

PM's 'cautious welcome' to deal with Iran

Jacob Greber and Fleur Anderson

Prime Minister Tony Abbott has voiced lukewarm support for the historic deal with Iran, warning that he hopes it does more than merely delay Tehran's move towards creating a nuclear bomb.

"We give it a cautious welcome but I probably should stress the caution at least as much as the welcome," he said in Canberra on Wednesday.

Describing the Middle East as the most "unstable and dangerous" part of the world, he said the prospect of any country in the region obtaining nuclear weapons would be a "horrifying escalation of tension".

"The last place we want to see a nuclear arms race is the Middle East and if any further country gets a nuclear weapon, I suspect there will be a lot of other countries rushing for them."

"So my hope is that this is a stop, an absolute stop, to Iran getting nuclear weapons, rather than just a delay."

Iran and six major world powers have agreed on a deal - after more than a decade of negotiations - in which sanctions imposed by the US, European Union and United Nations will be lifted in return for Tehran curbing its nuclear program.

The deal is being hailed as a major foreign policy win for both US President Barack Obama and Iranian President Hassan Rouhani, but also a potential financial threat to other oil-producing countries because Iran will now be able to rejoin the world market and export its oil.

However, the deal has been met with dismay by Israeli Prime Minister Benjamin Netanyahu, who described it as a "bad mistake of historic proportions".

Key points

Tony Abbott has expressed conditional support for the historic nuclear agreement.

The US initiative has been welcomed in Europe, condemned by Israel.

"Iran will get a jackpot, a cash bonanza of hundreds of billions of dollars, which will enable it to continue to pursue its aggression and terror in the region and the world," he said.

"Iran is going to receive a sure path to nuclear weapons."

Oil traders have so far shown only a muted response to the deal, with Brent crude reversing a 2.5 per cent drop in the hours after the deal was announced to finish 1.1 per cent higher.

Analysts say part of the reason is that traders have already reflected the pending return of Iranian oil supplies after sharp falls since April. It may also take time for exports to rebound from Iran, with the sanctions due to be withdrawn in stages after certain conditions are met.

For one thing, people saw this coming. Negotiators have been on the brink of a deal for weeks, so bets on the return of Iranian supplies were already reflected in oil prices.

Leading up to the accord, hedge funds and other speculators placed most bets on falling prices since April, according to data from the Commodity Futures Trading Commission.

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Lukewarm... Tony Abbott on Wednesday. PHOTO: ANDREW MEARES


Shopping list

The Coalition's defence policy could blow out the return to surplus

The problem


Tony Abbott promised to lift defence spending to 2% of GDP by 2023-24. This means spending an extra \$14-\$16 billion

Some of the projects Defence says it could bring forward so the government can start spending the extra money

 Relocate RAAF base in Darwin

 Bring forward the purchase of a third supply ship from South Korea

 Bring forward the replacement of armoured vehicles

 Bring forward and expand the order for surveillance aircraft. The government is committed to buying eight with an option for four more. Defence suggests taking the option and purchasing another three.

What the Defence White Paper also suggests

- Reduce from twelve to eight the number of new submarines (with a caveat of ordering up to four more in the future)
- Build nine frigates with anti-submarine capability. The proposal will be to build them in Adelaide
- Purchase ten to twelve offshore patrol vessels
- Have one shipbuilder only, based in Adelaide, possibly close Newcastle and Melbourne
- Purchase two C-17 transport aircraft
- Purchase three Chinook helicopters.



Abbott's defence promise puts 2021 surplus at risk

Exclusive

Phillip Coorey
Chief political correspondent

Prime Minister Tony Abbott's signature election promise to boost defence spending to 2 per cent of GDP within a decade has put pressure on the government to start spending more money immediately and blow out its planned return to surplus.

Sources have told *The Australian Financial Review* that the Defence Department has told the government that unless it starts spending extra money now by bringing forward projects and acquisitions, it will be unable to spend all the extra money required to hit the 2 per cent target by 2023-24.

But bringing forward spending would disrupt the government's mid-term fiscal strategy and push back a return to surplus which the May budget estimated would occur in about 2021. To hit that target, the government has to spend an extra \$14 billion to \$16 billion on defence by 2023-24.

The government needs to clear the obstacle before it releases its defence white paper.

Separately, it is understood that the paper will confirm the government intends to build only eight new submarines over the next several decades, down from the original proposal of 12. It will build up to nine frigates, most likely in Adelaide, in a bid to assuage anger caused by the decision to source the submarines abroad.

There would be one shipbuilder

only, based in Adelaide, meaning the futures of facilities in Newcastle and Melbourne would be uncertain.

The white paper will also flag the purchase of up to 12 offshore patrol vessels, the purchase of two more C-17 transport aircraft and three extra Chinook helicopters.

The white paper is expected to contain a 10-year budget trajectory for defence spending, which will include the current four-year budget forward estimates period and the years beyond.

Sources said that at a meeting of the National Security Committee of Cabinet on June 30, Defence presented

Bringing forward spending would disrupt the government's mid-term fiscal strategy.

three options, only one of which it believed was feasible but that risked delaying further any return to surplus.

The first option says that because no provision to accommodate the spending boost is included in the next four years, the extra \$14 billion would have to be spent between 2019-20 and 2023-24. This would involve a 6.1 per cent increase in defence spending in 2019-20, which would jump to 9.3 per cent in the years 2022-23 and 2023-24.

This translates to \$9 billion extra being spent in the final two years.

Defence has warned the government that this option involves "a high level of risk" because there was too little time to find projects and equipment to buy. A source said this was code for "impossible".

The second option presented by Defence was to spread the extra spending more evenly between 2019-20 and 2023-24. This would involve an increase of 6.1 per cent rising to 7.4 per cent in the final year. Defence has warned this would also be difficult.

The third option, according to the source, suggests the government starts spending more money on defence right away so it can spend all of the \$1 billion by 2023-24. However, it is believed the Departments of Treasury and Finance have misgivings because of its impact on the return to surplus. This year's budget forecast a return to balance in 2020 and surplus a year later.

Defence has recommended that projects could be brought forward so the government could start spending more money now. Suggestions include relocating an RAAF base in Darwin, bringing forward the purchase of a third supply ship from South Korea, fast-tracking the replacement of armoured vehicles and bringing forward and expanding an order for new surveillance aircraft.

Currently, the government is committed to buying eight aircraft with an option for four more. Defence suggests taking the option and purchasing another three.

The government intends to release the white paper in coming weeks.



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