if you could tell me about it—about Australia refusing to allow aid funds for the development and maintenance of grain silos. Are you aware of that commentary and whether that is accurate or not?

Mr Wilson—I am not aware of that commentary.

Senator NETTLE—Could I ask you to take that on notice and find out whether or not that is something that is accurate?

Mr Wilson—Certainly.

Senator NETTLE—I understand that the current Timorese government have reduced their rice import dependence from two-thirds to one-third of domestic consumption. I want to check whether that is accurate.

Mr Wilson—I understand that some progress has been made along those lines, but I am unable to tell you at this moment whether that is the proportion. I will take that on notice and get that information to you.

Senator NETTLE—Great. Thank you.

Mr Proctor—AusAID does fund some agricultural work, in this case through ACIAR. We are doing research on identifying and implementing higher yielding varieties of the most common food types. I am sure there are other things happening in East Timor, but there is a lot of attention being given by donors as a whole in this area. That is what we are doing in our specific part.

Senator NETTLE—That is all I had on Timor.

Senator HOGG—I have a couple of questions on East Timor. In the minister's statement supporting the budget, page 45 outlines a country program estimate of \$30.3 million, with an estimated \$13.3 million for other ODA, and an estimated total ODA of \$43.6 million. The third paragraph there reads:

In support of stability and prosperity, Australia will continue to assist the Timor-Leste National Police Force through a joint program between AusAID and the AFP. Australia will also assist the justice

sector and support accountability and oversight mechanisms including the Parliament and the nation's electoral system.

With the instability that has taken place, a lot of things have been placed under stress. Given that this budget was probably prepared prior to the emergence of these circumstances, will there be any need to increase the expenditure that you have advocated in this statement through the minister, or will it be found from other sources? What would those other sources be?

Mr Proctor—That is one of those acid questions. Clearly, the events of the last few weeks—the very unfortunate events—will require everyone to review what their strategies will be in East Timor and require the government of East Timor to review what it is setting as priorities. This is the allocation currently in the budget. There will undoubtedly be additional spending by other entities, particularly by the AFP because of the presence they will have in this interim phase. I cannot give you an indication of any change in spending levels. But clearly, if only because of the white paper coming out, we need to review all our country programs. Once the immediate emergency phase is over, we will need to look hard at what that program contains.

Senator HOGG—Is it your judgment, though, that this will place additional stress on resourcing these programs, given that you thought you were coming from something higher than a zero base—if we can call it that—in terms of the work over the last few years? Will this mean that additional resources will have to be pumped in? I am not asking you to quantify it, by the way—I am just trying to get an assessment.

Mr Proctor—The reality is that the areas we are involved in are the ones basically we should be involved in, in the aftermath of the last few weeks events, including, as you can see, police improvement, judiciary and public sector management. East Timor is a country that, as it is well acknowledged, has very low capacity after gaining independence some years ago. A lot of capacity building is needed. It relies on advisers from various places and that will continue for some time. In terms of budget, the basic institutions of state—the police force and, of course, rural water and other areas—which we have put a lot of effort into, all remain key issues. I cannot comment on the amount of money that might be spent in the future, but my take is that we are basically focused on the right areas in this description right now.

Senator HOGG—The point that I am raising is this: will it come from an existing contingency fund that you might have or will you be seeking supplementation at a later stage?

Mr Davis—It is a bit too early to say. We have not even got into this fiscal year at this stage, so we are going to need to look at how we best deploy all our resources. My expectation would be that, as Mr Proctor said, there will be some need to relook at the existing strategy, and that could lead to one or two outcomes. One is some recalibration of what we are doing at the moment; the other is additional work. It is just a bit too early at this stage to be definitive about that. On the basis of broader resourcing, part of the approach in this budget, as in the last few, is to ensure that we have built in some flexibility in the broader global aid budget to make sure that we meet contingencies as they emerge. That is clearly something that we will be looking to, as well, as we work through 'where to next'.

Mr Proctor—I have a final point. East Timor has got a strongly growing revenue base. In the last couple of years we have seen that the problem for East Timor is not so much the total volume of money available but being able to productively use it and to get public sector projects and programs running. In a sense, it is not so much necessarily a volume of ODA issue but the proper use of the total bucket of money.

Senator BOB BROWN—I want to ask about the provision of assistance with energy in East Timor.

Mr Wilson—What aspect of it?

Senator BOB BROWN—Electric power.

Mr Wilson—What aspect of that?

Senator BOB BROWN—What provision has been made and what assistance has been given to what form of power production?

Mr Wilson—In terms of the immediate situation?

Senator BOB BROWN—No, in terms of the basic situation in East Timor.

Mr Wilson—Again, that is not an area that Australia has been deeply engaged in as a donor. In that sector, the leadership has really come from UN agencies on the ground and from the World Bank. Off the top of my head, I am not sure which other particular donors are engaged in that sector.

Mr Proctor—You will find that the Asian Development Bank is probably leading in this sector in terms of investment in energy development. It is a country obviously that does not currently have strong energy reserves in coal. Of course, there is gas et cetera but that is not available at the moment. So it does import a lot of diesel et cetera to generate power. I know there are some mini hydro schemes, but I do not think we know enough to quantify that for you.

Senator BOB BROWN—Has there been any investment in solar installations in East Timor by Australia?

Mr Proctor—Not by Australia that I am aware of. There might have been in some projects, but we would have to check.

Senator BOB BROWN—Is there some reason for that?

Mr Proctor—No, I could not give you any particular reason. It would depend on the individual project you are pursuing. It is quite possible there are some because, as you know, it is a very poor country and a lot of the outlying areas are not connected to any sort of mains grid or, frankly, even telephone lines. So, just here and now, I cannot quantify for you what it might have been.

Senator BOB BROWN—Is it possible to get an indication on that?

Mr Proctor—Certainly.

Senator BOB BROWN—And I would also be interested in the mini hydro that you spoke about and any location proposals for hydro development in East Timor. Thank you.

Mr Proctor—I will just clarify that I do not think we are doing any hydro. But we will find out what is there.

Senator BOB BROWN—Thanks.

Senator ALLISON—I have some questions about our aid program to Timor. How much is included in that program for health and education respectively?

Mr Wilson—I would have to get the exact breakdown for you. In the health area, we are proposing to become more heavily engaged. We have not had a deep engagement in the health system area before, even though we have had some fairly strong engagement in communicable diseases issues. But I do not have that breakdown here.

Mr Proctor—You also asked about education. Because East Timor has decided to make Portuguese the national language it is not, frankly, an area we have a strong comparative advantage in; we do not have a lot of Portuguese-speaking teachers, of course. There is capacity building in all sorts of other sectors.

We will be having an increasing interest in health because we will be engaging more with this country and many others on the avian influenza issue and strengthening their capacity to deal with pandemics in general. You will recall the PM announced a \$100 million program across the region at the APEC meeting last November. The first moneys going to those activities will come through in the budget we are talking about.

Senator ALLISON—Can you explain why Timor adopting Portuguese as their main language should be in some way a deterrent to Australia providing funding for schools?

Mr Proctor—We have provided funding for schools by being a member of TFET, the Trust Fund for East Timor, which is managed by the World Bank and the ADB. There has been a lot of school construction, but it is probably dwindling away now, after the damage in 1999. But, in most countries, rather than trying to spread Australia's assistance across every possible sector, we seek to focus on those where we can have a major impact.

Senator ALLISON—I will ask that question again: what has Portuguese got to do with our decision to provide aid for education?

Mr Proctor—In the sense of providing teacher and teacher training, to the extent that it is in Portuguese, there are not that many Portuguese-speaking teachers and trainers in Australia.

Senator ALLISON—Is that a prerequisite, though? Presumably, we can provide money for Portuguese trained teachers. Why does it make a difference?

Mr Proctor—The Portuguese are providing a lot of education assistance for East Timor. As a result, we chose not to make that, if I am correct, a high priority.

Senator ALLISON—What percentage of children of school age are in school in East Timor?

Mr Wilson—I am not sure.

Senator ALLISON—What is the rate of illiteracy in East Timor?

Mr Proctor—It would be quite high in the rural areas, although there was a lot of building of schools in the period when Indonesia was there—in fact, a very large number of schools

were built and provided. We would have to find the number on literacy for you. But, again, all donors choose to give priority to particular sectors. We have put a lot of emphasis on rural water supplies, justice—

Senator ALLISON—I understand that. If we can just focus on education for a moment, which countries are providing aid for education? Is there some sort of plan that might determine that East Timor will have education available for 80 per cent or 90 per cent of children, or whatever it is? Is there a grand plan in all of this that we can rely on other countries to deliver on?

Mr Wilson—As Mr Proctor has said, the principle, I suppose, of donor coordination in Timor is that those donors with a competitive advantage, if you like, in a particular sector tend to want to deliver in that sector. Again, Portugal is the major donor on the education side.

Senator ALLISON—How much does it fund a year?

Mr Wilson—I would have to find that figure for you, given that it is not a sector that we are heavily involved in. But—

Senator ALLISON—We are not aware of what the plan is for education in East Timor?

Mr Wilson—There are planning documents for each sector which are agreed between donors as a group and the government of East Timor, and there is one for the education sector.

Senator ALLISON—But we are not aware of what it delivers?

Mr Wilson—Not in specific terms, but we can easily find out.

CHAIR—We do not just give money to these projects. We provide what you called our competitive advantage. We operate and fund programs, but we do not just hand out a cheque. Am I right in that?

Mr Wilson—Correct.

Senator ALLISON—Can you comment about health services, too? Is it the same for health? Do we have no interest in health services provision?

Mr Wilson—No, that is not quite the case. In fact, we are at the moment in the process of developing a concept for a broad health sector program moving into the future. But the details of that are yet to be determined. Again, in the health sector the World Bank is the key coordinating mechanism and we would be looking to work closely with the World Bank and other donors in East Timor with a particular interest in the health sector, which includes, for instance, the European Union.

Senator ALLISON—Has the World Bank done a study or an assessment of the needs in both education and health in East Timor?

Mr Wilson—They have certainly done a number of studies on the health sector, and I suspect that they have done some on the education sector as well. The World Bank is fairly important as a coordinating mechanism in that country.

Senator ALLISON—Is it possible to provide the committee with those reports or links to them?

Mr Wilson—Yes, certainly. They will, I expect, be on the World Bank website, but we will certainly provide them to you.

Senator ALLISON—The events of the last couple of weeks have demonstrated that women and children are being targeted and that they are bearing the brunt of quite a lot of the violence. Does that surprise the department? Perhaps you can inform us about the programs that might be about empowering women and about women's reproductive health. What, in our assessment, is the current status of women in East Timor? What programs do we provide to improve it?

Mr Wilson—Our entire bilateral program to Timor, consistent with the principles behind the aid program generally, aims to empower women and looks closely at gender equality. Those issues are, if you like, mainstreamed across all of the sectors that we engage in in East Timor. In terms of the current situation, it would probably be a bit rash to make any judgments at this stage until it is possible to make an assessment of the actual impacts and where they have fallen. The information freely available is that there are quite some numbers of internally displaced women and children in East Timor at the moment.

Senator ALLISON—Are we in a position to know whether what we are doing for women and women's empowerment is working? Has there been any evaluation of our programs?

Mr Proctor—I do not think we have a specific evaluation to pass to you. I will split the answer into two bits. There is the long-term program, which, as I said to you earlier, focuses on core management functions of government, particularly financial ones, and the appropriate allocations to different needs and basic services. Sixty-thousand people have clean water because of AusAID's programs in villages, so there are direct benefits to women, who are often the people who have to carry the water and ensure the cleanliness of what people eat and drink. In the immediate term, the minister has announced \$3 million to assist people in the current crisis, of which \$2 million goes through NGOs and UN agencies. Some of that will have a specific focus, I am sure, on the issues facing women and children in the current problems. It is hard to give you an exact figure, but people like UNICEF obviously take a great interest in child protection. That is one reason why we would be funding them now.

Senator ALLISON—Are you able to comment on the extent to which those aid agencies are able to operate in Timor this week?

Mr Proctor—There have been a few days when clearly, as you have seen in the media, it has been extremely dangerous, with fighting in the streets. The news as of this morning was that that had died down very substantially. I understand that there have been a few moments today where people have been hearing gunshots, but NGOs have been able to be out and the oil for food program has been able to deliver food to the various areas that people have gone to for safety. People are going home.

Senator ALLISON—So the reports in this morning's press of World Vision saying that aid workers are not being protected are not accurate?

Mr Proctor—I think the presence of the Australian military and the Malaysians and others has led to a great improvement in the security situation, to the extent where we are seeing people going back to their houses during the day, certainly yesterday, and coming back to concentration areas at night where they feel more secure. So the indications are that the

situation is greatly improved. As I said, food is being delivered and NGOs are meeting regularly and getting out to service the needs of people in those concentration areas.

Senator ALLISON—They are reassuring words, but can you indicate how much further there is to go, if you like, on protecting aid workers so that, where people need assistance, they are receiving it? Are we halfway there or doing better than that or have we solved the problem? Where would you rate the current situation?

Mr Proctor—I think I can only rate it as vastly improved from two days ago, where people were just not able to travel to areas.

Senator ALLISON—That might still mean appalling.

Mr Proctor—That would not be my interpretation. I think it is greatly improved from all the discussions we were having this morning with the Defence Force and others.

Senator ALLISON—Let me put it another way. Is there a need for even greater improvement?

Mr Proctor—The improvement we have seen in the last 24 hours suggests to me not, but, as I said, our NGO and UN partners are doing what they need to do in terms of dealing with needy groups. People are getting access to water. Food is being delivered, some of which, of course, is being shipped in with assistance from AusAID. You would not want to claim that everything was absolutely secure. I cannot give you that assurance. All I can say is that there has been a period of about three days where people have congregated in very large numbers for safety, often not far from their homes. These are not massive groups that have gone hundreds of kilometres. These are people who might only be six or seven blocks from home but they are in a seminary or a church or a major institution for rational reasons of wanting to be more secure. We are seeing those people going back to their homes during the day. There are still problems of availability of food, which may be to do with shops opening. But the core worries that we were seeing two days ago have not come to pass in terms of massive lack of food.

Senator ALLISON—So when do you expect that those who are currently sheltering in churches and other institutions will return home overnight?

Mr Wilson—That depends to a large degree on perceptions on the ground. The level of safety that the population may feel does not necessarily equate to the level of safety in fact, as you would understand. We are certainly hoping that, in their own interests, when the situation is normalised people will start to move back to their own homes as quickly as possible. But that remains something we monitor on an hour-by-hour basis.

CHAIR—So you are in communication on an hourly basis with Dili?

Mr Wilson—Yes.

CHAIR—How many personnel do you have on the ground?

Mr Proctor—We have one A-based on the ground at the moment and four locally engaged program officers.

CHAIR—And they are out and about?

Mr Proctor—They are able to go out and assess the situation for the first time.

CHAIR—So they are reporting back to you here in Canberra on an hourly basis?

Mr Proctor—As they have information, they report to us. We also have regular reports through the ADF.

CHAIR—So we would be one of the lead agencies in knowing exactly what is happening on the ground in East Timor on that basis?

Mr Proctor—Yes, but I would point out that a lot of our information comes from the NGO partners and, to the extent that they are there at the moment, the UN agencies.

CHAIR—That is all the more reason to suggest that it is pretty authentic and reliable. What is our response? What are we doing as of now in terms of the plan to address the issues that Senator Allison has raised?

Mr Proctor—In the short term, \$3 million has been allocated for relief activities; \$1 million of that is for food, water, shelter and medical supplies.

CHAIR—Where are those bits of food, water and medical supplies as of now? Where are they? Are they on the way? Are we buying them here?

Mr Proctor—Medical supplies arrived—and blood supplies in particular—on Saturday night to the main hospital in Dili. Water was shipped in yesterday; food is flying today.

CHAIR—Very good.

Mr Proctor—There are tarpaulins in our stores. It is a little unclear whether they are going to be needed.

CHAIR—We are actually doing things as of now. Things are actually happening.

Mr Proctor—Yes. Things are literally in the air or have been delivered already. There is \$2 million for non-government organisations and multilateral organisations to, particularly, meet the needs of those up to 90,000 people who have been displaced. As I said today and yesterday, those agencies are quite active in doing what we want them to do. Those are the key components at the moment. It is very much an emergency situation so a lot of our normal projects have been pulled back for the time being.

CHAIR—How are we delivering these parcels of aid? Are we using the ADF or are we chartering commercial airlines? What is the modus operandi?

Mr Wilson—Many of the goods and supplies that have gone into Dili in recent days have gone in on ADF flights.

CHAIR—Our C130s are delivering these things?

Mr Wilson—That is correct.

Senator ALLISON—The commission on East Timor reported in January—I forget the full name of it but I am sure you are familiar with it.

Mr Proctor—The Commission for Reception, Truth and Reconciliation in East Timor.

Senator ALLISON—Presumably that report has been read by the department. Does that in any way feed into a process? Are we considering those recommendations? Will any of them

be picked up by AusAID? Some of them appear to be relevant. Is there a general response that we can expect at some stage?

Mr Wilson—That report is not really addressed to Australia or to AusAID. It is a series of findings. The President of East Timor delivered that report to the Secretary-General of the United Nations, as you would be aware. It is probably fair to say that elements of its content would flavour the discussion that we would hope to still be able to have between the Australian government and the East Timor government about its own future and future planning priorities. It is not really addressed to us.

Senator ALLISON—I understand that it is not addressed to us. Australia is mentioned in a couple of places. My question crudely put to you was more about how that will influence our policy in terms of the focus of our aid on Timor. Is there a formal process of considering that in terms of our focus?

Mr Proctor—That sort of process probably feeds as much into the East Timorese government's view of what it wants from us—the priorities it will put on our assistance. Clearly, it also feeds into the broader issues of nation building and the reconstruction of the essential organs of government. But I think it is no more direct than that.

Senator ALLISON—The aid which Australia provides to East Timor is in line with what the government says it wants and needs?

Mr Wilson—Yes, absolutely. There is a well-established process by which that dialogue occurs between donors and the government and that happens in a coordinated way, including regular meetings between the key government agencies and ministers where relevant senior officials from a range of aid agencies present in East Timor, the World Bank, the Asian Development Bank and the agencies of the United Nations.

Senator NETTLE—I am going to leave East Timor and go to Nauru. I want to start out with some comments in the portfolio budget statement on page 131 that say:

Delays in finalising government-to-government agreements on programme policy and designs have also hampered implementation.

Have these agreements been finalised?

Mr Dawson—Funding under the fourth MOU is negotiated on an annual basis with the government of Nauru and the negotiations for 2006-07 are yet to be completed and the funding details of the package are not yet available.

Senator NETTLE—Is there a time frame by which it is intended those discussions can be completed?

Mr Dawson—We would like to do it as soon as possible.

Senator HOGG—When does the other MOU run out?

Mr Dawson—I do not have that information; I will take that on notice.

CHAIR—Is it possible that we have no MOU as of now? Is that the case? Can we draw that conclusion? Is there a risk of that?

Mr Dawson—The current MOU is still in place.

Senator NETTLE—I go now to the blue book. On page 37 there is some outline of the components of the program. I wondered if we could get any more detail on that.

Mr Dawson—That covers the main areas we are engaged in.

Senator NETTLE—There is no more detail that you could provide the committee with than is provided there?

Mr Davis—We could certainly provide you with more detail than that in each of the areas that are identified there as parts of the existing program to Nauru. We would be happy to do that.

Senator NETTLE—I would appreciate that.

Mr Wilson—For example, support for essential services has been provided through the deployment of directors of health and of education to oversee reform initiatives in those particular sectors.

Senator NETTLE—It would be great if that kind of detail could be provided. I note that the last point there is talking about working with the Asian Development Bank to oversee Nauru's power sector. Does that relate to the generators that we have provided in the past?

Mr Davis—I think it will be much broader than just the generators. It will be looking in a more comprehensive way at how power needs in the longer term can best be met.

Senator NETTLE—If you could provide some more details about the ongoing planning in relation to that, I would appreciate it. Page 71 of this document talks about \$600,000 being allocated in the aid program with Nauru. Then page 79 talks about there being Nauru additional funding. Are you able to tell us the amount of the Nauru additional funding that is referred to on page 79?

Mr Dawson—Senator, you can see the information which is in table 4 on page 70. If you read across the Nauru line there you see total ODA figures. That covers additional funding provided under the MOU.

Senator NETTLE—Is that 4.8?

Mr Dawson—That is the line that I am referring to, yes.

Senator NETTLE—Table 5 has the \$600,000. Then you look at table 4. There is \$3 million, and then \$4 million for the current financial year—is that right?

Mr Dawson—Table 4 is a total ODA figure. Table 5 is simply a country program figure.

Senator NETTLE—It is a substantial amount of money that you say you are not able to provide details of. Page 79 says that the funding details are not for publication. Does that relate to the \$3 million and \$4 million that you have pointed to in table 4?

Mr Lehmann—Under table 4, if you then refer to page 78, there is a note there about the additional funding for Nauru. The details of that funding come forward when the MOU is agreed and signed and, as it has not happened yet for the new one, we do not have those details.

Senator NETTLE—Okay. That note that you pointed me to on page 79 says that that figure does not include Nauru additional.

Mr Lehmann—The reference to the figure of \$600,000 in the estimate: that is correct, it does not refer to the additional.

Senator NETTLE—That is note 3 on page 79, at the top of that page?

Mr Lehmann—That is right.

Senator NETTLE—The one you just referred me to that relates to table 4, note 2, also says, ‘This does not include Nauru additional.’

Mr Lehmann—That is correct.

Senator NETTLE—So we have got \$600,000 there which does not include Nauru additional, in table 5.

Mr Lehmann—Yes.

Senator NETTLE—And in table 4 we have got \$3.7 million and \$4.8 million, which also does not include Nauru additional.

Mr Lehmann—If I can correct myself: the \$4.8 million would include the Nauru additional, but we do not have the actual details of what that funding will cover, so it is an estimated allocation at this point which will be subject to agreement between Nauru and Australia on what those funds will cover.

Senator NETTLE—Okay. Well, you might need to change that note 2—which says that it does not include Nauru additional—that relates to table 4. Your answer makes sense to me—the \$600,000 does not include the three or four that is in table 4—but the note to the table says that it does not include Nauru additional. So if it does—

Mr Dawson—We will get you a breakdown of the 4.8 figure.

Senator NETTLE—Okay; and maybe you might need to look at clarifying whether or not that point to the table is correct. On this particular line item, I think ‘Nauru additional’ in the past was where the funding for the Pacific solution is. Is that correct?

Mr Lehmann—You are referring to previous years?

Senator NETTLE—My recollection of previous years—and I could be wrong—is that in ‘Nauru additional’, in which there was able to be more detail provided about what that was for, funding for the Pacific solution was provided in that line item.

Mr Lehmann—I am not aware of all the details of the program in previous years. I think that was specific assistance for specific development related purposes which was agreed with the government of Nauru. I think we could perhaps provide some more detail on that if you like.

Senator NETTLE—I would appreciate that. My recollection is that the Pacific solution funding in the past was in that line item. Could you clarify for me whether that is the case—\$3 million or \$4 million is a lot of additional funding—and whether it also relates to the Pacific solution. Are you able to take that on notice?

Mr Davis—Yes.

Senator NETTLE—Can you explain the delay in the signing of the MOU with Nauru. Is it a delay? Was it anticipated that it would be finalised by now but it is not, or is it on track?

Mr Dawson—It is not a delay in the signing of the MOU. The fourth MOU was signed in September. It is the negotiation of the annual funding arrangements which is yet to be completed.

Senator NETTLE—But, by your timetable, are they on track?

Mr Dawson—We will have to get you some additional information on that. I do not have it with me.

Senator NETTLE—Page xi in the blue book refers to the funding for other government departments—there was some discussion about this before. Is it possible to get a breakdown of which departments?

Mr Davis—We can certainly give you a breakdown of the departments.

Senator NETTLE—Do you have any of that information here?

Mr Davis—We can provide it to you.

Senator NETTLE—I am particularly interested in how much of that funding is allocated to the department of immigration. You will need to help me understand table 1. In table 1, for other government departments we have \$202.8 million and then, in table 2 on the next page, for other government departments it looks like \$707.8 million. Why is there a discrepancy in that? I thought that was the same thing, but perhaps I am reading it incorrectly.

Mr Lehmann—A note under table 1 says ‘not attributed to country/region’. Some other government department expenditure is on a multilateral basis, so it is not attributable to a bilateral program. The \$707.8 million figure would also capture the Iraq debt relief which we were discussing earlier.

Senator NETTLE—So \$707.8 million would include ones allocated to a particular region?

Mr Lehmann—The \$707.8 million figure is the totality of other government department expenditure captured and reported as ODA eligible. The figure you are looking at on table 1 is not attributable to countries or regions, so it does not capture funding provided by other government departments on a bilateral basis. Those amounts would be included in the line items listed above, country by country.

Senator NETTLE—So can I get the breakdown of the \$202.8 million and of the \$707.8 million?

Mr Davis—Yes.

Senator NETTLE—That is all I have for that section. I will now move on to the Solomons. In the Solomons, what is the role of Magistrate Boothman? Was he procured for his role in the Solomons by AusAID?

Mr Dawson—That is right. The magistrate is from Western Australia. He has been engaged for a period of time in an in-line position as a magistrate in the Solomon Islands. We recently asked for his re-engagement for a short period of time.

Senator NETTLE—Under what program is he procured?

Mr Dawson—This is under the law and justice pillar of the Regional Assistance Mission to the Solomon Islands.

Senator NETTLE—Were the increases in the law and justice program for the Solomons, carried out by GRM, ever put out to open tender?

Mr Dawson—Which increases are you referring to?

Senator NETTLE—Those in the contract value for the law and justice strengthening program for the Solomon Islands.

Mr Pope—I think the increase to which you are referring was an expansion of existing capacity. The contract is essentially a service provision one which provides logistical support to mobilise personnel. Due to program demands, we sought to increase the number of personnel being mobilised, which resulted in the higher cost.

Senator NETTLE—But it was not put out to tender.

Mr Pope—It was not an extension of the contract.

Senator NETTLE—Is GRM still a Packer company?

Mr Pope—It may well be.

Mr Davis—Yes, it is.

Senator NETTLE—Which was the contractor that procured Magistrate Boothman? Was he procured directly through AusAID or through GRM or some other contractor?

Mr Pope—The current round of magistrates were certainly procured through GRM, as our service provider. I believe that was the case with Magistrate Boothman.

Senator NETTLE—Are you able to give me some dates for his tenure?

Mr Pope—Mr Boothman was due to finalise about two nights before the riots took place in the Solomon Islands, or about that time, and I believe we have extended him for three months.

Senator NETTLE—You are describing his position as an in-line position. Is that correct?

Mr Pope—He is a judicial officer of the Solomon Islands.

Senator NETTLE—On 22 April last year he appeared on the ABC's *PM* program, in which his role was described as the Magistrates Court adviser to the Solomon Islands. Is that an accurate description? That strikes me as an advisory role rather than an in-line role, so I just wanted to see if that was correct.

Mr Pope—Within the work being undertaken by the magistrates, they have often, depending on their skills, been asked to provide additional advisory roles, but principally they are there as magistrates.

Senator NETTLE—So they may carry out a combination of both in-line and advisory roles. Do you know whether he was the magistrate who signed the warrants for the arrest of the two Solomon Islands MPs?

Mr Pope—I would have to check that for you.

Senator NETTLE—I would appreciate if you could do that. Is it possible for you also to find out for us how many court proceedings in the Solomons he has presided over? I do not know if he is a contractor or subcontractor to AusAID. I suppose he is a subcontractor.

Mr Pope—As a magistrate?

Senator NETTLE—Yes. Can you also provide the dates on which those proceedings occurred and whether it is possible to find out his expected remuneration for his time in the Solomons.

Mr Pope—We will endeavour to provide that information.

Senator NETTLE—I have quite a few other questions on the Solomons but I will put them on notice and move on to some questions about West Papua, if that is all right. What aid projects is AusAID funding in West Papua?

Mr Proctor—We have a maternal and child health project in Papua which is ongoing. We also have an HIV-AIDS project. We have a number of people on scholarships, as well, studying in Australia.

Senator NETTLE—Can you give us some details of each of those programs?

Mr Proctor—It would be better if we put that on notice for you, if that is all right, to give you the proper detail—unless someone here is carrying any more detail on those programs.

Mr Davis—The longstanding program we have had in maternal and child health is one that we have been doing jointly with UNICEF. We are looking at the scope for scaling that up significantly to ensure that we get a broader coverage of the country between us. As Mr Proctor has mentioned, HIV-AIDS is of particular concern in Papua, and we are looking at scaling up our activities there as well.

Senator NETTLE—If you can take on notice any more detail that you are able to provide on that, such as how much funding goes to each of the NGOs involved. Do you know the number of scholarships provided for students in West Papua?

Mr Proctor—My recollection is that there are three people from West Papua at the moment in Australia, but I would have to check that for you.

Senator NETTLE—Are there AusAID programs also in PNG? I am thinking about the border issues. Given that there is an HIV program being funded in West Papua, are there also programs operating in PNG? How do they work at the border, given that there are many people who cross the border? Is there any interaction between those two programs?

Mr Proctor—There is a very major program by AusAID in Papua in all sorts of areas, including in HIV-AIDS. Mr Dawson can talk about that. I am not sure that there is a direct border liaison role between the two projects, but there is a separate process of meeting the various countries—East Timor, Indonesia and PNG included—to discuss AIDS at a higher level every year.

Mr Davis—In fact, if it is of interest, we can provide you with a major study that we funded on looking at AIDS across that range of countries.

Senator NETTLE—Sure. Thank you. Is there any military or police funding through AusAID for the training of Indonesian military or police that operate in West Papua? It might

be something that I need to ask elsewhere, but in relation to AusAID, are there any military or police training programs?

Mr Proctor—Not to my knowledge. There certainly would not be military training. That would not be overseas development assistance. In terms of police, there is a major AFP engagement there. I do not think that there is anything that directly relates to Papua

CHAIR—Are the AFP engaged in an AusAID project?

Mr Proctor—I am thinking more of institutions set up for counterterrorism and for investigation of crime.

CHAIR—So it is not related to AusAID?

Mr Davis—It is a separate program.

Mr Proctor—It is run separately.

Senator NETTLE—I have a couple of other questions on Indonesia to follow on from some stuff that I asked earlier today about the Australia-Indonesia Partnership for Reconstruction and Development. I am not sure whether some of this was covered by Senator Hogg earlier. How much of that has been spent as opposed to just allocated?

Mr Proctor—Of the whole AIPRD \$1 billion program?

Senator NETTLE—Yes.

Mr Proctor—There has been \$75 million spent today from AIPRD funds. Over \$60 million of that has been spent in Aceh. Almost \$950 million has been committed, but not spent. We anticipate that the remaining funds will be announced at the next joint commission meeting of ministers between Indonesian and Australia.

Senator NETTLE—What is the date of that meeting?

Mr Proctor—We are hoping that that will be in the next month or two.

Senator NETTLE—Was the money spent from the loan component or the grant?

Mr Proctor—It has all been from the grant money so far. As I said, \$60 million is for Aceh. The rest is for a range of activities to do with partnership arrangements between the Australian and Indonesian governments and other assistance.

Senator NETTLE—Is it possible to get any more detail? I am happy to take on notice any further breakdown of those programs.

Mr Proctor—I am sorry, but I do not have that level of fineness of detail for that small amount that has not been detailed. We will do that for you.

Mr Davis—We can give you a very detailed list of our expected disbursement profile through for the next five years if that is of use. I have got that detail if you want it.

Mr Proctor—We can tell you the main commitments, if you prefer.

Senator NETTLE—What if I say ‘yes’ to putting all that on notice?

Mr Proctor—Okay.

Senator NETTLE—The last question I wanted to ask is in relation to funding in Palestine. It mentions money allocated to the UN Relief and Works Agency. I am looking at page 51 in the blue book, which mentions \$16.2 million. How much of that is allocated to the UN Relief and Works Agency?

Mr March—Of the \$16.2 million in Palestine in the financial year 2006-07, at this stage around two-thirds of that is allocated to UNRWA.

Senator NETTLE—Is it possible to get a breakdown of how the other one-third is spent?

Mr March—Certainly, I could. To the extent that we are able to program that at this stage, I can give you that breakdown. You will appreciate that the situation is remarkably fluid and not all of the funds can be definitively allocated at this stage. But I can indicate that breakdown.

Senator NETTLE—That would be appreciated. Has the election of the Hamas government in Palestine changed the approach taken by the aid program?

Mr March—Yes. There has been an impact on how Australia and other donors engage in Palestine. There is a constraint against Australia and other donors dealing directly with Hamas. We have had to look at our ability to work with agencies operating in Palestine. It does not affect our funding of UNRWA, but it does affect, or potentially affect, for example, some NGO program funding that we had which would then work in with other entities. We have had to look very closely at whether those programs can continue.

Senator NETTLE—Has there been any direct impact in terms of financial spending to date?

Mr March—No. The expenditure profile in the current financial year, 2005-06, was as expected. The impact is more as we look forward.

Senator NETTLE—Thank you.

Senator BOB BROWN—What is the situation in the delivery of aid to Burma?

Mr Proctor—The delivery of aid to Burma remains as it has been for quite some time. It is government policy that we only essentially provide humanitarian assistance to Burma. We are waiting to see improvements in the roadmap to democracy and related matters such as the detention Aung San Suu Kyi.

Senator BOB BROWN—We did not help to build their new capital?

Mr Proctor—We have certainly put no money into their new capital.

Senator BOB BROWN—And that humanitarian aid is through some means where it directly goes to the target rather than through government?

Mr Proctor—Yes. It is provided through the auspices of partner NGOs that we have a relationship with and through UN agencies and the International Red Cross.

Senator BOB BROWN—What is the total?

Mr Wilson—Our total expenditure, I think, in the last financial year—and I will get the correct figure if this is not right—was around \$11 million.

Senator BOB BROWN—I want to ask for a moment about the forest situation in Indonesia and the removal of Law 41, which allowed Australian open cut mining operations in previously protected forest. Has AusAID had any say or role in that progress?

Mr Proctor—I am not aware of any role that we had. Perhaps I should back up a little and say that I apologise to the committee that the head of our Indonesian program unfortunately had to go back to Indonesia last night for the obvious reason of the disaster in Jogjakarta. We are perhaps not as well-equipped on some of the detail of Indonesia as we might have been. I am not aware of any role that we have had on that law.

Senator BOB BROWN—Would you take that on notice for me? There was lobbying by the Australian government through the embassy in Jakarta—and I am looking back to the time of Megawati Sukarnoputri—to have that law overturned. I am just wondering what reference was made to AusAID during that lobbying period.

Mr Proctor—I am not aware of any reference whatsoever. It would be very much something that the Department of Foreign Affairs and Trade would have been engaged in, not us.

Senator BOB BROWN—I would think so, primarily, yes. Does the same apply to Indonesia's interest in nuclear and its announcement last year of a movement to build a reactor on Java? Has AusAID had any role or has that been referred to AusAID?

Mr Proctor—We do not have any engagement with them on the energy sector. I would be astounded if we had had any discussions on the subject of a nuclear power station.

Senator BOB BROWN—Yes, I would be too. I turn to Papua New Guinea and West Papua. Can you give me an update on the HIV-AIDS situation with regard to the island as a whole?

Mr Davis—As I mentioned before, we have done this major study, with some significant projections included in it, looking at the AIDS situation across the whole region—East Timor, some particular focus on West Papua and PNG—and we will provide that to the committee. Needless to say, the situation is very dire. Mr Allen will give you the details.

Mr Allen—We have a report which, as Mr Davis mentioned, we will provide to you. Let me give you a flavour of the seriousness of the issue. There are at this stage, based on the best epidemiological data we have, around 65,000 people living with HIV in Papua New Guinea. It could be much more; the estimates vary. The surveillance is not entirely robust.

CHAIR—When you say Papua New Guinea, let us be clear. You are saying—

Mr Allen—PNG.

CHAIR—You are not talking about West Irian, West Papua?

Mr Allen—Not West Papua at this stage. We have projected that if we do not scale up our response to that epidemic in Papua New Guinea most significantly in the next few years we will be looking at around 500,000 people living with HIV by the year 2025 in Papua New Guinea.

CHAIR—Which is what percentage of the projected population?

Mr Allen—That would be a prevalence of 10 per cent of all adults. It would leave 300,000 adults are dead, 117,000 children would have lost their mothers to AIDS, the workforce would be reduced by 12½ per cent, GDP would be cut by 1.3 per cent and the health sector would be severely impacted, with over 70 per cent of medical beds occupied by AIDS patients. That is the Papua New Guinea picture.

Senator BOB BROWN—Before we move on from that, you were talking there about the situation as it is. What is required in terms of Australian assistance, and where can it be given, to help prevent that horrendous situation becoming a reality?

Mr Allen—The white paper on the aid program foreshadows an emergency response to this which will involve a lot more work in provincial hospitals, in building and accelerating the program of constructing sexual health clinics. It will require an intensification of our prevention messages and, as has been pointed out in previous discussions about health at estimates today, a comprehensive relook at health system strengthening. Without the broader health systems working properly in the districts and so forth it will be impossible to launch any kind of upgraded combat against the spread of the epidemic.

Senator BOB BROWN—How is the cooperation with the PNG authorities in terms of preventative health delivery, education and so on?

Mr Allen—It has been very good. Our program of HIV-AIDS assistance in Papua New Guinea is directly linked to the national government's plan, which is a very comprehensive plan. There have been substantial improvements in the political atmospherics around HIV in PNG over the last few years. Prime Minister Somare made a statement to parliament about it. So things are very much improved. The minister responsible there, Dr Temu, is a very capable minister and one who has dedicated a great deal of attention to it. We are at a very critical moment, but the good news is the political buy-in and support in PNG have never been stronger.

Senator BOB BROWN—What about the cultural resistance to talking about sexual health, education and the use of condoms and so on—I know it happens in all cultures. What is the prognostication on that?

Mr Alan—We have had success in raising awareness. What we have not had as great a success in is in translating the raising of awareness into behaviour change. There are very promising signs that, amongst younger Papua New Guineans, women in particular, there is strong support for preventative programs and open discussion about what is needed. But there is much more work to be done and this is the case in West Papua as well where there is a similar cultural profile amongst the indigenous people.

Senator BOB BROWN—There is the added component of over one million transmigrated people. Do you have an assessment of the interrelationship of this with HIV-AIDS and the spread of HIV-AIDS?

Mr Alan—That is very much a work in progress. There has been some work done by a number of international organisations on the extent to which transmigration can fuel the spread of HIV. Obviously, in cases of emergency where there are large-scale population movements which might be carrying the HIV infection, that is going to have an impact on where those people end up—in refugee camps or whatever. It is difficult to give you a definite

answer because the issue is still being studied now. The preliminary results vary. I think the jury is still out on the extent to which that movement you describe can exacerbate existing HIV spread.

Senator BOB BROWN—Is there a three-nation conjoint effort at play there—Australia, Indonesia and Papua New Guinea?

Mr Alan—We certainly work bilaterally with all of these countries. There are separate dialogues in the region. There is the south-west Pacific dialogue, for example, which has Indonesia, East Timor, Papua New Guinea and Australia. Mr Downer raised HIV-AIDS as a major issue—as a security threat, in fact—at the last dialogue held in Adelaide in December 2004. In fact, the report that I quoted from before is a product of that meeting that commissioned that report. We use every opportunity we can to raise the issue—to put it not just in a health context but in a security context. The other governments themselves have their own bilateral dialogues with each other. We would encourage discussion about that there.

Senator BOB BROWN—What role has the West Papuan Constituent Assembly had in this matter?

Mr Alan—I will have to take that question on notice.

Senator BOB BROWN—Thank you. Niue was hit by cyclone in early 2004. What aid has Australia given to the reconstruction of the country since then?

Mr Davis—The main support we have given to Niue is really a significant contribution—I think it is \$5 million—to a broader international trust fund to provide for its longer-term support. There was some specific humanitarian support after the cyclone but the really critical thing has been to provide a broader funding base for their core costs over the longer term. That is why particularly Australia and New Zealand have contributed to this broader trust fund that has been established to help meet their ongoing needs.

Senator BOB BROWN—Today I have been made acquainted with some pretty horrifying, for me, news about a Malaysian logging company moving in with claw bulldozers to work in the forests of Niue, which is one of the world's largest coral islands. Has AusAID been consulted about that or does it have any information on that?

Mr Davis—I am not aware of that. We would most likely hear of it through New Zealand, given their particular relationship with New Zealand. We can certainly ask.

Senator BOB BROWN—Do you know if alternatives like local pit sawmills and so on have been offered or discussed with Niue to keep the indigenous people in control of their forests instead of another Malaysian putsch on the forests?

Mr Davis—I am not aware of that, but we can see if that discussion, particularly, as I said, through their particularly close links with New Zealand, has occurred.

Senator BOB BROWN—Would you be able to get me information on that as soon as you can?

Mr Davis—Sure.

Senator BOB BROWN—Have you got information on the relationship and the trend between global food store reserves and global food requirements for the human population?

Mr March—I am sorry, I would not have to hand that information. But we could obtain that sort of analysis from the World Food Program and provide it to you.

Senator BOB BROWN—Would you have a particular look at diversion of food to biofuel production? Just last week I saw that 50 per cent of the US corn crop has suddenly gone into ethanol because of the rising oil prices. That is raising the huge potential for Western countries to produce fuel with food, which is therefore not available as a global food resource. It troubles me greatly, and I would be very keen to hear what AusAID's position on that trend is and where it might take us.

Mr March—We would be happy to obtain information on that, to the extent that it exists, in FAO, the World Food Program and other obvious sources. We will look into that for you.

Senator BOB BROWN—And I would be very pleased to know about the trend in world food reserves because of the new fuel phenomenon due to raised oil prices.

Mr March—Certainly. As I understand your question, you would like us to look at the trends in food storage and food requirements, the diversion or use of food as biofuel and what those trends suggest.

Senator BOB BROWN—Yes—food storage being food 'reserves' in the wider sense of that word. Finally, I want to ask about global warming and its effect on the Pacific islands—forgive me if this has been put to you before. To put it briefly, the news about the trend in global warming and sea level rises in this century gets worse. What is the current thinking from AusAID about the assistance required in countries, including Niue, of course, which may be and which are already apparently being affected by rising sea levels, storm surges and so on?

Mr Davis—We have had a longstanding program of monitoring sea level rise; it is a continuing program that we are engaged in. We are also the major funder of the South Pacific environment program. The South Pacific regional architecture, I guess, looks at this issue most comprehensively. Part of our response has been to try to build the quality of the basic data about changes, particularly in sea level rise, given that it is such a critical issue for the atoll states, in particular. We also work closely with others through the South Pacific Regional Environment Program in this work.

Senator BOB BROWN—How many people are expected to be displaced by mid-century on current projections?

Mr Davis—I do not know that we have ever seen such a number. We can see if the likes of the South Pacific environment program, in particular, have such a number.

Senator BOB BROWN—Would you, please.

Mr Davis—Yes.

Senator BOB BROWN—And also, perhaps, the projection by end of century, taking into account latest projections for sea level rises and temperature increases and so on. Would you also see if you could get a costing on the current cost of global warming to those South Pacific nations and what it is projected to become by end of century?

Mr Davis—Yes.

Senator BOB BROWN—Thank you.

Mr Wilson—Senator Brown, you asked a question on the Burma humanitarian framework assistance. In 2006-07 we expect to spend a total of \$11.3 million. I think I said it was around \$11 million, but \$11.3 million is our current estimate for 2006-07.

Senator STOTT DESPOJA—I have a quick query about the non-government aid programs. It is to do with non-government organisations and the intent of the white paper to try to expand partnerships with non-government aid agencies. I was wondering if you can outline, either on notice or perhaps now, the measures that are being undertaken as part of that expansion. Just looking at the budget papers and doing some quick maths, if we take out the Australian Youth Ambassadors for Development program and the additional funding through that, it does not seem to me that there is a large increase in the budget. I am just wondering—

Senator HOGG—I am glad someone asked my question.

Senator STOTT DESPOJA—I think we might all have some similar questions.

Mr Davis—There was a modest increase of half a million in this year's budget, specifically for the ANCP—the AusAID NGO Cooperation Program. We would anticipate, as the white paper highlights, that that would be one program that grows further. What the white paper also highlights is that we want to see further growth in the opportunities for cooperation agreements with NGOs to really engage in a more substantive way in individual country situations—not just to be funding programs but to be actively engaging them in the broader programs that we are engaged in as well. That sort of work is now under way in about five or six countries and we would like to see that grow further.

Senator HOGG—Which countries?

Mr Davis—Currently we have cooperation agreements with Vietnam, Cambodia, Africa more generally, the Solomon Islands and Laos. But we would like to see that grow further. The third area where I think there are going to be further opportunities and need to be further opportunities is some of the humanitarian response capacity and how we can scale that engagement up as well.

Senator STOTT DESPOJA—When you talk about the growth or expansion specifically in terms of countries, are there are obvious countries that you are looking at?

Mr Davis—We would be looking at having more of the South-East Asian countries and a bigger footprint in the Pacific as well. We would be looking at some of the more innovative ways that that engagement can take place. For example, in Papua New Guinea, given the spread of churches throughout the country, working through some of their non-government arms has been particularly valuable to really broaden out the linkages. We would be keen to see some of that grow further as well.

Senator STOTT DESPOJA—Just based on your previous comments, recognising that, obviously, resources is one way of doing that, did I get the impression in your second point that you were not necessarily just talking about funding?

Mr Davis—Absolutely not. I think that funding is one issue. Indeed, a lot of the larger NGOs say this as well. Their interest is not just to get hold of additional money but also greater policy engagement.

Senator STOTT DESPOJA—You talk about the AusAID NGO Cooperation Program as being the key channel through which these partnerships and relations occur, but the funding figures do not seem to reflect some of the aims as articulated in the white paper. There seems to be a funding decrease overall in that particular program. As a percentage of ODA figures it is about 1.1 per cent down to 0.9 per cent. I am not sure that you would necessarily consider that meaningful, but in the figures that we have before us there is not a significant expansion in the budget.

Mr Davis—For a lot of programs in this current budget—and once again it is reflected in the white paper—2006-07 is seen very much as a planning year. We will see some of the critical increases coming in future years.

Mr Proctor—I can give a couple of concrete examples. We are in dialogue with one NGO now because they have specific expertise in and focus on avian influenza. We are looking at providing them with some funding through the \$100 million announced by the Prime Minister. Equally, we will shortly have a specific meeting with NGOs on their way forward in the Philippines, where the white paper has emphasised a major expansion of our assistance. That is not to say that it is about funding, but, as the director-general has said, it is about the policy and getting the advice and useful views that NGOs have on, say, civil society in the Philippines. I think you have to see this as a broadening out not only in the sorts of access to money but also in the policy dialogue.

Senator STOTT DESPOJA—How would you rate us in comparison to other OECD donor countries in terms of the proportion of aid that we spend on NGOs?

Mr Davis—At the moment we spend much less than a lot of the European donors do through NGO channels. Some other countries, particularly those in northern Europe, spend a lot more through NGO channels than we do.

Senator STOTT DESPOJA—Is there a reason for that?

Mr Davis—I think it is probably history as much as anything.

Senator STOTT DESPOJA—So there are no plans of which you are aware to increase the proportion that we spend on NGOs.

Mr Davis—As I said, the white paper highlights the important role of and the opportunities for expansion. That expansion needs to be seen not only through the ANCP lens but also through these agreements and through working through specific programs like the avian influenza one and through various humanitarian channels.

CHAIR—Mr Davis, I am sorry to tell you this, but we are going to intervene with Austrade for, hopefully, a short period of time. A number of senators have further questions to ask of AusAID. If you will bear with us, I will call on Austrade, which I anticipate should not be more than half an hour to three-quarters of an hour—

Senator HOGG—If that.

CHAIR—So that is the good news. Then we will finish off with 10 or 15 minutes worth of questions from senators.

Senator HOGG—Do not get lost. Do not go too far, because I do not think Austrade will be here for long.

CHAIR—I am sorry to do this to you, but please bear with us. A person from Austrade needs to catch a plane, and he is pretty important to the information that is going to be put before the committee.

[5.30 pm]

Australian Trade Commission (Austrade)

CHAIR—I welcome officers from Austrade. The committee has before it the particulars of proposed budget expenditure for the year ending 30 June 2007, documents A and B, and the portfolio budget statements for the Foreign Affairs and Trade portfolio, incorporating funding details for Austrade. The committee may also examine the annual reports of the departments and agencies appearing before it.

When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for answer. The committee is due to report to the Senate on 20 June 2006 and has resolved that Thursday, 27 July 2006 is the return date for answers to questions taken on notice at these hearings.

Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. The giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The Senate, by resolution, in 1999 endorsed the following test of relevance of questions at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth or a state shall not be asked to give opinions on matters of policy. He or she shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground that is claimed. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim. Mr McCormick, I am sure you have heard that on numerous occasions before.

Senator HOGG—That is twice as long as my questions are going to be! I understand the time constraints, so I will give three brief headings and that will give you an idea of the direction I am heading in. I want a run-down on EMDG. I have some questions about the Australia-US Free Trade Agreement and I also want to address the governance relationship between you and what might replace the board. Firstly, on the EMDG scheme, could you confirm the amount of the allocation in the budget for this year?

Ms Ward—Can I clarify that by this year you mean the current financial year, 2005-06?

Senator HOGG—No, I mean in the PBS for 2006-07. I understand how the system works.

Ms Ward—As shown in the portfolio budget statements, our appropriation provided for 2006-07 is \$160.4 million.

Senator HOGG—I understood, from my previous discussions with Austrade, that the scheme was originally capped at \$150 million and then the government made an additional allocation for 2005-06 and 2006-07. So how do I reconcile that with the appropriation of \$160.4 million? Does that mean that you are expecting an underspend from 2005-06—because they are the grants that you will pay out in the 2006-07 allocation, if I am correct? Is that right?

Ms Ward—The appropriation was, as you said, originally \$150 million. It was increased to \$150.4 million in the financial year 2002-03. The government made a decision to increase the funding by \$30 million over a period of three years, and that originally was to be allocated at \$10 million per annum, over each of three years ending next year, 2006-07. In practice, however, what happened was that \$20 million of that \$30 million was allocated to the current financial year still to be completed, 2005-06, and the remaining \$10 million will be provided through the appropriation for 2006-07.

Senator HOGG—Just to go through that again, \$20 million of the \$30 million has been allocated for 2005-06.

Ms Ward—That is correct.

Senator HOGG—Where is that reflected in the PBS? Aren't we in the situation that the grants are not paid in the financial year in which they are claimed. Am I correct?

Ms Ward—They are paid in the year in which they are claimed, but they relate to the grant year expenditure, which is the previous year—

Senator HOGG—The previous year?

Ms Ward—Correct.

Senator HOGG—That extra \$20 million you are telling me about: where does that sit with the 160? How did you get the figure of \$160 million—that is what I am confused about.

Ms Ward—The \$160 million comes about because the appropriation that was available was \$30 million additional over the period of time, \$20 million of that appropriation was available in the 2005-06 year and the other \$10 million of it will be available in 2006-07.

Senator HOGG—I am with you now. Will the additional \$20 million be used up this year—is that the expectation?

Ms Ward—No, it will not be.

Senator HOGG—What will the shortfall be? Is there an expectation?

Ms Ward—As shown in the portfolio budget statements, the estimate at the current time is that we will draw down \$145.4 million.

Senator HOGG—That would be out of?

Ms Ward—Out of the appropriation that was available, the \$170.4 million. So approximately \$25 million will not be drawn down.

Senator HOGG—What will happen to that \$25 million?

Ms Ward—It is not drawn down, therefore it remains in consolidated revenue.

Senator HOGG—So it is not anticipated that that will be drawn down at some time in the future? Is it available to be drawn down at some time in the future?

Ms Ward—No, it is not.

Senator HOGG—So it was a ‘use it or lose it’ type of arrangement. Is that a reasonable way to describe it?

Ms Ward—If it was not necessary to be drawn down then it was not drawn down.

Senator HOGG—The \$145.4 million that will be used out of the \$170.4 million: how many grants will that cover?

Ms Ward—The processing of grants is still going on and it will do so until 19 June, which is our cut-off date for processing. That will be the date on which it ceases and we will be able to determine the final amount that should be paid out for grants, so I cannot give you—

Senator HOGG—You have not even got an expectation at this stage?

Ms Ward—I can tell you as of last Friday, 26 May, how many grants had been paid out, but I cannot be specific about what the final figure will be.

Senator HOGG—As of 26 May then?

Ms Ward—For this current year, 2005-06, we had paid out a total of 3,147 grants. At that stage we had assessed or determined over 88 per cent of the claims that were lodged this year. We would expect to be determining at least 98 per cent by 19 June. So there are still large numbers to be done.

Senator HOGG—So you have assessed 88 per cent. Are you able to tell me what those 88 per cent have had allocated to them?

Ms Ward—Do you mean in terms of how much money has been allocated?

Senator HOGG—Yes, money.

Ms Ward—The provisional value—and when I say ‘provisional value’ I mean that all the money has not gone out the door yet—

Senator HOGG—We understand that.

Ms Ward—associated with the grants which have been paid so far this year is \$119.4 million.

Senator HOGG—Based on what you said before, you expect that to get up to around \$145.4 million?

Ms Ward—Not all of that money will be paid out in grants money, because some of that is administration.

Senator HOGG—How much of that is in admin?

Ms Ward—We have an estimated final figure of between \$8.2 million and \$8.3 million, which will be paid in administration.

Senator HOGG—Of the 3,147 grants, you said 88 per cent have been determined at this stage. Is there any profile of the sorts of organisations that have those grants?

Ms Ward—I will just clarify that the 88 per cent that have been determined are of the total claims received this year. There were 3,765 received. We have finalised just over 88 per cent of those at the moment.

Senator HOGG—Is that the figure of 3,147?

Ms Ward—No, it is not. That is how many claims we have finalised.

Senator HOGG—That is the number of claims finalised.

Ms Ward—The grants that have been paid out from those is 3,147 in total. Some have also been carried over because they were not finalised the previous financial year, but the majority of those are this year's claims. We would have, conservatively, over 350 more to do yet this year, so these are very much provisional figures at the moment. This is the busiest time of the year for grants processing, when a lot of them are being finalised.

Senator HOGG—Are you able to give a profile of those claims? What sorts of companies have received the benefit of those claims?

Ms Ward—I have very limited information available at the moment because we do all that analysis when we have finished for the year. As I said, there is heavy processing going on right now, so we do not do profiling on a month-by-month basis.

Senator HOGG—In 2005-06—let me just make sure I have understood this—the total number of claims is 3,765?

Ms Ward—Yes, that is the number of applications that were lodged this year.

Senator HOGG—So that is the total number of applications. Of those, 88 per cent have been finalised?

Ms Ward—Austrade has finalised just over 88 per cent.

Senator HOGG—Of the total 3,765, you have made grant payments to 3,147?

Ms Ward—To be strictly accurate—sorry to be confusing—of the 3,765, we have paid 3,116. The difference between that and the first figure I gave you—3,147—which is 31, would relate to grants that we have paid this year but for claims that were lodged in a previous year.

Senator HOGG—They were paid this year but for 2004-05?

Ms Ward—Probably. They could have—

Senator HOGG—I understand the late time that exists for this. Do you have a final outcome for 2004-05 in terms of the number of grants received and paid?

Ms Ward—Yes, I do. They were in our annual report that was printed this year, but I have the figures here if you want them.

Senator HOGG—Yes. If you can, just run through them quickly.

Ms Ward—So this is for the last financial year?

Senator HOGG—Yes, 2004-05.

Ms Ward—The final number of grants paid last financial year was 3,277.

Senator HOGG—Yes.

Ms Ward—And the money? Is that—

Senator HOGG—Yes, please.

Ms Ward—The total amount of money paid out was \$123.9 million.

Senator HOGG—So, again, there was not a full expenditure in that year.

Ms Ward—That is correct.

Senator HOGG—Are we able to get a breakdown of 2005-06 by country where people would be exporting to?

Ms Ward—Not of the grants that have been paid; we have not done that analysis yet. We will do it, because we put that sort of information in our annual report, but we will wait till we finalise the figures for the year.

Senator HOGG—In 2004-05, if I can just go back, how many applications were rejected?

Ms Ward—Totally rejected?

Senator HOGG—Yes.

Ms Ward—The total number that were disallowed during the year: 334.

Senator HOGG—And thus far this year?

Ms Ward—To date this year: 251. I should add that it is possible some of those will end up having some money paid. There is an appeal system, and it is possible that, if somebody is successful in an appeal, although we have rejected it we will end up in fact and in practice paying it. But, at the current time: 251.

Senator HOGG—And the main reasons for the rejections? Is there a common theme in both years?

Ms Ward—I cannot give you an answer to that. I would have to take that on notice and come back to you.

Senator HOGG—If you could look at whether there is a main reason, it would be interesting to know if people are stumbling at the hurdle for a specific reason. If that were to become obvious to us, it would be interesting indeed.

Ms Ward—Past experience has shown that there are a range of reasons, but I would like to take it on notice and not try to answer by saying that I think the main reason would be one thing or another.

CHAIR—What has the range of reasons been in the past? Without reflecting on the current applications, what are some of the reasons?

Ms Ward—There is a range of things that have to be taken into account to determine whether an applicant is eligible. The first one is the nature of the business or the applicant themselves; there are rules about that. Then there is the nature of the product that they are promoting for export.

CHAIR—Such as whether it is Australian made or not?

Ms Ward—At the present time, there are rules about the Australian content in the scheme. And then there are rules about the nature of the expenditure and whether the expenditure is eligible.

CHAIR—Yes, legitimate.

Ms Ward—So there is a whole range of reasons. Therefore, if an applicant fails on one of those they are ineligible for the scheme. That is why I say it can vary considerably.

CHAIR—Do you do an analysis of the rejected applications?

Ms Ward—We do look at that; it is an important part of our education of potential applicants to try to ensure that they are aware of the hurdles, or the steps that they need to have correct, before they become an eligible applicant.

Senator HOGG—At this stage, based on your projection for this year, it seems as if you are going to have more grants and money paid out in 2005-06 as compared to 2004-05.

Ms Ward—That is correct.

Senator HOGG—Is there a reason for that? Are you able to put your finger on why that is happening?

Ms Ward—There is certainly one clear reason, which is that there was a significant increase in application numbers and an even larger increase in the value of applications this year. That is one clear reason. The second reason, which seems to be the case at this point of time, although I cannot say that with confidence until we have finalised—

Senator HOGG—I will take it as being a qualified statement.

Ms Ward—To this point of time, we have been making somewhat smaller adjustments to claims than we did last year, which suggests that on the whole they are more accurate and that some of our education programs, perhaps, have been successful. For those two reasons we are certainly paying out more money this year than last year.

Senator HOGG—Is it fair to say, looking at it in a very broad sense, that the average per grant has increased over the period 2004-05 to 2005-06?

Ms Ward—Yes, that is correct. I can give you comparable figures—that is, on the same date; as I said, as at 26 May is my latest figure—from the same time last year.

Senator HOGG—That is fine.

Ms Ward—Our average grant paid this year is \$37,640, whereas last year it was \$36,214. The grants paid this year are an average of over \$1,000 higher.

Senator HOGG—I had some other questions here that go to breakdowns, but I presume that you cannot give me those figures. Will they be available once you have reached your close-off date or within a reasonable working time after your close-off date?

Ms Ward—There will certainly be a range of profiling done.

Senator HOGG—Can you take on notice the parts of my questions that relate to breakdowns and then supply me with them; otherwise I will have to wait until the next estimates, I will ask for it at the next estimates and we will go through the same process.

Ms Ward—Certainly.

Senator HOGG—I would like some idea as to a breakdown by export destination, where the recipients were located—I presume you do it within Australia.

Ms Ward—Yes, we do. Do you mean a breakdown by state?

Senator HOGG—Yes. Do you have a matrix that gives the breakdown by grant paid, by industry and by country?

Ms Ward—Normally we have only done it by industry or by country—not cross-classified, which is what I think you are looking for. If we take it on notice, I will see what we can do.

Senator HOGG—I do not want to put you to an enormous task. It might far outweigh the efficacy of the information that you are able to provide us with. Do we know how many grants would go to manufacturers shipping to China or somewhere such as that? Are we able to read that sort of detail out of what you will provide me with?

Ms Ward—We could have a look at what we could do for you. Can I clarify: when you say ‘shipping to China’, remembering that this is—

Senator HOGG—Exporting to China.

Ms Ward—If I could clarify, this is about export promotion, so I suggest that the most useful figures we could give you are of those people for whom part or all of their expenditure was for promoting to China.

Senator HOGG—Is your breakdown also by federal electorates?

Ms Ward—We have information that can be aggregated. We have information of the boundaries of electorates or from the Electoral Commission that allows us to do it by electorate.

Senator HOGG—Can I have that as well.

CHAIR—That is a question on notice about the 2005-06 year and the breakdown of electorates exporting—

Senator HOGG—Yes, the general mix—

Ms Ward—Of recipients?

Senator HOGG—Yes. That would be helpful. That ends the EMDG. Have Austrade's operations changed since the US free trade agreement came into effect last year and, if so, in what way?

Ms Bennett—Yes, the free trade agreement came into effect on 1 January 2005. Perhaps the most immediate impact was that Austrade received \$3 million a year for 2005-06, which continues to 2006-07, to employ 30 new export facilitators, of whom 23 are based in the US and seven in Australia.

Senator HOGG—Are they all on board?

Ms Bennett—They were all on board by September 2005.

Senator HOGG—Are the 23 in the US A-based or locally engaged?

Ms Bennett—Predominantly they are locally engaged.

Senator HOGG—Whereabouts are they?

Ms Bennett—In a variety of places. The list includes Atlanta—

Senator HOGG—If you have a list, that will be easy. Just pass the list up to us later, if you are happy to do that.

Ms Bennett—Certainly. Needless to say, there are approximately 15 or so locations. I can provide that to you afterwards.

Senator HOGG—That is fine.

Ms Bennett—Those additional staff complement our resources who are already in the US. So, for the 2005-06 year, Austrade had in the order of 60 total staff in the US. If you are interested, that comprises around nine A-based staff and 51 overseas employed.

Senator HOGG—You said that the extra \$3 million was for 2005-06 and 2006-07.

Ms Bennett—It is \$3 million a year for the two years.

Senator HOGG—So it is \$3 million a year for each of the two years?

Ms Bennett—Yes.

Senator HOGG—That provided you with 30 additional staff in 2005-06. Are there any additional staff in 2006-07 or what is the \$3 million for?

Ms Bennett—The \$3 million will continue towards the 30—

Senator HOGG—It will continue to support those 30.

Ms Bennett—That is right.

Senator HOGG—What about beyond 2006-07?

Ms Bennett—There is no specific government funding for additional staff. Austrade will obviously look at their own planning and make decisions about deployment as we go into the next cycle of planning.

Senator HOGG—In respect of the United States, with the additional 23 staff did you open any new offices as such?

Ms Bennett—We have certainly deployed them to locations which we were not in. Some of those people are working alone, so there is not a physical office. They are a point of presence representing Austrade in a particular market, but it might not be a physical office. That has enabled us to increase our presence.

CHAIR—How does that work with no office? Are they working out of a suitcase?

Ms Bennett—It means that we keep our staff very close to the customer network, to potential buyers. Our staff are able to work with mobile communications, so they can be completely part of the office systems. They can see the details they need to interact properly with the customers, bringing client details to it. For some of those staff in locations where we felt a physical office was not warranted, they can work perfectly effectively.

CHAIR—So they have a mobile phone and a computer and they can plug in?

Ms Bennett—That is right.

Senator HOGG—So these are in a more general zip code location, rather than being centred in Washington, Chicago or somewhere like that?

Ms Bennett—That is correct. Of the 23, there was a combination. In some instances we put more staff into an existing office such as Washington, where we put five people in to work specifically on government procurement, for instance. So it was a balanced combination, taking advantage of known strong opportunities for customers, and for the Australian exporters to take advantage in the US.

Senator HOGG—So, if you did not open any locations as such, did you close any offices or locations in the United States?

Ms Bennett—No.

Senator HOGG—How has the performance of the additional 23 staff in the United States and the additional seven in Australia assisted our exports to the United States?

Ms Bennett—From Austrade's perspective, in the year from January to December 2004, before the free trade agreement came into effect, and then the calendar year of the first year—January to December 2005—Austrade supported 46 per cent more Australian exporters into export, of the order of another 120 exporters.

Senator HOGG—Another 120 exporters into the United States?

Ms Bennett—Yes.

Senator HOGG—You might be able to explain this to me then: how come our trade deficit with the United States grew in that same period of time if the efforts that you have put in by increasing the amount of exports by 46 per cent—was it 46 per cent?

Ms Bennett—It was 46 per cent more export impact clients—the number of clients that Austrade assists. Obviously, Austrade assists some but not all of the total export population that are going to America. So we have assisted more clients. For a response to your comment about the broader trade impact, I will turn to Mr Harcourt.

Mr Harcourt—When you look at our measurement, you see that we look at numbers of export impact clients. As Ms Bennett said, there has been an increase. That does not mean you

necessarily get large increases in export value. For instance, if you look at current export performance, you see very high commodity prices. Our exports to China and Japan are going gang busters; with a market like the United States you might have more manufacturers and services, so you will not have the same impact on commodity prices. But, as Ms Bennett mentioned, there has been an increase in our clients going and, with that, an increase in our export value attached to those clients.

Secondly, I think one thing that we have been trying to do with our operations is to get more small and medium sized enterprises into the US market. Some of the survey data we have seen from Austrade and Sensis suggests, when we look at small to medium sized enterprises over the past year, that there has been a big increase in the proportion of small and medium sized enterprises going to the US, relative to, say, New Zealand and the UK. For instance, 18 months or so ago, New Zealand was the top market for small and medium sized enterprises from Australia, and now the US is ahead. There has been some evidence of that—not so much in terms of export value that you get with a commodities boom but in terms of getting more enterprises involved in the US market. I guess that partly reflects the composition of our exports to the United States, which are more elaborately-transformed manufactures and professional services. It is a story of numbers of companies.

Senator HOGG—It seems strange to me. One would have thought that that sort of outcome may well be reflected in our trade figures. Obviously, I agree with you: it is not a big slab of the marketplace; it is the other end of the marketplace. Do you as an organisation monitor the performance and outcomes for these people, such that you have some idea of the effectiveness of your program? If so, given that for some of them it may well have been their first year into the marketplace, when do you expect to see more definitive results coming out of your efforts in the United States market?

Ms Bennett—I could not answer that specifically for the United States but, for example, after we first work with an exporter we are certainly very keen to continue working with them through their second and third export. We call that ‘sustainability’. My recollection is that something in the order of 40 per cent of our clients who have achieved a first export subsequently achieve a second and third. That is obviously a figure that grows incrementally, day by day, when they achieve another deal and then another. We have monitored this figure over the last two years and, if my memory serves me correctly, something in the order of 40 per cent of new exporters will continue to work with us. That is not to say that they do not then continue by themselves. That is, obviously, a pool for which we have no visibility; it is merely the clients who will do their second and repeat deals with our assistance.

Senator HOGG—Has that meant that your strategy not only has changed but also is going to have to change further? If so, in what way? How can you assist Australian exporters to access the American market even better, say through your contacts in Washington and other parts of the United States?

Ms Bennett—I would not say the strategy has changed. We have always recognised that if we want to play a part in having an impact on the Australian export environment there are several different roles we can play. One is clearly to attract businesses into export, businesses that have never done it before, but then to also play an important role for them, for as long as they need it to continue, of ongoing assistance. There is also a role for us to play with

established exporters where perhaps they are considering a new market. So Austrade has programs and has a service offering that is really quite focused on the needs of different segments of the Australian export community.

In relation to the US, in addition to the staff, for instance, we run comprehensive seminars in Australia to try to increase awareness of the advantages and the freer market access that is now available through the free trade agreement. I will mention some of the events that we have hosted and helped to put forward. We had a fashion week US buyers mission—we brought buyers from America into a fashion week in Sydney, Adelaide, Melbourne and Brisbane. We had a seminar series in Melbourne, Canberra, Adelaide, Perth, Sydney and Brisbane in February 2006 called Developing Business, Protecting IP, Negotiating Deals in the US. So, just through those two, you can see that we try both to create opportunities for Australian clients to meet customers and to impart some extra capability insight for them to succeed in export in the US.

Senator HOGG—I am surprised by your comment that you have not changed your strategy. Given the opportunities that were presented by the free trade agreement I would have thought that your strategy would change. I had just accepted that it had changed just by virtue of the fact that you had employed 30 new people, 23 in the US and seven in Australia, looking at that marketplace. It is not a criticism; I am just trying to understand when we might see in the trade figures the material benefits of what you are doing. Am I understanding correctly what you are saying to me, that you do not necessarily tag someone and follow them all the way through? I can understand that there is a limit to how long you can follow a client, but there must be some reporting mechanism by which you are able to determine if the strategy that you have got in place is working in the longer term, not just in the short term. It is easy to see a short-term effect. It is more difficult sometimes to see the longer term impact.

Ms Bennett—I will address the first part of that and then I will pass to Mr Harcourt with regard to the way the ABS records the figures. Perhaps I misinterpreted your question about whether we had changed our strategy. Austrade has always had a strategy to do a number of things. Our strategy was clearly to increase the number of new exporters. But we also, through our corporate plan, clearly had the objective of continuing to assist established exporters. That was my interpretation to say we have not changed our strategy; that remains. We have clearly changed our operational tactics. We have greater reach. We have greater insight of the market. The terms of the free trade agreement enable us to support specific industry sectors in ways that are enabled by the free trade agreement, and that is obviously new.

Senator HOGG—All right. You might take on notice the support that you are getting to the various industry sectors. I do not expect you to go through that now. If you can take that on notice and supply it to me I would be very pleased about that.

Ms Bennett—Certainly. On the last part of your question, about tagging, to the extent that the client chooses to continue to work with Austrade—because many clients gain confidence and are then capable of promoting their export business themselves without Austrade's assistance—we continue to have an ongoing relationship with them and we can see how they are moving through export. In relation to those who move out of Austrade's environment, Mr Harcourt can make some comments.

Mr Harcourt—Just to supplement Ms Bennett's answer, the strategy is partially about rebuilding the new generation of the exporter community, allowing new people to come in, helping the potential exporter at the margin, helping the smaller ones build into medium sized exporters and, in key places, helping key clients with government procurement and so on. You can do those types of things together. What has been important with a lot of the data now is that you are seeing a growth in the exporter heartland, the core part of the exporter community, that exports every year, year in, year out, no matter where the exchange rate is or where the commodity prices are. One aim has been to basically build that natural rate of exporting in the community.

Senator HOGG—You mentioned government procurement. I could probably discuss this with you all night. Has that led to a different involvement by Austrade with your counterparts in the United States or with the United States government itself? Has there been any change there?

Ms Bennett—We have a team of five members now—four in Washington and one in Colorado Springs—focused on selling through to the US government. From the information I have, the team has, for example, assisted 24 clients to achieve export successes worth over \$A90 million. Part of their success would be the knowledge and insight that our team can bring in understanding the network with which an Australian exporter needs to become familiar in order to achieve success. Clearly that would involve us not necessarily dealing with counterparts but certainly getting a very close network of potential buyers and influences in the US in order to help the Australian exporter.

Senator HOGG—The other question that went through my mind was: is there a focus on the east coast or the west coast, or is it evenly spread—

Mr Harcourt—It is coast to coast.

Ms Bennett—It is coast to coast—different industry sectors.

Senator HOGG—I will get some assessment of that when you give me your analysis. I understand that there is a free trade agreement panel. Are you represented on that?

Mr McCormick—Yes. The FTA Export Advisory Panel, which reports to the minister, is chaired by the current chairman of the Austrade board, and the managing director of Austrade is also on that panel. The panel is serviced by Austrade as the secretariat.

Senator HOGG—Will that change when the Austrade board is abolished?

Mr McCormick—There would be no need to. The chair of that panel is appointed as an individual.

Senator HOGG—What are the functions of that panel in broad terms?

Mr McCormick—The specific focus of the panel is to provide advice to the minister on strategies and activities to promote the benefits of existing bilateral free trade agreements, to deal with perceived and/or real impediments to Australian exporters or potential exporters in accessing those markets where there are free trade agreements, and to provide advice on industry sectors that may benefit from existing bilateral free trade agreements.

Senator HOGG—Who funds the panel?

Mr McCormick—Austrade.

Senator HOGG—Did you get additional funding for that?

Mr McCormick—No.

Senator HOGG—You took that out of existing resources.

Mr McCormick—Yes.

Senator HOGG—How often does that panel meet?

Mr McCormick—The panel decides when it wants to meet, but it would normally be expected to meet up to three times a year.

Senator HOGG—Do you have a direct input into that through your managing director?

Mr McCormick—Yes, and through the secretariat functions.

Senator HOGG—The last question is in respect of what is put nicely in the PBS as the ‘transition in governance arrangements from a governing board to executive management’. It does not say much more than that in the PBS. Exactly what does that mean?

Mr McCormick—As you know, essentially it involves three main broad categories of changes. One is to replace the governing board of directors with the executive management model, which is to have a chief executive officer reporting directly to the minister and to replace the governance functions played by the board of directors. As well, as part of those changes, once the legislation is passed, Austrade will become subject to the FMA Act rather than to the current CAC Act. Employees of Austrade will become employed under the Public Service Act.

Senator HOGG—How will the board of directors change?

Mr McCormick—There will not be a board of directors.

Senator HOGG—Who is currently on the board of directors? I do not want names. Are there industry representatives?

Mr McCormick—There are individual businesspeople and—

Senator HOGG—So there are industry representatives?

Mr McCormick—Yes.

Senator HOGG—How many industry representatives are on the current board?

Mr McCormick—I believe there are around 10. I have a list here. Do you want me to read them out?

Senator HOGG—Yes, it will not hurt—just quickly.

Mr McCormick—The board can consist of no fewer than 10 and no more than 12 members. So 12 is the maximum number. Of those 12, the Managing Director of Austrade is on the board, the Secretary of the Department of Foreign Affairs and Trade, the Secretary of the Department of Industry, Tourism and Resources and the Managing Director of EFIC. So, 12 minus those three is nine.

Senator HOGG—That will remove some valuable input that comes by way of cross-fertilisation from other organisations and industry. That is being eliminated, as I understand it, in the new model—is that correct?

Mr McCormick—As I said, they are a governing board, so they are a board of directors who are responsible for the governance of the Austrade organisation. They are replacing the governance arrangements, so the functions that were carried out by the board members are being replaced with the alternative model that is being laid out under the Uhrig principles and recommendations.

Senator HOGG—Are you able to enlighten us as to why this is happening?

Mr McCormick—It is on record that the government has a process for reviewing all statutory authorities to improve their governance arrangements. This is a whole-of-government process. They are reviewing all of them to see whether or not the governance arrangements are appropriate to the type of organisation, and Austrade, along with many other bodies, is being reviewed. These are the recommendations of that review that was carried out by the minister.

Senator HOGG—How will this affect your interaction with industry representatives, given that I would think that their advice and their counsel is fairly important in the sorts of strategies that your organisation has evolved over a period of time as a statutory authority?

Mr McCormick—As I said, the formal function of the board is as a governing board. Austrade has a range of other mechanisms and the government as a whole has a range of other mechanisms to interact with and get the views of industry. So there is a range of mechanisms already in place in Austrade and more broadly to provide advice to the minister. In principle, the board is not there primarily for that purpose; there are other mechanisms. We know that the government will consider whether there is a need for any additional mechanism and will consider whether that is—

Senator HOGG—So there is no mirrored advisory panel or board as such, even though it might not be a governing body as such in the new set-up?

Mr McCormick—Under the changes in the legislation, which is what we are talking about here, there is no requirement to have that.

Senator HOGG—There might not be a requirement, but I am just curious as to whether or not it is envisaged that there might be some form of advisory panel to assist Austrade in its revamped form to conduct its business.

Mr McCormick—I think the government will consider what, if any, new arrangements are required and that is really a question for the minister.

Senator HOGG—I want to thank the officers of Austrade. I have a few things that I am going to receive on notice—breakdowns of EMDGs and other things; thank you very much.

CHAIR—Thank you to the officers from Austrade. I call the officers of AusAID back to the table.

[6.20 pm]

Australian Agency for International Development (AusAID)

Senator ALLISON—I am not sure whether it was a question on notice or a letter that I wrote where I was advised that the World Bank's Mr Wolfowitz and the microfinance policy team were coming to Canberra for some meetings here. Do we have a date for that visit?

Mr Davis—I am not aware of any microfinance team coming. There is certainly a plan for Mr Wolfowitz to come later in the year but I am not aware of any team coming for microfinance.

Senator ALLISON—I might find the letter which mentions this and forward it. When is Mr Wolfowitz's visit?

Mr Davis—We do not know yet when it will be. It will be later in the year. I saw him at a meeting earlier this week and he was saying that he wanted to get to Australia later in the year.

Senator ALLISON—I have some quite detailed questions about the health budget in AusAID. I have had a look at some comparisons between 2005-06 and next year and there are some movements in that including a reduction in STD control and HIV AIDS of about four per cent and a small increase in reproductive health, family planning and population policy. Can you explain the reason for that? Does that represent a shift away from activities like HIV and STDs?

Mr Davis—It certainly does not. This year's figures to some extent are influenced by the growth in support through the pandemics initiative. It certainly does not represent any reduction in interest or support through HIV. We have got the \$600 million commitment announced by the minister a couple of years ago and that is certainly something that we are working towards achieving in full.

Senator ALLISON—Is it possible to provide the percentage increases in those areas so that we can understand what that means?

Mr Davis—Perhaps it would be more useful to put it in dollar percentage increases rather than just in proportional terms.

Senator ALLISON—That would be useful.

Mr Davis—That will give a better picture of the movements that are positive across the health sector in general.

Senator ALLISON—In the last budget estimates, I inquired about the percentage of the overall budget that was designated for health. There was a question about whether it was meeting stated levels. What is the situation now?

Mr Allen—This year it is estimated that about 12 per cent of total ODA will be on health. I think the blue book in front of you shows 13 per cent forecast for next year for health, so there is a percentage increase in health.

Senator ALLISON—What about reproductive health?

Mr Allen—That will also go up, from six per cent in 2005-06 to a forecast nine per cent in 2006-07.

Senator ALLISON—There was a drop in the World Health Organisation's sexual and reproductive health program, which I understand was worth about \$US500 million. Australia contributes to that fund. Did we express a view about that decrease in funding?

Mr Allen—I am not familiar with that. I know that we still support the World Health Organisation's program in that area. I could not answer as to what the particular fluctuations have been over the last two or three financial years, but we could take that on notice.

Senator ALLISON—It is quite a substantial fluctuation. I am surprised you do not know about it or do not recall it.

Mr Allen—Our total contribution to the World Health Organisation is going up.

Senator ALLISON—I am not talking about Australia's contribution; I am talking about the overall World Health Organisation's effort on reproductive health, which has gone down by \$US500 million.

Mr Allen—I beg your pardon. I could not comment on the global trends in the World Health Organisation's budget. There may be reasons. Some donors may have pulled out, for example.

Senator ALLISON—Would you take that on notice and see whether it is the case or not that Australia has made representation to the World Health Organisation and, if it is a transfer of moneys to somewhere else, whether we have expressed a view or care about that?

Mr Allen—Yes.

Senator ALLISON—Thank you. My next questions are about the UNFPA. Our white paper talks about supporting a multilateral agency based on their relevance to priorities in the white paper, whether their focus includes the Asia-Pacific region and their continued effective performance within the region. That is all in the white paper, but there is very little by way of an increase for that agency. I understand that there is just a \$0.5 million increase for 2006-07. Can you comment on that? In terms of the UNFPA, it would appear that the work they do, particularly in the Asia-Pacific region, is completely in line with our white paper. Was a decision made about funding that organisation in relation to that?

Mr Davis—A lot of the estimates for 2006-07 were worked out before the white paper was actually finalised. That was one, though, where, compared to quite a number of the other UN agencies, there was a real increase. We would see that as a starting point for building the link further, through core funding but also through other engagement. So, if you look at it in comparison with other UN agencies, you will see that a lot of them stated about the same nominal amount or the same real amount. This is one where there was a real increase.

Senator ALLISON—Are you saying that it may be a higher increase than that figure shows?

Mr Davis—In the future?

Senator ALLISON—Yes.

Mr Davis—In the end, that will be up to the government to work through on looking at budget allocations in future years.

Senator ALLISON—You did say that this budget allocation was made before the white paper came out, so there is a possibility at least.

Mr Davis—Yes. It has stood at around \$2 million to \$2.5 million for quite a few years, and there was a significant increase last year to \$4 million, and it has grown again this year to \$4.5 million. It will really be up to the government as to where that goes in future years, but the trend has certainly been up.

Senator ALLISON—The white paper talks about the intensification of development efforts in the Philippines that would be achieved mainly through health, education and infrastructure incentives and initiatives. Would that intensification include scaling up family planning activities in the Philippines? If so, would it be through the UNFPA?

Mr Proctor—We are really at the starting point of looking at this massive scaling up in the Philippines assistance program. I think that a lot of the areas you mentioned will see considerable growth, but I personally think it is too early to tell you exactly what the components will be. Clearly there are issues in the area that you are talking about that need to be addressed. We need to talk with other donors, and we need to work out what the plans of that agency and others are. It is very hard to give you a strong indication at this point.

Senator ALLISON—When would we have some indication? Would we have to wait until the next budget, or will there be something in the shorter term?

Mr Proctor—The funding for a substantial increase will come through in the next budget, so in terms of reality, yes, that is when the themes will be clearly articulated and start to be funded—at the start of that process of increase. But there is a lot of work going on at the moment on what the best areas to be engaged in are.

Senator ALLISON—Will there be a specific focus on TB in our overseas aid this time around?

Mr Davis—I think that that will come through in a number of ways—firstly, through the multilateral channels, which is one of the three areas of focus of the global fund. TB will feature prominently through our support for the global fund. It will also feature in a country specific context, as we work through the health strategies that apply in individual countries. So whereas in the white paper there was a particular initiative around malaria, we are anticipating that TB will become an integral part of looking at the particular areas of priority within the health sector that need addressing in a particular country situation.

Senator ALLISON—Can you indicate what the funding will be in HIV-AIDS, TB and malaria under the global fund?

Mr Allen—The global fund is a demand driven financing facility, so it provides about 58 per cent of its funding to HIV-AIDS.

Senator ALLISON—Do we earmark our contribution for particular programs?

Mr Allen—No, we do not. We have given a pledge of \$75 million, and that goes into the broad pot that the fund administers. We have already dispersed \$40 million of that, so we have \$35 million more to give to the fund.

Senator ALLISON—Then that is it? It is \$75 million altogether?

Mr Allen—That would exhaust the existing pledge.

Senator ALLISON—And this budget does not commit to any more than that beyond what financial year?

Mr Allen—From memory, the pledge is for two further financial years.

Senator ALLISON—And beyond that there is nothing further?

Mr Allen—Beyond that it would be up to the minister to make a judgment about a new pledge.

Senator ALLISON—Is there any consideration of an increase to that fund? As I understand it, the global fund falls quite a way short of the need, particularly in the area of malaria.

Mr Allen—There is a funding gap recognised by all donors. You will note from the white paper that there is a focus on the global fund in a number of contexts. Clearly, as the health program scales up, the global fund is a potential vehicle for us to look at for further assistance.

Senator ALLISON—So this might happen in the next budget? That question is hypothetical, so I cannot really ask you that.

Senator HOGG—I have a few questions left that will be greatly received, I hope, in the sense that you can give brief answers. The first question is an easy one: what is the scheduled growth rate in the ODA per year until 2009-10? Is there a projected growth rate?

Mr Davis—The commitment the government has made to the aid budget is that it will reach around \$4 billion by 2010. The actual year-by-year growth leading towards that \$4 billion will be looked at in each budget context. There is not a locked in growth projection year by year, but as you can see, to get from where we are now at about \$3 billion to \$4 billion by 2010, that gives the sense of the sort of magnitude of growth that can be anticipated in that time frame you are talking about. In the end, the government has taken a decision that it will look at the actual level for the aid budget on an annual basis, as part of the budget process.

Senator HOGG—You will undoubtedly need to take these next questions on notice. Will you supply us with the details of all the water and sanitation projects with the country, the DAC sector codes and the amount disbursed in 2005-06; with the details of all health projects with the country, DAC sector codes and amount disbursed in 2005-06; and the same for all education projects?

Mr Davis—Sure. Can I clarify that you want that for 2005-06?

Senator HOGG—Yes. By the time you get the answer together, if you cannot give it to us fairly accurately I would be surprised.

Mr Davis—We can get that to you very accurately.

Senator HOGG—I want to raise two things arising out of Indonesia. This is the trouble of allowing a senator to sit down and read these booklets, but I think this will interest a lot of people. The first one is in respect of the earthquake of the other day and the mammoth difficulties there. I note that on page 15 of the minister's statement the country program estimate is \$125 million; the Australia-Indonesia Partnership for Reconstruction and Development, \$178 million; estimated other ODA, \$40.9 million; and then there is the total. I know the government have made an announcement as to some early assistance in respect of the earthquake victims and so on. Is that money, firstly, being met out of any existing allocations? Is it being met out of a contingency fund? As this will go into the 2006-07 financial year, will a strain be placed on the existing allocations that you have, given the magnitude of what seems to be emerging?

Mr March—The humanitarian response funding for the Yogyakarta earthquake is coming from a contingency held in global programs, so it is funding held for this sort of event.

Senator HOGG—Is that expressed later on in your minister's statement?

Mr March—Yes, it is. It is part of the humanitarian and emergency funding; it is mandated flexibility that we hold in each year. The announcements of those figures have now been made but all of the expenditure will not necessarily fall in this financial year, although we do want to advance that money rapidly to meet the response. A significant proportion will be made available this financial year.

The answer to your second question, about whether that places strain or pressure on allocations in future years, is: not so much, because each year we are provided with a flexible allocation to meet contingencies such as this. It will mean, obviously, an ordering of priorities, but that is the cut and thrust of managing the humanitarian allocation.

Senator HOGG—I accept what you say. I understand that you can only respond as well as the information that is at hand allows, so this is not a criticism, but, given the magnitude that seems to be emerging on a daily basis, has there been any thought that there will need to be special funding from Australia to meet the requirements of rebuilding the area and putting back essential infrastructure and services such as health and/or water? They are big-ticket items; it is one thing to get the emergency aid in, but it is going to be a second thing to re-establish the area. I know it is early days; I am quite aware of that.

Mr Proctor—It is too early to have any considered view of the needs and costs there, although you can guess what the main areas are. The announcement of Australia's assistance yesterday pointed out that there are some medical teams going in immediately. And AusAID has set up its own office of seven people in Jogja, and other medical equipment has now gone in. Also, there are two teams going in at the end of the week—one looking at structural engineering issues and one looking at utilities—which are the start of longer term planning to assess with the Indonesian government what they might do to recover and reconstruct.

Senator HOGG—Where will those teams come from?

Mr Proctor—The teams will comprise the private sector and government agencies. They will be put together by an NGO called RedR, which focuses on this sort of engineering related assistance. It is paid for by Australia, of course.

Senator HOGG—And how long will those teams be there for?

Mr March—We have a planning horizon at the moment of six weeks. In that six weeks we are envisaging three teams of approximately two weeks duration. Each team will report back at various stages and make recommendations on the shape of and the need for a subsequent team. But at this stage we are anticipating three teams across a six-week planning horizon.

Senator HOGG—How many people in each team?

Mr March—The medical team that will leave this evening will be a 27-person team. The engineering teams are still being assembled as we obtain information from the field, but I would anticipate them to be smaller in number—perhaps five to six persons plus an AusAID team leader.

Mr Proctor—I will point out that a similar engineering team was sent to Pakistan immediately after the earthquake there. Its outcome was highly regarded by a lot of the donors as a basis for doing longer term planning for reconstruction.

Senator HOGG—Are you offering any assistance in conjunction with our military?

Mr Proctor—At the moment it is definitely an AusAID arranged activity involving EMA and a New South Wales medical team, and other teams to follow, plus, as I said, RedR and other equipment sourced through our contractors.

Senator HOGG—So this is not something that is a joint operation with the Australian Defence Force.

Mr Proctor—No, it is not.

Senator HOGG—What about the transportation of these people to and from Indonesia? Is that undertaken by the Defence Force or is that being done by private companies?

Mr Proctor—No. It is commercial. Can I say that, although Yogyakarta airport was temporarily put out of service because of cracks in the runway, that has been solved. So you have in this case a terrible disaster but in an area that is actually very well serviced by transport hubs—Solo and Yogyakarta. It is on the Java mainland, of course. There is a lot of road access. So it is not the sort of area where you need to look for forces to provide the delivery of assets.

Senator HOGG—Assuming that a longer term commitment is identified by the assessment teams that are going in, where would that be funded out of? Would that be funded out of your emergency fund or would that be funded out of the existing funding that I see on the likes of page 15?

Mr Proctor—It would not be from emergency funds. Longer term reconstruction would be, in most cases, funded as part of the country program work in an individual country.

Senator HOGG—I am not holding you to this, but is it possible that, when we meet again for the supplementary estimates, you may well be in the midst of getting some supplementation for projects that might emerge? Is that possible? As broad as that.

Mr Davis—That is one possibility. We are also looking at what the order of priorities needs to be within the existing budget. They would be the two options that we would need to be looking at.

Senator HOGG—All right. So long as I understand that. The last issue on Indonesia, then, is that I note, again on page 15, that Australia is providing \$15.5 million to help mitigate avian influenza. Given that at the time of the writing of this document, I would suspect, the recent circumstances that have emerged in Indonesia would not have been known to the writers, and to you, more pointedly, is there any suggestion that our contribution in respect of avian influenza for Indonesia will be increased as a result of the recent events that have emerged there?

Mr Davis—It could grow over time, but I want to reassure you that we were well onto the case before these recent additional deaths were notified. We actually had a couple of senior level teams—combined AusAID, Department of Health and Ageing, and Department of Agriculture, Fisheries and Forestry teams—go in during last year to work out where Australia could make the best contribution in addressing avian influenza issues. We came out with quite a detailed prescription of the areas around surveillance and monitoring where we could make very strong contributions. Because of that work at an earlier stage, that is now providing a base for our engagement. But, obviously, if this were to grow to be a much bigger issue we would need to keep looking at whether there are other areas where we should be making contributions as well.

Senator HOGG—I accept that, but here we have an allocation of \$15.5 million for 2006-07—and I am not bringing into doubt the diligence of your officers in monitoring or conducting their surveillance—and it really begs the question: is this enough? It seems to me that, again, whilst not wanting to press the panic buttons on these—and I do not think that that is necessarily helpful to anyone—it is an area where the funding allocated might not meet the need as it emerges. That is what I am trying to put to you. I am trying to get some sort of hint as to where this might go and what extra funding you might need to assist the Indonesians.

Mr Proctor—I can mention a couple of things. One is that there was a meeting in Beijing in January when a whole host of donors committed very large amounts of funding, around this region but others as well, to assist the strengthening of institutions—WHO, FAO, plus countries—to deal with this issue. There is a lot of capital available. Secondly, in a sense this outbreak, the cluster that you are referring to from the Karo district, is exactly what all these funds were planned to help with. It is a worrying sign but no more at this stage. I remind you also that Australia has already spent \$43 million in Indonesia and other nearby countries on the issue of SARS and bird flu since 2003. So a fairly substantial investment has already happened and this is just a continuing part of what will be going in. Finally, there is a strong regional program as well where we deal with activities through OIE and those other UN agencies, and there are also activities through the ASEAN cooperation program. There is a lot more activity than the bald figures suggest.

Senator HOGG—That is reassuring indeed. Has there been any request from the Indonesian government for additional support—I am not necessarily saying funds—in the wake of the most recent outbreak?

Mr Proctor—Not in the wake of this latest outbreak. One of our two epidemiologists that Australia has placed into Jakarta with WHO was in the team that went up to Karo to investigate the latest outbreak, so our assistance is involved directly in the issue already.

Senator HOGG—I think that that is very good indeed. It seems to me that the circumstances are different from other circumstances. I am no expert in this area and I do not claim to be, but it seems to me that for the first time they are now talking human-to-human transfer. Whether that is substantiated or not I am not sure, so I do not put any more weight on it than that. But it does seem that it is different from the other outbreaks that have taken place in other parts of the world. Has that rung some alarm bells with you?

Mr Proctor—There have been some family clusters but smaller than this. This was noted by WHO particularly and we have had lengthy discussions within the Australian government and different agencies about this. Like you, I have no technical capacity on this. It is a cluster within a family; it is the same genetic group. People who cared for them who were not family have not caught the disease. So it is still an open question as to what is actually going on. Nonetheless, Indonesia has taken it very seriously. No, they have not asked for any additional assistance. Bear in mind, as Bruce Davis has said, we have a really strong engagement both in animal health quarantine and surveillance, as well as in human health surveillance and assistance at the moment.

Senator HOGG—I am not normally very excitable but, when you waved a piece of paper around and talked about having some disaggregated figures that you might be prepared to share with us, I got very excited. It would be handy if you could make those available, firstly. Secondly, I have spoken to the secretariat of the committee and, so that we can avoid this in future times, I do not know what you actually have on that sheet of paper but it would seem that, having received that sheet of paper, the committee will consider it and, if it deems it necessary, it may take a decision to extend an invitation to you or your designated officers to attend with us so that we can get something that is mutually acceptable and that is of benefit to both parties. Would you be in that?

Mr Davis—Yes, sure. We have a department-by-department break-up—that is what the figures contain—and we are happy to share it.

Senator HOGG—There must be some simple way so that a person like me can sit there and say, ‘This figure here is made up of this and this, and these are the significant contributors,’ so that if I see a figure of 334, and I know it is not yours, I have to go off to somewhere else. Otherwise, I have got no forewarning on it, and that is not the way the process is meant to work. I want to thank the officers for their cooperation.

Senator WEBBER—I have some questions. Bearing in mind the time I will try and be as quick as I can. Thank you for being as flexible as you have been today with all the comings and goings.

CHAIR—Hear, hear!

Senator WEBBER—I want to return to the issue of Indonesia. Mr Proctor, can we go back to what you are saying before about the medical team leaving this evening. Are there plans to send other medical teams, or is that it?

Mr Proctor—There is a plan to send a second medical team. I will pass to Alan March on that.

Mr March—We are operating, for planning purposes, on a six-week planning horizon. In the medical sector we are anticipating three teams, within that six-week period, of approximately two weeks. We are looking for overlap between the teams so that there is continuity but, again, we will be guided by feedback from both the AusAID team leader in the field and the medical team leader on what are the needs and what are the linkages. I might just add that the objective is of course to provide immediate relief of human suffering but in addition to re-establish the Indonesian services. So the approach is twofold.

Senator WEBBER—On the AIPRD, we had an earlier discussion about the fact that most, if not all, of the moneys from the grant component have been allocated if not spent. Where are we at with the loan component?

Mr Proctor—There are two main uses for the loan money. One will be an education program, to build or restore 2,000 schools. The larger amount of money will actually go to restoring or upgrading national roads and bridges. Hopefully, the education process will start early in the coming financial year. The roads program will probably start in the following financial year.

Senator WEBBER—Will any of that need to be recast, given the events of the last week or so? Will we have to review those priorities with the Indonesian government in terms of roads and schools and what have you? It would seem to me we have now got a much bigger list than we had when we first started on this.

Mr Proctor—There is no consideration at this stage to do that. The reconstruction issue with Yogyakarta is a big one, but no such dialogue has taken place so far.

Mr Dawson—It would be unusual, I think, for the Indonesian government to want to take out concessional loans for a reconstruction activity of that nature. They tend to want to use concessional loans for development activities.

Senator WEBBER—Indeed. Maybe the government may consider being a bit generous and converting some of that to grants rather than loans, given the difficulties. That is something I will place on notice for the minister. With the \$300 million for upgrading the 2,000 junior secondary schools and supporting teacher development, how does that supporting of teacher development fit with the discussion earlier about not being able to support educational aid in East Timor because they speak Portuguese when, I presume, the teacher development in Indonesia is in Bahasa?

Mr Proctor—The point of that was that in different countries donors focus on different sectors. I would make the point that probably a lot more Australians speak Bahasa Indonesian than they do Portuguese—but that is really not the driver.

Senator WEBBER—Except in Fremantle.

Mr Proctor—The real driver is: what is it that we have agreed with a particular country should be a priority for our assistance? In the case of Timor, I am sure they were quite taken with the amount of resources available from the Portuguese and others and from the World Bank Trust Fund that we have contributed to, I might remind you. In Indonesia, it is an agreed

high-priority sector for Australian engagement. So it is country by country. There is no logical analysis you can make to say that every country should be the same.

Senator WEBBER—Indeed. Bearing in mind the time I will place the rest of my questions on notice.

CHAIR—Thank you very much.

Mr Davis—Chair, we have a response that we can share with you, whenever it meets your purpose, on Nauru. We have that ready now.

CHAIR—I think we should do that and put it on the record right now so that Senator Nettle can read it sometime tomorrow or the day after.

Senator WEBBER—She will be very pleased to read it.

Mr Lehmann—I draw the committee's attention to pages 70 and 71 of the blue book, and I will explain what the two tables include and what they do not include. In table 5, you will see a figure of \$600,000 as an estimate for 2006-07 for Nauru. That represents the estimated bilateral flow through the aid program. Table 4 on page 70 lists an estimated figure of \$4.8 million for 2006-07 as the total ODA flow, so that figure includes amounts that will not come through the bilateral program, if you like. It includes a figure of \$3.2 million from the Nauru settlement trust, which senators may be aware of as a historical instrument that has been around since 1993, plus it also captures other government department expenditure. The notes to those two tables which Senator Nettle asked questions about are both correct in that neither table 4 nor table 5 refers to the additional Nauru funding which is subject to negotiation following the signing of MOU No. 4.

CHAIR—Very good. Thank you—I am obliged to you for that.

Senator HOGG—You say 'the signing of MOU'—I understood that MOU 4 had been signed.

Mr Dawson—That is correct. It is an annual negotiation on—

Senator HOGG—I am sorry, but I just understood that it had been signed.

Mr Lehmann—That is correct.

Senator HOGG—So it is not subject to the signing, it is subject to—

Mr Lehmann—It is subject to the negotiation of the annual program of work.

Senator HOGG—Right. That is different. It was just that we had some confusion up here before where the signing got mixed up with the other.

CHAIR—I thank you, Mr Davis, and all of your officers for bearing with us on what has been a very long afternoon.

Committee adjourned at 7.02 pm