

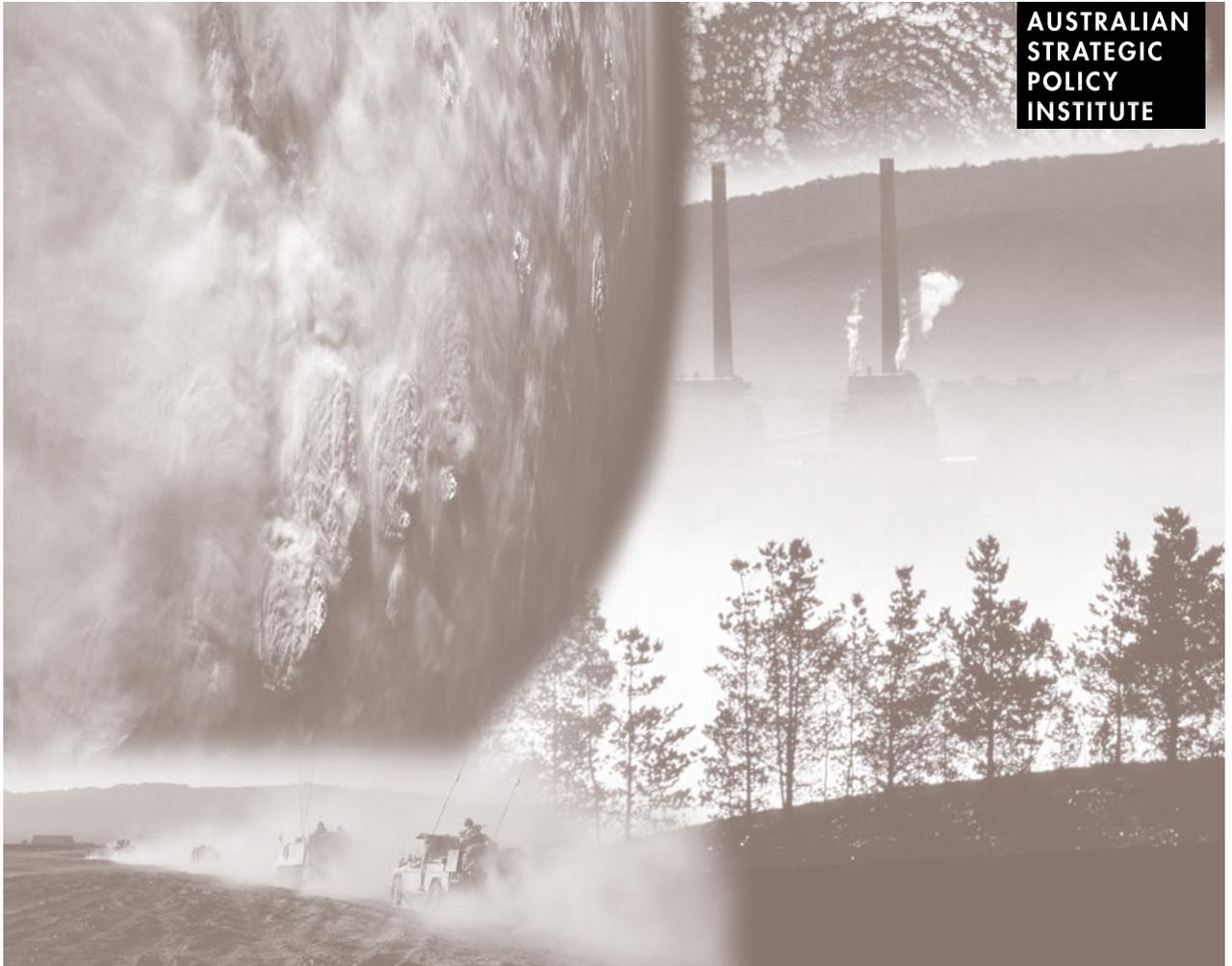
ANNUAL REPORT

2007-2008

A S P I

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AUSTRALIAN
STRATEGIC
POLICY
INSTITUTE





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ANNUAL REPORT

2007-2008

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AUSTRALIAN
STRATEGIC
POLICY
INSTITUTE

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First published October 2008

Published in Australia by the Australian Strategic Policy Institute

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ISSN 1 447 5510

5 September 2008

The Hon Joel Fitzgibbon MP
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 2008.

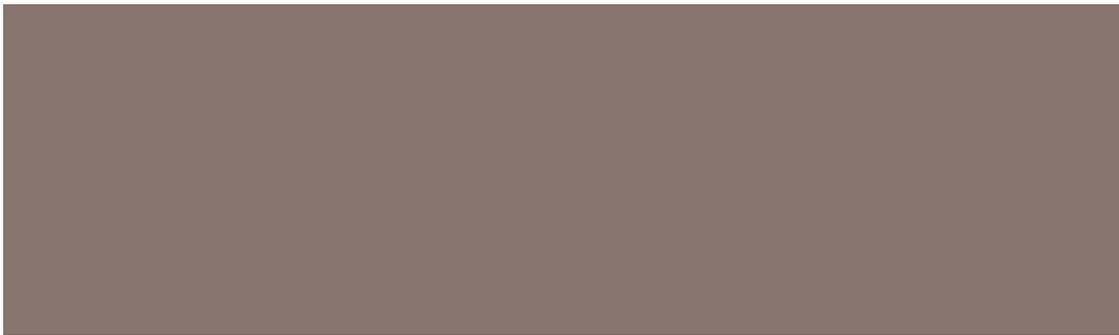
The report is presented to you in accordance with section 36 of the *Commonwealth Authorities and Companies Act 1997*.

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

Yours sincerely



Mark Johnson
Chairman



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A MESSAGE FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

2007–08 was the seventh year of ASPI operations and signified the completion of the third phase of development for the Institute which has focused on building a foundation for further growth. The Institute continued to expand and refine its activities: providing independent analysis and policy advice to government; informing the public about important issues in the defence, strategic and national security debates; gaining wider recognition—both nationally and internationally—as a respected independent research institute; and demonstrating its potential to provide further benefits to the Australian government and wider community.

ASPI is now a multifaceted organisation with programs delivering publications, events, and commissioned reports and other products across a wide range of national security issues. Our profile is expanding and our audience growing, particularly from initiatives offering events in state capital cities and making better use of the ASPI website. Wider awareness of the range and quality of ASPI publications has prompted a significant increase in our readership, both in Australia and overseas.

The annual *Global Forces* conference is established as the pre-eminent strategic affairs conference conducted in Australia, attracting prominent international and Australian speakers and participants. The appointment of two members of ASPI staff to the Defence Minister's Advisory Panel for the Defence White Paper is evidence of the high standing in which the Institute, its people and its work are held.

We continued to improve the impact of our activities through collaborative arrangements with government, business, academic and other research organisations; our partnerships with corporate sponsors; and our facilitation of inter-sectoral, inter-disciplinary and whole-of-government interactions in an ongoing program of discussions and seminars. Our networks of members, associates and others interested in defence, strategic and national security affairs provide a broad base from which to expand public debate.



ASPI is a well-managed business with a solid foundation for further development. As a government-owned corporation ASPI needs Commonwealth funding as the key enabler for its operations. This is unlikely to change, but the call on Commonwealth funds is minimised by our endeavours to secure income from other sources. The Institute has achieved a significant and sustainable level of such income over the past three years. This supports the modest expansion of ASPI's capabilities and products and contributes to meeting operating costs, thereby reducing the call on Commonwealth funds.

2007–08 also marked the final period of the initial funding agreement between the Commonwealth and ASPI. A formal review into the Institute's operations, by a panel chaired by VADM David Shackleton (Retd), considered the performance of the Institute in achieving the purposes for establishing an independent, non-partisan think-tank (as outlined in the Charter letter); the effectiveness of its products in achieving the goals outlined in the ASPI Constitution; and whether the Institute is the best mechanism in delivering the government's identified objectives.

The Council welcomed the review as an opportunity to gain independent assessment of the ASPI operations and to provide a sound basis for the further evolution of the Institute. Members of Council and staff of ASPI attended briefings and provided unfettered access to management information for the Review Panel.

The Report of the Review was delivered in July 2007 and will form the basis of the government's considerations about future funding arrangements. It is most encouraging that the government has extended the existing agreement until 30 June 2009 to allow for the negotiation of a new funding agreement. It is expected many of the recommendations of the Review will be implemented.

This annual report demonstrates that ASPI has had a highly productive year with many notable accomplishments. The Council believes ASPI is performing well in fulfilling its Charter and is confident of the continued and successful development of the Institute and its relevance to fundamental and important security and strategic choices facing Australia.



Mark Johnson

Chairman



Peter Abigail

Executive Director



Photos from ASPI 2007 Global Forces Conference

‘...acknowledging the continuing value of ASPI’s work in encouraging informed debate about Australia’s strategic and security policy challenges.’

The Hon Stephen Smith MP, Minister for Foreign Affairs, ASPI-Thales National Security Dinner 9 April 2008.



CHAPTER

1

REPORT ON OPERATIONS 2007–08

OUTCOMES

OUTPUTS

ENGAGING WITH THE BROADER COMMUNITY

OTHER WAYS WE MEET OUR MANDATE

SOURCES OF FUNDING

FUTURE PROSPECTS

The financial year 2007–08 was the seventh year of the Commonwealth’s initial funding agreement with ASPI, commencing in 2000–01. Throughout the year, the Institute continued to refine its product lines, reached wider audiences, and engaged more productively with government and business sectors, which further enhanced its reputation as Australia’s leading strategic, defence, and national security policy research centre.

ASPI’s Charter directs that the Institute’s focus is on strategic and defence policy aspects of Australia’s security.

Australia’s security concerns touch upon a range of both traditional and non-traditional threats. Central amongst the concerns on the traditional security agenda are issues that relate to the use of force or coercion for political objectives. The non-traditional agenda is much broader and includes considerations of economic, environmental and societal security. Given our limited resources, ASPI’s research is prioritised on issues of greatest importance to the National Security Committee of Cabinet. In practice, that means we focus mostly upon the traditional agenda, although the non-traditional agenda is developing a higher profile.

Strategic policy concerns the identification of Australia’s grand strategic objectives, the mechanisms by which those objectives are pursued and the programs for pursuing them. Australia’s whole-of-government national security policy embraces the evolving strategic environment, international and domestic security instruments, and a range of programs for realising strategic outcomes. In relation to the contribution that the Defence portfolio might make to achieve those outcomes, strategic policy concerns the employment of shaping, coercive, responsive and preventive measures, including the use and threat of force as well as a range of peacetime measures for our military forces.

Defence policy addresses those aspects of government security policy which relate to Defence activities and the preparation of Defence capabilities to fulfil the ends of policy.

ASPI’s work therefore covers all aspects of national decision-making which bear on Australia’s security interests and whole-of-government policy responses, with an emphasis on political, economic and military security. That includes:

- Australia’s strategic environment and context, embracing:
 - Australia’s international and domestic security interests
 - global and regional strategic trends and influences
 - traditional and non-traditional security threats including trans-national security issues
 - international security management arrangements

- Australia's strategic policy fundamentals; including national capacity, strategic objectives and military strategy
- alliances and international defence relationships
- Australia's domestic and homeland security arrangements
- roles, tasks, concepts, force structure and preparedness of the ADF
- capability options and priorities for the ADF
- Defence budget and management issues
- economic issues affecting national security
- industry and infrastructure issues
- the role and impact of public opinion.

The opinions of the Institute's staff continue to be highly sought by commentators in the media, and its policy analysis and ideas generate considerable interest both inside government and among other interested stakeholders within industry, academia and the general public. This report sets out the achievements of ASPI in terms of our outputs and the contribution we made against the objectives of the organisation.

Our outputs take various forms. We produce a range of publications that deal with the full spectrum of strategic and defence policy challenges as well as wider national security issues. During 2007–08 we improved the accessibility of our reports by providing free downloads of our web-based products. We also conduct significant numbers of events each year, which include seminars, conferences, luncheons, dinners, bilateral dialogues, roundtable discussions and a program of international visitors. Some of these events are focused on facilitating interactions between members of the policy community whilst others are open to wider attendance. Each of our outputs contributes to at least one of our objectives, but more often they deliver benefits across 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 in a democratic society. An open and frank exchange of views adds greatly to the robustness of 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 Australian governments have undertaken some important initiatives on this front. However, a sustained program of public consultation on strategic and defence issues also needs the support of other independent organisations. ASPI has a special and unique role in this area.

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 strategic, defence and national security policy areas, 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 those proposed by government agencies. In the end contestability provides for the competition of ideas and contributes to generating a debate among decision-makers, and this leads to better informed strategic decisions for Australia.

3. To nurture expertise in defence and strategic policy

ASPI helps Australians in government, the Australian Defence Force (ADF), academia, industry, the media and other sectors 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. ASPI has a role to play in the development of this expertise.

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. ASPI's key focus is on Australian concerns and priorities. However, through its program of research and publications, through seminars and workshops, through hosting international experts on visits to Australia, through participation in international conferences, and through formal dialogues, 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 strategic policy and defence requirements in new ways.

OUTPUTS

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

Publications

The objective for ASPI's publications program is to produce products 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 budget.
- Each publication meeting the following criteria to a high degree:

- 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 used and discussed in further public comment.

In 2007–08, ASPI released 42 publications in the six distinct formats adopted in 2006–07. This was an increase of eight over the previous year’s output, with the growth occurring in our web-only publications.

Publication	FY 2006–07	FY 2007–08
Strategy	6	6
Strategic Insights	9	6
Special Report	6	9
Yearbook	2	1
Strategic Policy Forum	2	2
Policy Analysis	9	18

Our principal 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. Complementing the *Strategy* series are the *Strategic Insights*. These shorter papers provide information or comment on specific issues as they arise in the public debate in a format comparable to the larger *Strategy* publications.

Introduced last year, the *Special Report* series provides a very cost-effective vehicle for dissemination of analyses and comment on a wide range of issues. These are less complex documents, however the content maintains the high standards of analysis and production ASPI is known for.

Our fourth style of publication is a ‘yearbook’ series. ASPI produces an annual analysis on the Defence Budget, titled the *Cost of Defence*. It has made a significant impact on the quality

of the debate on the budgetary and management aspects of the Defence portfolio, and has gained the attention of Members of Parliament and Senators, interested government agencies, and media commentators. We also produce, on a biennial basis, the ASPI *Australian Defence Almanac*. The next edition is scheduled for publication in 2008–09.

Also introduced last year, were the web-based *Strategic Policy Forum* and *Policy Analysis* series. An online collaboration between ASPI and other subject matter experts, the *Strategic Policy Forum* presents a virtual discussion to give different perspectives on topical issues. The aim of the *Policy Analysis* series is to provide concise analysis of topical issues by individual ASPI experts. Both forms of web-based publication are designed to foster debate among internet users.

A list of ASPI's 2007–08 publications is provided in **Annex A**.

ASPI also produces specific reports and/or other activities commissioned by individuals or organisations. This work is separate from our core research and publications programs and is funded independently by the commissioning organisation. The key customer for this type of work, including classified tasks, is the government. 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.

Expanding Our Audience

The ASPI Council agreed to a make concerted effort to increase the readership base for our research in 2007–08, by offering free downloads of ASPI publications to non-members.

Across the financial year, a monthly average of 3,650 downloads has been achieved, with the average over the period January – June 2008 rising to 4,356. Of these downloads 75% have been for publications less than 12-months old which previously required payment, representing a marked increase in readership. The other 25% of downloads have been older publications, indicating the continuing relevance and value of ASPI publications.

Australia remains the largest consumer base of ASPI research and accounts for about 45% of all downloaded material. However, considerable interest in ASPI research has also been shown from the United States, United Kingdom, Singapore, China, Indonesia and countries from the European Union.

Free downloads of current ASPI material for non-members commenced on 1 July 2007. Prior to this date an average of 1,120 publications were downloaded per month, with almost all downloads being older material. The current average of 3,650 represents a 225% increase in the number of monthly publication downloads over 12-months.

Events

'ASPI is a remarkably effective forum to discuss and debate important issues relating to the strategic policy goals of the major international actors within the Asia–Pacific region.'

The Ambassador of the United States, HE Mr Robert McCallum,
ASPI-Unisys Defence and Security Luncheon, 2 August 2007

ASPI's events program embraces a range of different audiences with key objectives tailored for each type. Restricted events, which include most seminars and roundtables as well as strategic dialogues, involve mainly members of the security community, address specific issues related to policy development and are normally conducted under the Chatham House Rule. Next, a number of events including the *National Security Dinner* series and *Parliament House Addresses* are limited to invited attendees who are drawn from various sections of the Australian community. And finally, open events, such as the *Defence and Security Lunches* and the *Global Forces International Conference*, are designed to provide opportunities for the widest possible audience to engage with leading Australian and international strategic thinkers.

National Security Seminars

The National Security Seminars are geared towards generating and sharing ideas within the strategic policy and national security communities. ASPI fulfils a facilitation role in bringing participants from different portfolios, jurisdictions and sectors together to discuss topical national security issues. Attendance is by invitation only and the series is conducted under the Chatham House Rule allowing the participants to speak freely and exchange ideas.

The 2007–08 series of National Security Seminars addressed the security of Australia's offshore oil and gas industry, maritime and port security, managing risk in national security, the next Defence White Paper, and ADF operational concepts.

Roundtable Discussions/Forums

ASPI hosts many Roundtable forums at its Barton premises throughout the year, engaging a wide range of international and Australian experts in discussions about strategic and national security affairs. Many forums are convened at the request of overseas visitors seeking direct interaction with ASPI staff. Others are initiated by the Institute in support of its research program.

International Strategic Dialogues

ASPI supports Australian diplomacy by conducting 1.5 Track dialogues with institutions from China, Japan and India on a regular basis. In 2007–08 the focus for such exchanges was on China and Japan. A delegation from ASPI travelled to Beijing and Shanghai under the auspices of the fourth Australia–China 1.5 track dialogue in October 2007 for discussions with a range of Chinese research institutes.

ASPI hosted a delegation from Japan for the 4th Australia–Japan Security Roundtable on 10–11 December 2007. This dialogue also acknowledged that 2007 marked the 50th anniversary of the 1957 Commerce Agreement.

These events gave ASPI staff insights into international attitudes and perspectives, and provided an opportunity for ASPI to inform interlocutors about Australian approaches and perspectives on key challenges to international security.

National Security Dinners

In 2007–08, we continued the series of National Security Dinners, co-hosted by Thales Australia. Two dinners were held in Sydney and one in Adelaide. The aim of this series is to facilitate interaction between Cabinet Ministers (and their Opposition and foreign counterparts) and selected audiences on matters of national security interest. Guest speakers for 2007–08 were The Hon Alexander Downer MP, The Hon Dr Brendan Nelson MP and The Hon Stephen Smith MP.

ASPI Parliament House Addresses

ASPI conducted two Parliament House Addresses in 2007–08. The aim of these events is to provide opportunities for distinguished speakers to address topics of major national security interest. In August 2007, the guest speaker was Kevin Rudd MP, the Federal Leader of the Labor Party, who released key aspects of Labor's defence and strategic policy platforms. In March 2008, The Hon Joel Fitzgibbon MP, Minister for Defence, outlined his four key objectives for Defence over the next three years.

Defence and Security Luncheons

The series of Defence and Security Luncheons continued through 2007–08. These events bring together people from a wide range of backgrounds, both to draw upon their experience and to enhance their understanding of strategic and defence policy issues. In 2007–08, we continued hosting some Luncheons outside of Canberra with events held in Melbourne and Brisbane.

Details on the speakers and their speeches can be found at the ASPI website – www.aspi.org.au.

Global Forces 2007 International Conference

The third annual ASPI *Global Forces* International Conference was held in Canberra on 5–6 July 2007. This year the focus was on some of the bigger strategic issues shaping Australia's future and, principally, the emergence of trends such as: challenges to the order and international norms that have underpinned behaviours over the past fifty years; global phenomena such as the rise of fundamentalist movements and potential security impacts of climate change; shifting power dynamics, globally, regionally and particularly in east Asia; questions surrounding social, economic and environmental sustainability, particularly in Australia, in our near neighbourhood, and in the South West Pacific; and, finally, the responses to these trends within the prevailing world order.

Speakers included:

The Honourable John Howard MP, Prime Minister of Australia

Professor Robert L. Gallucci, Dean, Edmund A. Walsh School of Foreign Service, Georgetown University

Professor Wang Gungwu, Director, East Asian Institute, National University of Singapore

Mr Walter Russell Mead, Henry A. Kissinger Senior Fellow for US Foreign Policy, Council on Foreign Relations

Professor Brahma Chellaney, Professor of Strategic Studies, Centre for Policy Research, New Delhi

Dr Abiodun Williams, Director, Strategic Planning Office of the Secretary-General, United Nations

Dr Masashi Nishihara, President Research Institute for Peace and Security, Japan

Dr Benjamin Reilly, Director, Centre for Democratic Institutions

Dr Bob Birrell, Director, Centre of Populations & Urban Research, Monash University

Mr Paul Kelly, Editor-at-Large, The Australian

Dr Christopher Caton, Chief Economist, BT Financial Group

Mr Michael Pezzullo, Deputy Secretary—Strategy, Coordination and Governance, Department of Defence

Dr Elsin Wainwright, Visiting Fellow ASPI and Adjunct Associate Professor at the Centre for International Security, University of Sydney

Professor Leanne Piggott, Senior Lecturer, Centre for International Security Studies, University of Sydney

Professor Stewart Firth, Head Pacific Centre, College of Asia and the Pacific, ANU

The proceedings of the *Global Forces* Conference were published in a two-part *Strategy* publication in December 2007.

A summary of major events conducted in 2007–08 is tabled below.

Major Events	FY 2006–07	FY 2007–08
National Security Seminars	1	5
Roundtable Discussions/Forums	24	25
1.5/2nd Track dialogues	2	2
National Security Dinners	1	3
ASPI Parliament House Addresses	1	2
Defence and Security Luncheons	8	8
<i>Global Forces</i> International Conference	1	1

More detail on the 2007–08 Events Program can be found in **Annex B**.

Commission Tasks

The growth in commissioned work continues the trend of the past two years; with tasks increasing from five in 2005–06, to eight in 2006–07, and 12 in 2007–08. Most tasks have been commissioned by Australian and international government agencies. However, in 2007–08, ASPI also undertook several commissions from Australian and foreign private sectors and academia.

ASPI’s capability to undertake commissions is an important part of our work and an area with considerable potential for expansion, including undertaking classified studies and reports.

Commission Tasking Agency	FY 2006–07	FY 2007–08
Department of Defence	4	4
Department of Prime Minister and Cabinet	1	1
Department of Foreign Affairs and Trade	1	2
Department of Finance and Administration	1	
Foreign Government/Industry/Business	1	1
Australian Industry/Business		2
Australian Academia		2

ENGAGING WITH THE BROADER COMMUNITY

Media

ASPI continues to play an important role in the media and our participation 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 the production of articles and through media 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.

ASPI's 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 commentary to support the public debate.

ASPI staff attracted media coverage on 345 occasions in 2007–08, for an average of 29 per month.

ASPI Outreach Dialogues

ASPI held four security forums in 2007–08 under the auspices of the Outreach Program, which continues to ascertain the views of Australians from a diverse range of sectors in order to help inform the ASPI research program.

- Brisbane, October 2007. The topic of this forum was the impact of terrorism on the Australian tourism industry and how to integrate security across business processes to improve resilience in the sector. The forum was attended by a broad range of tourism peak bodies, venue managers and state and Australian government agencies. Topics discussed at this event were released as ASPI *Policy Analysis*, 'Terrorism and the Australian tourism industry' by Anthony Bergin and Raspal Khosa.
- Melbourne, November 2007. This forum examined a range of Defence challenges for the next government, and attracted Defence industry professionals, academics and representatives from government.
- Adelaide, March 2008. The third forum explored the impact of next generation technologies on capability planning within the context of the current Defence White Paper process. The discussion identified key areas where Australia should be concentrating resources to develop local expertise. The forum was attended by representatives from the South Australian Government, prime defence contractors, Defence scientists and academics from South Australia's three universities.

- Brisbane, May 2008. This forum examined an extensive range of issues associated with the impact of climate change on policing. It was attended by representatives from the Australian Federal Police, Queensland Police Service, state and local government, together with climate change specialists and criminologists. The findings from this forum will be released as an ASPI *Policy Analysis*.

Outreach Program	FY 2006–07	FY 2007–08
Outreach Seminars (Capital Cities)	3	4

OTHER WAYS WE MEET OUR MANDATE

ASPI is committed to fostering the next generation of strategic policy thinkers. The Institute manages its own internship program and also hosts interns through the Australian National Internships Program (ANIP).

The ASPI internship program gives representatives from the next generation of strategic thinkers the opportunity to contribute to ASPI research projects and also conduct their own research for future publication either by ASPI or independently.

For 2007–08, ASPI engaged four interns who made important contributions to research projects and publications. Examples of reports and publications with significant intern’s input include ASPI *Policy Analysis* publications titled:

- *The Resignation of Japanese Defence Minister, Fumio Kyuma: Implications for Australia*
- *Charting a Course for Afghanistan*
- *The Shanghai Cooperation Organisation: An Australian response.*

The ANIP is a hands-on opportunity for a student to go into a workplace and undertake a research project for which they get significant academic credit. The major focus is the completion of a Research Report. ASPI is pleased to support this program as it offers a valuable introduction for students to the development of strategic policy in the workplace. Three students were placed with ASPI under the ANIP in 2007–2008.

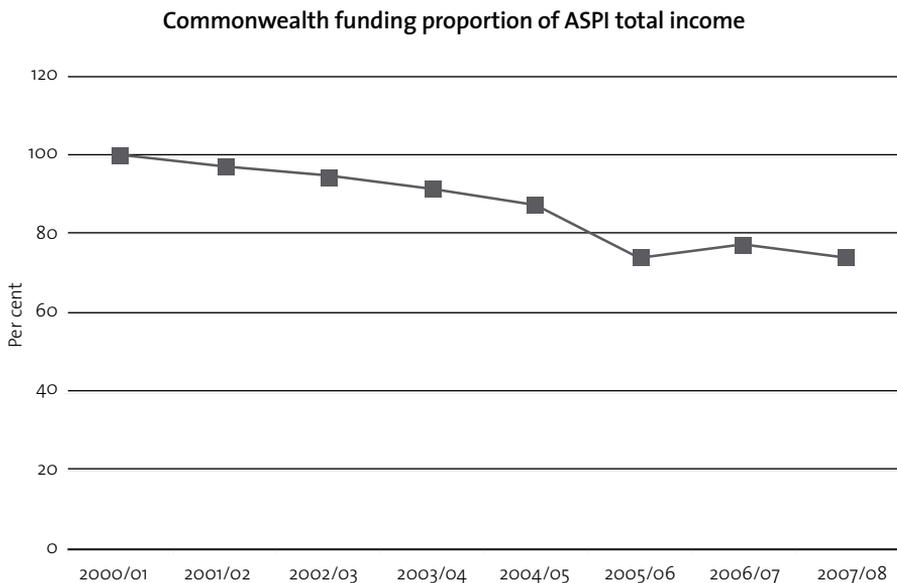
ASPI will continue seeking new ways of developing young students and graduates. All of our senior staff has taken the opportunity to address student groups and we are building linkages with universities and student societies with an interest in international affairs. In support of these endeavours ASPI sponsors selected students to attend the annual *Global Forces* Conference held in Canberra.

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. This agreement was effective until 30 June 2008.

Commonwealth funding remains our single most important source of income and covers the majority of the annual employee costs and operating overheads for the Institute and those elements of the research program which ASPI delivers to the Commonwealth. The products from our research program include a number of publications and events specified in the funding agreement. Importantly, the Institute's research and events programs, and employee costs, extend beyond levels supported by Commonwealth funding and this growing part of our operations is sustained by other sources of income.

ASPI now raises over 25% of its total income from such sources. The major proportion of this comes from sponsorships and commissioned tasking including studies and reports prepared for government and other entities. Further supplementation comes from a membership scheme, the sale of publications, advertising and registrations for events.



Review on future Commonwealth funding

A review into Commonwealth funding for ASPI beyond the current agreement was completed in July 2007. The Review Panel comprised Vice Admiral David Shackleton (Retd) AO (Chairman), Mr. Roger Beale AO, and Professor Meredith Edwards AM. The task of the Review was to assess:

- the performance of ASPI in meeting the underlying purposes as outlined in the government's commissioning charter letter
- the effectiveness of ASPI's activities
- whether ASPI is the best way to achieve the government's objectives, as set out in the charter letter
- ASPI's governance and management arrangements, with particular regard to ASPI's long-term stability, financial management and viability of business processes.

The ASPI Council welcomes the completion of this review and notes that the conclusions and recommendations of the Review Report will be considered by the government in 2008–09. The current funding agreement has been extended for 12 months to facilitate this process.

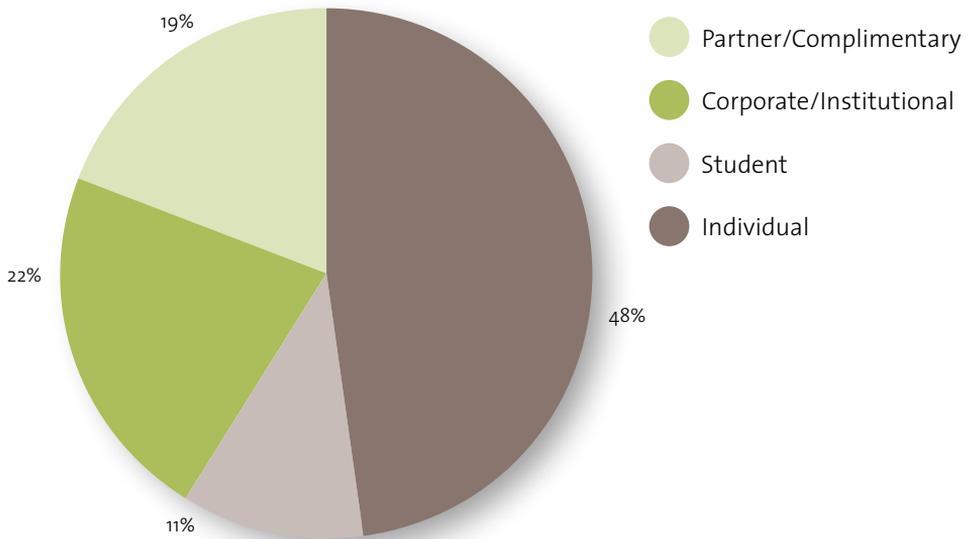
Memberships

2007–08 marked the fourth year of the ASPI membership program and the first year of free publications downloads for non-members. In making the decision to seek an expanded readership of our publications, Council recognised that this could have an adverse effect on memberships and accepted that numbers might reduce.

The impact was less than expected. For 2007–08, ASPI had 379 members, which constitutes a reduction of 9% over the number of ASPI members in 2006–07. Individual memberships constitute about 47% of total memberships, a smaller portion than levels achieved in previous years. The number of corporate and institutional memberships continues to grow; for 2007–08 these memberships increased to 127 and now constitute around 33% of all ASPI memberships.

In addition to these individual and corporate members ASPI outputs are also provided to relevant government departments and over 500 copies of each printed publication are distributed to Federal Parliamentarians and press gallery members.

The benefits of ASPI membership are subject to continuing review as the Institute's business plan evolves. The aim is to achieve modest growth in the totals and geographic spread of our membership base.



Establishing relationships to build our business

Sponsorship is an important source of non-Commonwealth funds for ASPI and is the key enabler for most of our events. Our success in securing sponsors over the past three years has been encouraging and in 2007–2008 we refined our sponsorship arrangements to foster deeper relationships through the introduction of a corporate partners program. Under this program we seek longer term mutual commitments with business enterprises sharing our objectives concerning national security and the public debate. The program comprises four levels: Principal Corporate Partner, Major Corporate Partners, Corporate Partners and Corporate Associates.

During 2007–2008 we secured nine partners under the program:

- Major Corporate Partners: Thales Australia and Booz & Co
- Corporate Partners: Unisys Australia, SMS Management and Technology
- Corporate Associate: Noetic Solutions, Sun Microsystems, Initiate Systems, Serco and EADS

Further partnerships are anticipated in 2008–2009. In addition to our partners ASPI also secured sponsorship for the 2007 *Global Forces* Conference from Lockheed Martin, Kellogg, Brown and Root (KBR), and General Dynamics.

FUTURE PROSPECTS

ASPI is committed to maintaining its contribution to the whole-of-government approach to strategic and defence policy and national security. We are developing new initiatives with the goal of providing the right outputs to fulfil the terms of our Charter.

The ASPI strategic plan contemplates possible further expansion of capability including through the introduction of a new research program focused on transnational threats to Australia's security, and the expansion of our strategic gaming expertise. However, these initiatives would be premised on our capacity to secure additional funding beyond that provided by the Commonwealth.

The government's decision on the level of Commonwealth funding for ASPI will determine the scope of its future operations and it is encouraging that the current agreement has been extended to cover 2008–09 while it considers the review.

The ASPI Council believes the Institute adds excellent value to the consideration and public debate of strategic, defence and national security policy in Australia. The Council is confident the Institute will continue to prosper and deliver high quality independent analysis and policy advice in fulfilling its Charter.

The Defence White Paper is a critical document in which the government defines the strategies and capabilities required to defend Australia and its interests. It provides the strategic guidance for planning future defence capabilities.

The ASPI Council is pleased to note that the appointments of two ASPI staff—the Executive Director, and the Program Director, Budget and Management—to the Minister for Defence's Ministerial Advisory Panel for the White Paper, and of ASPI Council member, Mr Stephen Loosley, as Chair of the Community Consultation Panel, signal the credibility and high standing of the Institute.



CHAPTER

2

CORPORATE GOVERNANCE

THE COUNCIL

REMUNERATION AND STAFFING COMMITTEE

FINANCE AND AUDIT COMMITTEE

RESEARCH COMMITTEE

SPONSORSHIP COMMITTEE

THE COUNCIL

COUNCIL MEMBERSHIP

For 2007–08, the Australian Strategic Policy Institute was governed by a Council of up to nine directors representing experience, expertise and excellence across a range of professions including business, academia, government, and the military. The Council includes the nominees of the Prime Minister and the Leader of the Opposition, emphasising that the Institute is politically non-partisan.

Two directors, Mr Des Moore and Dr Roland Williams, retired from Council in August 2007. Replacements for these members had not been appointed in July 2008.

COUNCIL CHAIRMAN

Mr Mark Johnson



Mr Johnson is the immediate-past deputy chairman of Macquarie Bank Limited where he has spent most of his career working in corporate finance, mergers and acquisitions, and underwritings and, more recently, helping to establish Macquarie's world wide resources group. Mark is Chairman of Macquarie Infrastructure Group and Chairman of AGL Energy. Mark is one of the Prime Minister's three personal representatives to the APEC Business Advisory Council (ABAC). He is a Life Governor of the Victor Chang Cardiac Research Institute.

Mr Johnson was appointed as Chairman of the Council in August 2005.

DEPUTY CHAIRMAN

Major General Adrian Clunies-Ross (Retd) 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 and 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 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.

He now serves on the Boards of the PNG Sustainable Development Program Limited and the Australia New Zealand School of Government. Additionally he is a Senior Adviser with the Boston Consulting Group.

Professor Alan Dupont



Professor Alan Dupont is a Council Member of ASPI, the foundation Michael Hintze Chair of International Security at the University of Sydney and Director of the Centre for International Security Studies. Professor Dupont also serves on the Board of Management of the Land Warfare Studies Centre, Foreign Affairs Council, and is a member of the International Advisory Forum of CQS, a leading European hedge fund. He holds a PhD in International Relations from the Australian National University and is a graduate of the Royal Military College, Duntroon, and the US Foreign Service Institute.

Professor Dupont has worked on Australian defence and Asian security issues for more than thirty years as an Army officer, strategist, diplomat, policy analyst and scholar. He was previously Senior Fellow for International Security at the Lowy Institute, a Sydney based international policy institute, and before that Senior Fellow at the Australian National University's Strategic and Defence Studies Centre. During his time in government he served in the Departments of Defence and Foreign Affairs and Trade which included postings with the Australian embassies in Seoul and Jakarta. He has advised a number of Asian governments, private corporations and Australian ministers on defence and national security and has written extensively on strategic and force structure issues.

Mr Stephen Loosley



Mr Loosley holds a senior executive role within Babcock & Brown, acting as Principal Strategic Adviser to the firm.

Mr Loosley was the General Secretary of the NSW branch of the Australian Labor Party (1983–90), prior to being elected to the Australian Senate in 1990, where during his term he served as Chairman of the Joint Standing Committee on Foreign Affairs. He also served a term as ALP National President (1991–92).

Currently, he is the Chairman of the Committee for Sydney; a Councillor on the Australian Strategic Policy Institute in Canberra; and a member of the Vice Chancellor's Advisory Committee, University of Wollongong. Mr Loosley is the nominee of the Prime Minister and is currently serving

as Chairman of the Community Consultation Team for the 2008 Defence White Paper.

In addition, Mr Loosley also serves on the Boards of the Partnership Executive of the National Rugby League; Thales Australia; the Australian-American Leadership Dialogue; Sydney Writers Festival; European Australian Business Council; Salvation Army Sydney Advisory Board.

Mr Loosley holds First Class Honours degrees in Politics (UNSW, 1976) and the Law (UTS, 1997).

He has contributed chapters to the books *Australian-American Relations: Looking Toward the Next Century* by William T Tow (South Yarra: McMillan Education – 1998) and *The Wran Era* by Troy Bramston (The Federation Press – 2005).

He is a Member of The International Institute for Strategic Studies (London) and a Fellow of the Centre for International Legal Studies (Salzburg). Stephen is a former columnist for the *New Zealand Herald* and *The Sunday Telegraph* and an occasional contributor to *The Australian*.

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. He retired from Council at the end of his tenure in August 2007.

Brigadier Jim Wallace (Retd) 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 UK. He worked for the Royal Dutch/Shell Group for 36 years. From being Group World Coordinator for Natural Gas and Coal, he was appointed Chairman and CEO of Shell Australia in 1995. He retired from this position in 1999. Dr Williams is a Director of Boral Limited and Origin Energy Limited. He retired from Council at the end of his tenure in August 2007.

EXECUTIVE DIRECTOR

Major General Peter Abigail (Retd) AO



Peter Abigail joined ASPI as Director in April 2005. Prior to that he spent 37 years in the Army before retiring in 2003. Following promotion to Major General in December 1996, he served in a range of senior leadership appointments in the Defence Organisation. As Assistant Chief of the Defence Force (Policy and Strategic Guidance) and then Head Strategic Policy and Plans (Australian Defence Headquarters) (1996–1998) he was responsible for key aspects of Defence policy, military strategy and capability development. As Deputy Chief of Army (1998–2000) he was responsible for managing the Army and its interaction with other Defence stakeholders. In his final appointment, as Land Commander Australia (2000–2002), he commanded all of the Army's operational forces, full time and reserves, including those that were committed to operations in East Timor, Bougainville and Afghanistan.

During his appointment with ASPI he has been a member of the Defence and National Security Advisory Council to the Minister for Defence, The Hon Dr Brendan Nelson MP, and a member of the Defence White Paper Ministerial Advisory Panel for the Minister for Defence, The Hon Joel Fitzgibbon MP.

ATTENDANCE TABLE—COUNCIL

Council Meeting Attendance	23/8/07	29/11/07	29/2/08	23/5/08*
Mr Mark Johnson (Chairman)	✓	✓	✓	✓
Major General Adrian Clunies-Ross (Retd) AO, MBE (Deputy Chairman)	✓	✓	✓	✓
The Hon Jim Carlton AO	✓	✗	✗	✓
Professor Alan Dupont	✓	✓	✓	✓
Mr Des Moore	✓			
Brig Jim Wallace (Retd) AM	✓	✓	✗	✓
Dr J Roland Williams CBE	✓			
Mr Stephen Loosley	✓	✗	✓	✓
Major General Peter Abigail (Retd) AO	✓	✓	✓	✓

* The 23 May 2008 Council Meeting was chaired by the Deputy Chairman. The Chairman participated through teleconference.

Committee membership

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. The activities of these committees are described below. The ASPI Executive Director 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 ASPI Executive Director 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 met once on 11 September 2007.

Membership for 2007–08 included Mr Johnson, Dr Williams, Major General Clunies-Ross, Mr Carlton and Mr Loosley.

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 Defence.

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 June 2008.

ASPI is subject to the *Commonwealth Authorities Companies Act 1997*, and consequently, has The Australian National Audit Office (ANAO), as its external auditors. The ANAO conducts an interim audit each May and a final audit of 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 advice on ASPI's financial and auditing processes and requirements.

The Committee met twice in 2007–08, with consideration of Finance and Audit issues undertaken by the Council as a whole at the February and May 2008 meetings.

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

Attendance Table—Finance and Audit Committee

Finance and Audit Committee Attendance	23/8/07	29/11/07/
Maj General Clunies-Ross (Retd) AO MBE (Chair)	✓	✓
The Hon Jim Carlton AO	✓	✓
Mr Stephen Loosley	✓	✓
Dr J Roland Williams CBE	✓	
Mr Des Moore	✓	

RESEARCH COMMITTEE

The Research Committee is now a committee of the full council therefore all activities are no longer reported separately. The Secretaries of the departments of Defence and Foreign Affairs and Trade participate in Council considerations of ASPI’s research program as advisers.

The Research Committee convenes twice each year as part of the May and November meetings. The May meeting of the Research Committee considers the potential research topics for the following year. The November Research Committee meeting reviews the progress of the current research program.

SPONSORSHIP COMMITTEE

ASPI needs to offer value to its sponsors, while not risking its independence. The ASPI Executive Director consults the Committee on sponsorship proposals out of session. Proposals are then considered by the full Council. All activities are no longer reported separately.

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

3

THE ORGANISATION

THE STAFF

ASPI PROGRAMS

ASPI STRUCTURE

The Australian Strategic Policy Institute has a small core staff, with its day-to-day operations led by the Executive Director. A Director of Research Programs, four Program Directors, an Outreach Manager, a Research and Information Manager, Publications and Media Liaison Officer, two Events Managers, a Business Manager, an Office Manager and Receptionist, comprise the permanent staff of ASPI.

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

EXECUTIVE DIRECTOR

The Executive Director of ASPI is responsible for directing and managing the operations of ASPI in accordance with the directions and objectives of the ASPI Council. The Executive Director is also responsible for the leadership of ASPI in identifying and recruiting high quality research personnel and the overall management of the research and events programs. The ASPI Executive Director is Major General Peter Abigail (Retd) AO.

RESEARCH PROGRAM

Director of Research Programs

The Director of Research Programs 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 Director of Research Programs is Dr Anthony Bergin who joined ASPI in 2006 after 20 years at the University of New South Wales, Australian Defence Force Academy, where he was an Associate Professor of Politics. Before that he taught political science at the Royal Australian Naval College and from 1991–2003 he was the Director of the Australian Defence Studies Centre.

ASPI's Research Programs

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

Strategy and International Program

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. The Program Director for the Strategy and International Program is Dr Rod Lyon who joined ASPI in late 2006. He was previously a Senior Lecturer in International Relations at the University of Queensland, and before that worked as a strategic analyst in the Office of National Assessments.

He is currently the lead on the ASPI 'Defence White Paper Project' with the aim to provide a range of products of use to both policy makers and the wider Australian public during the White Paper year.

Budget and Management Program

This program covers the full range of questions concerning the delivery and management of capability, from financial issues and personnel management to acquisition and contracting-out issues that are central to the government's policy responsibilities. The Program Director for the Budget and Management Program is Dr Mark Thomson. In 2002 he joined the newly formed Australian Strategic Policy Institute as inaugural director of the Program. Dr Thomson's research touches on a wide range of issues including Australia's defence and security budgets, links between strategy and force structure, the internal management of the Department of Defence and defence industry.

He is currently serving on the Ministerial Advisory Panel for the new Defence White Paper.

Operations and Capability Program

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 and regional military developments on our armed forces. The Program Director for the Operations and Capability Program is Dr Andrew Davies who joined ASPI in 2006 from the Department of Defence, where he worked as a research scientist on various projects for all three services. He also worked for a number of years with the Defence Signals Directorate and is a physicist by background.

Outreach Program

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 program is to provide access to the issues and facts through a range of activities and publications. The Outreach Manager is Mr Raspal Khosa. His research is focused on Defence capability and South Asian security studies.

Project Manager – National Security Project

Starting in January 2008, the Institute commenced a 12-month project examining Australia's National Security in the 21st century. This project is designed to run in parallel with the government's review of national security arrangements and subsequent crafting and implementation of a National Security Strategy.

Dr Carl Ungerer is the project manager and, prior to joining ASPI, was a lecturer in international relations at the University of Queensland. His previous appointments include Foreign Affairs and National Security Advisor to the Leader of the Australian Labor Party (2002–2004), senior Strategic Analyst in the Office of National Assessments (1999–2002) and in the Department of Foreign Affairs and Trade (1993–1999).

Research and Information Manager

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. The Research and Information Manager is Ms Janice Johnson who joined the ASPI team in February 2002 after holding training, research and information management positions with a number of organisations including the State Library of Queensland. She was the Director of Training for Farmwide Pty Ltd, an affiliate of the National Farmers' Federation, where she was responsible for curriculum development and Australia-wide training delivery in computer and Internet use for the rural sector.

Publications and Media Liaison Officer

ASPI's Publications and Media Liaison Officer is responsible for assisting with publication production, the events and visitors program and web site maintenance. For 2007–08, this position was undertaken by Ms Paula Tychsen and Ms Renee Kirkham.

Ms Tychsen joined ASPI in January 2005 as the Information and Publications Officer. Paula holds a Bachelor of Communications (Public Relations) and a CIT Diploma of Communications and Media (Public Relations).

Ms Kirkham joined ASPI in September 2007 as the Publications and Media Liaison Officer. Renee holds a CIT Diploma of Communications and Media (Event Management) and joined ASPI after holding positions in the public service and private sector.

EVENTS PROGRAM

ASPI's Events Team is responsible for the organisation and conduct of events and the formalisation and maintenance of ASPI's relationships with overseas research institutes. The ASPI Events Team consists of Ms Lynne Grimsey and Ms Paula Dolan.

Lynne Grimsey was the Executive Officer for the Australian Democrats National Secretariat in Canberra. She was also the National Policy Coordinator and coordinated events for the Australian Democrats. Prior to working for the Democrats Lynne worked in a community organisation on the Gold Coast.

Paula Dolan is a trained journalist and worked over ten years as a Chilean Diplomat. Previous to joining ASPI, she held different public affairs positions with the War Widows' Guild of Australia (ACT), Department of Agriculture, Fisheries and Forestry (DAFF) and the Australian Institute of International Affairs (AIIA).

BUSINESS MANAGEMENT

Business Manager

The Business Manager is responsible for the development and monitoring of ASPI's management and financial arrangements and to provide advice to the Council and the Executive Director on budgetary and management matters. The Business Manager is also responsible for managing the relationship between ASPI and Defence on funding matters. The ASPI Business Manager is Mr Justin Tim. He joined the ASPI team in 2007 after holding different positions within the Department of Finance and Administration and Department of Defence.

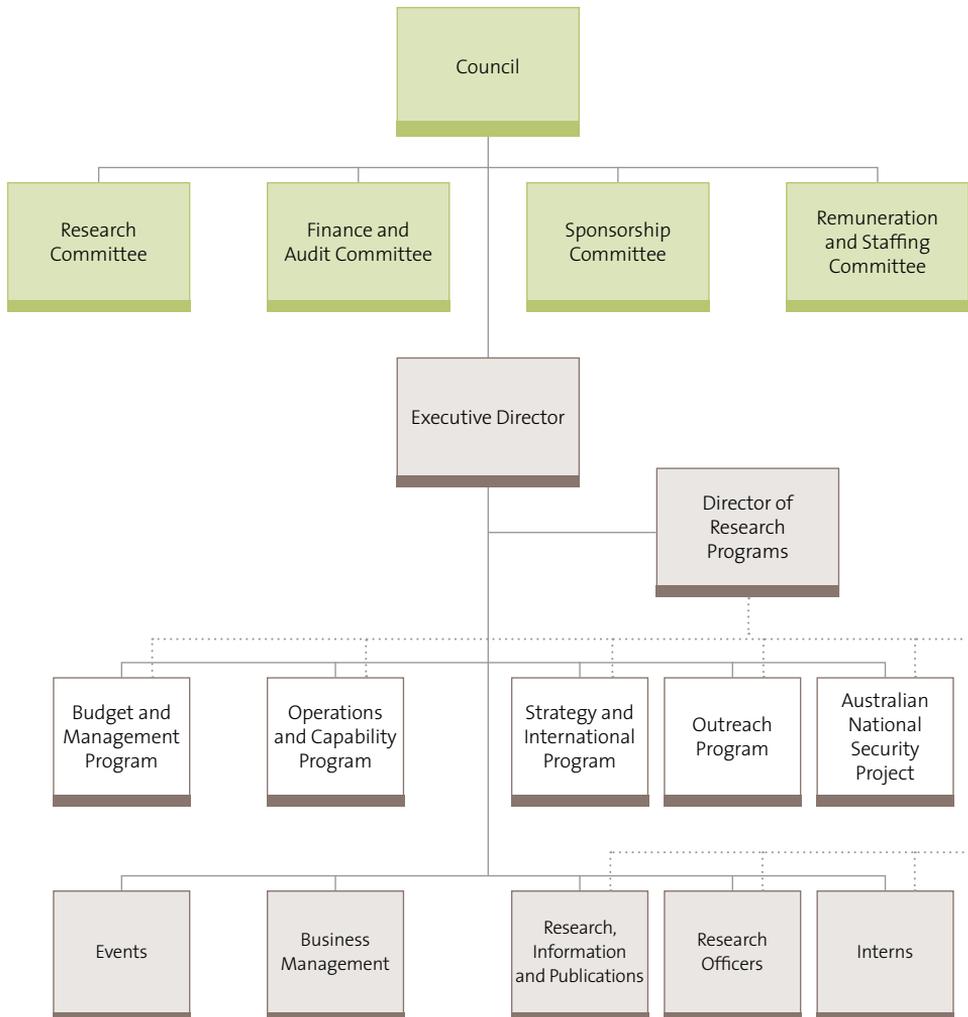
Office Manager

The Office Manager runs the day-to-day administration of the Institute including: IT equipment, office accommodation and travel arrangements, and provision of accounting support to ASPI's contracted Finance Manager including management of accounts payable. The ASPI Office Manager is Ms Noeline Healey who commenced with ASPI in August 2005, after gaining office administration experience in various other companies in New Zealand and Australia.

Receptionist

Ms Louise Ayers joined the ASPI team in November 2007 as part-time Receptionist. She has worked with a number of companies within Australia. She also provides administrative support to the Events and Publications team.

ASPI CORPORATE STRUCTURE 2007–2008





CHAPTER

4

FINANCIALS

ANAO INDEPENDENT AUDIT REPORT

STATEMENT BY DIRECTORS

FINANCIAL STATEMENTS



Auditor's Independence Declaration to the Directors of the Australian Strategic Policy Institute Limited

In relation to our audit of the financial report of the Australian Strategic Policy Institute Limited for the year ended 30 June 2008, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Michael White
Executive Director

Delegate of the Auditor-General
5 September 2008



INDEPENDENT AUDITOR'S REPORT

To the members of the Australian Strategic Policy Institute Limited

Scope

I have audited the accompanying financial report of the Australian Strategic Policy Institute, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

The Directors' Responsibility for the Financial Report

The directors of the Australian Strategic Policy Institute are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor

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considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In my opinion, the financial report of the Australian Strategic Policy Institute Limited is in accordance with 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 2008 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Australian National Audit Office



Michael White
Executive Director

Delegate of the Auditor-General

Canberra
5 September 2008

DIRECTORS' DECLARATION

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 2008 and of the company's performance for the year ended on that date; and
 - (ii) complying with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; 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.



Mark Johnson
Chairman
5 September 2008



Adrian Clunies-Ross
Deputy Chairman
5 September 2008
Canberra

Australian Strategic Policy Institute Limited

INCOME STATEMENT

for the year ended 30 June 2008

	Notes	2007-08 \$	2006-07 \$
Revenues			
Revenues from annual funding	4A	2,857,020	2,901,000
Sales of goods and services	4B	902,870	728,747
Interest	4C	79,700	48,602
Resources received free of charge	4D	30,199	—
<i>Total Revenues</i>		<u>3,869,790</u>	<u>3,678,349</u>
Expenses			
Employee benefits	5A	1,806,631	1,615,486
Suppliers	5B	1,661,881	1,601,038
Depreciation and amortisation	5C	63,257	57,845
Net loss from assets disposed	5D	4,366	11,216
Write-down and impairment of assets	5E	70,755	99,377
<i>Total Expenses</i>		<u>3,606,890</u>	<u>3,384,961</u>
Operating surplus (deficit)		<u>262,900</u>	<u>293,388</u>
Surplus (deficit) attributable to the Australian Government		<u>262,900</u>	<u>293,388</u>

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

BALANCE SHEET

as at 30 June 2008

	Notes	2007-08 \$	2006-07 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6A	1,367,269	1,219,879
Trade and other receivables	6B	373,351	184,566
Inventories	6C	49,595	69,253
Other current assets	6D	87,406	34,402
Total current assets		1,877,621	1,508,100
Non-current assets			
Infrastructure, plant and equipment	7A, 7C	124,829	157,195
Intangible assets	7B, 7C	30,320	51,123
Total non-current assets		155,149	208,318
Total assets		2,032,770	1,716,418
LIABILITIES			
Current Liabilities			
Supplier payables	8A	246,503	206,851
Other payables	8B	480,271	555,327
Provisions	9	200,906	144,252
Total current liabilities		927,680	906,430
Non-current Liabilities			
Provisions	9	67,422	35,220
Total non-current liabilities		67,422	35,220
Total liabilities		995,102	941,650
Net Assets		1,037,668	774,768
EQUITY			
Contributed equity		172,060	172,060
Retained earnings		865,608	602,708
Total equity		1,037,668	774,768

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2008

	Contributed equity		Retained earnings		Total equity	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
	\$	\$	\$	\$	\$	\$
Opening Balance	172,060	172,060	602,708	309,320	774,768	481,380
Adjustments						
Adjustments for errors	-	-	-	-	-	-
Adjustments for changes in accounting policies	-	-	-	-	-	-
Total Adjustments	-	-	-	-	-	-
Income and expenses						
Net income recognised directly in equity	-	-	-	-	-	-
Net Operating result	-	-	262,900	293,388	262,900	293,388
Total income and expenses	-	-	262,900	293,388	262,900	293,388
Transactions with Owners						
Distributions to owners	-	-	-	-	-	-
Contributions to owners	-	-	-	-	-	-
Total transactions with Owners	-	-	-	-	-	-
Transfers between equity components						
	-	-	-	-	-	-
Closing Balance as at 30 June 2007	172,060	172,060	865,608	602,708	1,037,668	774,768

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

CASH FLOW STATEMENT

for the year ended 30 June 2008

	Notes	2007–08 \$	2006–07 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received			
Annual funding		3,142,722	3,191,100
Sales of goods and services		775,488	1,095,137
Interest		80,493	46,830
Total cash received		<u>3,998,703</u>	<u>4,333,067</u>
Cash used			
Employees		(1,768,366)	(1,507,609)
Suppliers		(1,833,539)	(1,776,498)
Net GST paid to ATO		(234,953)	(252,283)
Total cash used		<u>(3,836,858)</u>	<u>(3,536,390)</u>
Net cash from/(used in) operating activities	10	<u>161,845</u>	<u>(796,677)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		150	600
Total cash received		<u>150</u>	<u>600</u>
Cash used			
Purchase of property, plant and equipment		(14,605)	(82,153)
Total cash used		<u>(14,605)</u>	<u>(82,153)</u>
Net cash from/(used in) investing activities		<u>(14,455)</u>	<u>(81,553)</u>
Net increase / (decrease) in cash held		147,390	715,124
Cash and cash equivalents at the beginning of the reporting period		1,219,879	504,755
Cash and cash equivalents at the end of the reporting period	6A	<u>1,367,269</u>	<u>1,219,879</u>

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited

SCHEDULE OF COMMITMENTS

as at 30 June 2008

	2007–08 \$	2006–07 \$
BY TYPE		
Commitments Receivable		
GST recoverable on commitments	(46,431)	(63,246)
Other commitments receivable	(43,900)	–
Total commitments receivable	<u>(90,331)</u>	<u>(63,246)</u>
Commitments Payable		
Operating Lease Commitments		
Operating leases ¹	495,900	695,710
Total operating lease commitments	<u>495,900</u>	<u>695,710</u>
Other Commitments		
Other commitments	28,160	–
Total other commitments	<u>28,160</u>	<u>–</u>
Net commitments by type	<u>433,729</u>	<u>632,464</u>
BY MATURITY		
Commitments Receivable		
One year or less	(90,331)	(63,246)
Total commitments receivable	<u>(90,331)</u>	<u>(63,246)</u>
Commitments Payable		
Operating Lease Commitments		
One year or less	228,877	217,923
From one to five years	267,023	477,787
Total operating lease commitments	<u>495,900</u>	<u>695,710</u>
Other Commitments		
One year or less	28,160	–
Total other commitments	<u>28,160</u>	<u>–</u>
Net commitments by maturity	<u>433,729</u>	<u>632,464</u>

NB: Commitments are GST inclusive where relevant.

1 Operating leases comprise a lease for office accommodation.

The lease for office accommodation has an option for a further term of three years, commencing 1 September 2010.

The lease payments may be reviewed every two years.

The accompanying notes form part of these financial statements

Australian Strategic Policy Institute Limited
for the period ended 30 June 2008

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Description	Note
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The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

The financial report of the Australian Strategic Policy Institute Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 22 August 2008.

Note 1—Summary of Significant Accounting Policies

a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, and interpretations issued by the AASB and UIG that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and values are rounded to the nearest dollar.

Unless alternative treatment is specifically required by an Accounting Standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the entity and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities equally proportionately unperformed are not recognised unless required by an Accounting Standard.

Unless alternative treatment is specifically required by an Accounting Standard, revenues and expenses are recognised in the Income Statement when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

No accounting standard has been adopted earlier than the application date as stated in the standard.

The following new standards and amendments to standards for the current financial year have no material financial impact on the Australian Strategic Policy Institute.

New AASB's and/or Amendment		Nature of change to accounting policy
AASB 7	Financial Instruments: Disclosures	requires qualitative and quantitative information about exposure to risks arising from financial instruments.
AASB 1048	Interpretation and Application of Standards	update to the standard listing new interpretations.
2007-4	Amendment	enacts changes proposed in ED 151 to re-insert original IFRS options and definitions to AEIFRS and to delete certain Australian-specific disclosures.
2007-7	Amendment	amendments to Australian Accounting Standards.
2008-4	Amendment	amendments to Key Management Personnel Disclosure by Disclosing Entities.

The following new standards and amendments to standards have been issued but are not yet effective. It is estimated that adopting these standards when effective will have no material financial impact on application.

New AASB's		Application date of Standard*	Nature of change to accounting policy
AASB 3	Business Combinations	1 July 2009	requires the use of the acquisition method in accounting for business combinations.
AASB 8	Operating Segments	1 January 2009	applies to for-profit entities whose debt or equity instruments are traded in a public market. It does not apply to the Australian Strategic Policy Institute.
AASB 101	Presentation of Financial Statements	1 January 2009	prescribes the composition of a complete set of financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

New AASB's		Application date of Standard*	Nature of change to accounting policy
AASB 123	Borrowing Costs	1 January 2009	requires the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.
AASB 127	Consolidated and Separate Financial Statements	1 July 2009	relates to accounting for subsidiaries in consolidated financial statements.
AASB 1004	Contributions	1 July 2008	sets out requirements for accounting for contributions.
AASB 1049	Financial Reporting of General Government Sectors by Governments	1 July 2008	relates to financial reporting by a government of its general government sector. It does not apply to the Australian Strategic Policy Institute.
AASB 1050	Administered Items	1 July 2008	identifies requirements for disclosing administered items of government departments. It does not apply to the Australian Strategic Policy Institute.
AASB 1051	Land Under Roads	1 July 2008	sets out requirements regarding recognising land under roads as an asset.
AASB 1052	Disaggregated Disclosures	1 July 2008	applies to general purpose financial statements of local governments and government departments. It does not apply to the Australian Strategic Policy Institute.

AASB Amendment	Affected Standard(s)	Application date of Standard	Nature of change to accounting policy
2007-2	AASB 1, 117, 118, 120, 121, 127, 131, 139	1 January 2008	amendments arising from AASB Interpretation 12.
2007-3	AASB 5, 6, 102, 107, 119, 127, 134, 136, 1023, 1038	1 January 2009	enacts consequential amendments relating to the issuance of AASB 8 <i>Operating Segments</i> .
2007-6	AASB 1, 101, 107, 111, 116, 138	1 January 2009	amendments to Australian Accounting Standards arising from AASB 123
2007-8		1 January 2009	amendments arising from AASB 101.
2007-9	AASB 3, 5, 8, 101, 114, 116, 127, 137	1 July 2008	amendments arising from the Review of AASs 27, 29 and 31.
2008-1	AASB 2	1 January 2009	amendments to Share-based Payments: Vesting Conditions and Cancellations.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

AASB Amendment	Affected Standard(s)	Application date of Standard	Nature of change to accounting policy
2008-2	AASB 7, 101, 132, 139	1 January 2009	amendments to Puttable Financial Instruments and Obligations arising on Liquidation.
2008-3	AASB 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139	1 July 2009	amendments arising from AASB 3 and AASB 127.

* Application date is for annual reporting periods beginning on or after the date shown

c) Significant Accounting Judgments and Estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing material adjustment to carrying amounts of assets and liabilities within the next accounting period.

d) Comparatives

Comparative figures for the 2006-2007 financial year are provided.

e) Revenue

(i) Revenues from Annual Funding

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

(ii) Sales of goods

Revenue is recognised when the risks and rewards of ownership of the goods have passed to the buyer and the costs incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(iii) Rendering of Services

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

- the probable economic benefits with the transaction will flow to the entity.

(iv) Interest revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

(v) Resources received free of charge

Resources 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.

f) Leases

Operating lease payments are recognised as an expense in the Income Statement in the year in which they occurred.

g) Cash

Cash and cash equivalents include notes and coins held and any deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

h) Trade and other receivables

Trade receivables are recognised at amortised cost.

i) Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

j) Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

Financial Assets held at Amortised Cost

If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is directly reduced. The loss is recognised in the Income Statement.

Financial Assets held at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Available for Sale Financial Assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in the Income Statement, is transferred from equity to the Income Statement.

k) Property, Plant and Equipment

Property, plant and equipment is stated at cost in the Balance Sheet, less, where applicable, any accumulated depreciation or amortisation and any accumulated impairment losses. 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 2008

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.

The 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.

Depreciation is calculated on a straight-line basis, at rates based on their assessed useful life to the company. Leasehold improvements are amortised on a straight line basis over the estimated useful life of the improvements or the unexpired period of the lease.

The following useful lives are used:

	2007-08	2006-07
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.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

All infrastructure, plant and equipment assets were assessed for impairment at 30 June 2008 with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying amount may be impaired. An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount. In determining the recoverable amount, cash flows were not discounted.

For infrastructure, plant and equipment, impairment losses are recognised in the Income Statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

l) Intangible Assets

The ASPI's intangibles comprise purchased software, an internally developed database, and an internally developed web site. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

All intangible assets were assessed for impairment at 30 June 2008 with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying amount may be impaired. An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount. In determining the recoverable amount, the relevant cash flows have been discounted to their present value.

Amortisation is calculated on a straight-line basis, at rates based on their assessed useful life to the company.

The following useful lives are used:

	2007-08	2006-07
Database	3 years	3 years
Web Site	3 years	3 years
Purchased Software	3 years	3 years

m) Inventories

Inventories held for sale are measured at the lower of cost or net realisable value. Net realisable value is determined on the basis of each inventory line's expected recoverable amount. Selling expenses are estimated and deducted to establish net realisable value.

Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.

The cost of inventories is based on the first in first out principle and includes expenditure incurred in acquiring the inventories and bringing them to their location and condition.

The carrying amount of inventories sold has 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 2008

n) Taxation

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

Revenues, expense and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Tax Office; and
- except for receivables and payables.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the Australian Tax Office are classified as operating cash flows.

o) Suppliers Payable

Trade creditors and accruals are recognised at amortised cost. Liabilities are recognised to the extent that the goods and services have been received (and irrespective of having been invoiced).

p) 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 liabilities are measured at nominal amounts based on employees' wages and salary rates and include related on-costs.

The full annual leave provision is recognised as current.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Provisions for leave entitlements 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.

The portion of the provision for long service leave that is current includes amounts for which there is not an unconditional right to defer settlement by one year.

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.

q) 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'.

r) 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 2007–2008 financial year.

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 2—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 has been extended and continues this arrangement to 30 June 2009.

Note 3—Events after the Balance Sheet Date

There were no events that occurred after the balance sheet date that have the potential to significantly affect the ongoing structure and financial activities of the Company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 4—Revenues

Note 4A—Revenues from annual funding	2007–08 \$	2006–07 \$
Department of Defence Funding	2,857,020	2,901,000
Total	2,857,020	2,901,000

Note 4B—Sales of goods and services	2007–08 \$	2006–07 \$
Goods and Services	902,870	728,747
Total	902,870	728,747

Goods and services were sold to:

Government	280,366	257,833
Non-Government	622,504	470,914
Total	902,870	728,747

Note 4C—Interest	2007–08 \$	2006–07 \$
Interest income	79,700	48,602
Total	79,700	48,602

Note 4D—Resources received free of charge	2007–08 \$	2005–06 \$
Resources received free of charge ¹	30,199	—
Total	30,199	—

1. ASPI raised an accrued expense in respect of two months rent of office space in the period ended 30 June 2005. This liability was carried forward until the current period where a decision was made not to invoice ASPI for this rent. This liability has been removed as at 30 June 2008 and the free rent has been recognised as a resource received free of charge.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 5—Expenses

Note 5A—Employees	2007–08	2006–07
	\$	\$
Salaries & wages	1,450,799	1,335,715
Superannuation	154,774	139,320
Long service leave	38,861	8,737
Annual leave	124,695	101,359
FBT	3,925	501
Payroll tax	29,401	22,894
Other employee expenses	4,177	6,959
Total	1,806,631	1,615,486

Note 5B—Suppliers	2007–08	2006–07
	\$	\$
Cost of goods sold	153,549	181,892
Supplier expenses	1,294,073	1,217,025
Operating lease rentals—Minimum lease payments	201,183	186,313
Workers compensation premium	13,077	15,717
Total	1,661,881	1,601,038

Note 5C—Depreciation and Amortisation	2007–08	2006–07
	\$	\$
Depreciation		
Furniture & Fittings	6,062	5,628
Plant & Equipment	28,963	28,357
Total Depreciation	35,025	33,985
Amortisation		
Computer Software	7,506	6,706
Leasehold Improvements	7,429	7,065
ASPI Web Site	13,297	10,089
Total Amortisation	28,232	23,860
Total	63,257	57,845

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

	<u>2007-08</u>	<u>2006-07</u>
	\$	\$
Note 5D—Net loss from assets disposed		
Proceeds from sale	(150)	(600)
Net book value of assets disposed	<u>4,516</u>	<u>11,816</u>
Total	<u>4,366</u>	<u>11,216</u>
	<u>2007-08</u>	<u>2006-07</u>
	\$	\$
Note 5E—Write down and impairment of assets		
Write down of inventory	70,737	95,132
Impairment of receivables	<u>18</u>	<u>4,245</u>
Total	<u>70,755</u>	<u>99,377</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 6—Current Assets

Note 6A—Cash and cash equivalents	2007–08	2006–07
	\$	\$
Cash at bank	1,367,195	1,219,847
Cash on hand	75	32
Total	1,367,269	1,219,879

Note 6B—Trade and other receivables	2007–08	2006–07
	\$	\$
Goods and services	226,920	90,300
GST receivable from the Australian Taxation Office	11,379	12,830
Accrued income	55,063	2,856
Other receivables	79,990	78,580
Total	373,351	184,566

Receivables are aged as follows:

less than 30 days	208,568	143,110
30 to 60 days	17,550	249
60 to 90 days	3,740	13,707
more than 90 days	143,493	27,500
Total	373,351	184,566

Note 6C—Inventories	2007–08	2006–07
	\$	\$
Inventories held for sale	36,302	47,743
Inventories held for distribution	13,293	21,510
Total	49,595	69,253

During 2007–08 \$224,285 of inventory held for sale was recognised as an expense (2006–07: \$277,114)
 During 2007–08 \$8,217 of inventory held for distribution was recognised as an expense (2006–07: \$ NIL)

Note 6D—Other current assets	2007–08	2006–07
	\$	\$
Prepayments	87,406	34,402
Total	87,406	34,402

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 7—Non-Current Assets

Note 7A—Infrastructure, plant and equipment	2007–08 \$	2006–07 \$
Furniture & fittings		
gross carrying value (at cost)	70,078	68,004
accumulated depreciation	(26,248)	(20,435)
Total furniture and fittings	<u>43,830</u>	<u>47,569</u>
Leasehold improvements		
gross carrying value (at cost)	19,400	35,024
accumulated amortisation	(6,401)	(14,596)
Total leasehold improvements	<u>12,999</u>	<u>20,428</u>
Plant and equipment		
gross carrying value (at cost)	171,210	174,123
accumulated depreciation	(103,210)	(84,925)
Total plant and equipment	<u>68,000</u>	<u>89,198</u>
Total	<u>157,195</u>	<u>157,195</u>

No indicators of impairment were found for infrastructure, plant and equipment.

Note 7B—Intangible assets	2007–08 \$	2006–07 \$
Computer software		
gross carrying value (at cost)	22,718	23,626
accumulated amortisation	(12,713)	(6,115)
Total computer software	<u>10,005</u>	<u>17,511</u>
Web site		
gross carrying value (at cost)	40,295	40,295
accumulated amortisation	(19,980)	(6,683)
Total web site	<u>20,315</u>	<u>33,612</u>
Total	<u>30,320</u>	<u>51,123</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

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

A) Reconciliation of the opening and closing balances of Infrastructure, 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
As at 1 July 2007								
Gross book value	68,004	35,024	174,123	277,151	23,626	40,295	63,921	341,072
Accumulated depreciation/amortisation and impairment	(20,435)	(14,596)	(84,925)	(119,956)	(6,115)	(6,683)	(12,798)	(132,754)
Net book value 1 July 2007	47,569	20,428	89,198	157,195	17,511	33,612	51,123	181,934
Additions:								
Purchase of new assets	2,705	—	11,900	14,605	—	—	—	14,605
Work in Progress	—	—	—	—	—	—	—	—
Disposals:								
Disposal of assets	(382)	—	(4,135)	(4,517)	—	—	—	(4,517)
Impairment	—	—	—	—	—	—	—	—
Depreciation/amortisation expense	(6,062)	(7,429)	(28,963)	(42,454)	(7,506)	(13,297)	(20,803)	(63,257)
Net book value 30 June 2008	43,830	12,999	68,000	124,829	10,005	20,315	30,320	155,149
Net book value 30 June 2008 represented by:								
Gross book value	70,078	19,400	171,210	260,688	22,718	40,295	63,013	323,701
Accumulated depreciation/amortisation and impairment	(26,248)	(6,401)	(103,210)	(135,859)	(12,713)	(19,980)	(32,693)	(168,552)
	43,830	12,999	68,000	124,829	10,005	20,316	30,320	155,149

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 8—Payables

	2007–08	2006–07
Note 8A—Suppliers	\$	\$
Trade creditors	83,905	82,938
Accrued supplier expenses	162,598	123,913
Total	246,503	206,851

Settlement of trade creditors is usually made net 30 days.

	2007–08	2006–07
Note 8B—Other Payables	\$	\$
Accrued employee expenses	6,896	–
Employee payables	108,433	165,378
Unearned income	364,942	389,949
Total	480,271	555,327

All payables are current liabilities

Note 9—Provisions

	2007–08	2006–07
	\$	\$
Annual Leave	149,196	99,201
Long Service Leave	119,132	80,271
Total	268,328	179,472

The annual leave and long service leave provisions include a component for superannuation on-costs.

Employee provisions are represented by:

Current	200,906	144,252
Non Current	67,422	35,220
Total	268,328	179,472

The classification of current includes amounts for which there is not an unconditional right to defer settlement by one year, hence in the case of employee provisions the above classification does not necessarily represent the amount expected to be settled within one year of reporting date. Employee provisions expected to be settled in one year \$149,196 (2006: \$99,201).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 10—Cash Flow Reconciliation	2007–08	2006–07
	\$	\$
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating result	262,900	293,388
Depreciation / Amortisation	63,257	57,845
Asset write offs	4,366	11,216
Change in assets and liabilities		
Decrease (Increase) in Receivables	(188,786)	45,747
Decrease (Increase) in Other Current Assets	(53,003)	2,356
Decrease (Increase) in Inventory	19,658	(4,263)
Increase (Decrease) in Payables	(35,403)	417,669
Increase (Decrease) in Provisions	88,856	(27,280)
Net cash provided by operating activities	161,845	796,677

Note 11—Directors Remuneration

a) The number of directors of ASPI included in these figures are shown below in the relevant remuneration bands:		
	2007–08	2006–07
	No.'s	No.'s
nil – \$10,000	8	13
\$250,000 – \$300,000	1	1
Total number of directors of ASPI	9	14
b) Total remuneration received or due and receivable by directors of ASPI:	2007–08	2006–07
	\$	\$
Short Term Employee Benefits	216,143	139,274
Post Employment Benefits	101,255	155,596
Other Long Term Benefits	15,380	8,269
Total directors remuneration	332,778	303,139

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 12—Related Party Disclosures

The Directors of the Institute during the year were:

Mark Johnson (Chairman)
J. Roland Williams (ceased August 2007)
James Joseph Carlton
Stephen Loosley
Adrian Clunies-Ross
J. Des C.C. Moore (ceased August 2007)
Alan Dupont
J J A Wallace
Peter Abigail (Executive Director)

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.

Note 13—Remuneration of Auditors

	2007-08	2006-07
	\$	\$
Remuneration to the Auditor-General for auditing the financial statements	<u>15,200</u>	<u>15,200</u>
	<u>15,200</u>	<u>15,200</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

Note 14—Financial Instruments

Note 14A—Categories of financial instruments	2007–08 \$	2006–07 \$
Financial assets		
Loans and receivables		
Cash at bank	1,367,195	1,219,847
Cash on hand	75	32
Receivables for goods and services	361,972	171,736
Carrying amount of financial assets	1,729,242	1,391,615
Financial liabilities		
At amortised cost		
Trade creditors	83,905	82,938
Accrued supplier expenses	162,598	123,913
Carrying amount of financial liabilities	246,503	206,851
Note 14B—Net income and expense from financial assets	2007–08 \$	2006–07 \$
Loans and receivables		
Interest revenue (see note 4C)	79,700	48,602
Impairment of receivables (see note 5E)	(18)	(4,245)
Net gain/(loss) loans and receivables	79,682	44,357
Net gain/(loss) financial assets	79,682	44,357

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

14C—Credit risk

The Australian Strategic Policy Institute has some exposure to credit risk in respect to receivables for goods and services rendered. However, the majority of loans and receivables are cash. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of receivables for goods and services (2008: \$361,972 and 2007: \$171,736). The Australian Strategic Policy Institute has assessed the risk of default on payment as nil.

The Australian Strategic Policy Institute holds no collateral to mitigate against credit risk.

The Institute manages its credit risk by entering into contractual arrangements for supplies where the monetary consideration is significant, and through adoption of policy and procedures guiding debt recovery techniques.

Credit risk of financial instruments

	Not Past Due Nor Impaired 2008 \$	Not Past Due Nor Impaired 2007 \$	Past Due or Impaired 2008 \$	Past Due or Impaired 2007 \$
Cash at bank	1,367,195	1,219,847	–	–
Cash on hand	75	32	–	–
Receivables for goods and services	197,189	130,279	164,783	41,457
Total	1,564,459	1,350,158	164,783	41,457

Ageing of financial assets that are past due but not impaired for 2008

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
Receivables for goods and services	–	17,550	3,740	143,493	164,783
Total	–	17,550	3,740	143,493	164,783

Ageing of financial assets that are past due but not impaired for 2007

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
Receivables for goods and services	–	249	13,707	27,500	41,456
Total	–	249	13,707	27,500	41,456

Australian Strategic Policy Institute Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2008

14D—Liquidity risk

The Australian Strategic Policy Institute's financial liabilities consist only of payables.

It is highly unlikely that the Institute will encounter difficulty in meeting obligations associated with its financial liabilities as it is primarily funded under a funding agreement with the Department of Defence. The Institute supplements its funding with income from sales of goods and services. In addition, the Institute has significant retained earnings and has adopted internal procedures to ensure there are appropriate resources to meet financial obligations and timely payments are made.

The Australian Strategic Policy Institute has no past experience of default.

The Australian Strategic Policy Institute's financial liabilities for 2008 are all payable within 1 year. The Institute's financial liabilities for 2007 were all payable within 1 year.

14E—Market risk

The Australian Strategic Policy Institute holds basic financial instruments that do not expose the Institute to certain market risks. The Australian Strategic Policy Institute is not exposed to 'currency risk' or 'other price risk'. In addition, the Institute has no interest bearing financial liabilities.

The Institute has an interest bearing financial asset, being cash at bank. Cash at bank is subject to a floating interest rate. It is considered that the impact of changes in the market interest rate would have an immaterial effect on the Institute's profit and loss.

Note 15—Contingent Liabilities and Contingent Assets

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



Annexes

A ASPI'S PUBLICATIONS FOR 2007-2008

B ASPI'S EVENTS PROGRAM FOR 2007-2008

ANNEX A

ASPI'S PUBLICATIONS FOR 2007–2008

The 2007–08 publications are available for free download from the ASPI website at www.aspi.org.au.

ASPI Strategy reports

Power plays: Energy and Australia's security

Professor Michael Wesley

(October 2007)

Global Forces 2007: Proceedings of the ASPI conference (2 volumes)

(December 2007)

Seeing Indonesia as a normal country: Implications for Australia

Professor Andrew MacIntyre

Dr Douglas E Ramage

(May 2008)

Neighbourhood watch: The evolving terrorist threat in Southeast Asia

Dr Peter Chalk

Dr Carl Ungerer

(June 2008)

Tangled webs: Security architectures in Asia

Professor William T Tow

(June 2008 – launched 1 July 2008)

ASPI Strategic Insights

Strategic Insight 36—Australia–Japan relations: New directions

Associate Professor Aurelia George Mulgan

(July 2007)

Strategic Insight 37—Beyond belief: Islamism, radicalisation and the counter-terrorism response

Dr Anthony Bergin

Dr David Martin Jones

Dr Carl Ungerer

(September 2007)

Strategic Insights 38—After the 2006 crisis: Australian interests in Timor–Leste

Bob Lowry

(November 2007)

Strategic Insights 39—Taking a punch: Building a more resilient Australia

Dr Anthony Bergin

David Templeman

(May 2008)

Strategic Insights 40—Making it count: Australia’s involvement in Afghanistan

Raspal Khosa

(May 2008)

Strategic Insights 41—Policing our ocean domain: Establishing an Australian coast guard

Derek Woolner

(June 2008)

ASPI Special Reports

Special Report Issue 7—A change in climate for the Australian Defence Force

Dr Anthony Bergin

Jacob Townsend

(July 2007)

Special Report Issue 8—Whither the Bush doctrine?

Dr Rod Lyon

(August 2007)

Special Report Issue 9—2007 Defence budget summary

Dr Mark Thomson

(August 2007)

Special Report Issue 10—Middle East security after Iraq

Dr Leanne Piggott

(October 2007)

Special Report Issue 11—The War on Terror after Iraq: Report of an Independent Task Force

(December 2007)

Special Report Issue 12—Australia and the South Pacific: Rising to the challenge

Dr Sam Bateman

Dr Anthony Bergin

Br Bob Breen

Dr Satish Chand

Graeme Dobell

Professor Stewart Firth

Professor Andrew Goldsmith

Associate Professor Richard Herr

Bob Lowry

(March 2008)

Special Report Issue 13—Engaging our neighbours: Towards a new relationship between Australia and the Pacific Islands

Report of an Independent Task Force

(March 2008)

Special Report Issue 14—Advancing Australian homeland security: Leveraging the private sector

Dr Anthony Bergin

John Azarias

Don Williams

(March 2008)

Special Report Issue 15—A new agenda for national security

Dr Carl Ungerer

(April 2008)

Yearbook

The Cost of Defence: ASPI Defence budget brief 2008–2009

Dr Mark Thomson

(May 2008)

ASPI Policy Analysis

Resignation of Japanese Defence Minister, Fumio Kyuma: Implications for Australia

Amy King

(23 July 2007)

The Australian media and terrorism

Dr Anthony Bergin

Raspal Khosa

(August 2007)

Assessing the Defence Update 2007

Dr Rod Lyon

(September 2007)

An Office of National Security: Making it happen

Dr Anthony Bergin

Dr Mark Thomson

(December 2007)

Issues for the Australian air combat review

Dr Andrew Davies

(January 2008)

The next Defence White Paper: The strategic environment

Dr Rod Lyon

(January 2008)

Keeping our heads below water: Australia's future submarine

Dr Andrew Davies

(January 2008)

Charting a course for Afghanistan

Jacob Townsend

(January 2008)

Terrorism and the Australian tourism industry

Dr Anthony Bergin

Raspal Khosa

(February 2008)

Pakistan, our paradoxical partner in the war on terror

Raspal Khosa

(February 2008)

The intelligence reform agenda: What next?

Dr Carl Ungerer

(February 2008)

The Shanghai Cooperation Organisation: An Australian response

John Lee

(March 2008)

NATO, Australia and the future partnership

Dr Rod Lyon

(April 2008)

ADF capability review: Royal Australian Navy

Dr Andrew Davies

(April 2008)

Proliferation central: Syria's nuclear, chemical and biological weapons

Dr Carl Ungerer

(April 2008)

ADF capability review: Australian Army

Dr Mark Thomson

Dr Andrew Davies

(May 2008)

ADF capability review: Royal Australian Air Force

Dr Andrew Davies

(May 2008)

How much will the Joint Strike Fighter cost Australia?

Dr Andrew Davies

(May 2008)

ASPI's Strategic Policy Forum

The Red Star of the Pacific: the forgotten player is back

(August 2007)

Terrorism, national security and the dilemmas of regional engagement

(April 2008)

Annex B

ASPI EVENTS PROGRAM FOR 2007–08

More detail on the individual events from the 2007–08 program and summaries from previous events can be sourced at the ASPI website www.aspi.org.au.

Visitors/Roundtable Forums Program

Professor Mr. Kim Sung-Han, Dean of Department of American Studies from Institute of Foreign Affairs and National Security

18/07/07

Mr John McArthur, Deputy Secretary Ministry of Foreign Affairs and Trade, New Zealand

25/07/07

Professor George Joffe, Deputy Director of the Royal Institute of International Affairs (Chatham House) in London

9/08/07

Dr Samina Ahmed, International Crisis Group in Pakistan, Afghanistan, India and Nepal

13/08/07

Professor Barry Rubin, Visiting Fellow, The Washington Institute

13/08/07

Dr Lydia Khalil, Analyst, Jamestown Foundation

24/09/07

Delegation from National Institute of Defense Studies, Japan

12/10/07

Dr Gerard Chaliand, Irregular Warfare Expert and Author

16/10/07

Delegation from the China National Defence Science and Technology Information Centre

26/10/07

War on Terror Task Force

14/11/07

Mr Dunn, Middle East and Africa, Ministry of Foreign Affairs, NZ

20/11/07

Dr Linda Goldthorp, Director General Intelligence Production—from Canadian Chief of Defence Intelligence (CDI)

26/11/07

Dr Michael Leeden, American Enterprise Institute and author

28/11/07

Pacific Task Force

5/12/07

Mr Gregory Copley AM, President of the Washington DC International Strategic Studies Association—Future Directions Institute—Australia 2050 Briefing

6/12/07

Delegation from the Research Institute for Peace and Security, Japan

11/02/08

Mr Colin Keating, Executive Director of the Security Council Report

12/02/08

Mr Frank Yourn, Pacific Business Council

19/02/08

RADM Peter Briggs (Retd), Submarine Institute of Australian Strategy Policy Institute

20/02/08

Dr Anne Marie Grisogono, Leader Researcher, Complex Adaptive Systems for Defence, DSTO

4/03/08

Professor Julian Lindley-French, Professor of Military Operational Science, Netherlands Defence Academy

15/04/08

Professor Akio Takahara, University of Tokyo
19/06/08

Dr Przystup and Mr Saunders, National Defence University, US
24/06/08

Delegation from National School of Public Policy, Lahore, Pakistan
25/06/08

1.5 Track Dialogues

The Fourth Australia and Japan 1.5 Track Security Dialogue
10–11 December 2007

Defence and Security Luncheon Series

HE Mr Robert McCallum, US Ambassador
02/08/07

Dr Gerard Chaliand, Irregular Warfare Expert and Author
16/10/07

Dr Mark Thomson, Program Director Budget & Management, ASPI
12/11/07 (Melbourne)

HE Mr Taka-aki Kojima, Ambassador of Japan
11/12/07

Professor Alan Dupont, Michael Hintze Chair of International Security,
University of Sydney
29/02/08

Mr Greg Sheridan, Foreign Editor, *The Australian*
13/03/08

The Hon Duncan Kerr SC MP, Parliamentary Secretary for Pacific Island Affairs
17/04/08

Commissioner Mick Keelty APM, Police Commissioner, Australian Federal Police
29/05/08 (Brisbane)

National Security Dinners

The Hon Alexander Downer MP, Minister for Foreign Affairs
23/08/07 (Adelaide)

The Hon Dr Brendan Nelson MP, Minister for Defence
27/09/07 (Sydney)

The Hon Stephen Smith MP, Minister for Foreign Affairs
09/04/08 (Sydney)

ASPI Parliamentary House Addresses

The Hon Kevin Rudd MP, Federal Labor Leader
08/08/07

The Hon Joel Fitzgibbon MP, Minister for Defence
18/03/08

ASPI Publication Launches at Parliament House

'Engaging our neighbours: Towards a new relationship between Australia and the Pacific Islands', Special Report was launched by the Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs on 14 March 2008

'Seeing Indonesia as a normal country: Implications for Australia', Strategy Report was launched by the Hon Stephen Smith MP, Minister for Foreign Affairs on 22 May 2008

'Neighbourhood watch: The evolving terrorist threat in Southeast Asia', Strategy Report was launched by the Attorney General, the Hon Mr Robert McClelland MP, on 25 June 2008.

