

The Hon. Alexander Downer, MP

MINISTER FOR FOREIGN AFFAIRS, AUSTRALIA

Media Release

18 December 2006

Diplomatic Appointment: Ambassador to the European Communities and Belgium

I have today announced the appointment of Dr Alan Thomas as Australia's Ambassador to the European Communities with concurrent accreditation as Ambassador to Belgium. Dr Thomas will replace Peter Grey who has been Ambassador since October 2003. He is expected to take up his appointment in Brussels at the end of January 2007.

The European Union (EU) is a significant partner for Australia economically and politically. Our strong and productive bilateral relations will remain important in pursuing a broad range of shared interests globally and in the Asia-Pacific region. We are engaged in cooperation with the EU to support good governance in the Asia-Pacific region and in activities to address the challenges of globalisation and the threats of terrorism and proliferation. Strong people-to-people links underpin Australia's relationship with the EU, our largest trading partner and our major source of foreign investment.

Australia enjoys positive and constructive relations with Belgium and Luxembourg. We have recently concluded a number of bilateral agreements with Belgium encompassing working holidays, health and social security. The Belgium-Luxembourg Economic Union (BLEU) is Australia's sixth largest investor with total inward investment (direct and portfolio investment) valued at A\$28 billion in December 2005. The BLEU is the third largest EU investor in Australia. Two-way trade between Australia and the BLEU is also substantial, reaching A\$2.5 billion in 2005-06.

Dr Alan Thomas is a senior career diplomat and is currently Australia's Ambassador to the People's Republic of China, a position he has held since March 2003

Overseas, Dr Thomas served as Ambassador to Brazil from 1992 to 1995. Previous postings include Tokyo (1986-89) and Singapore (1979-83).

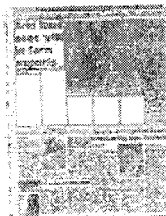
In Australia, Dr Thomas served as Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT) from 2000-03. Other positions include, Head of the Corporate Management Division (1998-00), Head of North Asia Division (1997-98) and Head of Staffing Branch (1995-97). Dr Thomas also served as Head of the Americas and Defence

Branch in the Department of the Prime Minister and Cabinet from 1989-91.

Educated at the University of Western Australia and the Australian National University. Dr Thomas holds a Bachelor of Arts degree with First Class Honours, and a PhD in History. His main foreign languages are Japanese and Portuguese.

Dr Thomas was born in June 1954 in Perth, Western Australia. He is married with three children.

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Fall in imports helped narrow trade deficit to below \$1b in November

Arid land sees wilt in farm exports

Co in Brinsden

AUSTRALIA'S worst drought in more than 100 years is already affecting rural exports, a trend likely to continue over the next 12 months.

This will make any further improvement in the country's trade deficit a slow process, economists say.

Trade Minister Warren Truss said total exports of goods and services rose 1 per cent in November to \$18 billion, the second-highest level on record, but while rural exports grew 2 per cent, cereal exports slumped 7 per cent.

"The drought has continued to affect certain areas," Mr Truss said.

Still, the rise in exports helped narrow the trade deficit to below \$1 billion in November as imports fell, reversing the trade blowout in October.

Data released by the Australian Bureau of Statistics yes-

terday showed the trade balance of goods and services for November was a seasonally adjusted \$643 million deficit, after widening to a revised \$1.508 billion shortfall in October. The October trade deficit was the largest since last May.

The November outcome was slightly larger than economists' expectations, which had centred on a \$780 million shortfall.

While the Opposition welcomed the trade improvement, Labor's trade spokesman, Simon Crean, said it was still a significant deficit and extended the record run of trade deficits to 56 consecutive months.

According to the Government, the big dry will cause rural exports to wilt as farm production drops 20 per cent in 2006-07.

"History shows us that in the last drought exports collapsed

in terms of agriculture so that is definitely coming," Royal Bank of Canada senior economist Sullivan Ong said.

Treasurer Peter Costello cut his economic growth forecast for 2006-07 in last month's mid-year budget review to 2.5 per cent from 3.25 per cent, which was largely due to the drought.

A 3 per cent drop in imports to \$18.9 billion during November was consistent with a slowing economy, but other data released yesterday suggested domestic demand could perk up despite higher interest rates.

The Westpac-Melbourne Institute index of consumer sentiment for this month surged 73 per cent. That followed December's strong 11.8 per cent rebound from a sharp fall of 9.7 per cent in November after the last interest rate rise.

"Clearly, robust employment

growth, wage gains, rising asset prices, including house prices, have offset the negativity of higher interest rates," Westpac senior economist Justin Smith said.

The Reserve Bank of Australia raised interest rates three times last year to curb ballooning inflation pressures.

Financial markets are betting on the risk of a further hike this year if inflation data on January 24 does not show the price bubble subsiding.

The ABS also said job vacancies in the three months to November rose 5.2 per cent.

This follows other data this week showing a strong 121 per cent jump in newspaper and internet job advertisements last month, suggesting that the extraordinary jobs growth last year will continue this year.

The December labour force report is due today.

Snapshot

- Exports up 1% to \$18b.
- Drought hurts cereal exports.
- Imports down 3% to \$18.9b.
- Trade deficit narrows to \$643m.
- Consumer confidence up.

'INDUSTRY SNUBS CLIMATE STRATEGY'

EXCLUSIVE

By Rosslyn Beeby

Science and Environment Reporter

Australia's coal-fired electricity industry has dismissed the Federal Government's key strategy to cut greenhouse emissions as "too expensive, unproven, risky and untested".

The National Generators Forum - 11 companies that dominate Australia's power industry - say the government's plans to rely heavily on carbon capture and under-ground storage or "clean up" emissions from coal burning are unrealistic and will not work.

Its members are also not convinced carbon dioxide is linked to climate change.

Forum executive director John Bosher told a public hearing into geo-sequestration (carbon capture and underground storage) that although views varied among the nation's power generators, "I do not think we take it as given that carbon dioxide causes climate change".

These criticisms from the \$40 billion industry are a blow to the government's plans to invest hundreds of millions of dollars into carbon-capture research in order to

reach an emissions-reduction target of 108 per cent of 1990 levels by 2008-12.

A report issued last week by the Australian Greenhouse Office predicted greenhouse emissions generated by rising demand for coal-fired electricity would increase by 62 per cent over the next four years, and by 127 per cent by 2020.

Mr Bosher told the House of Representatives inquiry into geo-sequestration earlier this month that attempting to achieve deep cuts in greenhouse emissions through clean-coal carbon capture and storage "would roughly double" the wholesale price of electricity. Conventional coal-combustion power stations were "not particularly suited to carbon capture and storage" because "you have a massive gas stream to deal with".

"The technology to capture carbon dioxide, either by absorbing it from conventional flue gas which is rich in nitrogen, or by technology which removes the nitrogen prior to combustion, is expensive and untested on a large scale," he said.

A study commissioned by the National Generators Forum to establish cost-effective emission reduction had indicated nuclear power and new coal technologies combined with carbon capture were the least-cost options. Retrofitting existing pulverised-coal combustion plants with carbon-capture technology was "quite expensive".

"The investment risk of new coal-based technology with carbon capture and storage is large. The risk can only be reduced through further research, development and demonstration prior to commercialisation," he said. "It is better to build a new plant which either gasifies the coal and then burns it without the nitrogen, or you might build an oxygen plant and burn the coal in the presence of oxygen without nitrogen".

Asked about preferred nuclear plants, Mr Bosher said members would not build fast breeder reactors which are "very expensive and rely on fissile fuel which can be diverted into weapons".

From page 1

...earlier this month. **Sen. Australian Liberal MP Dr Mal Washer** - a member of the House of Representatives Science and Innovation Committee - dismissed introducing a national carbon-trading scheme as "playing with ourselves a little bit". Another member, **Darwin Country Liberal MP David Tolmer** compared concerns about climate change to Y2K fears when "everyone was certain their computers were going to crash and the world was going to come to an end". The government's policy adviser, **Dr Patrick Scaap**, told the inquiry carbon capture would add \$200 million to \$300 million to the \$2.2 billion capital cost of building a new

technology integrated post-fire coal power station.

"Getting ourselves ready for that position is difficult," he said, adding that the technology risk and cost were "simply too high". Dr Scaap said that "unlike others," he believed that "in energy terms" climate change presented a serious problem.

"The challenge ahead of us in the energy game, and particularly the power-generation game, is just so enormous that we need to cooperate nationally, amongst states and internationally to solve what I think will be a very serious problem."

In response to questions about the impact of bio-sequestration - planting trees to offset carbon emissions - Dr Scaap replied the

challenge was that "emissions from power plants are in megatonnes, millions of tonnes" while the "absorption of trees is in kilotonnes". Energy efficiency measures and tree plantation could deliver low-hanging fruit, "but we need to climb the tree a lot further to achieve those deep cuts in emissions," he said.

If the price of electricity doubled, it could lead to a 20 per cent reduction in use but "people will pay anything to have their air conditioning". Earlier this year, CSIRO Energy Technology scientists told the inquiry carbon capture and storage would reduce electricity output by 30 per cent requiring more coal to be burned.

The Hon. Alexander Downer, MP

MINISTER FOR FOREIGN AFFAIRS, AUSTRALIA

Media Release

9 January 2007

Diplomatic Appointment – High Commissioner to Fiji

Today I have announced the appointment of Mr James Batley as Australia's High Commissioner to the Republic of the Fiji Islands, with concurrent accreditation to Tuvalu and the Pacific Islands Forum Secretariat.

Mr Batley will replace Ms Jennifer Rawson who has been High Commissioner since August 2003 and who shall shortly complete her full term. Mr Batley is expected to take up his appointment this month.

The Australian Government has unequivocally condemned last month's coup against the democratically elected government of Fiji, and has put in place a number of measures to reflect its concerns. Those measures include travel restrictions on individuals involved in the overthrow of the Qarase Government, the suspension of defence cooperation and the suspension of parts of the aid program. We continue to have a High Commissioner in Fiji to safeguard and advance Australia's interests and our good relations with the people of Fiji. As far as possible, Australia will not take any action in response to the coup that hurts the people of Fiji.

Mr Batley is a career foreign service officer who joined the Department of Foreign Affairs and Trade in 1984. He was most recently Special Coordinator to Solomon Islands, a position he held from August 2004 until November 2006.

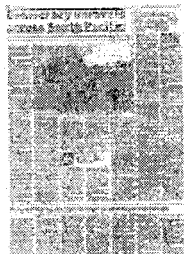
In Australia, Mr Batley served in the South Pacific Bilateral Section (1988-89), Director, Papua New Guinea Section (1994) and, as Assistant Secretary, Mainland South-East Asia and South Asia Branch (2002-2004).

Overseas, Mr Batley has served as Third Secretary, Australian High Commission, Port Vila (1985-88), First Secretary, Australian High Commission, Port Moresby (1990-93), Counsellor, Australian Embassy, Jakarta (1995-97) and as High Commissioner to Solomon Islands (1997-99), concurrently serving as Deputy Leader of the Truce Monitoring Group, Bougainville and Chief Negotiator of the Peace Monitoring Group, Bougainville. From 1999-2002 Mr Batley served as Australia's senior diplomatic representative in Dili, East Timor, and was appointed Australia's first Ambassador to East Timor at independence

in May 2002.

Mr Batley was born in Sydney in 1958 and holds a Bachelor of Arts (Honours) degree from Sydney University.

Media Inquiries: Mr Downer's office 02 6277 7500 - Departmental Media Liaison 02 6261 1555



Democracy unravels across South Pacific

Instability is spreading as more island nations struggle with their post-independence identity, ROSS PEAKE reports

AN AIR OF unpredictability hangs over the Pacific as the tiny island nations struggle with the growing pains of independence.

Who would have predicted, 12 months ago, that looters would burn Tonga's capital and Honiara's Chinatown?

Pit's coup had been smouldering all year until military chief Frank Bainimarama surprised no one by taking power in December.

Now, what lies ahead for the nations to Australia's north and east? So far the signs are not good.

Bombing buildings is a sure way of discouraging foreign investors who would otherwise create much needed jobs.

In Fiji, 17,000 school-leavers are vying for 3000 jobs, and the tourism industry is suffering from the coup.

Some observers describe PNG as a basket case, an undeserved tag according to those who look past the crime rate to the country's resource wealth.

However, while political instability across the region generates adverse headlines, in many villages subsistence living continues as it has for centuries. The danger to them from the modern world is HIV/AIDS, untidely spreading through the region, particularly in PNG.

There are also big questions ahead for Australia. How much aid should it give to the region? Should it continue to send troops to save the neighbours from themselves?

During the past year a parliamentary committee has been reviewing Australia's Pacific aid program. In September 2005 Prime Minister John Howard announced a doubling of the aid budget to \$4 billion by 2010. Subsequently, AusAID published its first white paper on aid, which will guide the direction and delivery of aid over the next 10 years.

The aid program will be influenced by political events. Money will be directed to hotspots, particularly towards governance and security.

You hear claims that the money so far has done little, that some governments in neighbouring

countries are corrupt and their bureaucracies float on bribes. Even where these claims are justified that is not a reason to give up. As a wealthy country we have an obligation to help our neighbours. Australians would like to see them instantly adopt our belief in democracy and an independent judiciary. But they have only relatively recently achieved independence and are struggling to mesh the imposed parliamentary systems with their traditional ways.

Dr Max Quanchi, of the Queensland University of Technology, takes an optimistic view. "It is unfair to say the Solomon Islands government is corrupt and incompetent," he says. "They only got independence about 30 years ago, so that's a young country and their politicians and bureaucrats aren't experienced. What we should be doing is helping develop the infrastructure and the expertise so that they can govern effectively. It's no good just making allegations that they're corrupt and incompetent."

He acknowledges that Australia is helping in the region, but urges an even bigger effort. "Instead of spending on a bitumen road around an island somewhere, we'd be far better off spending more and more on bringing Pacific islanders to Australia to observe and participate in our democratic institutions, to see how governments and bureaucracies actually work."

Countries granted independence were often unprepared for the "alien institutions" imposed by colonial powers. "Our job surely must be to help their political systems adjust, to come to some sort of compromise between traditional chiefly rule and the operation of parliament and executive," Quanchi says.

He urges regional powers to ensure they see the distinction between the cultures of Pacific nations. "If you go 400km across the ocean from Samoa to Tonga, they operate completely differently. If you go another 400km to the Cook Islands they operate completely differently again and the same could be said for Niue, Van-

uatu, the Solomons and Kiribati," he says. "So one of our faults is to see it as a region. We've got the wrong attitude when we say, we'll get them to work together and they'll do things more competently and more efficiently and more cost-effectively. That's the wrong approach, they're all independent countries, they all want to do their own thing and they have the right to do their own thing."

"Pacific islanders, whether they're under French... or American or Indonesian rule or they're independent, are all going through the same growing pains of adjusting the imposed colonial system which they inherited on independence with their own traditional structures, and that's going to take a while to work out."

While Australia has poured aid into Pacific nations and sent troops and police to restore law and order, at the recent Pacific Islands Forum in Fiji, it was accused of being a bully.

That tension revolved around the saga of Julian Moti, the Australian lawyer wanted here to face sex tourism charges. Moti is a close friend of Solomon Prime Minister Manasseh Sogavare, who wanted him to be his Attorney-General. When Moti was tracked to PNG, he was taken to court to face extradition to Australia. He hid in the Solomons High Commission and was spirited to the Solomons on a PNG military aircraft.

Sogavare portrayed Australia's calls for the return of Moti as an affront to Solomons sovereignty. Australia responded with more criticism of corruption in the Sogavare administration and a clamp on PNG ministers visiting Australia. Relations between Canberra, Port Moresby and Honiara went into deep freeze.

So far Sogavare hasn't followed up his threats to expel the Australian-led force which restored law and order after five years of violence and worked to rebuild state institutions, and now props up his administration.

Australia took on the role as policeman of the Pacific when its neighbours faced collapse. Pre-



iously, it had given aid but left other countries to sort out their own problems, lest it be seen to infringe their sovereignty. Since then it has sent troops or police to four neighbouring countries, at their invitation.

A 2003 report by the government-coached Australian Strategic Policy Institute warned that Australia could not stand back while the Solomons became a failed state and the "Petri dish" for breeding terrorism.

Then Foreign Minister Alexander Downer foreshadowed a much more aggressive stance by Australia after years of avoiding any charge of Pacific neo-colonialism. "If we can't get the Solomon Islands going again, that will send a very strong message to other countries in the region that there's a point where Australia just can't sit by and make the argument that these are independent countries," he said.

Now Australian aid comes with strings attached. "If you want Australian aid, you've got to reduce corruption," Howard said recently.

Australia's image as a regional superpower will regularly draw adverse comparisons, Quanchi says. "I don't think we can avoid the big brother [tag] but we can be a more friendly big brother and that's what we've got to learn how to do."

"We've got to learn how to convince the Pacific Islanders that we want to work with them to solve the problems in the way they desire to solve them."

"They're not ungrateful, they just want a bit more collegiality, a bit more sharing and caring and working together."

In Suva, the business community wants Australia to lift its travel warning. International tourists normally head for the Coral Coast and don't bother with Suva, but the tourism industry is suffering because of concerns about the coup.

Professor Jim McMaster, from the University of the South Pacific, in Suva, says the crime rate has dropped in the Fijian capital because of the presence of troops on the streets, and says the biggest danger for Fiji is the Australian and New Zealand travel advisories.

"They are extremely damaging to the economy and totally incorrect and unnecessary," he says.

"There is no reason at all why people shouldn't be going to anywhere in Fiji for a holiday and not be perfectly safe."

He foresees little economic progress in the Pacific. "The public services in all the Pacific countries are frozen or declining and private sectors are all growing very slowly, foreign investment is very low and it's not helped by riots and civil unrest," he says.

While resource projects are coming on line in PNG, and the situation in Tonga appears to have stabilised, the Solomons riots are scaring foreign investors, he says. "Once you've got a track record of doing that, it kills the development. Who is going to invest anything in Honiara when you can't take out insurance against it?"

Professor Dean Forbes, deputy vice-chancellor (international) at Flinders University, predicts patchy progress for the Pacific island countries.

"It just strikes me, as an observer over a long period of time, there are recurrent problems and issues that must be creating widespread despondency," he says.

Whereas the larger Pacific-rim countries are able to pick up growth after periods of political instability, the same does not occur across the Pacific, he says. "There are problems with integrity of government in several of those countries," he says.

"I hesitate to use the word corrup-

tion but clearly the democratic process is not leading to the election of good leaders and governments."

Forbes notes that conditions in PNG for ordinary people have not improved greatly since self-government.

"While there are some major economic initiatives occurring such as gold mining, there are still major blockages to a sustained economic growth."

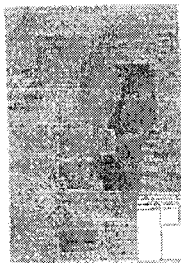
The risk to personal safety in urban areas is "an impediment to getting people to invest or to travel there," Forbes says.

Quanchi says resource-rich PNG is making slow but steady progress. "The PNG economy is doing pretty good and people who are saying it's a basket case are not examining the figures carefully enough," he says. "However, they're unable to monitor logging, they're still unable to bring crime in the streets under control, there is still some political corruption, but we've got all those things in Australia too."

He predicts another grim year for West Papua under Indonesian rule, slow recovery in the Solomons and continuing political instability in Fiji.

"For the ordinary people of the Pacific Islands, life will continue," he says. "Slow improvements are being made, people are picking up entrepreneurial opportunities, I think that's true right across the Pacific. In every village I've been to in the last 10 years people are saying, 'We could have a little resort here, we could build a dive operation, we could run a little museum or we could sell some artefacts'. People are looking for all sorts of entrepreneurial ways to improve their life."

"Better roads and jetties and airstrips are all being provided so that's helping the general welfare of the Pacific island people."



Unlikely markets fuel record wine exports

By Steve Larkin

LEADERS BY VALUE

Australian wine exports have reached record levels in both value and volume.

Australia's wineries exported 757 million litres in 2006 - worth \$2.82 billion.

The total value was 1 per cent higher than 2005 while the volume rose 8 per cent from the previous year, the Australian Wine and Brandy Corporation says.

The record result was underpinned by the unlikely markets of China and Sweden.

In 2005, Australia exported four million litres of wine to China. That figure rose to 21 million litres last year. Sweden was another key contributor to the 2006 growth, ranked second in value growth and fifth in volume growth.

Exports to Sweden grew by 58 million to \$52 million while volume rose four million litres to 16 million litres.

The record results were notched up despite tougher global competition and a more difficult trading environment, the corporation's information and analysis manager Lawrie Stanford said.

He said Britain remained Australia's No 1 market last year, with exports up 2 per cent to 205 million

- 1 - United Kingdom (\$930m)
- 2 - United States (\$924m)
- 3 - Canada (\$244m)
- 4 - New Zealand (\$92m)
- 5 - Germany (\$69m)
- 6 - Ireland (\$58m)
- 7 - Sweden (\$52m)
- 8 - Denmark (\$50m)

litres but value falling 1 per cent to \$829 million.

"Reflecting a greater increase in volume and a higher average price, the US made ground on the UK in value terms and is close to overtaking it as Australia's major market," Mr Stanford said. "The value of US sales reached \$923 million, volume shipped to the US grew 5 per cent to 219 million litres."

Exports to New Zealand rose 28 per cent to 32 million litres.

Bulk wine export rose 38 per cent in 2006 to represent a 28 per cent share of total exports. Australian wine exports reached record levels in volume and value in 2006. Overall value was \$2.82 billion (up 1 per cent from 2005) and overall volume was 757 million litres (up 8 per cent from 2005).

-AAP



Australia burdened by Pacific setbacks

By Phil Mercer
BBC News, Sydney

Is Australia losing its grip on the neighbourhood?

Some defence analysts believe that after a troubled year, Canberra's robust approach to regional affairs is beginning to unravel.

Since 9/11 and the Bali bombings in October 2002 the Australians have pursued a more aggressive role in matters close to home.

They worry that failing states could be exploited by terrorists or criminals.

Despite the intervention of Australian troops and police officers as well as doses of heavyweight diplomacy, 2006 was a bad year for the South Pacific. There was violence in East Timor, the Solomon Islands and Tonga.

A military coup robbed Fiji of its elected government and tensions have persisted in parts of Papua New Guinea.

"The crises of 2006 have reinforced the reasons why Australia is involved in the South Pacific, but they have undermined our confidence that we know what to do about it," said Hugh White, professor of Strategic Studies at the Australian National University.

"[Prime Minister] John Howard's always had a sense that there was a lot of trouble brewing in the immediate neighbourhood but I don't think they (the Australians) ever expected to find themselves as deeply engaged in as many places for such protracted periods of time," Prof White, a former government adviser, told the BBC.

In recent times Australia has sent hundreds of soldiers and police officers to the region's trouble spots in addition to deployments in Iraq and Afghanistan.

Last November's mission to Tonga was short-lived but Australia is looking at an almost permanent presence in the Solomon Islands and East Timor.

The appointment of Australian-born police chiefs in the Solomons and Fiji have ended in disaster with both men banished by disgruntled local officials.

Paternal views?

There are signs that resentment in the neighbourhood is mounting.

"Australian popularity is at an all time low and its (regional) policies are being severely weakened," said Dr Steven Ratuva from the University of the South Pacific in Fiji.

The Howard government is accused of being too paternalistic.

"Australia is more concerned with its own security in relation to terrorism and international crime to worry too much about the internal plight of the small island neighbours," cautioned

Dr Ratuva.

"The basic security issue in Fiji, the Solomon Islands, Tonga and East Timor is linked to internal political dynamics and economic development, not terrorism."

Generally Australia's efforts to help its smaller regional cousins are welcomed.

But there is a feeling that Canberra should take more time to listen.

A former member of the Solomon Islands parliament, Yukio Sato, said that a greater understanding of local problems was essential.

"Australia must get off its high horse and properly look at these issues from the same vantage point as a Solomon Islander. The root causes still lie in wait, as does a time bomb ticking away waiting to trigger yet another explosion," Mr Sato warned.

The Solomon Islands capital Honiara was hit by violent disturbances last April. Years of ethnic fighting across the archipelago prompted Australia to lead an international rescue mission in 2003.

Important steps to recovery have been made but the road ahead promises to be rocky.

The official view from Canberra is that Australia is committed to helping its island neighbours through difficult times and that aid and reconstruction efforts have been a success.

The eradication of corruption and poverty remain key goals for the future.

Analysts believe that Australia needs a keener appreciation of a diverse and volatile region if they are to be achieved.

"Australia hasn't yet found what else you send apart from the army to try and address those deeper political, social, economic problems that are the real root of the issue," said Prof Hugh White.

Undoubtedly countries in the South Pacific need Australia's help but they want to be seen as equal partners and not basket cases.

Story from BBC NEWS:

<http://news.bbc.co.uk/1/hi/world/asia-pacific/6233895.stm>

Published: 2007/01/05 12:25:58 GMT

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Global Strategic Analysis

AUSTRALIA: Regional diplomacy suffers setbacks

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Print Page

Monday, January 8 2007

SUBJECT: Weaknesses in Australian regional diplomacy.

SIGNIFICANCE: There is increasing evidence that Australian foreign policy in the South Pacific, Papua New Guinea and East Timor has failed to achieve key objectives and remains unsustainable in the long-term. This suggests that policy could be reviewed, with implications for the region.

ANALYSIS: The South Pacific, Papua New Guinea and East Timor are of key importance to Australia because they are so close geographically. However, the region has traditionally played a secondary role in Australian foreign policy, which has focused primarily on relationships with the United States, and more recently East Asia (see [AUSTRALIA/JAPAN: US allies have converging interests - October 3, 2006](#)).

Interventions. Nevertheless, from the late 1990s, civil unrest, ethnic tensions and looming state failures have substantially increased Australian concern for the region:

- In 1999, Australian forces led the UN INTERFET and subsequent UNTAET missions in East Timor (see [EAST TIMOR: New government will focus on elections - July 7, 2006](#)).
- In 2003, Australian forces were instrumental in the execution of the RAMSI mission to restore order in the Solomon Islands (see [PACIFIC: Friction with Canberra dominates forum - November 3, 2006](#)).

Additional Australian forces were dispatched to the Solomon Islands last April, and forces were redeployed to East Timor last May, because of further unrest.

The second half of 2006 also saw civil unrest in Tonga and Fiji (see [PACIFIC: Fiji coup tests regional capacity - December 7, 2006](#)). In November, Australian security forces and a law enforcement team were deployed to the island state following riots in the capital, Nuku'alofa. Also in November, an Australian task group of approximately 800 personnel were deployed towards Fiji in preparation for the evacuation of foreign nationals.

However, recent events have highlighted weaknesses in Australian diplomacy. Canberra's attempts to have the attorney general of the Solomon Islands, Julian Moti, extradited to Australia brought it into conflict with both the Solomon Islands and Papua New Guinea. Elsewhere, Australia failed to secure much significant support at the October Pacific Island Forum.

Policy weaknesses. The security focus that has driven policy from Canberra was in the initial stages both popular and successful. However, restoring civil order in post-independence East Timor in 1999 and in the Solomon Islands in 2003 established a reliance on force to resolve regional problems. While providing a panacea to the immediate problems of civil unrest, such operations failed to address underlying issues.

Over half of the population in the South Pacific is under the age of 24. In East Timor and Papua New Guinea the median age is 20.8 and 21.2 respectively, compared to a median age of 36.9 in Australia. This high proportion of youth exacerbates existing issues associated with small state development:

1. **Economic.** Regional economies suffer from low-level export diversification and rely predominantly on natural resource exploitation and tourism (see [PACIFIC: Plan moves towards implementation - November 17, 2005](#)). Exogenous factors such as susceptibility to natural disasters, remoteness and community-based land ownership traditions inhibit foreign direct investment. Consequently, foreign aid continues to play a dominant role in regional economies.
2. **Governance.** The decolonisation process left regional states with inadequate governance structures, grafting a layer of liberal democracy onto traditional tribal and community-based structures. Demographic change and globalisation have decreased the efficacy of these

structures, often resulting in civil unrest.

3. **Health.** The incidence of HIV/AIDS and malaria has risen across the region (see [INTERNATIONAL: Fighting AIDS requires policy changes - September 11, 2006](#)). In the larger states, changed living conditions in metropolitan areas have led to increases in the prevalence of diabetes and heart disease. Health systems are challenged both by funding and by recruitment pressures as qualified professionals seek better-paid employment in Australia and New Zealand.
4. **Crime.** Weak governance, corruption, economic stagnation and large pools of unemployed youth provide ripe conditions for organised crime and (potentially) the facilitation of terrorism. The region is already a key transit point for trafficking of narcotics and people smuggling into Australia and New Zealand.

The overt nature of Canberra's short-term security commitments has hidden a longer-term malaise in its regional diplomacy, as it has appeared disinterested in issues of regional importance such as climate change, resource depletion, youth unemployment and labour mobility (see [SCIENCE/TECHNOLOGY: Climate, health, IT are key - December 22, 2006](#); and see [AUSTRALIA: Emissions policy will play into elections - November 29, 2006](#)).

Australian security operations have also been interspersed with less popular attempts to use Australia's close relations with Pacific Island states to solve politically sensitive domestic issues. The 'Pacific Solution' diverted asylum seekers from the Australian migration zone to camps in Manus Island in Papua New Guinea and Nauru.

Importantly, the commitment of security forces, both military and law enforcement, is also proving to be unsustainable in the longer term. Australian Federal Police deployments overseas, including to the Solomon Islands and Papua New Guinea, have had significant impacts on workforce planning in Australia. Australian Defence Force deployments have also stretched capabilities given concurrent deployments in Iraq and Afghanistan.

Policy deliberations. Accordingly, policy alternatives that address underlying issues are being considered:

- **Labour mobility.** An October report by a Senate Committee noted that seasonal or temporary access to the Australian labour market would promote economic and social stability in Pacific Island states. Similar schemes already exist in the United States, France and New Zealand for small island states within these countries' sphere of influence.
- **Military employment.** The United Kingdom has recruited substantial numbers of its armed forces from the Commonwealth, including Fiji. Australia is currently seeking to increase the size of its army by an extra two battalions. Allowing recruitment from the region could serve the dual purpose of easing Australian domestic recruitment pressures and inculcating respect for civilian command of the military in those who return to employment in regional military forces.
- **Specialist training.** Few Australians are able to speak the languages of near-neighbours or have in-country experience in the region. This has presented a major challenge to Australian police and civil service deployments to the region. Overcoming these obstacles would require training programmes for Australians deployed to the region and increased support for language education in regional languages.
- **Soft power.** Australia's image in the region is generally poor. Unlike France and New Zealand, which participate in cultural exchange and contribute to civil society initiatives, Australian diplomacy to the region is predominantly occupied with governance and security. In November, a Senate Committee began an inquiry into the conduct of Australian public diplomacy.
- **Aid review.** Parliament is currently undertaking a review of Australia's aid programme in the Pacific. This follows a significant review of aid undertaken by the Australian Agency for International Development (AusAID) published in a white paper, released last May.

CONCLUSION: This is an election year, so that a major foreign policy overhaul is unlikely. Instead, the government will probably rely on stopgap measures, leaving significant revisions to policy until after the polls, regardless of which party wins.

Keywords: AP, Australia, Afghanistan, East Timor, Fiji, France, Iraq, New Zealand, Pacific, Papua

New Guinea, Solomon Islands, Tonga, United Kingdom, United States, economy, industry, international relations, politics, social, aid, crime, election, employment, foreign investment, foreign policy, government, health, immigration, labour, military, natural resources, police, policy, population, regional, riot security, talks, terrorism, tourism

Word Count (approx): 1143

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Global Strategic Analysis

AUSTRALIA: Emissions policy will play into elections

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Wednesday, November 29 2006

SUBJECT: Policy implications of the Switkowski report into the national uranium industry and the potential for nuclear energy generation.

SIGNIFICANCE: Publication of the report, on November 21, comes at a time when the Stern report, the Nairobi conference on post-Kyoto arrangements and increasingly severe drought in Australia have pushed greenhouse emissions policy to the forefront of debate in the country. Its findings could have implications for next year's federal elections.

ANALYSIS: Australia was successful in negotiating a Kyoto target of 108% of 1990 emissions, one of only three countries -- the others being Norway and Iceland -- to be granted an increase over the 1990 base. It also negotiated to have the effects of changes in land-use included in accounting for emissions. A major component of the allowable land-use effects is a reduction in the rate of land-clearing for broadacre farming. However, given that this reduction would have occurred in any case, the land-use component of the Kyoto target has imposed no economic costs.

Furthermore, Australia has not ratified the Kyoto protocol. Prime Minister John Howard has adopted a curious position in opposing ratification. He has argued that:

- the protocol is ineffective, because it does not include developing countries;
- there are no sanctions imposed on countries that exceed target emissions; and
- ratification of the protocol would impose costs on Australia because of its heavy dependence on fossil fuels.

However, he is concerned to ensure that Australia meets its 108% target, even in the absence of ratification.

Policy on emissions. A consequence of Howard's position, and his well-known reluctance to reverse well-established policy positions, is that there has been no coherent federal policy on greenhouse emissions. In 2002, after the United States announced that it would not be ratifying Kyoto, Howard followed suit. Planning for a national emissions trading scheme was then dropped, although a target to have 2% of electricity generated from renewable sources by 2010 was retained.

In recent years, federal policy has emphasised investment in a variety of 'demonstration' technologies to 'geo-sequester' or reduce emissions from coal-fired power stations. There has also been a number of relatively small financial grants to subsidise solar power generation. This emphasis on technological solutions has underpinned Australia's participation in the Australia Pacific Partnership on Clean Development and Climate (see [AUSTRALIA: Canberra has a clear interest in AP5 - January 24, 2006](#)).

At the federal level, there has been no political appetite for market-based emission control mechanisms such as carbon taxes or 'cap and trade' systems. The strategy thus far has been to have the costs of new investment borne by taxpayers rather than energy consumers, with the result that there is little prospect of efficiency gains as consumers react to higher prices.

There has been much more activity in the states, all of them controlled by the Labor Party, which is in opposition at the federal level (see [AUSTRALIA: Policy focus will be on short-term issues - August 17, 2006](#)). Almost all states have introduced their own renewable energy requirements for electricity retailers -- ranging from 6% by 2010 in Western Australia to 20% by 2014 in South Australia. The states have also subsidised the introduction of emission-reduction technology and are involved in discussions regarding interstate trading of emission licences.

Switkowski report. Publication of the Switkowski report (see [AUSTRALIA: Nuclear review has GNEP bearing - June 14, 2006](#)) follows October's Stern Review Report on the Economics of Climate Change

and the conclusion of the Nairobi Climate Conference on November 17 (see INTERNATIONAL: Climate meeting brings little progress - November 22, 2006; and see SCIENCE/TECHNOLOGY: Stern Review fuels climate debate - November 9, 2006). It also comes at a time when Australia is experiencing increasingly severe droughts (see AUSTRALIA: Decline of farming exacts political toll - February 28, 2006).

The report, which was asked to report on uranium mining, processing and nuclear energy, reached a number of main conclusions:

- ▣ **Expansion.** There is scope for a significant expansion of Australian uranium output beyond that projected from the existing four mines. The main constraints on expansion are existing 'no new mines' policies in the Labor-governed states, and a shortage of geologists.
- ▣ **Geology.** Australian geology is such that there is ample scope for long-term disposal of high-level waste in deep repositories.
- ▣ **Enrichment.** It is unlikely that Australian enrichment of uranium is commercially viable, given worldwide excess capacity in enrichment facilities, and international restrictions on development of new enrichment facilities.
- ▣ **Generation.** Nuclear power generation could make a significant contribution to reductions in greenhouse gas emissions, one of the report's scenarios envisaging 25 nuclear power stations producing one third of Australian electricity by 2050. A tax of 14-40 Australian dollars (11-31 US dollars) per tonne of carbon dioxide equivalent, and regulatory certainty, will be required for commercial viability. Within this range of carbon taxes, nuclear power would be competitive with 'clean' coal technologies and cheaper than many of the renewable technologies.

Political ramifications. The report makes a substantial case that nuclear power is likely to play an important role in any significant reduction in Australia's greenhouse gas emissions. In so doing, it throws up challenges for both sides of politics:

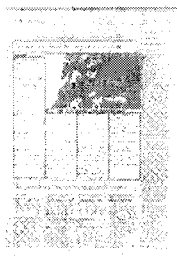
1. **Labor.** The Labor-controlled states are opposed to any increase in the number of uranium mines and have passed laws prohibiting the siting of nuclear reactors in their jurisdictions. However, a recent High Court decision confirming the extent of the federal power to make law in respect of corporations makes it likely that the federal government could override these state prohibitions. Aside from the renewable energy targets adopted by the states, the difficulty for the Labor Party is that it has no other substantial greenhouse policies apart from a commitment to ratify the Kyoto protocol.
2. **Government.** The challenge for the Howard government is that, thus far, it has opposed implementation of a carbon tax or related policies such as a national emissions trading scheme, without which nuclear power generation will not be viable. However, Treasurer Peter Costello has begun signalling the need for consideration of a carbon tax, though this is not yet government policy.

Policy towards climate change is presently an electoral negative for the Howard government in the run-up to the election, due by late next year. In the states, Labor has initiated policy that is seen by many voters to deliver more immediate results than those adopted by the federal government. Industry also ranks the resolution of uncertainty over the direction of a future emissions control strategy as increasingly important.

CONCLUSION: Development of greenhouse policies are likely play a significant role in the next federal election, due in twelve months. The report would appear to give Howard a politically acceptable opening for reversing his previous stand against market-based emission controls. Evidence from policies adopted by Labor state administrations suggests that it would be to his electoral advantage to change tack towards policies that expose consumers to higher prices while leaving technology choice to market forces.

Keywords: AP, Australia, Iceland, Norway, United States, economy, industry, politics, agriculture, coal, election, electricity, energy, environment, fiscal, government, legislation, mining, natural resources, nuclear energy, opposition, party, policy, pollution

Word Count (approx): 1146



Alone in battle against volatility

Malcolm Cook

The peripheral location of our continental landmass has always raised questions about our place in the world. We see ourselves as a Western culture with a northern economy.

Yet we are located east of the Far East and south of the South Pacific. Our two great and powerful friends have been antipodean and our defining international ventures have taken place on distant shores under their auspices. Every year thousands of young Australians make a patriotic pilgrimage to Anzac Cove, 4,000 kilometres from Sydney.

For most of our modern history, this tyranny of distance has kept Australia largely insulated from primary global security threats. Rather than being tyrannical, our distant location has spared us much misery and conflict.

Times have changed. As great power conflicts are increasingly unlikely, global attention has shifted to the new security threats: from terrorism to climate change, the spread of infectious diseases and global organised crime.

The states of greatest concern are no longer large, powerful ideological opponents but rather the small, weak and failing.

In this new world, the greatest policy question — Can outside powers effectively rebuild dysfunctional states? — has no definitive answer and recent evidence strongly suggests the negative. Think Iraq, Haiti, Somalia and East Timor.

In this new world, Australia is close to a large number of fragile countries and faces these challenges as the only regional power with significant capacity. It may be the power most exposed to these new security concerns that demand innovative and sustained action.

Socio-economic statistics on the South Pacific are not for the faint-

hearted. It is the most aid-dependent region in the world, and one of the worst performing. In 2006, AusAID revisited a report, commissioned in 1993, on the Pacific in 2010. The new report revealed that the earlier "doomsday scenario" for Pacific underdevelopment had largely been realised five years earlier than expected.

Papua New Guinea, roughly 12 times the population of the Solomon Islands, is our closest neighbour and engenders the most worry. State failure in PNG is a seemingly plausible nightmare scenario that haunts decision-makers in Canberra. Last year AusAID accounted for 70 per cent of programmed aid disbursements to PNG.

The Australian government, with bipartisan support, has decided that state dysfunction in the South Pacific is a threat to Australia and has adopted the role as the provider of regional stability of first resort.

Last year, the formerly aid-wary government announced a (nominal) doubling of the AusAID budget by 2010, earmarking the vast majority of new money for four areas: eastern Indonesia, southern Philippines, PNG and the Pacific. Even before this announcement, Australia had one of the most regionally concentrated aid budgets in the world. Australia's aid relationship with the Solomon Islands, running at close to \$500 a year per Solomon Islander, may be the most expensive per capita aid program in the world.

Government officials are speaking of decades and even generations as the time frames for policy outcomes in helping rebuild Pacific states. This new approach also goes well beyond the provision of infrastructure and policy advice, to actively envisage the restructuring of recipient states, including their

political environments.

In the Solomon Islands, AusAID has a "large machinery of government" team. In PNG, there is an enhanced focus on programs to encourage locals to actively demand more from their bureaucratic and political representatives. During the early days of the coup in Fiji, Foreign Minister Alexander Downer advocated that Fijians passively resist their new, uniformed rulers.

Unsurprisingly, this led to a growing chorus of criticism from affected political elites that Australia is trampling on their sovereignty. This criticism cannot be brushed aside as whingeing as it comes from those who control the levers of political power. Australia's billion-dollar Enhanced Co-operation Program with PNG was emasculated in 2005 when the PNG Supreme Court declared the major part of it as unconstitutional invasion of sovereignty. Solomons Prime Minister Manasseh Sogavare tossed out the Australian High Commissioner and threatened to expel the Australian-led regional assistance mission (RAMSI) for infringing on his country's sovereignty.

Australia's most difficult international policy challenges are at our doorstep and we face them largely alone. State rebuilding demands the rewriting of the rules of interstate interaction and sovereignty. Australia has committed itself to doing exactly this in the South Pacific. We run the serious risk that we will spend billions and deploy thousands for little or no long-term improvement and get offside the regional political elites whose support is the linchpin of such an approach.

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