

ANNUAL REPORT

2004-2005

ASPI
AUSTRALIAN
STRATEGIC
POLICY
INSTITUTE

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8 September 2005

Senator the Hon Robert Hill
Minister for Defence
Parliament House
CANBERRA ACT 2600

Dear Minister

The Council of the Australian Strategic Policy Institute has pleasure in submitting to you our Annual Report for the year ended 30 June 2005.

The report is presented to you in accordance with section 36 of the *Commonwealth Authorities and Companies Act 1997*.

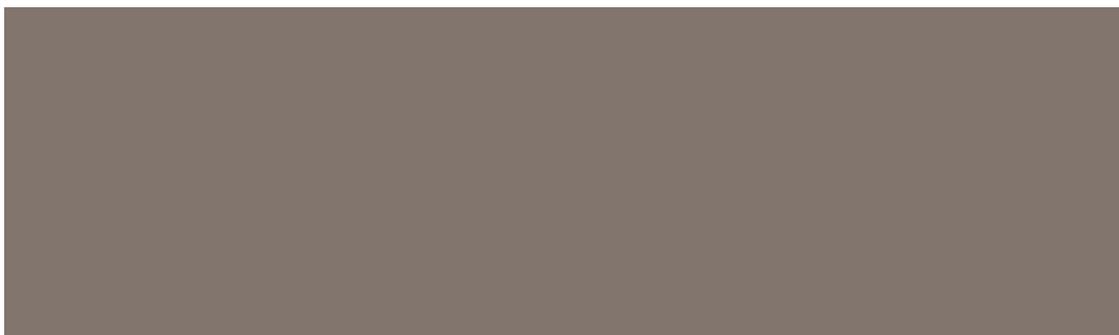
The report has been prepared to also conform with the requirements of the *Corporations Act 2001*.

Yours sincerely



Adrian Clunies-Ross AO, MBE

Acting Chairman of the Council



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A MESSAGE FROM THE CHAIRMAN

In February 2005, Professor Robert O'Neill advised the Minister for Defence The Hon Robert Hill that he would step down as Chairman on medical advice that his workload be reduced. Accordingly, it is my pleasure this year to write the Chairman's message for the 2004–05 Annual Report of the Australian Strategic Policy Institute (ASPI).

I open this report with a few words about the changes that have occurred at ASPI since the last report. Both ASPI and the government have been exceptionally fortunate to draw on the knowledge and experience of Bob O'Neill. Not only has he held among the most prestigious positions in academia—Chichele Professor of the History of War and Fellow of All Souls College at the University of Oxford—he was also Director and then Chairman of the highly regarded International Institute for Strategic Studies (IISS) in London. Bob O'Neill performed a vital role as ASPI's inaugural Chairman, providing a great breadth of experience and insight. He brought to ASPI a vision of establishing not only Australia's leading defence think tank, but also an organisation that would be recognised internationally for its influence and impact. That ASPI has gained an outstanding reputation within Australia as well as beyond our shores is a testament to Bob's dedication to the task. The Council and staff wish Bob a long and fulfilling retirement and hope that he continues to draw satisfaction from the Institute's work.

In November 2004, Mr Hugh White ASPI's inaugural Director left to take up a position at the Australian National University (ANU). Hugh White made an outstanding contribution to the Institute firmly establishing it in public perceptions as a major contributor to the strategic debate. Not only did he set in place the administrative and financial arrangements necessary for a functioning organisation, but more importantly, by the quality of the Institute's output, ensured ASPI was recognised for its expertise and professionalism in its areas of interest in Australia and overseas. He also became the public face of ASPI by virtue of his numerous appearances on television and radio but also by articles in the newspapers. The Council extends to him its thanks for his dedication and commitment and best wishes for his future career.



Along with Professor O'Neill's retirement, we have farewelled Dr Ashton Calvert, who served as an ex-officio Council member since August 2001. Dr Calvert played a pivotal role during the first three years of ASPI's existence. He brought to the Council a unique perspective as Australia's most senior diplomat who had served successive governments with professionalism, diligence and an impressive intellect. Dr Calvert was also responsible for bringing key insights into government thinking on major foreign policy challenges during a time now widely considered to be the most turbulent since the late 1960s. Dr Calvert's sincere interest in ASPI's work contributed greatly to the quality of its output. The Council and staff deeply appreciate Dr Calvert's commitment to ASPI. His position is now filled by Mr Michael L'Estrange, who took up his appointment as Secretary of the Department of Foreign Affairs and Trade earlier this year.

I am pleased to report that the government endorsed the Council's recommendation to appoint Major General Peter Abigail AO to the position of Director ASPI. Peter Abigail has had a distinguished career in the Australian Army, and is widely acknowledged as an outstanding manager and strategic thinker. He brings with him a fresh approach to the Institute's work.

Despite these important changes, there is also a good deal of continuity to report. The Institute continues to publish on a wide range of topics relevant to the strategic debate. ASPI has found a dedicated audience in its subscribers and will develop and expand its work program to meet their needs and interests. The Institute, during the course of the year, has met specific government requirements on topics of major importance. A series of lunchtime seminars was implemented in 2005, attended by large audiences and addressed by high quality speakers from government, the media and academia from Australia and overseas. Work is also well advanced on a major international conference and on plans for other significant events. In addition the Outreach Program, which aims to take the strategic and defence debate to the general public around Australia, was expanded and reformed to produce more practical outcomes.

One area of corporate governance of primary importance to Council is the proper control of and accounting for the Institute's finances. The Council is satisfied that financial matters are effectively controlled, properly recorded and meet government requirements. Both internal and external audits support this view.

The Council is also pleased with the Institute's progress in generating commercial income. An increasing proportion of our income has been received from commercial resources and under the stewardship of the new Director further progress is anticipated. Council has set the staff some ambitious targets for new income streams and has every confidence that they will meet this challenge with the same degree of enthusiasm and commitment that they have displayed in the past.

Council extends its thanks to the Director and the staff for a year of significant progress which has further enhanced ASPI's reputation as a leading defence and strategic policy contributor. I extend my personal thanks also to all members of Council who by their interest in and commitment to the Institute and by their wise counsel have made a notable contribution to the Institute's success.



Adrian Clunies-Ross AO, MBE
Acting Chairman

DIRECTOR'S REPORT



The past year has been marked by transitions in the operation and leadership of ASPI. The shifts in product range and income generation foreshadowed in the last Annual Report have been achieved and we have focused on improving our provision of alternative policy advice to government, expanding our engagement with the community, and increasing our international profile.

Providing alternative advice

The changes initiated in 2003–2004 that saw the appointment of a Director of Programs to manage the publications of the Institute and the reformatting of our publications have improved the formulation and delivery of new ideas and proposals relating to defence and strategic policy. We have also pursued opportunities, under the Commonwealth Funding Agreement and through commissioned studies, to widen the methods for providing advice, particularly within government processes. We anticipate a significant uptake in commissioned work across the national security community.

Expanding engagement with the community

Our subscription and sales service has been successful in establishing an interested client base within the Australian community (primarily) and recovering a proportion of the costs of publications. We aim to increase membership subscriptions and to widen the exposure of our products by pursuing collaborative arrangements with other institutes and publishers.

We have expanded our events program to attract a broader external audience and have established promising corporate affiliations through sponsorship arrangements. We will continue with the approach of providing high quality events as a means of engaging the community and nurturing strategic thinkers.

A more focused method has been applied to the Outreach Program, which involves direct consultation with interested members of the public in major cities and regional centres. We now issue invitations to representatives of various professions and interest groups to gain insights into their thinking on security matters. This program has been well received by the participants and remains an important part of our work.

Increasing our international profile

ASPI seeks to develop a strong international profile and be a significant participant in the evolution of strategic thought, both in Australia and the wider region.

We undertake many and varied interactions in pursuit of this aim. In the past year these have included involvement in strategic dialogues with other countries, presenting papers at international conferences, hosting discussions with visiting overseas delegations, establishing linkages with overseas institutes, and the distribution and sales of our publications which are sought after by foreign embassies and gaining wider readership overseas. We will increase our profile through the inaugural ASPI International Conference to be conducted in Canberra in September 2005.

Leadership transition

The departures of Hugh White (Director) and Professor Robert O'Neill (Chairman) represent closure of the first phase in the development of ASPI. We acknowledge and appreciate their extraordinary efforts in raising the Institute, setting the highest of standards, and establishing its reputation as an independent and authoritative contributor to policy development and public discussion of strategic policy issues. ASPI is well regarded because of their legacies: the rigour and imagination in our approach and methods, and the focus on quality, practicality and accessibility in our products.

I am delighted to have joined ASPI as Director in early April 2005 and welcome the appointment of Mark Johnson as Chairman of the ASPI Council. We have the task of leading and developing the Institute through the next stage in its evolution, to build on the excellent foundation provided by our predecessors, and to establish an enduring management model for ASPI.

The flow of international affairs is presenting the most turbulent strategic environment for many years. This poses challenges to governments, and some difficult choices. So there is much useful work to be done in presenting new ideas to decision-makers and the Australian public.

A handwritten signature in black ink, appearing to read 'Peter Abigail', with a large, stylized flourish extending to the right.

Peter Abigail

Director

With a youthful precocity, ASPI has injected new ideas and vigour into our national security debate. The Hon John Howard MP, Prime Minister of Australia





CHAPTER

1

REPORT ON OPERATIONS 2004-05

OUTCOMES

OUTPUTS

NEW INITIATIVES

FUTURE PROSPECTS

During the 2004–05 financial year ASPI consolidated its core activities and established new initiatives to diversify its funding base. Although only formed four years ago, ASPI has built a solid reputation as Australia’s premier think tank on defence and security policy. The opinions of its staff are highly sought by commentators in the media, and its policy ideas generate considerable interest both inside government, and with other interested stakeholders in industry, academia and the general public. This report sets out our achievements in terms of what we produced and the contribution we made against the objectives of the organisation.

Our product takes various forms. We produce a range of publications that deal with the full spectrum of defence policy challenges—strategic, force structure and budgetary. We also run a number of events each year. They take the form of seminars, briefings, a program of international visitors and bilateral dialogues. Over the last year our events program has expanded considerably to offer more opportunities for public participation and engagement. Each contributes to at least one of our objectives, but more often they deliver a range of outcomes.

OUTCOMES

ASPI’S constitution establishes four broad purposes for the Institute. They are:

1. To encourage and inform public debate and understanding of Australia’s strategic and defence policy choices

Public attitudes and opinions about the kinds of choices we make as a nation are critical. An open and frank exchange of views adds greatly to the robustness of our public policy development. Of course, the quality of public debate depends substantially upon the quality and accessibility of information in the public forum. In recent years the government has undertaken some important initiatives on this front. However, a sustained program of public consultation on defence issues also needs the support of other independent organisations. ASPI has a special responsibility to develop this aspect of its work.

2. To provide an alternative source of policy ideas to government

Contestability lies at the heart of the reason for establishing the Institute. By focusing on major challenges across the range of key policy areas—Budgetary, Operational and Strategic – ASPI provides independent advice to government. Sometimes that advice might confirm the advice from official sources. But at other times it offers quite different views from the ones proposed by government agencies. In the end contestability provides for the competition of ideas and contributes to generating a debate among decision-makers. And that leads to better informed strategic decisions for Australia.

3. To nurture expertise in defence and strategic policy

ASPI helps Australians in government, the ADF, universities, the media, industry and other sectors to develop their strategic policy skills and improve their understanding of the practical issues that confront Australian decision-makers.

Australia needs a body of strategic and defence policy experts, sufficiently large and diverse to ensure that issues and ideas are developed and debated fully, and from a range of angles and perspectives. Many of our universities provide excellent courses in defence and strategic studies, but more can be done to foster interest and expertise in those issues and questions which confront Australia as it makes strategic choices about its future.

4. To promote international understanding of Australia's strategic and defence policy perspectives

ASPI also works to explain Australia's strategic and defence policies and perspectives to our neighbours, our region and our key security partners further afield. ASPI's key focus is on Australian concerns and priorities. But through its program of research and publications, through seminars and workshops, and through hosting international experts on visits to Australia, ASPI aims to help others understand Australia's strategic perceptions and responses.

Equally important, we also aim to learn from our visitors, seeking ways in which their perspectives and expertise can help us see Australia's needs in new ways.

OUTPUTS

The Institute's outputs are the means by which we achieve our objectives. We now have a well-developed and balanced program of publications, events and other initiatives that contribute to the delivery of our outcomes.

Research and Publications

The objectives for ASPI's publication program is to produce publications that are:

- accessible and readable
- accurate and authoritative
- handsomely presented
- cost-effective.

More specifically, our key performance indicators for the program of published research are:

- Publication of the program of major studies and annuals according to the schedule, and within the costs.
- Each publication reaching to a high degree the following:
 - Independent and as far as possible non-partisan
 - Rigorous, accurate and well-informed
 - Innovative and original
 - Well presented and accessible to wide and diverse audiences
 - Integrated into wider national debates, both within government and in the public arena.
- Each publication receiving positive responses from our key customer groups and stakeholders, to be monitored by the staff and reported to the Research Committee:
 - Government, especially Ministers', evaluation of the product, in terms of their contribution to policy development — to be evaluated on the basis of spontaneous responses and structured feedback
 - Public responses, gauged by the extent to which the publications are picked up and discussed in further public comment.

ASPI produces three distinct publication formats for general distribution. Our flagship publication is the *Strategy* series, developed to provide a detailed analysis of major strategic policy questions, and provide an informed set of recommendations for consideration by government and the broader community. The *Strategy* series commenced in 2004 and now covers a wide range of strategic issues across the course of this financial year. In the period since the series was developed, ASPI has released eighteen *Strategy* titles. Information about individual topics and plans for new titles is covered later in this report.

Complementing the *Strategy* series are the *Strategic Insights*. These shorter papers provide background information or comment on specific issues as they arise in the public debate. They are less complex documents to produce and offer ASPI a vehicle for responding to emerging issues in a timely and helpful way. Like the *Strategy* series, we produce up to ten *Strategic Insights* in each calendar year.

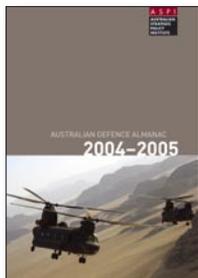
The third publication series we produce is a 'yearbook' series. ASPI produces an annual analysis on the Defence budget, titled the *Cost of Defence*. It has made a remarkable impact on the quality of debate about budgetary and management aspects of the Defence portfolio, and has gained the attention of Members of Parliament and Senators, as well as media commentators. In 2004 we added the *ASPI Defence Almanac* to our stable of 'yearbook' publications. The *Almanac* has become our most sought after individual title and encouraged us to consider publishing on further topics to inform the defence and security debate.

Finally, ASPI produces specific reports commissioned by individuals or organisations. This work is separate from our core research program, and funded independently by the commissioning

organisation. We think that a key customer for this type of work is government. Our capacity to undertake work involving national security classifications, as set out in the Charter Letter, is important in this respect. Our commissioned studies may be carried out solely for the client, or subject to their agreement, may be released later to the public in an appropriate form. In 2004 we produced a report for the Minister for Defence concerning regional radical Islamic movements. A public version of this report is currently in preparation and will be released later in 2005. ASPI has also responded to a request for tender by the French Government for a project to examine the nexus between piracy and terrorism in maritime Southeast Asia.

PUBLICATIONS COMPLETED IN 2004–05

Specialist Publications and ASPI Annuals



Australian Defence Almanac 2004–05

(October 2004)

The Almanac is a detailed compilation of information on Australian strategic policy, Australian Defence Force (ADF) disposition and deployments, weapons facts, personnel and budget statistics, regional conflict, international engagement and details of Australia’s counter-terrorism arrangements.

It is a unique compilation of facts and figures, and contributes to the understanding of the Australian Defence Force and the Defence portfolio. The Australian Defence Almanac provides the only single volume on these issues and is a valuable resource within government and for specialist commentators and the wider community.

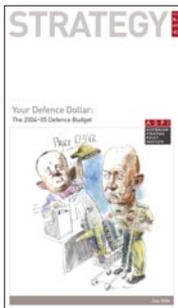


The Cost of Defence: ASPI Defence Budget Brief 2005–2006

(May 2005)

This highly respected publication, now in its fourth year, continues to provide elected representatives, government officials and the media with a detailed analysis of the complex Defence budget. *The Cost of Defence* provides easy access to the elements of the Defence budget to stimulate informed debate and help decision-makers better understand budgetary aspects of defence policy.

‘Exposing the byzantine financial and management performance of Australia’s \$17.5 million-a-year Defence Organisation falls heavily on two lonely but extremely effective champions of open accountable government. The first is the Australia National Audit Office [ANAO]...the second is the solitary figure of Mark Thomson, Budget and Management Program Director at the government-funded Australian Strategic Policy Institute [ASPI]’. Geoffrey Barker, *The Australian Financial Review*, June 2005



ASPI Strategy Reports

Your Defence Dollar: The 2004–05 Defence Budget (July 2004)

This publication is a condensed version of the 2004 ASPI Budget Brief: *The Cost of Defence* that was released in May 2004.

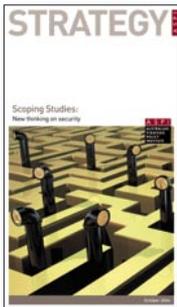
Accordingly, while *The Cost of Defence* contains an extensive and detailed analysis of the Defence budget, *Your Defence Dollar* is a more succinct and accessible document that provides insights for a broader audience.



Attitude Matters: Public opinion in Australia towards defence and security (August 2004)

This publication provides a comprehensive and up-to-date survey of Australian public opinion on defence and security issues. Written by one of Australia’s highly respected and leading academics on public opinion, community views are charted through the Australian Electoral Survey (AES), drawing on recent polling of views on Iraq, the US alliance and key security issues.

This publication was the first to provide an account of how public opinion on security has changed over the years, responding to the evolution of world events. *Attitude Matters* contains important information to equip policy makers and commentators with reliable and unbiased data about how the public responds to security and defence challenges.



Scoping Studies: New thinking on security (October 2004)

Scoping Studies was released to coincide with the outcome of the 2004 Federal Election, offering fresh ideas from eleven diverse authors. Each section offers suggestions to contribute to the defence and security agenda for the re-elected Howard Government.

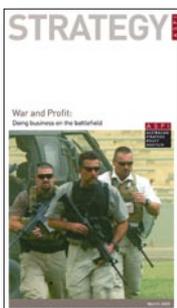
This publication saw common themes emerge that, including the call for a stronger national security approach, build on the whole of government approach that has been developing in recent years.



Strengthening Our Neighbour: Australia and the future of Papua New Guinea (December 2004)

This publication looks at our nearest neighbour, Papua New Guinea (PNG) and the significant challenges it faces in surviving as a functioning state. Long-term trends are negative, with failing service delivery, falling revenues, national fragmentation with increasing fragility of government institutions, poor economic performance and a lack of government legitimacy in the eyes of its people. The Enhanced Cooperation Program (ECP) which sent over 300 Australian police and public servants to help address PNG's challenges was a step in the right direction but it is still too limited in scope to assess the impact made on these challenges.

This publication sets out a policy approach to enable Australia to play a more active part in helping to strengthen PNG. The program of deeper engagement covered four elements: strengthen the relationship, strengthen the state, strengthen the economy and strengthen the nation.



War and Profit: Doing business on the battlefield (March 2005)

The past fifteen years have seen a rapid growth in private sector firms supporting military operations. From logistics to paramilitary security, the private sector is increasingly playing a critical role on the battlefield.

In recent years, the tempo of ADF operations has risen to meet a more demanding strategic environment. Properly employed, contractor support will allow our defence forces to sustain this tempo and better meet the challenges of the future.

The report recommends the Australian Defence Force (ADF) follow the lead of the US and British defence forces in contracting private companies to provide support for military operations abroad. It provides

a balanced and detailed examination of the issues and opportunities this new trend makes available to the ADF as an integrated part of overall military preparedness. *War and Profit* has stimulated discussion among policy makers in the bureaucracy and Members of Parliament about how Australia can better utilise and control contracted capability.



Future unknown: The terrorist threat to Australian maritime security (April 2005)

‘I welcome this report as a valuable contribution to the Australian Government’s commitment to continually review and upgrade Australian maritime security.’ The Hon John Anderson MP, April 2005

The threat of maritime terrorism has led to fundamental changes in the international maritime security environment. A terrorist attack on Australia’s maritime interests is a credible scenario. This report identified significant gaps in Australia’s current security policies and arrangements, and major institutional and operational challenges that have not been met due to a lack of consistency and awareness in the response across the states and territories.

This report was well received with wide media coverage across Australia. The publication has been welcomed by the Australian Government as a valuable contribution to help address the major challenges in maritime security facing Australia.



Living with Giants: Finding Australia’s place in a more complex world (April 2005)

Living with Giants looks at the prospective context of Australian foreign policy making over the next 20 years, with particular attention to the impact of demographic change and population growth. Of the nineteen polities projected to have populations over 100 million in 2020, ten of them are in Australia’s region of direct interest and primary strategic concern.

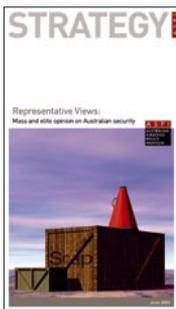
This report makes a valuable contribution to understanding the implications for our long term foreign policy planning for a timeframe often overlooked in favour of short term challenges.



Alliance Unleashed: Australia and the US in a new strategic age
(June 2005)

The ANZUS alliance has been given new purpose and energy following the events of 11 September 2001 and the subsequent War on Terror.

Alliance Unleashed argues that Australia must begin thinking now about how our important security partnership might evolve, how much of the new partnership we wish to place under the formal auspices of the ANZUS alliance, and how the emerging pattern of closer cooperation can best serve Australia's interests.



Representative Views: Mass and elite opinion on Australian security
(June 2005)

'It's many years since I've read a more rewarding or compelling document about public opinion... as you can see, I like this survey. I can't recommend it too highly.' Greg Sheridan, *The Australian*, June 2005

This publication draws on Australia's most comprehensive and informative study of social attitudes: the Australian Candidate Study (ACS) and the Australian Election Study (AES) to give Australians the opportunity to compare public and 'elite' opinion on a range of defence and security questions.

This document, like *Attitude Matters*, will become a valuable reference tool for government, the media and other commentators wishing to understand popular responses to the important foreign policy and security questions.

ASPI Strategic Insights

Strategic Insight 9

Is the JSF good enough? Can Australia's air combat requirements be met by the JSF, or do we need the F/A-22? (August 2004)

The then Chief of Air Force, Air Marshal Angus Houston AO, AFC offered his insights into how Australia will develop its next generation of air combat capability. The paper offers a comparison between the Joint Strike Fighter (JSF) and the F/A-22 aircraft, mooted by some commentators as the better alternative for Australia. Air Marshal Houston argues JSF will set new benchmarks in affordability, availability, and supportability for a high-performance stealth aircraft.



Strategic Insight 10

Understanding Terrorism: 20 basic facts (September 2004)

Aldo Borgu presents twenty basic facts about the nature of terrorism, the threat to Australia and some of the required policy responses. It explains the concept of terrorism, how it is little understood and much misrepresented and facts that all Australians need to know.

Understanding Terrorism is used by some Commonwealth departments in their staff training activities.

Strategic Insight 11

Australia-India Re-engagement: Common security concerns, converging strategic horizons, complementary force structures (September 2004)

This *Insight* looks at the considerable distance covered between Australia and India since bilateral defence and security relations were re-established in 2000 after a two-a-half year hiatus. With Australia and India sharing common security concerns, particularly the threat of terrorism there is now a well-established habit of dialogue between the two governments, particularly on strategic issues. This dialogue has built the foundation for a more substantial and predictable security relationship.

Strategic Insight 12

Time for a new defence white paper (February 2005)

Peter Jennings sets out the reasons why a new defence policy statement is increasingly needed. It outlines how the government might handle the vital questions ranging from Australia's strategic outlook as a result of September 11 to defence policy in Australia's emerging national security strategy.

Strategic Insight 13

Iraq security strategy: A complex challenge (April 2005)

This paper examines the strategic objectives in the rebuilding of Iraqi security forces and security institutions. During the next twelve months Iraq's greatest challenge and the key to its future as an independent, capable state with effective governing structures will be to create an atmosphere of stability and security in the country.

Strategic Insight 14

How is RAMSI faring? Progress, challenges and lessons learned (April 2005)

Dr Ellie Wainwright provides an analysis of the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) progress, the challenges that lie ahead, and what lessons might be learned for state-building operations elsewhere. The operation has had a number of important successes, including the restoration of a sense of security and the stabilisation of the Solomon Islands budget. While RAMSI continues to enjoy great community support in Solomon Islands, the operation still has much work ahead of it.

Professor Ian McAllister of the Australian National University (ANU) with ASPI Program Director Brendan McRandle for the launch of *Representative Views*.



Strategic Insight 15

The Strategy Behind Gallipoli: Strategic decision-making in the Dardanelles and Gallipoli (April 2005)

Follows the strategic origins of the Gallipoli operation under the direction of the First Lord of the British Admiralty Winston Churchill. It assesses the strategic thinking behind the First World War (WWI) Gallipoli operation that led a powerful British and Commonwealth army to defeat. The paper is the first in an occasional series of *Strategic Insights* re-examining key strategic policy decision-making in the past, that will inform and stimulate public thinking on strategic issues.

Strategic Insight 16

Invisible enemies: Infectious disease and national security in Australia (May 2005)

Over the last 30 years approximately 40 newly emerged infections have been identified in the world, including AIDS, SARS, Mad Cow Disease and Bird Flu. This paper examines the threat of emerging pandemics, highlights the challenges for Australia and discusses the need to reassess Australia's preparedness for a major outbreak of infectious disease.

As a result of the growing concerns both in Australia and internationally about the threat of disease, ASPI has commenced a larger study of this issue as a *Strategy* publication, scheduled for release in late 2005.

Strategic Insight 17

A Shift in Focus? Australia and stability in East Asia (June 2005)

An interesting study tracking some of the recent key changes in Australian perspectives on East Asian stability. How Australian officials understand the fine balance between instability through weakness and strength has significant implications for Australia, including the future shape of the Australian Defence Force (ADF). It also offers broad recommendations for future policy approaches in the region. This *Insight* captures the modern dilemma for policy makers and contributes to better public understanding of the security debate.

PUBLICATIONS COMMENCED

A number of publications were commenced during the 2004–05 operating period. These are well advanced and will be released into the market over the coming financial year. Topics that ASPI will cover in the coming 12 months includes:

- How Australia’s naval forces might develop, and particularly how major surface vessels like the Air Warfare Destroyers will fit into Australia’s maritime forces.
- An exploration of how China’s power and influence might develop over the next 20 years and the consequences for the region.
- Implications for strategic workforce planning for the Australian Defence Force over the next 20 years.

EVENTS

An increasingly important part of ASPI’s approach to meeting its mandate is conducting a range of events across the course of the year. This year marks an important stage in the development of this aspect of our work. We have, in the past, established 1.5 Track Dialogues with institutions from the major and emerging powers in Asia. We have also hosted a series of meetings and seminars with high profile international visitors. This gives ASPI staff insights into international attitudes and perspectives, while in turn provides the opportunity for ASPI to inform its guests about Australian approaches and perspectives on key challenges to international security. Those individuals also become part of our wider network, whose expertise we can draw upon for our publications program. Further information about specific visits and dialogues follows.

Visitors Program

Colonel Jonathan Fighel, Deputy Director, International Policy Institute for Counter Terrorism (ICT), Israel, 18 November 2004

ASPI hosted a seminar with Colonel Jonathan Fighel, Deputy Director of the prestigious International Policy Institute for Counter Terrorism (ICT), Herzilyah, Israel. This seminar was a fascinating opportunity for ASPI Program Directors to be brought together with a leading academic expert to discuss important topics on counter terrorism and Middle East affairs.



National Institute of Defense Studies (NIDS) delegation at a seminar at ASPI

ASPI — National Institute for Defence Studies (NIDS) Exchange, Canberra, 5 October 2004

ASPI hosted the fourth ASPI-NIDS Exchange Program with Mr Kiharu Yamashita from the National Institute for Defense Studies on Tuesday, 5 October 2004. Discussion focussed on the military's role in peace support operations. The exchange was attended by representatives from Defence, ONA, DIO and DFAT.

Dr Simon Chesterman, Executive Director, Institute for International Law and Justice, New York University (NYU), 1 July 2004

Dr Simon Chesterman, Executive Director, Institute of International Law and Justice, New York University discussed with ASPI colleagues the problems faced by the United Nations (UN) in the current international security environment, especially with regard to the United States and the war in Iraq.

President Professor Yu Xintian and four members of the Shanghai Institute for International Studies (SIIS), 24 January 2005

ASPI was delighted to meet with four members of the Shanghai Institute for International Studies, including the SIIS President Professor Yu Xintian. The purpose of the meeting was to provide ASPI staff with a comprehensive overview of China-Australia relations, international politics, economy, security strategy and China's external relations.



His Excellency Mr Joschka Fischer, Foreign Minister of Germany and ASPI Director of Programs Peter Jennings

His Excellency Mr Joschka Fischer, Foreign Minister of Germany, 8 February 2005

On Tuesday, 8 February, ASPI was delighted to host a roundtable discussion on strategic issues with the German Foreign Minister, Mr Joschka Fischer. The Minister was accompanied by the German Ambassador, Dr Klaus-Peter Klaiber and members of the Minister's personal staff. As well as ASPI staff the roundtable was attended by Ms Pamela Fayle, Australia's Ambassador to Germany, and from the Australian National University Professors Hugh White, Coral Bell and Jim Fox and Dr Ross Babbage of Strategy International. Although the meeting was conducted under 'the ASPI rule'—a tougher version of the Chatham House rule, topics included China, EU relations with Russia, Turkey, Iran and Indonesia.

Ambassador Ma Zhengang, China Institute for International Studies (CIIS), 22 February 2005

Ambassador Ma Zhengang, China Institute for International Studies (CIIS) facilitated a seminar with ASPI senior staff in an intriguing discussion on global and regional issues including overall security outlook, United States (US) future foreign policy and Iraq.

Dr Rod Lyon, Senior Lecturer, School of Political Science & International Studies, The University of Queensland (UQ), 24 February 2005

ASPI enjoyed the opportunity to discuss the Australia-US security relationship with Dr Rod Lyon on his visit in February this year. Dr Lyon has recently completed a Fulbright Fellowship in Washington DC in the United States. Upon his return he offered his views about US

expectations of the alliance between Australia and how US policy was evolving since the attacks of September 11. He was commissioned by ASPI to write *Alliance Unleashed: Australia and the US in a new strategic age*, which was released in June 2005.

ASPI — National Institute for Defence Studies (NIDS) Exchange, Canberra, 7 June 2005

A delegation from the National Institute of Defense Studies (NIDS) visited Australia as part of an exercise to broaden the international perspectives and the knowledge of national security of a select group of NIDS students. ASPI hosted an in-house seminar with the NIDS delegation on Tuesday, 7 June, to give them a brief overview of ASPI and discuss several issues including security and defence strategy.

Thai Counter Terrorism Delegation, Canberra, 22 June 2005

On Wednesday, 22 June 2005, a Thai delegation, led by Senator, Mr Siri Thiwaphant visited ASPI while in Australia from 19-15 June 2005. This exciting visit was an opportunity for the delegation to engage ASPI's Director and senior staff in a dialogue on modern terrorist threats in the region. The discussion focussed particularly on recent developments in southern Thailand.

Dr David M. Lampton, Dean of Faculty and Director of China Studies, Johns Hopkins School of Advanced International Studies and Founding Director of China Studies at The Nixon Center, 22, 23 and 24 June 2005

David M. Lampton, Dean of Faculty and Director of China Studies, Johns Hopkins School of Advanced International Studies and Founding Director of China Studies at The Nixon Center, visited ASPI during 22, 23 and 24 June 2005. He sought views from ASPI staff about China's growing global and regional importance. The discussion included an exchange of views on the difference in perception in Australia and the United States to China's emergence as a major power.

BILATERAL MEETINGS

1.5 Track Dialogues

Our 1.5 Track Dialogue series is an opportunity to engage with similar institutions outside Australia. These dialogues are attended by senior staff from both institutions, invited academic experts and government officials who attend in their private capacity. They provide an opportunity to explore new policy initiatives links, which helps to deepen and shape relationships outside the formal government to government arrangements and agreements. These meetings are a useful adjunct to the formal foreign policy machinery and we thank the Department of Defence and the Department of Foreign Affairs and Trade (DFAT) for their support of these events. We currently have routine dialogues with institutions from Japan, India and will develop a dialogue with China shortly. This gives ASPI access to influential groups within the key strategic powers in our region.

Fourth Australia–India Security Roundtable, 11–12 April 2005, Canberra

The fourth Australia–India Security Roundtable was held in Canberra, Australia on 11–12 April 2005. This is the only ‘1.5 Track’ security dialogue between the two countries and in the four years since its inception, has proven its worth as a significant vehicle for enhancing and deepening mutual understanding on defence and security matters. The roundtable brought together leading Australian and Indian defence and security experts from outside government.



ASPI Director Peter Abigail discusses security during the fourth Australia–India Security Roundtable

NEW EVENT INITIATIVES

While the established events program continues to help ASPI meet its broader objectives, new initiatives were developed during the year to extend our contact with the community and do more to inform public understanding. In late 2004 we developed a plan to host a major international conference around the theme, 'Key Strategic Challenges for the Coming Decade'. Planning for the conference is now well advanced and will have been held by the time this report is published. We also commenced a series of lunchtime seminars in Canberra; we titled Defence and Security Luncheons. These monthly lunchtime seminars draw good audiences to hear a range of interesting speakers from government, the media and academia. The seminar series is supported by Booz Allen Hamilton, a major defence and security consultancy. Their sponsorship for the event marked the beginning of a new range of corporate partnerships for ASPI. To find out more about this development go to the *Establishing Linkages* section of this report.

Defence and Security Luncheons

ASPI organised a series of Defence and Security Luncheons designed to bring together people from a wide range of backgrounds, both to draw on their experience and to enhance their understanding of strategic and defence policy issues. Co-hosted with Booz Allen Hamilton the annual program of ten Defence and Security Luncheons, provide thought provoking insights from a variety of speakers on strategic issues. They are held at The Boathouse by the Lake in Canberra.

Speakers and topics for our lunch seminars conducted so far in 2005 are below. Speeches from our presenters can be found on our website. We make them accessible as they become available.

Her Excellency Madame Fu Ying, Ambassador, Embassy of the People's Republic of China, 17 February 2005

ASPI and Booz Allen Hamilton cohosted the first in a series of Defence and Security Luncheons. Her Excellency Madame Fu Ying, Ambassador, Embassy of the People's Republic of China was the inaugural guest speaker and discussed China's future role in regional and global security. She examined Australia's relations with China, the China-US relations of today and security concerns for the Asia Pacific region.



Her Excellency Madame Fu Ying, Ambassador, Embassy of the People's Republic of China, delivered the inaugural address to the ASPI Defence and Security luncheon in February 2005.

**Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation (DMO),
3 March 2005**

Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation was the second guest speaker and discussed Reforming Australia's defence acquisitions. He talked on DMO's vision, the relationship between DMO and Capability Development group and acquisition improvements for the defence industry.

**Professor Varun Sahni, D.Phil. (Oxon) School of International Studies, Jawaharlal
Nehru University, New Delhi, India, 12 April 2005**

Professor Varun Sahni, School of International Studies, Jawaharlal Nehru University discussed India's security challenges out to 2020.

Mr Paul Kelly, Editor at Large, The Australian, 12 May 2005

ASPI was delighted to have guest speaker Mr Paul Kelly, who is arguably Australia's foremost media commentator and a regular on the ABC's Insiders program. He provided guests with a fascinating insight into his thoughts on Australia's future role in global security.

His Excellency, Mr Patrick Henault, Ambassador, Embassy of France, 9 June 2005

His Excellency Mr Patrick Henault added an interesting Parisian flavour to the security debate with his French perspective on global security. The lunch was attended by business, government, media, academics and diplomatic officials interested in future strategies for global security.

ENGAGING WITH THE BROADER COMMUNITY

Media

ASPI continues to play an important role in the media. Our media profile can be measured in a number of ways: the breadth of coverage, its frequency and its quality. ASPI is a leading source of new ideas and information to support the public debate.

ASPI's active participation in the media is part of the organisation's strategy for encouraging and informing public debate and nurturing expertise in defence and strategic issues. Our involvement with the media through producing articles and through interviews provides a more powerful means of communicating with the public than relying solely on the distribution of our publications or access to our products through the Internet.

Public Meetings: ASPI Dialogues

In previous years ASPI conducted a project we called '*Listening to Regional Australia*'. It was one mechanism we used to engage communities and individuals who might not otherwise have the opportunity to discuss and debate defence and security issues. We were delighted with the enthusiasm of those who attended and we thank them for being a part of this program.

In an evolution of that project ASPI is now conducting a series of '*ASPI Dialogues*' with individuals in each of Australia's major cities. The dialogue program commenced in Brisbane, with Darwin meetings held in the middle of the year. A specific topic is chosen for each location, and we also ask our dialogue members about their views on global terrorism and its threat to Australian security. Feedback from each of the meetings is presented on the Outreach Program pages of our website. Over the course of the next 12 months we will have built a strong network of individuals from major population centres outside Canberra. Through these meetings we have developed a record of public attitudes towards key strategic questions, as well as their thoughts on the kinds of topics ASPI might cover later as part of its research program. The ASPI Dialogue series also complements our published work, particularly our survey work on public attitudes towards defence, conducted by Professor Ian McAllister of the Political Science Program at the Australian National University.

Other ways we meet our mandate

Since ASPI first gained prominence in the defence and security debate, we have been asked by many students and graduates about the possibility of short term placements. As we have a genuine interest in developing strategic skills and encouraging the next generation of strategic thinkers, we were keen to develop initiatives to meet these requests. In 2002, ASPI became a host institution for the Australian National Internship Program (ANIP), a student placement program managed by the Australian National University and open to students from around Australia. We have hosted and supervised students from the ANIP for almost every semester since 2002. It has been a rewarding experience, and feedback from our students and the ANIP staff has been especially positive. This relationship will continue.

In addition to student placements, there was a strong demand for work experience internships from recent graduates. The study of international relations and defence at the university level appears to have grown sharply in the last few years. ASPI is now contributing more to their professional development by offering short-term employment contracts. We take on three interns each year. The competition for placements has been strong and we are delighted with the quality of applicants.

ASPI will be seeking new ways of developing young students and graduates. All of our senior staff have taken the opportunity to address student groups and we are building linkages with student societies with an interest in international affairs. We are making progress on our plans

to develop a resource for senior secondary school students studying international affairs and security. By using the material contained in earlier publications and supplementing that with some additional text, ASPI hopes to have a schools reference book ready for publishing in the 2005–06 financial year. As defence and international security gains increasing relevance in our society, the demand for better resources will grow. ASPI will do its part to help students and teachers access current and relevant material on these topics.

SOURCES OF FUNDING

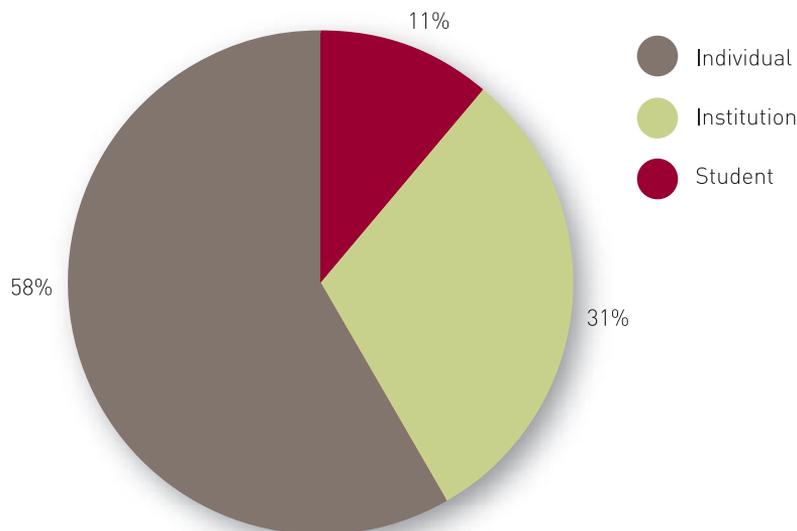
The Institute's major source of funding is through the Department of Defence. A seven year funding agreement was established in August 2001, at the commencement of our operations. For most of the time that ASPI has operated this has been the main source of revenue. The Commonwealth funding remains our single most important source of income. During the 2004–05 funding period ASPI and the Department of Defence negotiated some important changes to improve the operation of the funding agreement. Those changes made clearer the way that Commonwealth funding would be applied to the Institute's operations each year. The amendments also provided more details about the deliverables provided by ASPI to the Commonwealth. As a consequence of these changes, which became effective in March 2005, ASPI and the Commonwealth have a more precise mechanism to determine the Institute's annual funding, within the parameters set by the government. Specifically, ASPI and the Department of Defence have agreed that the Commonwealth will fund the annual employee costs and operating overheads for the Institute, and will also fund those elements of the research program which ASPI needs to deliver to the Commonwealth each year. The products from our research program include a specific number of publications and events. These amendments provide greater confidence in determining the annual funding amount, and were used by the Council in preparing the 2005–06 budget. ASPI is grateful to the Department of Defence for their assistance in initiating and developing the improvements to our annual funding processes.

Establishing Relationships To Build our Business

In early 2004, the ASPI Council considered and endorsed a set of activities and new initiatives for the purpose of diversifying and growing our income streams. The Council approved a new memberships scheme, as well as plans to develop corporate partnerships to sponsor a range of high quality events.

During the 2004–05 funding period ASPI consolidated and grew its membership base by a factor of three. During the year the first renewals for ASPI memberships became due and we are pleased to report that we are receiving a resubscription rate of around 70%. ASPI will continue to build new members, but will also devote efforts to retain its current membership.

Memberships by category— January 2005–June 2005



We also continue to sell publications separately from the membership scheme. While sales are lower than we might have hoped, the additional revenue generated, particularly by the *Australian Defence Almanac*, provides a helpful offset to the cost of producing these high quality publications.

Income was also generated through sponsorship arrangements with major corporations. In the previous financial year ASPI received modest support to assist in developing high profile events. We have developed this aspect of our business plan further and have seen sponsorship become a more important component of our funding base. Our major sponsorship deals are with:

- Booz Allen Hamilton for the ASPI Defence and Security Luncheon seminar series;
- Australian Defence Industries Limited (ADI) and Thales Australia for a new initiative: *Dinner with the Chiefs*. This is a series of dinners planned for 2005–06 with the Chief of the Defence force, the Vice Chief and the three Service Chiefs making presentations at venues in Brisbane, Canberra, Melbourne and Sydney;
- ASC as a strategic partner and major sponsor for the inaugural ASPI International Conference planned for September 2005;
- Kellogg Brown and Root (KBR); Noetic Solutions; and Lockheed Martin as major sponsors of the International Conference.

We will also generate additional revenue through the sale of tickets to these events. Our lunchtime seminar series has been priced to cover costs only, providing more scope for attendance by a general audience. The *Dinners with the Chiefs* series and the International Conference are priced to provide a modest profit for the Institute. We will use the funds generated from these events to support other elements of our research program.

With this additional focus on commercial aspects of our operations, the Sponsorship Committee has been active in setting policy guidelines for the Institute. The work of the Sponsorship Committee is covered in a separate section of this report.

London Business School (LBS) Sloan Fellows

For two weeks in April this year ASPI hosted three members of the Sloan program from the London Business School. Radhika Chadwick, Anil Menon and Jun Sok Kim brought their collective experience to identify opportunities for ASPI to develop new products to meet the needs of different ASPI customers. This is the second year that ASPI has hosted a team from the London Business School. The relationship with the London Business School has proven itself to be valuable and constructive.

As part of their work at ASPI, the LBS team facilitated a meeting with senior representatives of Australia's defence industry. That meeting provided an excellent opportunity to hear about the Australian issues that concern an important stakeholder group in the broader defence community.

FUTURE PROSPECTS

ASPI has been established for nearly four years and the Institute has gained considerable prominence for its contribution to thinking about defence and security policy choices facing Australia. Until recently we have operated almost exclusively on annual funding provided through the Funding Agreement with the Department of Defence. Those funds and the certainty they provide have been vital in building our program of work to date.

The Institute has also been able to draw down funds retained from its first year of operation. In 2003–04, the Council agreed to draw on its retained funds to reduce the Institute's holdings of Commonwealth funds. The budget for 2004–05 was supplemented by an allocation of \$305,000 from those funds, and the last allocation —\$205,000— has been allocated to the 2005–06 funding period.

As those funds have been drawn down, ASPI's efforts to secure additional new sources of funding have increased. The Institute will look increasingly to these new sources to fund its current range of projects and to allow it to expand some activities.

ASPI will also aim to secure more funding through commissioned studies. Some of these may be through specific projects for the Department of Defence, but others will involve other government agencies involved in national security. Those new projects will also include the provision of training and development activities.

At the time of writing this report ASPI had sought a new private ruling from the Australian Taxation Office (ATO). In 2002, the ATO granted ASPI tax-exempt status for its income on the basis that the Institute was a public authority. The ruling had a life of three years. Although ASPI has developed some alternative sources of funding, the Institute's structure and purpose is unaltered. The Institute has now been advised by the ATO that it was successful in achieving a new private ruling that provides exemption from company taxation.

The Institute is now in the fifth year of its funding agreement with the Department of Defence. The current agreement is due to expire on 30 June 2008. Well before that point is reached the ASPI Council will need to engage the government in a dialogue about ASPI's future Commonwealth funding arrangements. In preparation for that, ASPI's new Director will develop a strategic plan to carry the Institute to the end of the current agreement and beyond. The ASPI strategic plan will set out goals for the medium term and provide a framework for more formal negotiations with government. A draft strategic plan will be considered by the Council in late 2005.

ASPI's key objectives for the coming financial year are to:

- develop a planning framework to secure ASPI's future beyond 2008;
- develop and nurture its relationships with corporate Australia to develop and extend ASPI's work program;
- continue to produce innovative and informed policy ideas, and to present them to our customers through our publications and events programs;
- to engage and foster ASPI's relationship with government and the broader community.



ASPI Council



CHAPTER

2

THE COUNCIL

COUNCIL MEMBERSHIP

The Australian Strategic Policy Institute is governed by a Council of twelve directors representing experience, expertise and excellence across a range of professions including business, academia, government, and the Defence Force. The Council includes the nominees of the Prime Minister and the Leader of the Opposition, emphasising that the Institute is politically non-partisan.

The original Council membership was appointed by the Federal Government in July 2001. All members were appointed initially for a period of three years. In August 2004, the government decided to reappoint all Councillors whose initial appointments had expired. The appointment is for a further period of three years, under the same conditions and remuneration arrangements as their initial appointments. The Prime Minister and Leader of the Opposition were consulted about their nominees as part of this process.

In late 2004, Dr Ashton Calvert AC announced his retirement as Secretary of the Department of Foreign Affairs and Trade (DFAT). As an ex-officio member of our Council, Dr Calvert also vacated his position on the ASPI Council. In January 2005, Mr Michael L'Estrange took up his appointment as Secretary of DFAT and he was appointed to the Council in March.

In February 2005, Professor Robert O'Neill AO, Chairman of the Council, advised the Minister for Defence that he was retiring as ASPI Chairman. Professor O'Neill was ASPI's inaugural Chairman, initially appointed to the Council in 2001. However, Professor O'Neil had contributed to the development of the Institute for the previous two years at the invitation of then Defence Minister, The Hon John Moore.

Since February 2005, Deputy Chairman, Major General Adrian Clunies-Ross AO, MBE, has been the Institute's Acting Chairman. The government has been considering a replacement for Professor O'Neill, and on 18 August 2005, the Minister for Defence announced the appointment of Mr Mark Johnson, a director of Macquarie Bank, to this position.

COUNCIL CHAIRMAN (retired February 2005)

Professor Robert J. O'Neill AO, FASSA, FRHistS



Professor O'Neill retired as Chichele Professor of the History of War and as a Fellow of All Souls College, University of Oxford in September 2001. Professor O'Neill is a graduate of the Royal Military College of Australia (RMC) and served in the Australian Regular Army from 1955 to 1968. Having been awarded a Rhodes Scholarship, he studied Philosophy, Politics and Economics at Brasenose College, Oxford from 1961 to 1963, and in 1965, was awarded a DPhil in Modern History. After resuming

military duties in Australia, he served with 5RAR in Vietnam from 1966 to 1967 and was mentioned in dispatches. Subsequently he was posted to the RMC as Instructor in Military History 1967 to 1969.

In 1969, Professor O'Neill was appointed as a Senior Fellow in International Relations at the Research School of Pacific Studies, Australian National University (ANU). As Head of the Strategic and Defence Studies Centre (SDSC) at the ANU from 1971 to 1982, he established the Centre as a substantial force in public debate on strategic policy in Australia, the Asia-Pacific region, and internationally. In 1982, he was appointed as Director of the International Institute for Strategic Studies (IISS) in London, an organisation then of 2,500 members in 80 countries. Professor O'Neill was appointed as the Chichele Professor of the History of War at Oxford in 1987, and was a founding Co-Director of the All Souls College Foreign Policy Studies Program from 1991 to 2001. He served as Chairman of the Council of the IISS, 1996–2001, and as Chairman of Trustees of the Imperial War Museum, 1998–2001. Professor O'Neill retired as Chairman in February 2005.

Professor O'Neill was appointed an Officer of the Order of Australia in 1988.

DEPUTY CHAIRMAN AND ACTING CHAIRMAN (since February 2005)

Major General Adrian Clunies-Ross AO MBE



Major General Clunies-Ross was educated at Scotch College in Melbourne, the University of Queensland and the Royal Military College, Duntroon and is a graduate of the Australian Army Staff College, the United States Army Command and General Staff College, and the Joint Services Staff College. He was posted to the First Battalion, the Pacific Islands Regiment in Papua New Guinea from 1957 to 1960, and in 1962, he served as an original member of the Australian Army Training Team Vietnam. Following service with the 1RAR Battle Group he was posted as the first Senior Instructor, Tactics at the Officer Training Unit, Scheyville.

From 1968 to 1974, he served with 8RAR in Malaysia, South Vietnam and Australia in the appointments of Operations Officer, Second-in-Command and Commanding Officer. He was awarded the MBE in 1970,

for operational service in South Vietnam. In 1984, he was appointed as Commander, First Division, and awarded the AO. From 1986 to 1990, he held the position of Chief of Operations in Canberra. Major General Clunies-Ross is currently Chairman of the National Defence Committee of the Returned & Services League of Australia and was elected Chairman of the Council of the Australian War Memorial in November 2000. From June 2000, he served as a member of the 2000 Defence White Paper Community Consultation Team.

COUNCIL MEMBERS

The Hon Jim Carlton AO



Mr Carlton is the nominee of the Prime Minister. He was elected to the House of Representatives in 1977, and was Minister for Health in the Fraser Government. He served on the Defence Sub-Committee of the Joint Committee on Foreign Affairs, Defence and Trade, and held a number of Shadow Ministry positions in Opposition, including Shadow Minister for Defence from 1989 to 1990. From 1994 to 2001, he was Secretary General of the Australian Red Cross.

He led two parliamentary delegations overseas and in 1991, served as a Commonwealth Observer at the return of Zambia to democracy in free elections. He also served for two years on the Australian National Commission for UNESCO. In 1983, he attended the Senior Managers in Government Program at the John F Kennedy School of Government at Harvard University.

Dr Alan Dupont



Dr Dupont is Senior Fellow for International Security at the Lowy Institute for International Policy in Sydney. He is a graduate of the Royal Military College, Duntroon and holds a PhD in International Relations from the Australian National University. He has worked on Australian defence and regional security issues for thirty years as an army officer, strategic analyst, freelance journalist, diplomat and scholar and has been published widely academically and in the media, where he is a

respected and well know public commentator. Dr Dupont is a special adviser on foreign policy to East Timor’s Foreign Minister, Jose Ramos Horta, and is one of five Australian representatives to the ARF Register of Experts and Eminent Persons.

He is a member of the Foreign Affairs Council, an advisory body to the Minister for Foreign Affairs, and a member of the Australian National Committee to the Council for Security Cooperation in the Asia-Pacific, the International Institute for Strategic Studies (IISS), London and a higher education representative to the ACT Accreditation and Registration Council.

Mr Stephen Loosley



Mr Loosley is the nominee of the Leader of the Opposition and was a member of the Community Consultation Team for the 2000 Defence White Paper. He was elected to the Senate in 1990, and served as Chairman of the Joint Standing Committee on Foreign Affairs, Defence and Trade, Chairman of the Senate Standing Committee on Regulations and Ordinances, Chairman of the Parliamentary Human Rights Sub-Committee, and Chairman of the Australian Parliamentary Group for Tibet and the Friends of Burma Group. Since retiring from politics in 1995, Mr Loosley was appointed as an Ambassador for the UN Security Council election and was asked by the Minister for Foreign Affairs to act as an international observer during the 1999 Indonesian elections.

In 2000, he was a member of The Government’s Community Consultation Team for the Defence White Paper. Mr Loosley was elected to the Australian Senate in 1990 and retired in 1995. He is currently a senior partner at PricewaterhouseCoopers Legal, Sydney and Chairman of the Committee for Sydney.

Mr Paul McClintock



Mr McClintock has an impressive mix of private and public sector experience. He has extensive industry experience, including a strong background in investment banking. He has also served as Secretary to Federal Cabinet, a position that saw him manage the business program of the National Security Committee of Cabinet.

Mr McClintock has an established record of providing sound, high-level advice on matters of public policy. He has served on the boards of a number of private companies and public authorities including the Sydney Ports Authority, Thales Australia and ADI. He was recently appointed as the Director of Mayne Group Limited.

Mr Des Moore



Mr Moore was employed for 28 years in the Commonwealth Treasury, during which time he headed the General Financial Economic Policy and Overseas Economic Relations divisions, and was a Deputy Secretary for five years. He was posted to the Royal College of Defence Studies, London, in 1972–73 and then to the Australian High Commission, London as Minister (Economic).

In 1987, Mr Moore resigned from Treasury to join the Melbourne-based Institute for Public Affairs (IPA) as Senior Fellow of the Economic Policy Unit. He was responsible in 1989, for the establishment by the IPA of the Pacific Security Research Institute. In the 1990s, he lectured at the Queenscliff Staff College and in 1996, Mr Moore was invited to assist the Defence Efficiency Review. In 1996, Mr Moore established the Institute for Private Enterprise.

The Hon Jocelyn Newman AO



Mrs Newman is a graduate in law from the University of Melbourne and after several varied careers was appointed by the Parliament of Tasmania as Senator for Tasmania in 1986, and subsequently elected to that seat in 1987, 1990 and 1996. She held Shadow portfolios including Shadow Minister for Defence Science and Personnel. As Shadow Minister for Defence (1994 to 1996), Mrs Newman developed the Coalition Defence Policy for the 1996 Federal Election.

In government, Mrs Newman held the portfolios of Minister for Social Security, Minister for Family and Community Services, and Minister Assisting the Prime Minister for the Status of Women. From 1996 to 2001, she represented the Defence portfolio in the Senate. Mrs Newman retired from the Senate in February 2002.

Mrs Newman was appointed to the Australian War Memorial Council in late 2002. She was awarded an AO in the Queens Birthday Honours in June 2005.

Brigadier Jim Wallace (Retired) AM



Brigadier Wallace served with distinction in the Australian Army for many years after graduating from Duntroon, the British Army Staff College and the Australian College of Defence and Strategic Studies. He commanded the Special Air Service Regiment, Special Forces and the Army's mechanised brigade, and served with the United Nations in the Middle East. He is a respected commentator on defence and strategic matters and brings a valuable perspective to the Council as a recently serving senior Australian Defence Force officer.

Dr J. Roland Williams CBE



Dr Williams was born in the United Kingdom (UK). He worked for the Royal Dutch Shell Group for 36 years. He was appointed World coordinator of National Gas and Coal, and in 1985 he was appointed Chairman of Shell Australia, a position from which he retired in 1999. Dr Williams is a Director of Boral Limited, Origin Energy Limited, and the United Group Limited.

EX-OFFICIO MEMBERS

Mr Michael L'Estrange



Mr L'Estrange took up the position of Secretary of the Department of Foreign Affairs and Trade in January 2005, after returning from the position of Australia's High Commissioner to the United Kingdom, which he had held since July 2000. In 1981, Mr L'Estrange joined the Department of Prime Minister and Cabinet. Among other appointments, he served in 1984–85, on the staff of Mr Justice Hope's Royal Commission into Australia's Security and Intelligence Agencies. In 1986, Mr L'Estrange was awarded a Harkness Fellowship and spent two academic years under the auspices of the Fellowship studying at the School of Foreign Services at Georgetown University in Washington DC and at the Institute of International Studies at the University of

California at Berkley. From 1989 to 1994, Mr L'Estrange worked for several Leaders of the Opposition in a range of policy advisory positions. In 1995, he was appointed the inaugural Executive Director of the Menzies Research Centre in Canberra. In March 1996, Mr L'Estrange was appointed by the Prime Minister as Secretary to Cabinet and Head of Cabinet Policy Unit.

Mr Richard Smith AO, PSM
Secretary of the Department of Defence



Mr Smith is Secretary of the Department of Defence. Born in Perth and educated at the University of Western Australia, he taught in Western Australian high schools before joining the then Department of External Affairs in 1969. Between then and 1989, he served in Australian posts in New Delhi, Tel Aviv, Manila and Honolulu.

From 1989 to 1992, Mr Smith was Head of the Pacific, Africa and Middle East Division and in 1992 was appointed a Deputy Secretary of the Department of Foreign Affairs and Trade. In this capacity he oversighted the then Asia Division and was the Senior Official for Australia at successive ASEAN Regional Forum meetings. He acted as Secretary of the Department of Foreign Affairs and Trade for much of the period from December 1992, to May 1993. From March 1994, to the end of 1995, he served on secondment to the Department of Defence as Deputy Secretary. Mr Smith took up duty as Australian Ambassador to the People's Republic of China in February 1996, and served in that position until February 2000. From January 2001 to 31 October 2002, Mr Smith served as Australian Ambassador to the Republic of Indonesia. He was appointed Secretary for Department of Defence in November 2002.

Mr Smith was named as an Officer of the Order of Australia (AO) in the 1998 Australia Day Honours list.

ALTERNATE MEMBERS

Mr Shane Carmody

Deputy Secretary Strategy, Department of Defence



Mr Carmody joined the Department of Defence in 1989, after a career in the Australian Regular Army. He was promoted to the Senior Executive Service (SES) in January 1995, where he held various positions including a transfer to the Department of Finance and Administration for a year.

In June 2001, he was promoted to Deputy Secretary Intelligence and Security with oversight responsibility for the Defence Intelligence Organisation, the Defence Signals Directorate, the Defence Imagery and Geospatial Organisation and the Defence Security Authority. Mr Carmody transferred to his current position in July 2002. His responsibilities include the provision of strategic policy advice, management of Defence's International relations and development of military strategy.

Nick Warner

Deputy Secretary, Department of Foreign Affairs and Trade



Mr Warner was appointed Deputy Secretary in the Department of Foreign Affairs and Trade, Canberra, in September 2004.

Mr Warner has held a number of senior positions in the Department of Foreign Affairs and Trade.

Overseas, Mr Warner has served as the Special Coordinator to the Solomon Islands (2003–2004), High Commissioner, Port Moresby (1999–2003), Ambassador, Tehran (1994–97), Deputy Head of Mission, Australian Permanent Mission to the Supreme National Council, Cambodia (1991–93), and Head, Australian Liaison Office, Namibia (1989–90), and in the Australian Liaison Office, Salisbury, Rhodesia (1980).

Mr Warner holds a Bachelor of Arts degree with honours in History and Asian Studies and a Master of Arts degree in History from the Australian National University.

ASPI's Council is responsible for the overall direction of the Institute. A number of subcommittees have been formed with responsibility for overseeing different aspects of ASPI's work.



CHAPTER

3

CORPORATE GOVERNANCE

THE COUNCIL

REMUNERATION AND STAFFING COMMITTEE

FINANCE/AUDIT COMMITTEE

RESEARCH PROGRAM COMMITTEE

SPONSORSHIP COMMITTEE

THE COUNCIL

The Australian Strategic Policy Institute is governed by a Council of twelve members representing experience, expertise and excellence across a range of professions including business, academia, and the Defence Force. The Council includes the nominees of the Prime Minister, the Leader of the Opposition and Government. The Secretary of the Department of Defence and the Secretary of the Department of Foreign Affairs and Trade serve on the Council ex-officio. Both Secretaries have Deputy Secretaries from their respective departments who serve as alternate directors. They exercise the full powers of a director only when the director is absent.

Major General Adrian Clunies-Ross (Rtd) AO, MBE has been the Acting Council Chairman since February 2005.

Attendance Table – Council

Council Meeting Attendance	28/10/04	03/03/05
Professor Robert J O'Neill AO (<i>Chairman</i>)	✓	
Major General Adrian Clunies-Ross (Retired) AO, MBE (<i>Deputy Chairman</i>)	✓	✓
Dr Ashton Calvert AC	✓	
The Honourable Jim Carlton AO	✓	✓
Dr Alan Dupont	✓	✓
Mr Michael L'Estrange		✓
Mr Stephen Loosley	✓	✓
Mr Paul McClintock	✓	✓
Mr Des Moore	✓	✓
The Honourable Jocelyn Newman AO	✓	✓
Mr Ric Smith AO, PSM	x	✓
Brigadier Jim Wallace (Retired) AM	✓	✓
Dr J Roland Williams CBE	✓	✓

Committee membership

A number of sub-committees meet quarterly, or as required. The activities of these committees are described below. The Director of ASPI also attends these meetings.

REMUNERATION AND STAFFING COMMITTEE

The Remuneration and Staffing Committee has two broad areas of responsibility. The first is to establish and review the overall staffing plan for ASPI. This includes providing guidance to the Director of ASPI on the number of staff and the staffing profile (that is, the mix of senior researchers, interns and junior staff).

The second role of this committee is to provide guidance as to the level of remuneration that should be offered to senior staff on appointment. The Committee did not meet in 2004–05. Instead, available members of the full Council attended meetings in August 2004 to interview and select a new Director. A shortlist of eight applicants was interviewed, and a recommendation for the Council's preferred choice was made to the government at the beginning of September 2004.

FINANCE AND AUDIT COMMITTEE

The Committee is responsible for allocating money and reviewing the broad financial impacts of meeting the agreed ASPI work program. It sets expenditure targets for the Institute and overviews the preparation of financial reports required by the Corporations Act and the Commonwealth Authorities and Companies Act. It also now incorporates managing and reviewing the internal and external audit process, numerous risk management issues, and the adequacy of ASPI's accounting, financial and operating controls. The committee also reviews regular reports from the external and internal auditors on matters that arise in the performance of their respective roles.

The Finance and Audit Committee also assists in developing strategies for expanding the income base of the Institute. It also reviews the performance of the Institute in respect of the Funding Agreement with the Commonwealth.

The committee remains responsible for establishing a policy for financial delegations and approval to commit funds.

Acumen Alliance, ASPI's internal auditors, conducted our internal audit in April 2005.

ASPI is subject to the *Commonwealth Authorities Companies Act 1997*, and consequently has The Australian National Audit Office (ANAO) as its external auditor. The ANAO conducts an interim audit each May and audits the institutes financial statements in August.

The Committee invites a representative from the Institute's internal auditor along with ASPI's accountant to attend committee meetings to offer on hand advice on ASPI's financial and auditing processes and requirements.

Membership includes Major General Clunies-Ross (Chair), Mr Carlton, Mr Smith, Mr Loosely, Mr Moore, Dr Williams and Mr McClintock.

Attendance Table — Finance/Audit Committee

Finance & Audit Committee Attendance	28/10/04	03/03/05
Major General Adrian Clunies-Ross (Retired) AO, MBE (<i>Chair</i>)	✓	✓
The Honourable Jim Carlton AO	✓	✓
Mr Stephen Loosley	✓	✓
Mr Paul McClintock	✓	✓
Mr Des Moore	✓	✓
Mr Ric Smith AO, PSM	x	✓
Dr J Roland Williams CBE	✓	✓

RESEARCH PROGRAMS COMMITTEE

In addition to those committees described above, the Council has established a Research Committee to develop and recommend to the full Council plans for the research and events programs of the Institute. The main responsibility for this committee is to ensure that the scope of the research program conforms to the overall objectives of the Institute. It provides a mechanism for the Institute's primary customers to contribute to core research objectives.

With interest in the Institute's research program across the Council, it was agreed in February 2004 that the Research Programs Committee would become a committee of the full Council. Previously, senior officials from the Departments of Defence and Foreign Affairs and Trade attended the meeting. The committee continues to work closely with these two key organisations and invites continued membership from these individuals or their representatives. The June 2004 meeting of the committee operated with the membership of the full Council.

Attendance Table — Research Committee

The Research Programs Committee is made up of the entire Council and the Director of ASPI. Nominated Deputy Secretaries from the Departments of Defence and Foreign Affairs and Trade are welcome to attend.

Research Programs Committee Attendance	27/10/04	02/03/05
Professor Robert J O'Neill AO (<i>Chair</i>)	✓	
Major General Adrian Clunies-Ross (Retired) AO, MBE	✓	✓
The Honourable Jim Carlton AO	✓	✓
Dr Alan Dupont	✓	✓
Mr Stephen Loosley	✓	✓
Mr Paul McClintock	X	✓
Mr Des Moore	✓	✓
The Honourable Jocelyn Newman AO	✓	✓
Mr Ric Smith AO, PSM	✓	1
Brigadier Jim Wallace (Retired) AM	X	X
Mr Peter Jennings (Acting Director)	✓	✓
Mr Nick Warner	✓	2
Dr J Roland Williams CBE	✓	✓

1. Attended by a representative from the Department of Defence.
2. Attended by a representative from the Department of Foreign Affairs and Trade.

SPONSORSHIP COMMITTEE

A committee comprising Mr Carlton (Chair), Dr Williams, Mr Loosley and Mr McClintock has been established for the evaluation of sponsorship proposals in line with the policy. The Sponsorship Committee held its first meeting in October 2004, and met again in March. The committee endorsed a policy for ASPI sponsorship and advertising policies. The ASPI Director consults the committee on all sponsorship proposals out of session.

Sponsorship Committee Attendance	27/10/04	02/03/05
The Honourable Jim Carlton AO (<i>Chair</i>)	✓	✓
Dr J Roland Williams CBE	✓	✓
Mr Paul McClintock	✓	✓
Mr Stephen Loosley	✓	✓

ASPI is organised around a small core staff with the bulk of its research work contracted out to specialists. The great advantage of that approach is that it provides the Institute with the flexibility and agility to tackle the broadest range of strategic policy issues.



CHAPTER

4

THE ORGANISATION

THE STAFF

ASPI PROGRAMS

ASPI STRUCTURE

The Australian Strategic Policy Institute has a small core staff, with its day-to-day operations run by the Director (Chief Executive Officer), Major General Peter Abigail AO (Retired). A Director of Programs, four Program Directors, an Office Manager, a Research and Information Manager, two Events Managers, an Information and Publications Officer and a Senior Research Officer staff ASPI.

A description of the roles and functions of the programs and staff is listed below.



Director of Programs

Peter Jennings

Director of Programs for ASPI is responsible for the Institute's research and publications programs on defence and international security issues, while assisting with the development of business plan activities.

ASPI's Programs

There are four ASPI programs. They produce publications and hold events including lectures, conferences and seminars around Australia, as well as dialogues on strategic issues with key regional countries.



Budget and Management Program

Mark Thomson

This program covers the full range of questions concerning the delivery of capability, from financial issues and personnel management to acquisition and contracting out-issues that are central to the government's policy responsibilities.



Operations and Capability Program

Aldo Borgu

This program covers ASPI's work on the operational needs of the Australian Defence Force, the development of our defence capabilities, and the impact of new technology on our armed forces.



Outreach Program

Brendan McRandle

One of the most important roles for ASPI is to involve the broader community in the debate of defence and security issues. The thrust of the activities is to provide access to the issues and facts through a range of activities and publications.



Strategy and International Program

Elsina (Ellie) Wainwright

This program covers ASPI's work on Australia's international security environment, the development of our higher strategic policy, our approach to new security challenges, and the management of our international defence relationships.



Office Manager

Rachel Wells

The Office Manager runs the day-to-day administration of the Institute. The Office Manager manages accounting and resource issues in tandem with ASPI's Accountant, and is responsible across a number of areas including IT equipment, office accommodation and travel arrangements.



Research and Information Manager

Janice Johnson

The Research and Information Manager is responsible for information flows into ASPI through a variety of sources including the Internet, periodical collection and publications, as well as through establishing and maintaining links with libraries and other information sources. She is also responsible for managing information flows to our audience through our publication process and our web site.



Events Program

Lynne Grimsey/Tas Frilingos

ASPI's Events Team are responsible for the organisation, publicising and running of events (ASPI Events, 1.5 Track Dialogue, Visitors Program, Publication Launches), and the formalisation and maintenance of ASPI's relationships with think-tanks abroad.



Senior Research Officer

Raspal Khosa

ASPI's Senior Research Officer is responsible for the preparation and research of the Defence Almanac publication and upcoming defence capability annuals.

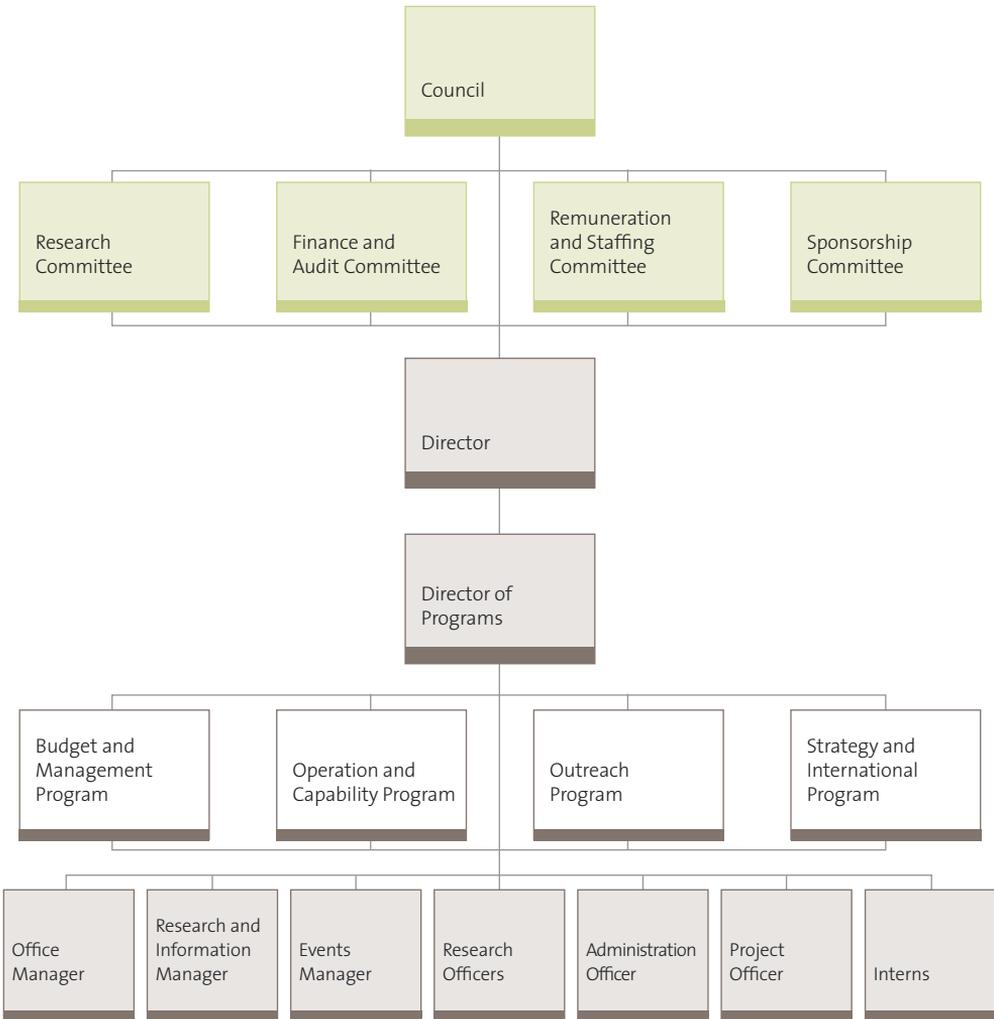


Information and Publications Officer

Paula Tychsen

ASPI's Information and Publications Officer is responsible for assisting with publication production, the events and visitors program and web site maintenance.

ASPI CORPORATE STRUCTURE 2004-2005





CHAPTER

5

FINANCIALS

STATEMENT BY DIRECTORS
ANAO INDEPENDENT AUDIT REPORT
FINANCIAL STATEMENTS



INDEPENDENT AUDIT REPORT

To the members of the Australian Strategic Policy Institute Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of the Australian Strategic Policy Institute Limited for the year ended 30 June 2005. The Australian Strategic Policy Institute Limited's Directors are responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial report named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial report.

If the users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report in the Australian Strategic Policy Institute Limited's annual report.

Scope

The financial report and Directors' responsibility

The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedule of Commitments; and
- Notes to and forming part of the Financial Report

of the Australian Strategic Policy Institute Limited for the year ended 30 June 2005.

The Directors of the Australian Strategic Policy Institute Limited are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Australian Strategic Policy Institute Limited, and that complies with accounting standards and other mandatory financial reporting requirements in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Australian Strategic Policy Institute Limited's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Australian Strategic Policy Institute Limited.

Independence

Independence requirements of the Australian professional ethical pronouncements and the *Corporations Act 2001* have been met. I have given to the directors of the company a written Auditor's Independence Declaration (a copy of which is included in the Directors' Report).

Audit Opinion

In my opinion, the financial report of the Australian Strategic Policy Institute Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Australian Strategic Policy Institute Limited's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Michael White
Executive Director

For the Auditor-General

Canberra
1 September 2005



1 September 2005

Peter Abigail
Director
Australian Strategic Policy Institute Limited
Level 2, Arts House
40 Macquarie Street
BARTON ACT 2600

Dear Peter,

**THE AUSTRALIAN STRATEGIC POLICY INSTITUTE LIMITED
AUDIT REPORT ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

Our audit of the 2004-05 financial statements of the Australian Strategic Policy Institute has now been completed. In accordance with section 26(2) of the *Auditor-General Act 1997*, I have pleasure in attaching for your information an unqualified audit report together with a copy of the associated financial statements.

Yours sincerely

Michael White
Executive Director

For the Auditor-General

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

STATEMENT BY DIRECTORS

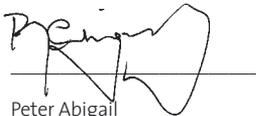
In our opinion:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of the company's performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Adrian Clunies-Ross
Deputy Chairman
1 September 2005



Peter Abigail
Director
1 September 2005
Canberra

Australian Strategic Policy Institute Limited

STATEMENT OF FINANCIAL PERFORMANCE

as at 30 June 2005

	Notes	2004–05 \$	2003–04 \$
Revenues from Ordinary Activities			
Revenues from government	4A	2,261,000	2,257,628
Sales of goods and services	4B	268,322	110,504
Interest	4C	65,742	100,474
Total Revenues from Ordinary Activities		2,595,064	2,468,606
Expenses from Ordinary Activities			
Employees	5A	1,427,092	1,328,678
Suppliers	5B	1,593,888	1,465,185
Depreciation and amortisation	5C	55,562	49,858
Value of assets disposed	5D	24,962	2,610
Write-down of inventory	5E	31,527	–
Total Expenses from Ordinary Activities		3,133,031	2,846,331
Operating surplus (deficit) from Ordinary Activities		(537,967)	(377,725)
Equity interests			
Net surplus (deficit) attributable to the Commonwealth		(537,967)	(377,725)
Opening accumulated results attributable to the Agency at the beginning of the period		827,061	1,204,786
Total available for appropriation		289,094	827,061
Accumulated surpluses at end of reporting period		289,094	827,061

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

	Notes	2004–05 \$	2003–04 \$
ASSETS			
Financial assets			
Cash	6A	811,839	1,577,905
Receivables	6B	89,271	57,125
Total financial assets		901,110	1,635,030
Non-financial assets			
Infrastructure, plant and equipment	7A, 7C	144,144	148,574
Intangibles	7B, 7C	37,085	55,204
Inventory	7E	96,882	65,508
Other non-financial assets	7D	38,448	7,634
Total non-financial assets		316,559	276,920
Total assets		1,217,669	1,911,950
LIABILITIES			
Provisions and payables			
Employee Payables	8A	95,640	51,257
Supplier Payables	8B	415,451	557,512
Employee Provisions	9	245,424	304,060
Total provisions and payables		756,515	912,829
Total liabilities		756,515	912,829
EQUITY			
Capital	10, 17	172,060	172,060
Accumulated results	10, 17	289,094	827,061
Total equity		461,154	999,121
Total Liabilities and Equity		1,217,669	1,911,950
Current liabilities		658,062	739,726
Non-current liabilities		98,453	173,103
Current assets		939,558	1,642,664
Non-current assets		278,111	269,286

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

STATEMENT OF CASH FLOWS

for the period ended 30 June 2005

	Notes	2004–05 \$	2003–04 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received			
Annual Funding		2,487,100	2,483,328
Sales of goods and services		328,938	145,855
Interest		67,655	102,973
Total cash received		2,883,693	2,732,156
Cash used			
Employees		(1,441,405)	(1,216,454)
Suppliers		(2,056,909)	(2,024,671)
GST paid to ATO		(93,471)	(60,652)
Total cash used		(3,591,785)	(3,301,777)
Net cash from/(used in) operating activities	11	(708,091)	(569,621)
CASH FLOWS FROM INVESTING ACTIVITIES			
Total cash received		–	–
Cash used			
Purchase of property, plant and equipment		(57,975)	(54,838)
Total cash used		(57,975)	(54,838)
Net cash from/(used in) investing activities		(57,975)	(54,838)
Net increase / (decrease) in cash held		(766,066)	(624,459)
Cash at the beginning of the reporting period		1,577,905	2,202,364
Cash at the end of the reporting period	6A	811,839	1,577,905

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

SCHEDULE OF COMMITMENTS

as at 30 June 2005

	2004–05	2003–04
	\$	\$
BY TYPE		
Other Commitments		
Operating leases	447,865	31,226
Total other commitments	<u>447,865</u>	<u>31,226</u>
Commitments Receivable	40,715	2,839
Net commitments	<u>407,150</u>	<u>28,387</u>
BY MATURITY		
All net commitments		
One year or less	183,747	21,776
From one to two years	183,747	6,611
From two to five years	39,656	–
Net commitments	<u>407,150</u>	<u>28,387</u>
Operating Lease Commitments		
One year or less	183,747	21,776
From one to two years	183,747	6,611
From two to five years	39,656	–
Net commitments	<u>407,150</u>	<u>28,387</u>

Operating leases comprise a lease for office accommodation and a novated agreement for the provision of a motor vehicle to a senior officer.

The lease for office accommodation has an option for a further term of three years.

The lease payments may be reviewed every two years.

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Description	Note
Statement of significant accounting policies	1
Adoption of Australian Equivalents to International Financial Reporting Standards from 2005–2006	2
Economic Dependency	3
Operating Revenues	4
Operating Expenses	5
Financial Assets	6
Non-Financial Assets	7
Payables	8
Provisions	9
Non-Cash Financing and Investing Activities	10
Cashflow Reconciliation	11
Remuneration of Directors	12
Related Party Disclosures	13
Remuneration of Officers	14
Remuneration of Auditors	15
Financial Instruments	16
Equity movement table	17
Contingent Liabilities and Contingent Assets	18

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

NOTE 1 — Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial statements are:

a) Basis of Accounting

The financial statements have been prepared as a general purpose financial report which complies with Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and other mandatory professional reporting requirements, and the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous year.

The financial statements have been prepared on an accrual basis. The financial statements are in accordance with the historical cost convention, and except where stated, do not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

b) Comparatives

Comparative figures for the 2003–2004 financial year are provided.

c) Intangibles

The ASPI's intangibles comprise purchased software and internally developed web site. The asset is carried at cost.

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value. No write-down to recoverable amount has been made in 2004–05.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Useful lives are:

	2004–2005	2003–2004
Web Site	3 years	3 years
Purchased Software	3–6 years	3 years

d) Revenue Recognition

(i) Revenues from Government

The full amount of funding received from the Department of Defence is recognised as revenue.

(ii) Resources Received Free of Charge

Goods and services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

(iii) Other Revenues

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

e) Taxation

The ASPI is exempt from all forms of taxation except fringe benefits tax, the goods and services tax and payroll tax.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

f) Non-Current Assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

g) Receivables

Trade debtors are carried at amounts due. The collectibility of debts is assessed at balance date and a general provision made for debts that are doubtful.

h) Property, Plant and Equipment

Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation or amortisation. All property, plant and equipment is recorded at the lesser of written-down value or recoverable value as required by AASB 1010 Recoverable Amount of Non-Current Assets. In determining the recoverable value, cash flows were not discounted.

In accordance with AASB 1021 Depreciation, the useful lives of property, plant and equipment are reviewed annually, and adjusted where necessary.

The Company recognises all acquisitions with an expected life exceeding twelve months and a cost value exceeding \$500. Acquisitions with a cost value less than \$500 are not capitalised, but are expensed in the year of acquisition.

ASPI acquired assets at no cost from the Department of Defence in 2001/2002. These assets were initially recognised as contributions by owners at fair value at date of contribution. An equivalent adjustment was made directly against equity.

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the company in future years. Costs incurred on property, plant and equipment which do not meet the criteria for capitalisation are expensed as incurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

The straight-line method of depreciation has been adopted for all property, plant and equipment assets, at rates based on their assessed useful life to the company. Leasehold improvements are amortised on a straight line basis over the unexpired period of the lease. Assets are depreciated or amortised from the date the asset is held ready for use.

The following useful lives are used:

	2004–2005	2003–2004
Infrastructure, plant and equipment	2 to 15 years	2 to 15 years

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

i) Leases

Operating leases are not capitalised and rental payments are expensed in the year in which they are incurred.

j) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company. Trade accounts are normally settled within 30 days.

k) Employee Entitlements

Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represents the amount which the company has a present obligation to pay resulting from employees' services provided up to balance date. The provisions have been calculated at undiscounted amounts based on current wages and salary rates and include related on-costs.

The portion of the provision for annual leave that is current has been assessed based on leave expected to be taken within 12 months.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Long service leave

The provision for long service leave reflects the present value of the estimated future cash flows to be made in respect of all employees, resulting from employees' services provided up to balance date. Related on-costs have also been included in the provision. The portion of the provision for long service leave that is current has been determined based on leave expected to be taken within 12 months.

Provisions for leave entitlements which are not expected to be settled within twelve months are discounted using rates attaching to notional government securities at balance date, which most closely match the terms of maturity of the related liabilities. In determining the provision for employee entitlements, consideration has been given to future increases in wage and salary rates, and expected company's staff departures.

Sick leave

No provision has been made for sick leave. All sick leave is non-vesting and the average sick leave taken by staff is estimated to be less than the sick leave annually accrued.

l) Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

m) Financial Instruments

Accounting policies for financial instruments are stated at Note 16.

n) Insurance

The ASPI has insured for risks through the Government's insurable risk managed fund, called 'Comcover'. In addition ASPI has taken out workers compensation cover through 'Comcare'.

o) Rounding

Amounts are rounded to the nearest dollar.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

p) Return of Funds

The ASPI's annual funding agreement provides that if ASPI has surplus funds, in respect to its annual funding, in excess of 5% of the annual funding amount, the excess must be returned to the Department of Defence. There is no return of funds for the 2004–2005 financial year.

q) Inventories

ASPI has adopted the first in first out (FIFO) method of assigning costs to inventories.

Where the cost of an inventory item exceeds the net realisable value (NRV) of that item, the cost has been written down to NRV.

The carrying amount of inventories sold have been recognised as an expense in the financial year in which the related revenue is recognised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 2 – Adoption of Australian Equivalents to International Financial Reporting Standards from 2005–2006

The Australian Accounting Standards Board has issued replacement Accounting Standards to apply from 2005. The new standards are the Australian Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new Standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005–06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing Australian Equivalents to IFRSs is to enable Australian entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

Australian Equivalents to IFRS contain certain additional provisions that will apply to not-for-profit entities, including ASPI. Some of these provisions are in conflict with IFRSs, therefore ASPI will only be able to assert that the financial report has been prepared in accordance with the Australian Equivalents to IFRS.

Existing AASB standards that have no IFRS equivalent will continue to apply.

Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for 2004–05 disclose:

- An explanation of how the transition to the Australian Equivalents is being managed; and
- A narrative explanation of the key differences in accounting policies arising from the transition.
- Any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRSs; and
- If the impacts in the point above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Management of the transition to AASB Equivalents to IFRS

ASPI has taken the following steps in preparation towards the implementation of Australian Equivalents:

- ASPI's Finance Committee will be responsible for overseeing the transition and implementation of the Australian Equivalents to IFRSs.
- The following key steps have been undertaken:
 - Identification of all major accounting policy differences between current AASB standards and the Australian Equivalents to IFRSs.
 - Identification of any system changes necessary to be able to report under the Australian Equivalents, including those necessary to enable capture
 - of data under both sets of rules for 2004–05.
 - Preparation of a transitional balance sheet as at 1 July 2004, under the Australian Equivalents.
- Preparation of an Australian equivalent balance sheet at the same time the 30 June 2005 Financial Statements are prepared.
- The transition will require the following additional step to be undertaken:
 - Meeting reporting deadlines set by the Department of Finance for 2005–06 balance sheet under Australian Equivalent Standards.
- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track.

– Consultants will be engaged where necessary to assist with each of the above steps.

Major Changes in Accounting Policy

Changes in accounting policies under Australian Equivalents are applied retrospectively i.e. as if the policy had always applied. This rule means that a balance sheet prepared under the Australian Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by AASB 1 *First-time Adoption of Australian Equivalents to International Financial reporting Standards*. This will enable the 2005–06 financial statements to report comparatives under the Australian Equivalents also.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Changes to major accounting policies are discussed in the following paragraphs.

Managements review of the quantitative impacts of AEIFRS represent the best estimate of the impacts of the changes as at 30 June 2005. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on ASPI's operations;
- potential amendments to the AEIFRS and AEIFRS interpretations; and
- emerging interpretation as to the accepted practice in the applications of AEIFRS and the AEIFRS interpretations.

Impairment of Assets

Under AEIFRS, Intangibles and Property, Plant and Equipment will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment (impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. Value in use is the net present value of net cash inflows for cash generating units assets of ASPI and depreciated replacement cost for other assets that would be replaced if ASPI were deprived of them. The most significant changes are that the recoverable amount is only generally to be measured where there is an indication of impairment. Previously all assets' recoverable amount was tested.

However, an impairment assessment of ASPI's intangible assets indicated that no adjustments will be required.

Intangible Assets

ASPI currently recognises its intangible assets at cost and as such should not be impacted by the introduction of Australian Equivalent Accounting Standards.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Inventory

ASPI recognises inventory held for sale at cost. This is consistent with new Australian equivalent standard AASB102 *Inventories*.

AASB102 also contains provisions for inventory held for distribution for no consideration or at a nominal amount to be carried at the lower of cost or current replacement cost. At reporting date ASPI held no such inventory.

Employee Benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

As noted in the 2003–04 Financial Report, the same discount rate will be used under Australian Equivalents.

AEIFRS also require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, ASPI does not expect that any material amounts of the annual leave balance will not be taken in the next 12 months. Consequently, there are no adjustments for non-current annual leave.

Financial Instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. Therefore, the amounts for financial instruments presented in ASPI's 2004–05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

ASPI will be required by AEIFRS to restate the carrying amount of financial instruments at 1 July 2005 to align with the accounting policies required by AEIFRS. It is expected that the carrying amounts of financial instruments held by ASPI will be unaffected by this requirement.

ASPI has assessed there will be no material impact on the financial report had it been prepared using the Australian equivalents to IFRSs.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 3 — Economic Dependency

The Australian Strategic Policy Institute was incorporated as a Company Limited by Guarantee on 22 August 2001 and is controlled by the Commonwealth of Australia.

The Institute is dependent on funding from the Department of Defence for its continued existence and ability to carry out its normal activities. The funding agreement with Department of Defence continues this arrangement to 30 June 2008.

Note 4: Operating Revenues

	2004–05	2003–04
	\$	\$
Note 4A — Revenues from Government		
Department of Defence Funding	2,261,000	2,257,000
Resources received free of charge	–	628
Total	2,261,000	2,257,628
Note 4B — Sales of Goods and Services		
Goods and Services	268,322	110,504
Total	268,322	110,504
Goods and services were sold to:		
Government	106,841	74,334
Non-Government	161,481	36,170
	268,322	110,504
Note 4C — Interest		
Interest income	65,742	100,474
Total	65,742	100,474

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 5: Operating Expenses

	2004–05	2003–04
	\$	\$
Note 5A — Employee Expenses		
Salaries & Wages	1,113,604	922,388
Superannuation	137,021	172,756
Recruitment Expenses	335	35,311
Motor vehicle expenses	23,987	34,089
Long Service Leave	3,901	42,397
Annual Leave	88,109	89,869
FBT	18,987	14,018
Payroll Tax	18,455	–
Other Employee Expenses	22,693	17,850
Total	1,427,092	1,328,678

Note 5B— Suppliers Expenses

Office Accommodation Operating Lease Rentals	154,197	–
Other Supplier Expenses	1,439,691	1,465,185
Total	1,593,888	1,465,185

Note 5C — Depreciation and Amortisation

Depreciation — Furniture & Fittings	3,062	3,012
Depreciation — Plant & Equipment	23,014	23,461
Amortisation — Computer Software	4,921	4,288
Amortisation — Leasehold Improvements	877	–
Amortisation — ASPI Web Site	23,688	19,097
Total	55,562	49,858

Depreciation expenses are \$507 lower than they would have been as a result of the extension of useful lives of items of software.

Note 5D — Value of assets disposed

Proceeds from disposal	–	–
Net book value of assets disposed	24,962	2,610
Total	24,962	2,610

Note 5E— Write down of inventory

Write down of inventory	31,527	–
Total	31,527	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 6 — Financial Assets

	2004–05	2003–04
	\$	\$
Note 6A — Cash		
Cash at bank	811,739	1,577,840
Cash on hand	100	65
Total	811,839	1,577,905

Note 6B — Receivables

Goods and services	4,445	3,590
GST receivable	22,860	35,243
Accrued Income	10,288	12,201
Other receivables	51,678	6,091
Total	89,271	57,125

Receivables are aged as follows:

less than 30 days	88,323	57,050
30 to 60 days	314	25
60 to 90 days	210	–
more than 90 days	424	50
	89,271	57,125

Note 7: Non—Financial Assets

	2004–05	2003–04
	\$	\$
Note 7A — Infrastructure, plant and equipment		
Furniture & Fittings (at cost)	43,357	45,761
Furniture & Fittings — Accumulated Depreciation (at cost)	(10,046)	(7,836)
Leasehold Improvements (at cost)	15,624	–
Leasehold Improvements Amortisation (at cost)	(877)	–
Plant & Equipment (at cost)	135,649	169,854
Plant & Equipment — Accumulated Depreciation (at cost)	(39,563)	(59,205)
Total	144,144	148,574

Note 7B — Intangibles

Computer Software (at cost)	23,746	18,496
Computer Software Accumulated Amortisation (at cost)	(13,936)	(9,015)
Web Site (at cost)	82,132	75,812
Web Site Accumulated Amortisation (at cost)	(54,857)	(31,169)
Web Site WIP	–	1,080
Total	37,085	55,204

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 7C — Analysis of Property, Plant, Equipment and Intangibles

A) Reconciliation of the opening and closing balances of property, plant and equipment and intangibles

Item	Furniture & fittings	Leasehold improvements	Infrastructure, plant and equipment	Total infrastructure, plant and equipment	Computer software	Web Site	Total intangibles	Total
Gross Value as at 1 July 2004	45,761	—	169,854	215,615	18,496	76,892	95,388	311,003
Additions:								
Purchase of new assets	912	15,624	29,869	46,405	5,250	6,320	11,570	57,975
Disposals:								
Disposal of assets	(3,316)	—	(64,074)	(67,390)	—	(1,080)	(1,080)	(68,470)
Gross value as at 30 June 2005	43,357	15,624	135,649	194,630	23,746	82,132	105,878	300,508
Accumulated Depreciation/ Amortisation								
As at 1 July 2004	7,836	—	59,205	67,041	9,015	31,169	40,184	107,225
Depreciation / Amortisation	3,062	877	23,014	26,953	4,921	23,688	28,609	55,562
Depreciation / Amortisation — Disposals	(852)	—	(42,656)	(43,508)	—	—	—	(43,508)
Accumulated Depreciation/Amortisation as at 30 June 2005	10,046	877	39,563	50,486	13,936	54,857	68,793	119,279
Net book value as at 30 June 2005	33,311	14,747	96,086	144,144	9,810	27,275	37,085	181,229
Net book value as at 1 July 2004	37,925	—	110,649	148,574	9,481	45,723	55,204	203,778

Australian Strategic Policy Institute Limited

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

	2004–05	2003–04
	\$	\$
Note 7D — Other non-financial assets		
Prepayments	38,448	7,634
Total	38,448	7,634
Note 7E — Inventory		
Inventory	96,882	65,508
Total	96,882	65,508

Note 8 — Payables

	2004–05	2003–04
	\$	\$
Note 8A — Employees		
Salary and Wages payable	52,676	30,234
Other employee payable	42,964	21,023
Total	95,640	51,257
Note 8B — Suppliers		
Trade creditors	227,723	404,248
Accrued supplier expenses	84,836	124,894
Unearned Income	102,892	28,370
Total	415,451	557,512

All supplier payables are current

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 9 – Provisions

	2004–05	2003–04
	\$	\$
Employees		
Annual Leave Provision	146,971	130,957
Long Service Leave Provision	98,453	173,103
Total	245,424	304,060

The above provisions include a component for superannuation on-costs.

Employee liabilities are categorised as follows:

Current	146,971	130,957
Non Current	98,453	173,103

Note 10 – Total Equity

	2004–05	2003–04
	\$	\$
Capital	172,060	172,060
Total Accumulated Results	289,094	827,061
Total	461,154	999,121

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 11 – Cash Flow Reconciliation

	2004–05	2003–04
	\$	\$
Reconciliation of operating surplus to net cash provided by operating activities:		
Net surplus (deficit)	(537,967)	(377,725)
Depreciation / Amortisation	55,562	49,858
Asset write offs	24,962	2,607
Change in assets and liabilities		
Decrease (Increase) in Receivables	(32,146)	(13,159)
Decrease (Increase) in Other Non-financial Assets	(30,814)	(739)
Decrease (Increase) in Inventory	(31,374)	(65,508)
Increase (Decrease) in Payables	(97,678)	(275,632)
Increase (Decrease) in Provisions	(58,636)	110,676
Net cash provided by operating activities	(708,091)	(569,621)

Note 12 — Remuneration of Directors

	2004–2005	2003–2004
	No.'s	No.'s
a)		
nil–\$10,000	12	12
Total:	12	12
b) The aggregate amount of total remuneration of Directors shown above.	38,857	31,686
c) The aggregate amount of superannuation payments in connection with the retirement of Directors included in total remuneration	2,387	1,835

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 13 – Related Party Disclosures

Directors of the Institute

The Directors of the Institute during the year were:

Ric Smith, Secretary to the Department of Defence

Michael L'Estrange, Secretary of the Department of Foreign Affairs and Trade (Commenced Jan 05)

Ashton Calvert, Secretary of the Department of Foreign Affairs and Trade (Ceased Dec 04)

Robert John O'Neill (Ceased Feb 05)

J. Roland Williams

Jocelyn Margaret Newman

James Joseph Carlton

Stephen Loosley

Adrian Clunies-Ross

J. Des C.C. Moore

Alan Dupont

J J A Wallace

Paul McClintock

The aggregate remuneration of Directors is disclosed in Note 12.

No director has entered into a material contract with the Company during the reporting period, and there were no material contracts involving director's interests existing at year end. The Commonwealth of Australia is the controlling entity of ASPI. ASPI supplies services to the Commonwealth. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers and there are no exclusive rights to supply any such services.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 14 — Remuneration of Officers

	2004–2005	2003–2004
	No.'s	No.'s
nil–\$100,000	2	–
\$130,001–\$140,000	1	3
\$140,001–\$150,000	–	2
\$160,001–\$170,000	1	–
\$170,001–\$180,000	1	–
\$180,001–\$190,000	1	–
\$210,001–\$220,000	1	–
\$230,000–\$240,000	–	1
Total:	<u>7</u>	<u>6</u>
	<u>\$</u>	<u>\$</u>
The aggregate amount of total remuneration of officers shown above.	<u>982,662</u>	<u>934,913</u>

The remuneration includes all officers classified at equivalent Senior Executive Service levels during the financial year.

Note 15 — Remuneration of Auditors

	2004–05	2003–04
	\$	\$
Remuneration to the Auditor-General for auditing the financial statements	<u>12,000</u>	<u>9,000</u>
	<u>12,000</u>	<u>9,000</u>
Remuneration to Acumen Alliance for internal audit services	<u>11,040</u>	<u>8,280</u>
	<u>11,040</u>	<u>8,280</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 16 — Financial Instruments

Note 16A — Terms, Conditions & Accounting Policies

2004 Financial Instrument Class	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets (Recognised):		Financial assets are recognised when control over future economic benefits is established and the amount of the benefits can be reliably measured	
Cash	6A	Cash is recognised at its nominal amount.	Interest is paid at approximately 5.2% per annum.
Receivables — goods and services	6B	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are net 30 days.
Financial Liabilities (Recognised):		Financial Liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors	8A & 8B	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 16B — Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate	Fixed Interest Rate					Non-Interest Bearing	Total	Weighted Average Effective Interest Rate			
			1 year or less		1 to 5 years		> 5 years			03-04	04-05	03-04	
			04-05	03-04	04-05	03-04	04-05						03-04
		\$	\$	\$	\$	\$	\$	\$	\$	%	%	%	
Financial Assets													
Cash at Bank	6A	128,324	927,840	683,415	650,000	-	-	-	811,739	1,577,840	5.2%	4.3%	
Cash on hand	6A	-	-	-	-	-	-	100	65	65	N/A	N/A	
Receivables — Goods and Services	6B	-	-	-	-	-	-	89,271	57,125	57,125	N/A	N/A	
Total Financial Assets (Recognised)		128,324	927,840	683,415	650,000	-	-	89,371	57,190	1,635,030			
Total Assets										1,217,669	1,911,950		
Financial Liabilities													
Trade creditors	8A & 8B	-	-	-	-	-	-	511,091	608,769	511,091	608,769	N/A	
Total Financial Liabilities (Recognised)		-	-	-	-	-	-	511,091	608,769	511,091	608,769		
Total Liabilities										756,515	912,829		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 16C — Net Fair Values of Financial Assets and Liabilities

	Note	2004–05		2003–2004	
		Total carrying amount \$	Aggregate net fair value \$	Total carrying amount \$	Aggregate net fair value \$
Financial Assets (Recognised)					
Cash					
Receivables — goods and services	6A	811,839	811,839	1,577,905	1,577,905
Total Financial Assets (Recognised)	6B	89,271	89,271	57,125	57,125
		901,110	901,110	1,635,030	1,635,030
Financial Liabilities (Recognised)					
Trade creditors	8A & 8B	511,091	511,091	608,769	608,769
Total Financial Liabilities (Recognised)		511,091	511,091	608,769	608,769

Financial assets

The net fair values of cash, deposits on call and non-interest bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair value of trade creditors, all of which are short term in nature, are approximated by their carrying amounts.

Note 16D — Credit Risk Exposure

The economic entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The economic entity has no significant exposures to any concentrations of credit risk.

All figures for credit risk do not take into account the value of any collateral or other security.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2005

Note 17 — Equity Movement Table

	Capital		Accumulated results		Total equity	
	2004–2005	2003–2004	2004–2005	2003–2004	2004–2005	2003–2004
Balance at 1 July 2004	\$ 172,060	\$ 172,060	\$ 827,061	\$ 1,204,786	\$ 999,121	\$ 1,376,846
Operating result	-	-	(537,967)	(377,725)	(537,967)	(377,725)
Net revaluation increases (decreases)	-	-	-	-	-	-
Transfers to/(from) reserves	-	-	-	-	-	-
Injection / (Disposal) of capital	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Balance as at 30 June 2005	172,060	172,060	289,094	827,061	461,154	999,121

Australian Strategic Policy Institute Limited

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

Note 18 — Contingent Liabilities and Contingent Assets

The ASPI had no contingent liabilities or contingent assets as of balance date.

