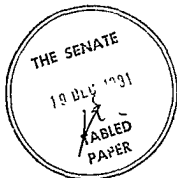


THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

DEPARTMENT OF THE SENATE
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<i>Murray Evans</i>

Joint Committee on Foreign Affairs, Defence and Trade

AUSTRALIA'S RELATIONS WITH PAPUA NEW GUINEA



December 1991

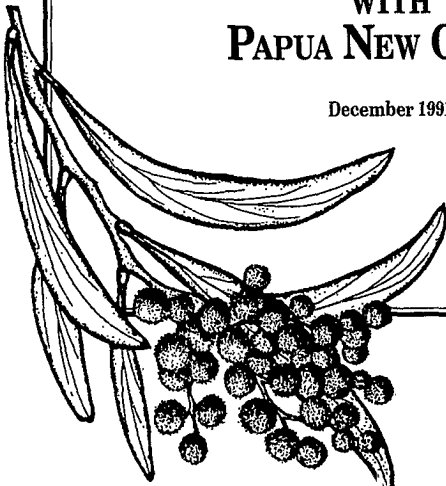


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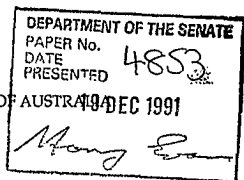
**JOINT COMMITTEE ON FOREIGN
AFFAIRS, DEFENCE AND TRADE**

**AUSTRALIA'S RELATIONS
WITH
PAPUA NEW GUINEA**

December 1991



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA



Joint Committee on Foreign Affairs, Defence and Trade

AUSTRALIA'S RELATIONS WITH PAPUA NEW GUINEA



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Papua New Guinea

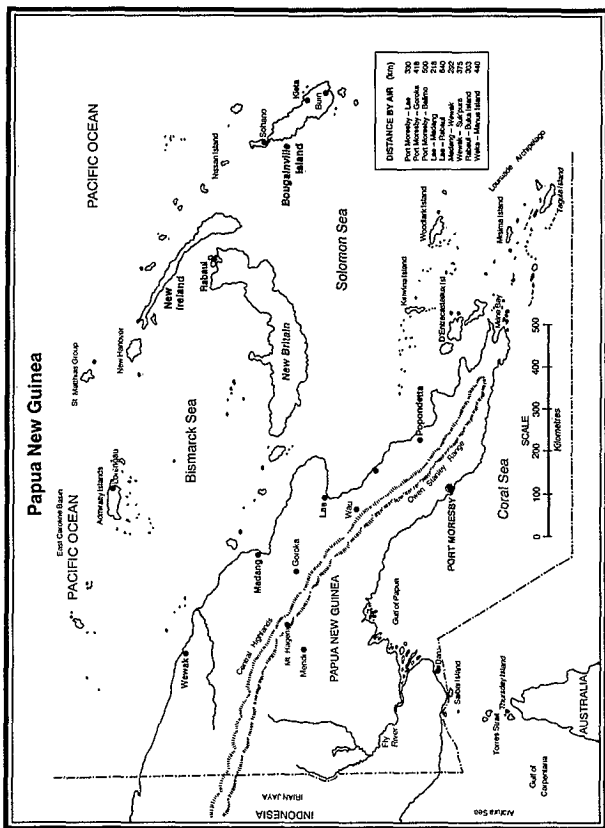


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TERMS OF REFERENCE

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- a. economic relations between Australia and Papua New Guinea, including trade, investment and development co-operation;
- b. the implications for Australia of political, economic, social and security developments in Papua New Guinea; and
- c. the implications for Australia of Papua New Guinea's role in regional affairs.

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FOREWORD

This is by far the most comprehensive and wide ranging inquiry into Australia's relations with Papua New Guinea ever undertaken by an Australian parliamentary committee. The recommendations, if adopted, would have the effect of greatly transforming our nation's relations with Papua New Guinea, leading to a substantial broadening and strengthening of those relations. The brief history of the inquiry is as follows:

1. In March 1989 the Joint Committee on Foreign Affairs, Defence and Trade (JCFADT) tabled a report entitled *Australia's Relations with the South Pacific*. This report included some aspects of Australia's relations with Papua New Guinea (PNG), recognising that country as a leading South Pacific nation. However, the report was only able to focus briefly on the Australia-Papua New Guinea relationship in the context of our relations with the South Pacific in general, and suggested that a separate review of Australia-Papua New Guinea relations was warranted.
2. In April 1989 the Minister for Foreign Affairs and Trade referred the following topic to the JCFADT for inquiry and report:

Australia's Relations with Papua New Guinea

To investigate and report on Australia's relations with Papua New Guinea, with particular reference to:
 - a. economic relations between Australia and Papua New Guinea, including trade, investment and development co-operation;
 - b. the implications for Australia of political, economic, social and security developments in Papua New Guinea; and
 - c. the implications for Australia of Papua New Guinea's role in regional affairs.
3. A Papua New Guinea Sub-Committee was established to conduct the inquiry. It called for submissions, and despite difficulties caused by the pilots' strike, held one public hearing before Parliament was dissolved, and an election held. In June 1990 the inquiry was re-referred to the new JCFADT, with the same Terms of Reference. A standing Foreign Affairs Sub-Committee was established, with its first task being the conduct of the Papua New Guinea inquiry on behalf of the Main Committee.
4. Under the Committee's Resolution of Appointment, the Sub-Committee was able to have access to the submissions and other evidence of the previous Committee. Invitations to update existing submissions were issued, together with a call for new submissions. Over 70 submissions were received, with many of these including supplementary submissions.

In addition, over 60 exhibits were presented to the Sub-Committee, consisting of reports, papers and books relevant to the Terms of Reference but not produced directly for the inquiry.

5. A Working Group established from within the Foreign Affairs Sub-Committee travelled to Papua New Guinea to try to gain an understanding of Papua New Guinea perspectives on the relationship. This visit contributed a great deal to the Sub-Committee's grasp of the complexities of Papua New Guinea life. Unfortunately, due to illness, I was unable to participate in this visit. I wish to thank Senator Chris Schacht and Hon. Michael MacKellar, MP, for their leadership of the delegation.
6. Over the period of the inquiry the Sub-Committee held eighteen public hearings in Canberra, Melbourne, Sydney, Brisbane, Cairns, Townsville and Thursday Island. Extensive evidence was taken from government departments, private industry, non-government organisations, interest groups, academics and individuals associated with Papua New Guinea. As a result the Sub-Committee received information about every aspect of the Australia-Papua New Guinea relationship and much that related to the history and development of Papua New Guinea. Inevitably the historical ties and the present circumstances impinge upon the relationship and are therefore given some place in the report.
7. The Sub-Committee is grateful for the assistance of all the organisations and individuals who put in submissions to the inquiry or who appeared to give oral evidence. Their evidence has been invaluable and the public record of the evidence is itself a substantial document on Australia's relations with Papua New Guinea. In particular, the Sub-Committee wishes to thank Mr Rowan Callick and Mr Matthew Neuhaus who acted as consultants to the inquiry. I also wish to thank Ms Judy Middlebrook and Ms Margaret Swieringa who worked beyond the call of duty. Ms Jeanette Brentnoll also assisted me in my deliberations on the report. Finally, I wish to thank my colleagues for their very many hours of work.

Dr Andrew Theophanous, MP
Chairman
Foreign Affairs Sub-Committee
December 1991

Summary of Conclusions and Recommendations

1. Australia's relationship with Papua New Guinea is governed by the fact that we obtained it as a colony in a burst of strategic nervousness just as we ourselves were seeking decolonisation. We were, therefore, diffident colonisers who governed with casual practicality and who departed with alacrity and too little care. The strategic concern, which motivated the acquisition of the colony in 1883, remains a constant factor in the relationship, coming as it does from our geographic proximity. A lingering sense of responsibility, bred of our rapid departure, governs our commitment to aid. Over the last 16 years we have developed many formal ties and arrangements. Officially the relationship is given top priority and it has worked smoothly, albeit with questions arising now about the processes involved in aid and defence co-operation. Australia's major concerns are about the effectiveness of our aid in supporting Papua New Guinea's nation building, a process that has slowed, and the instability of Papua New Guinea, evident in the secessionist movement on Bougainville or the political, social and economic disruptions of crime and corruption. Unofficially, at an institutional and personal level, the relationship has been weakened by time. Here, there is scope for strengthening it, for rehumanising it.
2. Section 1 of the report looks at the political and social developments within Papua New Guinea. Since 1975 these matters have been entirely within the jurisdiction of the Papua New Guinea Government. However, in the context of this inquiry, they are significant for two reasons. First, they have been affected by the legacy left to Papua New Guinea by Australia and second, and more importantly, they shape the aid, trade and investment environment which is the basis of the relationship. Chapter 2 looks at political developments since Independence. It examines the choice of constitutional government made as it was out of familiarity with Australian constitutional practice and the modifications of the Constitution that have occurred over the last 16 years. In particular, the chapter notes the problems associated with the weakness of the party structure, the distracting effect of the no confidence motions, the corruptibility of the electoral allowance system and the viability of the provincial governments. Planned and actual electoral reform is outlined. Finally the Committee, from an Australian perspective, comments on the capacity of the Papua New Guinea political system to provide a stable environment for investment and an effective vehicle for directing development.
3. Papua New Guinea, no less than any developing nation, is suffering the dislocations of rapid social change. The leisurely pace adopted by successive Australian administrations came to an abrupt end with the Foot Report on New Guinea in 1962. Although this report engendered a sense of urgency into Australian preparation for Papua New Guinean independence, the years between 1962 and 1975 were insufficient and the task was left incomplete. Today, Papua New Guinea has a rapidly

expanding and urbanising population. It is, therefore, a struggle to build an education system to cater for the growing population. Illiteracy remains high. There are too few skilled Papua New Guineans who can manage and implement the development policies of the government. And yet, despite the shortage of skilled labour, there is also high unemployment which creates frustration and lawlessness. Health services do not keep pace with the growth of the population. The environment too is under pressure from the expansion of industry, especially in the mining and forestry sectors. The Committee believes that there is a continuing responsibility on Australia's part to aid Papua New Guinea through this development phase, not only because Papua New Guinea is a former colony but also because it is our closest neighbour. The nature and scale of that aid are discussed in the chapter on development assistance.

4. *Of particular concern to the government and people of Papua New Guinea is the level of violence that exists in the country. A tradition of tribal warfare has long existed in the highlands but today 'raskol' gangs belie the mischievousness of their name and spread real fear throughout the towns. It is a development that destroys the order and peace of the lives of local inhabitants, mars Papua New Guinea's reputation and threatens seriously to inhibit economic development. Worst of all, it has the potential to infiltrate and corrupt the political process. Chapter 4 examines the efforts of the government to contain the development of violence. The Committee understands the need for strong measures but regrets the imposition of capital punishment which it sees not as a deterrent but as an extension of violence to state violence.*
5. *Central to the argument of this report is the view that the relationship between Australia and Papua New Guinea has weakened over time, especially at the individual level, and that the understanding the people of each country have of the other is not as deep or as thorough as it should be for such close neighbours. It is a cultural trade imbalance. Papua New Guineans know much more of us than we know of them. The fault lies particularly with Australians. Apart from those people whose connections with Papua New Guinea go back to pre-independence days and the small group of officials who deal with the relationship at an official level, there are few in Australia who know or understand Papua New Guinea well. Papua New Guinea does not figure in Australian school curricula, there are few cultural, sporting or tourist links and the media in Australia present a narrow and sensationalised view of Papua New Guinea as a violent and disintegrating society. The Committee believes there must be vast improvement in these links from the Australian side.*
6. *Section 2 of the report considers economic issues, the relationship between trade, investment and aid in the development of Papua New Guinea. In Chapter 6 there is an overview of the debate, conducted at Independence and today, on how development might best be achieved. There is an analysis of the achievement of macro economic stability and strength set against the problems associated with a high exchange rate, high wages, low productivity, a weak skill base, falling commodity prices and a largely subsistence economy. In particular, there is too little involvement of Papua*

New Guineans in the cash economy; unemployment is high. The challenge will be to translate mining revenues into a broader economic base that will involve more of the population. The implications for Australia are manifold for, although Australian investment in mining is high, further investment in the non-mining sector — agriculture, manufacturing, processing — offers opportunities. The involvement of the World Bank and the subsequent structural adjustment programs are also examined.

7. Papua New Guinea's trade is based on resources. Increasingly through the 1990s, minerals will be a valuable source of export income. In agriculture, however, a sector where most of the population is employed, there has been a severe decline in prices. Even the improvement in productivity that has been achieved in agriculture has not offset this decline in prices, nor has there been a successful movement into value-added manufacturing, linked to commodities. In spite of the loss of income from Bougainville and low commodity prices, in 1990 there was a balance of payments surplus, achieved by a devaluation of the kina. Japan is Papua New Guinea's largest export market; Australia the largest importer. The trade imbalance between Australia and Papua New Guinea runs in Australia's favour and this is unlikely to change while Papua New Guinea remains a commodity and mineral exporter like Australia. There is a lack of complementarity between us. The Committee sees great potential for increased trade in the regional links between north Queensland and Papua New Guinea. Further potential is seen through investment in value-added manufactures.
8. The investment potential of Papua New Guinea is great but it is significantly inhibited by security problems. In the last twelve months the government has passed a plethora of laws to address the breakdown in law and order. Political stability and bureaucratic efficiency are also necessary prerequisites and the Government of Papua New Guinea has been addressing those questions. The success of these measures will be vital to the expansion of investment beyond the high profit, isolated capital-intensive mining ventures. The mining sector has continued to attract investment despite the nervousness engendered by the closure of Bougainville.
9. From colonial times to the present, aid has dominated the Australia-Papua New Guinea relationship. This chapter begins with an overview of Australian aid. It then considers the context in which aid has come to colour all aspects of the relationship. Current aid arrangements are reviewed. The categories of bilateral aid (budget support, project, program and NGO support) are then assessed. The Committee concludes that budget support should be replaced by program aid, supported where necessary by project aid. The choice of program areas should rest on sound long-term economic and social policies and be determined after close consultation between Australia and Papua New Guinea. The Committee recommends that the overall size of the aid budget should be maintained at current nominal levels for the foreseeable future, with the level being reassessed if increases in Papua New Guinea's resource-based income are significantly higher than anticipated. The move from budget

support to program aid should be undertaken as a matter of urgency, while taking steps to ensure a smooth transition. The capacity for non-government organisations to deliver cost-effective project aid should be supported with a greater share of available funds. The need for flexibility and compromise in the introduction of new arrangements will be essential to safeguard the interests of both Australia and Papua New Guinea. The chapter concludes with a consideration of multilateral aid as an alternative to bilateral aid.

10. Section 3 of the report deals with security issues. Since Bougainville, there has been a shift in perception in Australia and in Papua New Guinea as to what constitutes the security threat to the region. The conventional view, reinforced by the experience of World War II that Papua New Guinea formed a natural barrier and defence for Australia, has been modified by the more immediate problem posed by the secession movement on Bougainville. Certainly, for Papua New Guinea, the likelihood of national disintegration has been of particular concern. The performance of both the police and the defence forces on Bougainville has also shown up weaknesses in the command structure and training of the forces. This, and the failure of the police to deal effectively with the law and order breakdown in the towns, has prompted a review of the whole security arrangement. In Chapter 10, there is a review of the history and development of the Papua New Guinea Defence Force. They have a fine tradition going back to World War II but during the 1980s have suffered from neglect, inadequate funding and political intervention leading to low morale and indiscipline. The politicisation of the force is one danger, not realised but feared, to the constitutionality and the stability of Papua New Guinea. The rivalry that exists between police and armed forces has also created tensions and, at times, violence. Australia's defence ties with Papua New Guinea are determined by the Joint Declaration of Principles and the Defence Co-operation Program. Through these arrangements Australia supplies training, equipment and advice to Papua New Guinea. Since 1991 Papua New Guinea has begun to diversify its sources of defence aid and purchases. This year has also seen a major review both in Australia and Papua New Guinea of defence arrangements.
11. Nation building in Papua New Guinea has been a process of overcoming regional differences, language differences and different development stages. On the whole it has been remarkably successful. However, Bougainville has become one of Papua New Guinea's most intractable problems. Its resolution is seen by the Papua New Guinea Government as a vital test of the unity of the nation. Chapter 11 outlines the historical background to the present struggle. Australia's concern with Bougainville is twofold: first is a general concern for the integrity of Papua New Guinea and the stability of the area; second, the interests of Australian mining companies have been central to the conflict. Australia has supported the unity of Papua New Guinea and has played a major role in the training and equipping of the Papua New Guinea Defence Force, including the controversial supply of helicopters that were used on Bougainville. These interests have precluded Australia from playing a significant role in finding a solution to the crisis. The Committee heard evidence of human

rights abuses on both sides and of continuing hardships as a result of the blockade. Therefore, the Committee believes the Government of Australia should make every effort to help the Papua New Guinea Government to bring about the earliest possible end to the crisis.

12. The Irian Jaya border between Papua New Guinea and Indonesia offers another secessionist problem to the Papua New Guinea Government. In this case, it is the secessionist ambition of the Irianese who oppose the inclusion of Irian Jaya in Indonesia. The movement across the border of people seeking refuge, often pursued by Indonesian troops, has caused tension between the two countries. Large refugee camps have been established along the border under the auspices of the United Nations High Commissioner for Refugees. Australia contributes funds for the running of these camps but has made no offer of resettlement for the refugees. The Papua New Guinea Government assesses applications for refugee status from the border crossers, but even if this is granted the people are confined to the camps. The Torres Strait border raises concerns of illegal entry as well. Here, it is a question of the movement of people from Papua New Guinea into the Torres Strait Islands for fishing or medical services. Fears of the smuggling of illegal goods were also raised with the Committee. The Committee recommends greater consultation with the local people and a strengthening of the surveillance systems in these areas.
13. Section 4 of the report looks at Papua New Guinea's relationships with the region. The growing stature of Papua New Guinea in the region is evident in its greater involvement in regional affairs. It is increasingly seen as a strong, wealthy and independent nation. This chapter examines Papua New Guinea's involvement and significant voice in the South Pacific Forum, its admittance to ASEAN's Treaty of Amity and Co-operation, its work in the Melanesian Spearhead Group and its widening bilateral relationships with Pacific and European countries.

Recommendations

The Committee looks forward to the time when Papua New Guinea's development will lessen the need for aid. However, to date, aid has been an important, perhaps too dominating, feature of Australia's relationship with Papua New Guinea. Much time and attention was accorded it in the inquiry and the mooted changes to the Development Co-operation Agreement will have significant effects on Papua New Guinea. *Therefore, the Committee wishes to place the recommendations from Chapter 9 at the beginning of the list.*

The Committee recommends that budget support should be replaced by program aid, supported where necessary by project aid.

The move from budget support to program and project aid should be undertaken as a *matter of urgency*, commencing in 1993 or as soon as possible thereafter. During the transition there should be a mix of budget support and program and project aid, with the former being phased out by the end of 1998.

Given that negotiating projects and programs involves great administrative complexity and absorbs large amounts of scarce, high level managerial capacity, the Committee recognises that there may be delays in the implementation of this recommendation. If that occurs, the total level of aid should be maintained through continuing budget support.

The choice of program areas (designated programs) should be based on sound long-term economic and social policies and be determined after close consultation between Australia and Papua New Guinea.

The overall size of the aid budget should be maintained at current nominal levels at least until 1998, with the level being reassessed only if increases in Papua New Guinea's resource-based income are significantly higher than anticipated. In the event that the total Australian aid budget is reduced, aid to Papua New Guinea should be cut by no more than a pro rata reduction. Any arbitrary reduction in aid should only be made after reasonable notice is given.

The further recommendations of the Committee are:

Recommendation 1. (Chapter 2) The Committee recommends the establishment of a mechanism for ensuring regular exchanges between Papua New Guinean and Australian politicians. This report wishes to restate the recommendations made in the *Report on the Visit to Papua New Guinea: February 1991* namely, that regular and reciprocal parliamentary exchanges be instituted. They should be formalised by agreement of the Presiding Officers of the Parliaments. An Australian delegation should visit Papua New Guinea every second year, with a Papua New Guinean delegation making a visit during the alternating years. A program of discussions and observation should be arranged at both national and state/provincial level.

Recommendation 2. (Chapter 2) The Committee considers that liaison between committees of similar purpose and function should also be developed and that ministers of the Papua New Guinea Government should be encouraged to attend the Ministerial Council.

Recommendation 3. (Chapter 2) The Committee supports the continuation and further development of aid projects aimed at actively assisting in the development of administrative expertise in the Papua New Guinea Public Service. Again, this could be achieved by secondment and/or exchange of personnel in areas of need identified by the Papua New Guinea Government.

Recommendation 4. (Chapter 3) The Committee recommends that Australia offer a specific project to the family planning associations of Papua New Guinea in order that they might develop and promote comprehensive services on birth control. This aid could be delivered either through an expansion of current Non-government Organisation (NGO) services or through an AIDAB health project. We should also encourage the United Nations Family Planning Association to be involved.

Recommendation 5. (Chapter 3) The Committee recommends that one of the priorities in the new program aid system should be the development of special programs aimed specifically at unemployed youth e.g. technical and vocational training, agricultural and business extension and small scale local public works. These should be developed in consultation with the Papua New Guinea Government.

Recommendation 6. (Chapter 3) The Committee recommends that, as the aid program moves away from budget to project or program aid, the education sector is given a high priority.

Recommendation 7. (Chapter 3) The Committee recommends that aid be directed through professional associations and company training programs to the development of such skills as accounting and engineering.

Recommendation 8. (Chapter 3) Australia can further assist by offering taxation concessions to Australian companies for the cost of their training investment in Papua New Guinea.

Recommendation 9. (Chapter 3) The Committee recommends that support be given to the Development of Women's Opportunities Project in order that women might have access to funds to develop commercial enterprises based on subsistence farming skills, and to promote women's financial independence.

Recommendation 10. (Chapter 3) The Committee recommends that, after consultation with the National Council of Women in Papua New Guinea, a major increase in funds be made available through the Women in Development Fund and other appropriate agencies in support of family planning and for programs aimed at reducing domestic violence.

Recommendation 11. (Chapter 3) The Committee believes there is scope for a close association to be developed between women's groups and family planning organisations in Papua New Guinea and Australia with a view to sharing ideas and personnel. (See also Recommendation 4.)

Recommendation 12. (Chapter 3) The Committee recommends that priority be given to directing Australian program and project aid towards health projects which improve disease eradication in Papua New Guinea and expand medical research and training through a commitment by the Commonwealth Government to funding for the Tropical Health Program (THP) at the University of Queensland and the Queensland Institute of Medical Research. (See also Recommendation 50.)

Recommendation 13. (Chapter 3) The Committee also recommends that the Australian Government negotiate with the Papua New Guinea Government to establish tighter systems of quarantine and immigration control in the Torres Strait.

Recommendation 14. (Chapter 3) The Committee recommends that for those mining operations that have an impact on the Torres Strait, assiduous and independent monitoring and, if necessary, immediate preventative or restorative action by both the companies and governments need to be guaranteed, both before and during mining operations.

Recommendation 15. (Chapter 3) The Committee recommends that Australia offer assistance to the Papua New Guinea Government to develop their administrative and scientific expertise in the process of monitoring and enforcing their environmental guidelines.

Recommendation 16. (Chapter 3) The Committee recommends that AIDAB monitor the impact of the Tropical Forest Action Plan and that AIDAB report to the Parliament on its success.

Recommendation 17. (Chapter 3) The Committee recommends that Australia support a survey of species of Papua New Guinea flora and fauna and, through connections with wildlife and conservation groups in Australia, offer expertise in the development and management of nature reserves.

Recommendation 18. (Chapter 4) The Committee is extremely concerned about the crime problem in Papua New Guinea and therefore recommends that there be an increased emphasis on the aid directed to the fight against crime, including:

the setting up of local police stations; support for a major upgrading of police training; the strengthening of the AIDAB police training project; the improvement of security in prisons; the provision of equipment and resources; and increasing co-operation between the Australian and Papua New Guinean police forces.

Recommendation 19. (Chapter 4) The Committee supports the increase in customs and coastwatch activities in north Queensland and recommends continued liaison with and assistance to Papua New Guinea customs and police forces. The report looks at aid in these areas in Section 4.4 below and in Chapter 12.

Recommendation 20. (Chapter 4) The Committee further recommends that the Australian Customs Service strengthen the liaison and develop further co-operative systems with their opposite agencies in Papua New Guinea and Indonesia in order to monitor breaches of customs and quarantine regulations.

Recommendation 21. (Chapter 4) The Committee recommends that AIDAB evaluate the present Customs Project, and report to Parliament with recommendations for the continued co-operation between enforcement agencies in both Papua New Guinea and Australia.

Recommendation 22. (Chapter 5) The Committee recommends that News Corporation and Channel 9, which have businesses in Papua New Guinea, be urged to contribute more fully towards the relationship between Australia and Papua New Guinea by secondment of staff in each direction, and by the basing of Australian journalists in Papua New Guinea and vice versa.

Recommendation 23. (Chapter 5) The Committee recommends that the Australian Government initiate a program of awards, with support from government and commercial sponsors, for Australian journalists to travel in and write about Papua New Guinea.

Recommendation 24. (Chapter 5) The Committee recommends that the ABC be urged to consider having a regular exchange of Papua New Guinean and Australian journalists.

Recommendation 25. (Chapter 5) The Committee recommends that Australia request Papua New Guinea's consideration of a fast-track system of granting visa approvals for journalists; and of the issue of multiple entry visas for those who express an interest in making frequent visits to Papua New Guinea.

Recommendation 26. (Chapter 5) The Committee recommends that all government departments be urged to publicise more widely their programs and links with Papua New Guinea.

Recommendation 27. (Chapter 5) The Committee recommends the establishment of an Australia-Papua New Guinea Council similar to the Australia-Indonesia or Australia-China Councils within the Department of Foreign Affairs and Trade in order to strengthen the cultural and educational links between Papua New Guinea and Australia.

Recommendation 28. (Chapter 5) The Committee recommends that one of the projects within the program aid budget be directed towards developing cultural exchanges and links between the people of Papua New Guinea and Australia. This could be administered by an Australia-Papua New Guinea Council.

Recommendation 29. (Chapter 5) The Committee recommends that individuals and/or cultural organisations be encouraged to tour Papua New Guinea as part of an overall cultural exchange.

Recommendation 30. (Chapter 6) The Committee recommends that Papua New Guinea anti-corruption and immigration authorities be granted access to relevant records held by their Australian counterparts.

Recommendation 31. (Chapter 6) The Committee recommends that through AIDAB and the Australia-Papua New Guinea Business Council, the Australian Government promote the short-term exchange of middle managers between businesses in Papua New Guinea and Australia, so that middle-managers can gain training through practical experience.

Recommendation 32. (Chapter 6) The Committee recommends that the Australian Government encourage professional organisations and institutes to build bridges with their counterparts in Papua New Guinea with a view to sharing expertise and information.

Recommendation 33. (Chapter 6) The Committee recommends that the Department of Employment, Education and Training establish a unit within its International Division with the specific objective of developing links between tertiary institutions in Australia and Papua New Guinea, particularly teacher training institutions. Through these links the department should seek to facilitate both programs of training and exchange among both staff and students, supporting and extending the work of the International Development Program (IDP).

Recommendation 34. (Chapter 7) The Committee recommends that Australia seek to enlist Papua New Guinea as a member of the Cairns Group of nations.

Recommendation 35. (Chapter 7) The Committee recommends that the Australian Government should encourage and facilitate the opening of a Papua New Guinea consulate in Cairns.

Recommendation 36. (Chapter 7) The Committee recommends that Australia and Papua New Guinea study the possibility of making a free trade agreement, similar to CER (New Zealand), between the two countries.

Recommendation 37. (Chapter 8) The Committee recommends that, in conjunction with the Papua New Guinea Business Council and the Papua New Guinea Department of Trade and Industry, AUSTRADE develop investment seminars specifically directed at the manufacturing, processing or agricultural sectors of Papua New Guinea. (See also Recommendations 34, 35 and 36.)

Recommendation 38. (Chapter 9) The Committee recommends that budget support should be replaced by program aid, supported where necessary by project aid.

Recommendation 39. (Chapter 9) The choice of program areas (designated programs) should be based on sound long-term economic and social policies and be determined after close consultation between Australia and Papua New Guinea.

Recommendation 40. (Chapter 9) The Committee recommends that the overall size of the aid budget should be maintained at current nominal levels for the foreseeable future, with the level being reassessed only if increases in Papua New Guinea's resource-based income are significantly higher than anticipated. In the event that the total Australian aid budget is reduced, aid to Papua New Guinea should be cut by no more than a pro rata reduction. Any arbitrary reduction in aid should only be made after reasonable notice is given.

Recommendation 41. (Chapter 9) The Committee recommends that the move from budget support to program and project aid should be undertaken as a matter of urgency, commencing in 1993 or as soon as possible thereafter. During the transition there should be a mix of budget support and program and project aid, with the former being phased out by the end of 1998.

Given that negotiating projects and programs involves great administrative complexity and absorbs large amounts of scarce, high-level managerial capacity, the Committee recognises that there may be delays in the implementation of this recommendation. If that occurs, the total level of aid should be maintained through continuing budget support.

Recommendation 42. (Chapter 10) The Committee recommends that the Australian Defence Force (ADF) engineers' program in the Southern Highlands Province be used as a model for an extension of such programs into other provinces of Papua New Guinea; and that this be pursued in partnership with the PNGDF engineering battalion.

Recommendation 43. (Chapter 10) As Australia has a Defence Co-operation Program with Papua New Guinea, the Committee supports the planned integration of the defence force and police force for the defined and limited purposes of joint training and logistical support. However, in the light of the dangers inherent in armies doing police work, the Committee is strongly of the view that the Papua New Guinea Government should develop strict guidelines for the deployment of the PNGDF for civilian tasks and that these guidelines should be reflected in the joint training program and in the use of equipment.

Recommendation 44. (Chapter 10) Where Australia is involved, the Committee recommends that enhanced emphasis be applied to the training of the PNGDF for civilian tasks, encompassing humanitarian law and civic duties; and that Australia offer to continue a role in recruit and officer training.

Recommendation 45. (Chapter 11) The Committee recommends that Australia adopt a more active diplomatic role in trying to resolve the impasse between the Bougainvilleans and the Papua New Guinea Government.

Recommendation 46. (Chapter 11) The Committee urges the Australian Government to press the Papua New Guinea Government to lift its restrictions on humanitarian aid to Bougainville and actively co-operate with Australian NGOs in the provision of this aid.

Recommendation 47. (Chapter 11) The Committee recommends that on providing gifts of military equipment to Papua New Guinea the Australian and Papua New Guinea Governments should develop clear and agreed guidelines about how the equipment will be used.

Recommendation 48. (Chapter 11) The Committee recommends, despite the inhibitions on Australia's actions caused by our past colonial and present commercial ties with Papua New Guinea, that the Australian Government should do more to encourage Papua New Guinea to investigate human rights abuses.

Recommendation 49. (Chapter 11) In addition, in consultation with the Papua New Guinea Government, the Australian Government should explore ways in which Australian aid to Papua New Guinea might be used to enhance safeguards for human rights protection.

Recommendation 50. (Chapter 12) The Committee endorses the call by the Island Co-ordinating Council that Australian program aid be directed to the improvement of the economic situation and social services, particularly health services, of the Western Province, at least to the level of the better served parts of the country.

Recommendation 51. (Chapter 12) The Committee recommends that the Australian Government begin urgent and regular discussions with the representatives of the Torres Strait Islanders to demonstrate sensitivity to their concerns.

Recommendation 52. (Chapter 12) The Committee recommends that steps be taken to discuss the problems of the Torres Strait with the Papua New Guinea Government and to put to the Papua New Guinea Government any modifications to the Treaty that are perceived to be necessary.

Recommendation 53. (Chapter 13) The Committee recommends that Australia encourage and facilitate Papua New Guinea's taking an active role in relation to the smaller South Pacific island states, in providing training opportunities and modest numbers of technicians and professional people, as a contribution to broader solidarity within the Forum group of countries.

Recommendation 54. (Chapter 13) The Committee recommends that Australia promote Papua New Guinea's full entry into the APEC group of nations.

Recommendation 55. (Chapter 13) The Committee believes it is important to Australia's relations with both Indonesia and Papua New Guinea that the Treaty of Mutual Respect continue to work harmoniously, and would encourage actions which strengthen it.

Recommendation 56. (Chapter 13) The Committee recommends that Australian Defence Force training of the PNGDF take note of the need to develop greater proficiency in border patrolling.

Australia's Relations with Papua New Guinea

Chapter One

Introduction

Australia's relationship with Papua New Guinea is governed by the fact that we obtained it as a colony in a burst of strategic nervousness just as we ourselves were seeking decolonisation. We were therefore diffident colonisers who governed with casual practicality and who departed with alacrity and too little care. The strategic concern, which motivated the acquisition of the colony in 1883, remains a constant factor in the relationship, coming as it does from our geographic proximity. A lingering sense of responsibility, bred of our rapid departure, governs our commitment to aid. Over the last 16 years we have developed many formal ties and arrangements. Officially the relationship is given top priority and it has worked smoothly, albeit with questions arising now about the processes involved in aid and defence co-operation. Australia's major concerns are about the effectiveness of our aid in supporting Papua New Guinea's nation-building, a process that has slowed, and the instability of Papua New Guinea, evident in the secessionist movement on Bougainville or the political, social and economic disruptions of crime and corruption. Unofficially, at an institutional and personal level, the relationship has been weakened by time. Here, there is scope for strengthening it, for re-humanising it.

1.1 The Australia-Papua New Guinea Relationship

1.1.1 The relationship between Australia and Papua New Guinea is dominated by the shadow of its past colonial ties and present strategic and economic considerations. From the colonial ties comes the perception that Australia owes a duty of care to Papua New Guinea because many of its present problems arise from the neglect and mistakes from its colonial past. Ours was a stewardship that saw Papua New Guinea gain independence with insufficient infrastructure, particularly in human resources. This is evident in a comparison of the Australian-administered Papuan provinces and the more prosperous territory of New Guinea, briefly administered by Germany. From the geographic proximity of the two nations come the strategic and economic considerations. Today, the strategic interest is a broad, multifaceted one encompassing political stability, economic progress and regional consultation on issues of common interest.

1.1.2 The colonial ties have been well severed after 16 years of independence. Papua New Guinea is now fiercely independent. In recent years it has sought to broaden its relationships, making commercial, strategic or aid arrangements with Indonesia, the other nations of the Pacific, Japan, Korea and South East Asia. Nevertheless, the relationship with Australia remains central for both countries. What lingers from the past are the more complex interrelationships and expectations that are

built up through an interconnected history. The nature of the colonial relationship and the process of decolonisation still have a bearing on our understanding of each other today. Therefore, although this report focuses on the present and future of the relationship, the Committee believes it is important to appreciate the historical connection, especially as it affects our mutual understanding.

1.2 Perceptions of the Relationship

1.2.1 Much of Australia today has all but forgotten that it did once have what was to all effects a colony, although technically described as a territory. Australia has increasingly tended to side, in its own comparatively short period (90 years) as a sovereign nation, with the colonised as much as the colonisers. Dame Rachel Cleland, wife of Administrator Sir Donald Cleland, has observed: 'I wouldn't say that any Australian thought we had a colony. That was not in my way of thinking. The first time I heard "colony" mentioned was about 1965; and it gave me a distinct shock.'¹ This ambivalence of Australia as a colonial power has been reiterated by many who served there:

They were conscious of their race, but at times they wanted to joke and slap black backs. They wanted cheap and obedient workers, but they did not want to claim privileges of wealth and birth. They were characteristics of the Europe they had left behind. They wanted to rule but they did not want to be seen as representatives of an imperial power.²

1.2.2 For Mr S Whitty the strong memories of a more typically colonial scene prevailed. He described Rabaul in 1941:

The whites *NEVER* walked around a single, or group of natives on, say, a footpath. *NEVER*. Walk straight ahead, if [your] path [is] obstructed, kick a backside.³

Sir Paul Hasluck, in his book *A Time for Building*, described his feelings on return from his first visit to Papua New Guinea in 1951:

[I was] revolted at the imitation of British colonial modes and manners by some Australians who were there to serve the Australian Government ... and never before had I come across so many Australians who had lost so quickly any capacity to clean their own shoes or pour themselves another drink without the attention of a 'boy'.⁴

1.2.3 In 1969 Kumalau Tawali won the Waigani poetry competition with his poem 'The Bush Kanaka Speaks'. It also offers a view we would find less flattering:

¹ Nelson, H *Taim Bilong Masta*, ABC.

² *ibid*, p. 165.

³ *Submission*, p. S817.

⁴ Dorney, *S Papua New Guinea*, p. 43.

The kiap shouts at us
forcing the veins to stand out in his neck
nearly forcing the excreta out of his bottom
He says: you are ignorant.

He says: you are ignorant,
but can he shape a canoe,
tie a mast, fix an outrigger?
Can he steer a canoe through the night
without losing his way?
Does he know when a turtle comes ashore
to lay its eggs?
The kiap shouts at us
forcing the veins to stand out in his neck
nearly forcing the excreta out of his bottom
He says: you are dirty.

He says we live in dirty rubbish houses.
Has he ever lived in one?
Has he enjoyed the sea breeze
blowing through the windows?
and the cool shade under the pandanus thatch?
Let him keep his iron roof, shining in the sun,
cooking his inside, bleaching his skin white.

The kiap shouts at us
forcing the veins to stand out in his neck
nearly forcing the excreta out of his bottom
He says: you'll get sick.

He says: you'll get sick
eating that fly ridden food.
Haven't I eaten such food all my life,
and I haven't died yet?
Maybe his stomach is tender like a child's
born yesterday. I'm sure he couldn't
eat our food without getting sick.

Every white man the *gornment* sends us
forces his veins out shouting
nearly forces the excreta out of his bottom
shouting you *bush kanaka*.

He says: *you ol les man!*
Yet he sits on a soft chair and does nothing
just shouts, eats, drinks, eats, drinks,
like a woman with a child in her belly.
These white men have no bones.
If they tried to fight us without their *musiket*
they'd surely cover their faces like women.⁵

⁵ Tawali, Kumalau, *Signs in the Sky*, Papua Pocket Poets, Port Moresby 1970.

1.2.4 Of course our perceptions of each other vary. Australians, perhaps somewhat mythologically, have looked back at our relationship with our colony with considerable nostalgia. The Committee received evidence from a large number of witnesses that Australia as a colonial power was paternal but not brutal, that our rule was benign, that we were and are regarded warmly and affectionately by the local people. Typical of this is the view expressed by Professor Richard Jackson:

In my opinion most Papua New Guineans are very well disposed towards Australia, compared with people in countries previously British-ruled ... Australians, whatever else they did in Papua New Guinea at the time, left behind a lot of friends when they left.⁶

1.2.5 Sir Anthony Siaguru⁷ also talked of a kinship of cousins, of generosity and of ties of sentiment. By contrast, Mr Anthony Regan reported to the Committee that:

... there is such sensitivity about Australia, a feeling which has possibly developed in the last few years, mainly as a new generation of bureaucrats come to the top levels who do not have the close personal relationships with counterparts and friends in Australia that those who took over at independence had ... There is some resentment of the dependence, resentment of some of the patronising treatment they feel they get from Australia.⁸

1.2.6 The geographic closeness, however, is an unchanging factor. It is a short canoe ride between Papua New Guinea's Western Province and Australian islands in the Torres Strait. The territory was only reluctantly acquired, and served in Australia's mind, especially between the two world wars (but also after), chiefly as an 'inert shield' against aggression from the north. In World War II Australia had cause to be grateful to Papua New Guinea for shielding her and since has not lost sight of its strategic significance. Now the interpretation of 'strategic significance' is a broader concept encompassing not just the military security of Australia and Papua New Guinea, but also the internal stability and smooth economic development of Papua New Guinea.

1.2.7 The passage to and through independence in 1975 was essentially benign. There had been no war of independence, no civil uprising, no bloodshed. This testified to the patience of Papua New Guineans and to the commonsense of the Australians involved. Yet the very smoothness of this process enabled Australians to feel they had discharged most of their responsibilities soundly, and need not 'worry' any more about their northern neighbours. The single major remaining responsibility was to help independent Papua New Guinea sustain and develop its new national

⁶ Evidence, 30 August 1990, p. 322.

⁷ Til Death Us Do Part? in Anderson, D *The PNG-Australia Relationship*, Pacific Security Research Unit, 1990, p. 58.

⁸ Evidence, 20 February 1991, p. 1395.

institutions and infrastructure so that it could gain an economic self-reliance to accompany its political independence. Aid, then, emerged as the dominant feature of the relationship; and so it remains today.

1.2.8 At the heart of this review is the Committee's finding that this single-track nature of Australia-Papua New Guinea relations has become an obstacle to a broadening and deepening of the relationship. A long-term, bipartisan position on aid agreed now, will enable this issue to be defused so that a considerable range of other, long overdue initiatives can be pursued to the countries' mutual benefit. For there is a yawning chasm between the official position, as evinced by the Secretary for Foreign Affairs and Trade, Mr Richard Woolcott, in stating that the relationship with Papua New Guinea is from time to time accorded top priority of all international issues,⁹ and the more general perception — or lack of perception — of the Australian community. Without such a broadening and deepening — essentially a re-humanising — public policy in both countries will come under increasing pressure from narrowly focused special interest groups with a capacity to distort and damage what has been a generally cordial relationship. The degree to which this can remain a 'special relationship' after the shedding of colonialism, and subsequently of post-colonial guilt on the one side and resentment at continued economic dependence on the other, will depend on the effort applied to building that range of human exchanges from which both nations will benefit.

1.3 Origins of the Relationship

1.3.1 It was less than a century after its own establishment as a colony that, in 1884, the eastern half of the island of New Guinea (the world's second largest, after Greenland) was divided between the Germans (who took the northern part) and the British. The Dutch had claimed the western half, which they defined as west of the 141st meridian, in stages from 1828 to 1875. The British had rejected earlier claims to possession by its own naval officers, Lieutenants John McCluer (1791), John Hayes (1793) and CB Yule (1846) and Captain John Moresby in 1873 — but finally acted to assume control of what became 'Papua' following a pre-emptive announcement of annexation by Henry Marjoribanks Chester for the Queensland Government in 1883. In 1904 an Anglo-German agreement acknowledged British control of the Solomon Islands group south of Bougainville. The new sovereign state of Australia formally entered the scene in 1906, acquiring its own colony remarkably swiftly when it took over responsibility for Papua. Military control over German New Guinea, established after the onset of war in 1914, was converted into a mandate under the League of Nations in 1921, and then a trust under the United Nations in 1945.

1.3.2 In the years between 1908 and his death in 1940 the administration of Papua came under Sir Herbert Murray. It was his personal fiefdom. He was starved of cash. Little was spent on education,

⁹ *Evidence*, 5 November 1990, pp. 967-68.

health or welfare. But he was a man of integrity and high ideals who personally supervised the dispensing of justice throughout the territory. The personal contacts made by missionaries and kiaps, or patrol officers, were the source of much of the special relationship between Australia and Papua New Guinea that is often talked about. The missionaries predated the Australian annexation of Papua. Their concern to save souls became intricately bound up with teaching literacy and hygiene. Virtually all schools before the war were run by the missions and many of the hospital and welfare services were then, as they are now, in the hands of missions. The missionaries lived in the villages, stayed, usually, for very long periods of time, and had a profound and personal influence on the people with whom they worked. Inevitably, like the traders, planters, kiaps and, later, the academics, they westernised the culture.

1.3.3 The kiaps too provided an intricate network of contacts. The kiaps dispensed justice, kept the peace, opened roads, checked health, collected taxes and encouraged agricultural development. They worked in conjunction with groups of Papua New Guinean policemen. Gradually the network they established across the country became pervasive.

1.3.4 The northern and southern parts of Papua New Guinea were administered according to different priorities. And the northern part, New Guinea, which under the Germans had already enjoyed a greater degree of economic progress, was seen to be favoured — because it was subject to external audit by the United Nations. The convulsions of the Pacific War (certain to arouse considerable interest as many 50th anniversaries are marked next year, including those of the Battle of the Coral Sea and the Kokoda Trail Campaign that stimulated considerable Australian admiration for the 'Fuzzie Wuzzie Angels') introduced many parts of Papua New Guinea, albeit cruelly, to modern technology in a rush.

1.3.5 The major post-war development was the decision of the administration to begin opening up the Highlands to outside contact. This fertile and vibrant home of a million people (who had built extensive irrigation systems and operated a thriving agricultural economy for some 30,000 years) had been assumed uninhabited by outsiders until Australian gold prospectors had ventured there in 1932. To this extent it is one of the last colonies of nineteenth century European imperialism. At this time the Highlands Highway was built from the second city, Lae, more than 500 kms up to Mount Hagen and beyond. But the further challenges, both topographical and sociological, appeared monumental.

1.4 The Decolonisation Environment

1.4.1 To understand the decolonisation environment, it is important to understand the varied positions of those involved: Australia, until quite late, lived in ignorant bliss that there might be some urgency in the situation; Papua New Guinea lacked a forceful or broadly-based national political consciousness, although there was a clear articulation at a local level of desired changes; and the United Nations represented the urgent demands of Africa, Asia and the Pacific for decolonisation.

1.4.2 In Australia, the Hon (later Sir) Paul Hasluck said in 1951, as he began his lengthy period as Minister for Territories (to 1963) that self-government would have to await the advancement of the population 'to a point where a large majority of them can, in fact, participate in management of the life, industry and politics of the country ... That may be more than a century ahead ...' Nevertheless, Hasluck was determined to raise standards, to overcome the neglect of the past and to prepare for eventual independence. Hasluck's concern for Papua New Guinea's development was not shared by the Cabinet in Canberra:

One disillusionment is that in my twelve years as Minister for Territories, Cabinet never had a thorough and well informed discussion of our policy and objectives in Papua New Guinea, although I was always trying to get one.¹⁰

1.4.3 Some Australians were of the mind that Papua New Guinea might be eventually absorbed into Australia as the seventh state. By 1963, however, and influenced by the 'winds of change' blowing through Africa, Prime Minister Sir Robert Menzies was saying that Papua New Guinea would have to go its own way — and now he believed 'if in doubt, you go sooner, not later'. This was embryonic recognition of the imperatives of decolonisation facing Australia. However, Sir Paul Hasluck's serious attempts to get recognition for the need to prepare Papua New Guinea for independence and his achievements towards that end were dissipated under Charles Edward Barnes. Under Mr Barnes, Minister for Territories from 1963 and then specifically for External Territories from 1968 until 1972, the Australian position on Papua New Guinea's political development became again ambiguous, referring to self-determination rather than self-government.

1.4.4 In Papua New Guinea at that time the winds of change were also blowing, if somewhat temperately. Australia had managed its colonial role without outside interference or assessment. It was not that Australia did not deal earnestly with its responsibilities. There was a real desire to do well, to avoid the worst features of other colonial powers.

Ever since 1944, when I first went there, I have felt that New Guinea would be a test of our quality as a nation: that something worthwhile could be created there; and on the other hand that failure could come through lack of foresight, understanding, sympathy, and clear principles of action.¹¹

1.4.5 The 1962 report on Papua New Guinea by the visiting United Nations Mission headed by Sir Hugh Foot was therefore significant as the first judgement by outsiders of Australia's achievement in its trust territory. The task of the Mission was to investigate and report on the steps taken by the administering power towards a realisation of the objectives of the United Nations Charter and to ascertain as fully as

¹⁰ Dorney, *S op cit*, p. 44.

¹¹ McAuley, *J My New Guinea*, 1961.

possible the wishes of the communities within the territories for their future development. The Mission toured New Guinea for two months holding discussions with individuals and local community councils.

1.4.6 The Report noted that, although Australia undertook the administration of Papua in 1906 and New Guinea in 1921:

Very little was done either to provide social services or schemes of economic progress and political advance ... The main effort for improved administration and development dates only from 1945. Almost all that has been achieved has been achieved in little more than a decade. For all practical purposes the administration started from scratch in 1945.¹²

From their discussions with the indigenous people the Mission gained a clear and consistent view. Local council after council expressed its gratitude for the benefits of Australian administration, its desire for greater education and economic progress, especially higher prices and wages, and its reluctance to be forced into independence too early. The people believed their children needed to be educated to a level that would enable them to assume leadership and that their earnings would need to be sufficient to support self-government.

1.4.7 The report recommended a bolder and more imaginative approach to the development of the trust territories, one that would accelerate development. The overall attitude of the report can be summed up in its conclusion. Specifically it stated that:

Firstly, it is essential to be ahead and not behind the rapidly awakening and increasingly insistent desire of the people for material progress. Secondly, it is necessary to equip the people with higher education to take a leading share, and not merely a subordinate part, in the management of their own affairs. Thirdly, the whole Territory must be drawn together and given the means for free political expression by the creation of a representative parliament.¹³

The Mission envisaged an annual turn out of 100 university graduates as an adequate preparation for independent government, a survey of existing programs and the economic obstacles to development as the basis for a balanced development plan and the immediate preparations for election to a new House of Assembly.

1.4.8 A further UN mission in 1965 reported favourably on the Australian administration having made 'every effort to solve the problems facing it with energy, perseverance and humanity' and noted the 'exemplary devotion and good faith' of officials and the 'cordiality and confidence' of the relations between the administration and the people.

¹² United Nations Visiting Mission to the Trust Territories of Nauru and New Guinea, 1962. Trusteeship Council Official Records: Twenty-Ninth Session Supplement No. 3, p. 14.

¹³ *ibid.*, p. 32.

However, it still spoke of stagnation, of an urgent need to accelerate educational and economic development, and it recommended there be no delay in breaking with 'the direct and paternalistic form of administration'.¹⁴

1.4.9 The view began to assert itself, encouraged by the effective domination of the Papua New Guinea House of Assembly (for which elections were held in 1964 and 1968) by the planter-controlled United Party, that economic progress should be assured before political change was considered. It was in this context that the Bougainville mine was developed, according to an agreement made in 1969, and in the face of protests by local landowners 'There was opposition to our presence in Bougainville right from the beginning'.¹⁵ In 1964, Papua New Guinean public servants were disappointed to be awarded salaries at a scale only 40 per cent of that of Australians. A degree of political education had been undertaken in the 1960s, at the urging of the United Nations, but a rapid change of status for Papua New Guinea did not appear to be on the agenda.

1.4.10 It was only in 1972, when the arrival of Mr Andrew Peacock as Minister for External Territories coincided with the election of a new House of Assembly in which only nine of the 100 members were expatriates, and from which then Mr Michael Somare emerged as Chief Minister, that political change appeared inevitable. At the same time as an elite of educated, politically aware Papua New Guineans emerged, spearheading a newfound nationalism, stresses also developed within Papua New Guinea. These arose in part from an anxiety about the material effect of the withdrawal of Australia, in part from a jockeying for post-colonial power, and in part from a concern of regions that felt developmentally 'neglected'. This was especially so in Papua and the Highlands, where they feared they would fall further behind, with the country being run by smart young coastal New Guineans and Islanders. But the tide in favour of independence proved stronger than any such misgivings.

1.4.11 When a policy of decolonisation was adopted by the new government of Mr Gough Whitlam in late 1972, self-government followed swiftly in 1973, then independence on 16 September 1975. The new Labor Government in Australia was acutely sensitive to the former criticisms of the United Nations and sympathetic to the anti-colonial aspirations of the developing world. Hank Nelson described the end of Australian colonial rule in Papua New Guinea in *Taim Bilong Masta*:

The way Australians 'went finish' was as good as most things they did. They were confused about how and when, and seemed to have stumbled; they consulted Papua New Guineans at length then ignored them on a major decision; they made small mistakes but got the big issues right; they

¹⁴ The United Nations Visiting Mission to the Trust Territories of Nauru and New Guinea, 1965. Trusteeship Official Records: Thirty-second Session. Supplement No. 3, p. 1.

¹⁵ Bougainville Copper Ltd, *Evidence*, 26 September 1990, p. 435.

used no guns or gaoles against political opponents; they shook a lot of hands and laughed a lot; they were generous on the final points; and they went quickly.¹⁶

There was a ceremony in Port Moresby to mark the transition and Sir John Guise, the Governor-General designate, called on everyone to see: 'We are lowering the flag, not tearing it down.'¹⁷

1.4.12 A Constitutional Planning Committee, for most of its term effectively led by its deputy chairman, Fr John Momis, continued touring the country. It received submissions and drew up a document that, although visionary in many respects, including its concern to protect an environment that was hardly then perceived as under threat, has since proved somewhat unwieldy if not unworlily.

1.4.13 Evidence has been given to the Committee that the Constitution was a home-made Papua New Guinea document. Great pains were taken by Australian advisers to dissociate themselves from the process.

The constitutional framework was chosen by Papua New Guinea and Papua New Guineans with an effort to develop something suitable to Papua New Guinea. There is no question that it was something thrust upon Papua New Guineans by Australia or the outside world.¹⁸

Of course, it was a choice inevitably made from systems that had become familiar under Australian rule. Perhaps too rapid a decolonisation itself embodied a form of cultural aggression as systems were selected without any natural evolution. But in the end the problem was not one of choosing a constitution but of making a nation out of 700 disparate groups.

1.4.14 The task facing the government of Mr Somare at independence was formidable. Considerable numbers of Australian public servants and business people, especially planters, left Papua New Guinea at independence — and were replaced not only by Papua New Guineans but also by 'new chums' from Britain, New Zealand, North America, Asia and Africa. The 'development', of infrastructure and of human potential, had been only sporadic. Nor had there been a strongly marked acceleration of Australian investment post-war (except of the human kind, most importantly in the role played by young Australians granted extraordinary powers as kiaps in introducing and sustaining the Pax Australiana in remote regions). Little decision-making was delegated to Papua New Guineans until the very eve of independence.

1.4.15 Although John Gunther's aid posts helped bring medical services to most corners of the country, health services were still limited at the time of independence and health problems remain severe today. Education was almost entirely dependent on the missions and even then only 25 per

¹⁶ Nelson, H op cit, p. 218.

¹⁷ *ibid.*, p. 219.

¹⁸ *Evidence*, 20 February 1991, p. 1398.

cent of children attended primary school. There was even more limited secondary education. The first Papua New Guineans did not graduate from the university in Port Moresby until 1970 (when among the first seven graduates were Prime Minister Mr Rabbie Namaliu, Governor-General Sir Serei Eri and Ambassador to the United Nations Mr Renagi Lohia).

1.4.16 Although the preparation for independence was inadequate, delay was impossible. Sean Dorney, the ABC correspondent in Papua New Guinea for most of the period since independence, writes:

Australia could not have delayed giving Papua New Guinea its independence for many years without there having been far more strife and consequently far greater post-independence problems. The debate is not 'Did Papua New Guinea get independence too early?' but 'Did the preparations start too late?'¹⁹

Many of Papua New Guinea's problems today can be traced to this failure to provide sufficient infrastructure. It was a failure that has necessitated the massive budget support that has dominated our relationship ever since.

1.5 Dimensions of Co-operation

1.5.1 In a formal sense, relations between Australia and Papua New Guinea are conducted according to a range of documents. These are treaties and agreements dealing with political, economic and strategic aspects of the relationship; the kind of arrangements made between neighbouring independent states anywhere. Australia's official relations with Papua New Guinea have been more efficiently managed since 1989, through the establishment of the Papua New Guinea Policy Co-ordination Group, chaired by the Department of Foreign Affairs and Trade and including representatives of other major policy departments in Canberra. A similar group co-ordinates policy on the Torres Strait. The number of the arrangements has grown over the years since independence. They cover a wide range of possibilities from formal treaties dealing with development co-operation and border issues, agreements on trade and defence, to specific arrangements for practical questions of taxation, shipping and air services. The following paragraphs provide an overview. The workings and implications of these agreements are dealt with in the body of the report.

1.5.2 The broadest is the Joint Declaration of Principles (JDP) which was signed by the countries' Prime Ministers in December 1987 — and which was the result of a Papua New Guinea initiative. It provides a framework for inter-governmental relations, including a mutual security assurance. Through it, the preamble states, 'Both governments are committed to promoting a stable regional environment'. Under the

¹⁹ Dorney, *S op cit*, p. 48.

declaration, regular Joint Ministerial Forums are held, alternately in Papua New Guinea and Australia, the most recent in Canberra in February 1991. One of the first results of the JDP was the establishment of an ongoing Papua New Guinea-Australia Colloquium (which first met in Townsville in August 1988) which aims to improve commercial, technical and social dialogue and collaboration.

1.5.3 Under the Treaty on Development Co-operation concluded in May 1989, Australia is providing \$1.5 billion aid, chiefly in budgetary support, over the five years from 1989/90 to 1993/94, with a review after three years, the first due in September 1992. This amounts to a 16 per cent decline in aid in real terms over this period, but nevertheless amounts to more than 50 per cent of Papua New Guinea's estimated external financing needs for the period. The treaty says that budgetary aid should be progressively diminished, as project and other forms of aid increase. It looks to the eventual phasing out — by 2005 or sooner — of all budgetary support from Australia, which has totalled more than \$4 billion. In Chapter 9 the Committee will argue that the nominal level of aid should be maintained but in the form of program aid combined with specific projects. Papua New Guinea's aid sources have been diversified — from 70 per cent of the total being supplied by Australia four years ago, to 38 per cent last year.

1.5.4 The Torres Strait Treaty, ratified in February 1985, that decided the sovereignty of the islands in the Strait, guarantees through a 'protected zone' the traditional way of life of the inhabitants of the area in both countries and prohibits mining and oil drilling on the seabed until 1995. Under Articles 13 and 14, Australia accepted responsibility to protect the marine environment in the Torres Strait Protected Zone, which includes the north of the Great Barrier Reef. The Torres Strait Protected Zone Joint Authority was established under the Torres Strait Fisheries Act of 1984. The Treaty is administered through a Joint Advisory Committee. The Torres Strait is discussed in Chapter 12.

1.5.5 The Papua New Guinea Australia Trade and Commercial Relations Agreement (PATCRA), concluded in 1976 and reviewed in 1990, provides preferential access for Papua New Guinea products to the Australian market — with the exception of motor vehicles, steel, textiles, clothing, footwear and sugar in order to prevent imports from third nations being channelled through Papua New Guinea to Australia. Through the review, Papua New Guinea confers most favoured nation status on Australia, and is obliged to keep Australia informed of proposed changes to import regulations. Essentially, PATCRA offers tariff-free market access to Australia and assistance to marketing Papua New Guinea goods in Australia. It offers Papua New Guinea trade with Australia on more favourable terms than those pertaining through the South Pacific Regional Trade and Economic Co-operation Agreement — SPARTECA (of which both countries are also members).

1.5.6 An Investment Promotion and Protection Agreement (IPA), signed in September 1990, is seen as an important support for Australian investors obtaining finance for resource projects. Papua New Guinea also has IPAs with Britain, Canada, Germany and Malaysia, but Australia's only other such agreement is with China.

1.5.7 Details of the defence relationship are covered by an agreement regarding the status of forces, by formal consultations regarding the use of Australian loan personnel in politically-sensitive situations, by memoranda of understanding over the deployment of an Australian company of army engineers and of other technical and support units in Papua New Guinea, and by an arrangement regarding supply support and a joint statement by Prime Ministers Mr (today Sir) Michael Somare and Mr Malcolm Fraser, all concluded in 1977. But the framework is now supplied by the 1987 Joint Declaration of Principles, under which, 'conscious of their unique historical links and shared strategic interests, the two governments will continue to engage in defence co-operation.' It goes on, 'The two governments will consult, at the request of either, about matters affecting their common security interests. In the event of an armed attack threatening the national sovereignty of either country, such consultation would be conducted for the purpose of each government deciding what measures should be taken, jointly or separately, in relation to that attack.' Australia has supplied about \$500 million in defence aid since independence. The Australian Defence Force continues to be a major point of contact, with joint exercises, Papua New Guinea officers training in Australia and Australians attached to the Papua New Guinea Defence Force (PNGDF) — besides the continuing and highly successful deployment of a company of army engineers in development projects in Papua New Guinea's Southern Highlands Province. Chapter 11 of this report deals in detail with the defence relationship.

1.5.8 An Air Services Agreement, signed in 1980, covers both scheduled services and charter operations to large mining projects in Papua New Guinea. Shipping is covered by an exchange of letters between the respective Transport Ministers in 1985; a draft Memorandum of Understanding providing for a joint shipping committee, drawn up by Australia at Papua New Guinea's request, has yet to be taken up by Papua New Guinea. A Double Taxation Agreement, 'which essentially formalises and regulates existing practices'²⁰ was signed in May 1989. It ensures that income earned in either country is only subject to taxation in one, and allows a tax credit to Australian residents for tax forgone by Papua New Guinea under the Papua New Guinea Government's development incentive measures.

1.5.9 Under a 1975 agreement, Australian overseas missions provide consular services on behalf of Papua New Guinea, in the absence of PNG missions. Australia's very first Honorary Consul was appointed in Lae, Papua New Guinea's second city and chief trading centre, in 1989. Papua New Guinea has observer status on a number of Australian official bodies, such as the Australian Council of Nature Conservation Ministers. Under

²⁰ DFAT, *Submission*, p. S434.

the Moveable Cultural Heritage Act, Papua New Guinea may request and obtain the return of artefacts located in Australian museums — a process under way for ten years.

1.5.10 Papua New Guinea, which receives 42 per cent of Australia's bilateral foreign aid budget, is obviously the subject of considerable attention from the Australian International Development Assistance Bureau (AIDAB). Since the Jackson Report on Australia's overseas aid (1984)²¹ AIDAB has gradually urged a shift towards project aid for Papua New Guinea, and developed a mix of projects ranging from police training to the supply of equipment to test blood for AIDS. The Export Finance Insurance Corporation (EFIC), which works in close liaison with AUSTRADE but remains — unlike AUSTRADE — an agency of the Department of Industry, Trade and Commerce, has made more guarantees available for investments in Papua New Guinea than in any other single country.

1.5.11 Trade and investment between the countries are considerable, and growing. Australia was the source of 44 per cent of Papua New Guinea's imports in 1988, and provides most of the investment in its key resources sector. Overall, Papua New Guinea is Australia's sixth largest overseas investment destination, with about 2.6 per cent of the total, valued at about \$2 billion of stock — compared with 1.5 per cent for ASEAN's six member nations combined. Major exports to Papua New Guinea include petroleum, machinery, chemicals, iron and steel, rice, meat and wheat; Papua New Guinea shifts between third and fourth biggest market for Australian elaborately transformed manufactured products. Labour links are also significant: 'Trade unions in Papua New Guinea have long drawn upon Australian example and support'.²² More than 500 Australian businesses are operating in Papua New Guinea. Australia's aid is considered in Chapter 9 and trade and investment in Chapters 7 and 8.

1.5.12 In an informal sense there are ties of history. Both countries have the British monarch as head of state. Both are Westminster style democracies, with certain powers devolved from the central governments to 19 provincial governments (in Papua New Guinea) and six states (in Australia). Both are members of the Commonwealth (Sir Anthony Siaguru, former Papua New Guinea Secretary for Foreign Affairs and Government Minister, is Deputy Secretary-General) and of the South Pacific Forum.

1.5.13 There are also many personal ties. For example, there are more than 15,000 Australians in Papua New Guinea, many of them involved in the development of the Papua New Guinea economy. Many thousands of other Australians have lived and worked in Papua New Guinea, or served there during the Pacific War. Thousands of Papua New Guineans, in turn, have been educated in Australia. There are close, informal, family ties

²¹ *Report of the Committee to Review The Australian Overseas Aid Program*, March 1984.

²² DFAT, *Submission*, p. S428.

between the people who live on either side of the border. Their ability to sustain contact is provided for in the Torres Strait Treaty. However, it is these personal contacts that are weakening:

Over the last decade a new generation of decision makers and opinion formers has been emerging in Papua New Guinea without close personal links with Australians. Likewise many young Australians are growing up with little direct experience and understanding of Papua New Guinea.²³

1.5.14 At the institutional level, links are considerable and cover the widest range of activities — though they too often vary in intensity according to the experience and thus enthusiasm of those individuals responsible for their development. The following is an overview of some of the institutional connections between Australia and Papua New Guinea.

1.5.15 The principal secular non-government organisations (NGOs) which relate closely with Papua New Guinea include the YWCA and YMCA and the service clubs. But 'notwithstanding these efforts and Australia's historical association with Papua New Guinea, Australian secular NGOs are not major providers of development assistance in Papua New Guinea'.²⁴

1.5.16 Australian Volunteers Abroad has an active program in Papua New Guinea, but one which remains smaller than those of the comparable British, Canadian, Japanese, German and American volunteer organisations; Australian volunteers represent less than 10 per cent of the total. For example, in 1988 there were over 400 volunteers working in Papua New Guinea of whom 13 were Australians. AIDAB explained this 'modest' involvement of Australians as reflecting Australia's size as a donor and a general preference of Australian NGOs to operate in Asia and Africa where the public perception of community deprivation and need is greater. The Australian Executive Service Overseas Program also regularly sends executive volunteers to Papua New Guinea, on short-term assignments.

1.5.17 Among the closest institutional ties are those between the churches of Australia and Papua New Guinea. 'Historically the Christian churches have had the most significant non-government input into development support in Papua New Guinea ... The main beneficiary groups are women and youth.'²⁵ The Australian churches are heavily involved in training, in exchanges of pastors and priests, in funding, in providing the declining number of missionaries now sought, and in the range of broader activities in which the Papua New Guinea churches are engaged: most rural health and educational facilities continue to be church-run. Some churches have proven more successful in Papua New Guinea than in Australia, for instance the Seventh Day Adventists, whose

²³ DFAT, *Submission*, p. S443.

²⁴ AIDAB, *Submission*, p. S382.

²⁵ AIDAB, *Submission*, p. S382.

membership in Papua New Guinea (122,000 in 1989) is almost triple that in Australia. 'Papua New Guineans are amongst the most religious people on earth ... The Christian Churches have done much to reinforce traditional moral standards and to open eyes to wider concepts of morality embracing those outside of the immediate family, clan or tribe.'²⁶

1.5.18 The Australian universities are involved, to varying degrees with Papua New Guinea and its universities in Port Moresby and Lae; but very few academics are able to devote themselves to Papua New Guinea studies — most are expected to share this focus with other areas of teaching and research. As funds have declined in Australian universities, studies on Papua New Guinea have declined also. The Centre for Pacific Studies at the University of New South Wales closed for the want of \$20,000, the University of Sydney's Institute of Tropical Medicine and the ANU's Centre for Research and Environmental Studies which looked at the Papua New Guinea environment have also folded. The most extensive anthropological work on the West Sepik seems to come from West Germany where major conferences have been held in recent years. There are scatterings of people throughout Australia whose work encompasses Papua New Guinea along with Pacific Studies, but the profile is low and the emphasis light considering the history of the relationship of the two countries. Professor Ross Garnaut's complaint about the lack of attention to Papua New Guinea has led to the secondment of Dr Andrew Elek to the Research School of Pacific Studies at the ANU. Professor Wolfers in his evidence to the Committee stressed the importance of upgrading academic contacts and exchanges with the universities and academic institutes in Papua New Guinea. The Committee believes that it is important to re-establish our interest and expertise in areas of tropical medicine, as well as our political, environmental and economic research on Papua New Guinea.

1.5.19 CSIRO has maintained a range of activities in Papua New Guinea since Independence, including in 1987 installing its Papua New Guinea Resource Information System, a modelling tool to facilitate planning, research at the animal health laboratories into exotic animal and bird diseases, studies into the possibility of producing a vaccine against the screw worm, and research into forests, minerals and fisheries.

1.5.20 The Australian National Parks and Wildlife Service liaises regularly on both legal and illegal transactions with Papua New Guinea wildlife authorities, with which it exchanges intelligence information. Papua New Guinea is invited to send observers to the Council of Nature Conservation Ministers although no-one in recent years has attended. There is scope for Australia to contribute to the cost of Papua New Guinean representatives attending such conferences as was done with the workshop on the trade in wildlife held in Canberra in 1990.

1.5.21 The Australia-Papua New Guinea Business Council and its sister organisation, the Papua New Guinea-Australia Business Council, have proven effective organisations in lobbying governments and in building

²⁶ Gwilliam, *Submission*, p. S1556.

closer links between the private sectors in the two countries. Many organisations and businesses operating in Papua New Guinea obtain resources from a more senior branch, or head office, in Australia. This is the case, for instance, with the major international accounting partnerships, and with a number of law firms — and with some voluntary organisations, such as Amnesty International. In addition, many of Australia's largest companies — banks, miners, trading companies and others — operate in Papua New Guinea, and have done for decades, building up a considerable depth of expertise and of contacts.

1.6 Key Issues in the Relationship

1.6.1 There have been a number of major disagreements between Australia and Papua New Guinea since Independence, albeit never sufficiently serious to threaten the generally cordial relations in other respects. One example arose from Australia's decision in 1986 to reduce its budgetary aid by \$10 million. As a result Papua New Guinea, anxious about the predictability of the relationship, began to seek a formal treaty, which materialised as the JDP, and sought commensurately closer links with the World Bank, a move since welcomed by AIDAB.²⁷ A second example was in 1990, when sensitivity was expressed by some Papua New Guinea politicians over expressions of concern by the Australian Government about alleged human rights violations by the Papua New Guinea security forces on Bougainville.

1.6.2 These issues — aid and security — remain the most delicate. On the former, both countries have agreed that budgetary assistance should decline, as mineral revenues increase; but the speed of this decline, and the manner and extent of administering compensatory sectoral or project programs, remain to a degree open — as does the issue of providing aid directly to provincial or local governments, or to non-government organisations.

There were some misunderstandings during the early days of the project aid program, mainly because Papua New Guinea was concerned that projects would be selected by Australia without due consideration of Papua New Guinea's priorities. These concerns were allayed when it became clear that AIDAB responded only to formal official requests from the Papua New Guinea Department of Finance and Planning.²⁸

1.6.3 Aid, even though it has diminished from 39 per cent to 15 per cent of the Papua New Guinea budget, is still central to the relationship. Australia remains committed, on a bipartisan basis, to demonstrating that, as a relatively prosperous member of the international community, 'it is committed to fulfilling its responsibilities as a good international citizen

²⁷ *Evidence*, 22 October 1990, p. 804.

²⁸ AIDAB, *Submission*, p. 5390.

and, in particular, a good neighbour to Papua New Guinea'.²⁹ Australia has tended, as a middle power, to place a priority on discharging such civic obligations within its neighbourhood first, where that international community perceives its major role will be fulfilled. The question of how aid should be delivered, however, is under review. Furthermore both countries have agreed to the ultimate withdrawal of aid as Papua New Guinea becomes more self-sufficient.

1.6.4 As the level of dependency diminishes, Papua New Guinea is also likely to continue to develop a range of economic relationships beyond Australia. The World Bank, for instance, has already begun to play the central role as a source of advice both to the Papua New Guinea Government and to potential donors or lenders to Papua New Guinea. An amount of Australia's economic inheritance to Papua New Guinea has proved inappropriate, given its struggle for growth — for instance, fringe benefits for employees including long service leave, free housing and leave fares home; restrictions on the use of capital; and local government regulations that have prevented the development of an informal sector.

1.6.5 The security issue has been seen by elements of past Papua New Guinea and Australian administrations as the fulcrum of the relationship. However, with the publication of the *Dibb Report*,³⁰ Australia has re-defined its defence strategy, with a focus on continental rather than forward defence; and the Papua New Guinea Government has expressed its desire to diversify its sources of equipment and training. Both countries have also revised their threat scenarios, with a steady diminishing during the 1980s of concern about the role of Indonesia culminating in Papua New Guinea's signing with Indonesia of a Treaty of Mutual Respect and Co-operation.

1.6.6 The concept of security is more broadly interpreted now. It is not just a matter of defensive arrangements aimed at protecting nations from external threat. It encompasses the political, social and economic stability of the nation. The threat to Papua New Guinea's political and social stability has been most dramatically illustrated by events on Bougainville and the deterioration in law and order which has necessitated curfews and the closure of the University of Papua New Guinea. Australia contributes \$54 million to the Papua New Guinea Defence Force. The use of some Australian defence equipment in settling internal political problems has focused attention on the real nature of the security issue for both countries. However, as the focus of security concern changes to one of internal law and order, secessionist struggles and border refugee problems, Australia needs to reassess its role and the nature of its contribution.

1.6.7 There continue to be close personal connections. Professor Richard Jackson noted: 'If Canberra cannot deal with Papua New Guinea, I cannot see how we are going to deal with anybody, because Canberra is chock-a-block with people who know Papua New Guinea extraordinarily

²⁹ AIDAB, *Submission*, p. S321.

³⁰ *Review of Australia's Defence Capabilities: Report to the Minister for Defence*, AGPS 1985.

well'.³¹ This view was reiterated by former Papua New Guinea Judge Stan Cory: 'Australia, I think, has a pretty good record there of personal, friendly relations and the individual Papua New Guinean is a good bloke'.³² However, businessman Mr Dennis Buchanan presented an opposite view:

There is ill will towards Australians in Papua New Guinea. It is not only to Australians but to foreigners: it does not matter if they are Chinese, Japanese, Indian or Filipino ... It is in the area of government and it is in the area of the politicians that the resentment lies ... The people in the bush warmly received Mr Hawke.³³

1.6.8 Whatever the contrasting experience of Australians living in Papua New Guinea, it is certain that with each year since Independence, the number of Australians who know Papua New Guineans and are well informed about the country and its culture, has diminished. There is an imbalance in human relations.

By comparison with Australia's remarkable ignorance of Papua New Guinea — with the exception of a small group of people who have returned from working in Papua New Guinea, who retain often warm, even sentimentally warm, perspectives on the country — most educated Papua New Guineans are quite familiar with Australia — with its culture (its sport, food, music, TV, language, etc) and with individual Australians.³⁴

1.6.9 Little has been done officially to redress this imbalance. The Department of Arts, Sport, the Environment, Tourism and Territories, for instance, has only a small cultural program in place in relation to Papua New Guinea.

The old saying was that missionaries, mercenaries and misfits go to Papua New Guinea, but there are many other Australians who have worked there over time who have good links with Papua New Guinea, and there is a reservoir of support. I think Australia has talked a long time about a special relationship that exists between the two countries; there is nothing particularly special about it. It has to be built; it has to be reinforced.³⁵

1.6.10 The encouragement given to the development of Australia's relations with South East and North East Asia is perceived to have diverted some resources from the relationship with Papua New Guinea. CSIRO's interaction with countries in South East Asia — for instance

³¹ *Evidence*, 30 August 1990, p. 307.

³² *Evidence*, 27 August 1990, pp. 207-208.

³³ *Evidence*, 10 September 1990, p. 355.

³⁴ Callick, *Submission*, p. S96.

³⁵ *Evidence*, 26 September 1990, p. 417.

Indonesia and Thailand — is more extensive than that with Papua New Guinea.³⁶ This is so for the Department of Employment, Education and Training also.

1.6.11 Thus the perceived need for a Joint Declaration of Principles, signed in December 1987, begins by setting out what may once have been regarded as the obvious: that the countries are 'immediate neighbours, with close traditional and historic ties between their peoples', that they have 'many common interests which both governments seek to advance with full regard for one another's distinct national characteristics', that they seek to build on existing arrangements, and that 'both governments are committed to promoting a stable regional environment in which the aspirations of the peoples of the region for security, peace, equity and development can best be realised'. The biggest challenge in the relationship is to find ways to effect the principles of this declaration. This means above all focusing on areas of genuinely common interest, including on building more intimate social and cultural links. Professor Edward Wolfers said:

We have certainly not implemented [the JDP] in the way that the Papua New Guinea Government envisaged at the time. There are many missed opportunities within that for exchanges — exchanges which, I might add, the Papua New Guinea Government has with the Indonesian Government, for example, and not with Australia. We do not have within our foreign policy bureaucracy the equivalent of the Indonesian Institute or the institutes we have with other countries, yet we keep saying how important Papua New Guinea is to us.³⁷

1.6.12 The signing of the Joint Declaration of Principles served as a sign to the peoples of both countries, and to other interested parties such as Indonesia, that Australia and Papua New Guinea are independent, sovereign nations and that Australia can no longer 'manage' developments in Papua New Guinea the way it might wish.³⁸ Yet expectations remain, further afield, that Australia is capable of exercising significant influence:

Whether we like it or not, the rest of the world sees us as having some development responsibility there as an ex-colonial power and a near neighbour. The US State Department sees this as our part of the world; if there is a mess in Papua New Guinea, Australia is not pulling its weight. We might not like the way that they look at it, but that is the way they do. The leverage of Australia in foreign affairs, or the credibility of Australia in foreign affairs, is substantially diminished if there is a mess in Melanesia.³⁹

³⁶ *Evidence*, 21 November 1990, p. 1236.

³⁷ *Evidence*, 22 October 1990, p. 859.

³⁸ *Evidence*, 5 November 1990, p. 970.

³⁹ Garnaut, *Evidence*, 8 April 1991, p. 1479.

1.7 A Time for Change

1.7.1 The narrowness of the scope of our relationship with Papua New Guinea, dominated as it is by aid and strategic concerns, would suggest that 16 years on from Independence it is a time for a reassessment. Continuing Australian responsibility for the lack of infrastructure is problematic. Nevertheless, Papua New Guinea is our closest neighbour, a country in need of development assistance and a country of considerable historical significance to us. For these reasons alone our aid should continue. However, 16 years of budget support totalling \$4 billion has not seen the economic development hoped for. Methods of delivering aid and the overall sum devoted to Papua New Guinea are under review. Already AIDAB is planning a move away from budget support to project aid. At the same time a formula for the phasing out of aid as mineral resources become profitable has been devised with a target of 2005 for complete withdrawal.

1.7.2 The Committee sees Papua New Guinea at a crucial stage in its development. It would not like to see a reduction or withdrawal of Australian aid prematurely. The Committee recognises the importance of a shift away from budget support but questions the capacity of Papua New Guinea to absorb or Australia to deliver large numbers of projects in the short-term. Program aid directed at sectors identified by the Papua New Guinea Government as being in need, and delivered in part by NGOs would offer a more effective solution. The move to program aid should be accompanied by the maintenance of the nominal level of aid at present levels. This represents a departure from the proposed phasing out of budget support by 2005 and its replacement by projects amounting to approximately half the present expenditure. This issue is argued more fully in Chapter 9 of the report.

1.7.3 If there is any area of the relationship that seems most delicate, it is that related to the unpredictability and intractability of the situation on Bougainville. Australia's desire to stand aloof from Papua New Guinea's internal affairs and yet desire to see stability in the country sits uncomfortably with the extent of our military aid and the uses to which it might be put. A review of security in its broadest sense has been undertaken by both governments. The Committee believes that it is vital that the Australian Defence Co-operation Program is focused on Papua New Guinea's real needs. In terms of security these seem to be much more questions of law and order and secession and this poses difficulties for the nature, structure, equipment and training of the PNGDF. It also affects what aid Australia gives either through the Defence Co-operation Program or through normal aid channels.

1.7.4 On a diplomatic level the official view of the relationship is that it is diverse, substantial and vital.

The Australia-Papua New Guinea relationship is a vital and vigorous one, with a dynamism and sense of partnership that comes from being each other's neighbours.⁴⁰

1.7.5 The Committee has certainly encountered too, in its review of the relationship with Papua New Guinea, a sense of vigour — but only expressed by a fairly narrow band of people in each country respectively. The changes that are most important, if the relationship is to be reinvigorated — re-humanised — on a broader front, are not related so much to treaties and formal arrangements, as to attitude and commitment. Australia may seek from Papua New Guinea a readiness to focus on extracting value from those arrangements already in place, rather than on processes.

1.7.6 For its part, Australia should consider the reciprocal benefits it gains from Papua New Guinea in the relationship: substantial trade and investment opportunities, assured by agreements; a sympathetic 'nursery' market for nascent exporters; a strategic buffer; a friendly leader of the South Pacific island nations of which it is by far the largest and on which it exercises an increasing, and positive, influence; a reliable source of a growing range of inputs for Australian processing — including gold and, from the end of 1992, oil — and of items for consumption including coffee; in many areas, including rain forests and reefs, a pristine environment in which joint research may aid the development of tools for the conservation of Australia's own threatened environment; a nation of hundreds of vibrant cultures, contact with which can further enliven Australia's own multicultural experience, and experience of which can reinforce indigenous Australians' own cultural self-confidence; and a partner in seeking shared international outcomes in the immediate region and the wider world.

1.7.7 Australia will never again control Papua New Guinea — if ever it truly did, at a functional grass-roots level — nor should it seek to do so now, however anxious Australian groups may become about aspects of affairs in Papua New Guinea. Influence is another matter, however. This can best correctly be exercised through a sound combination of mutually agreed contributions to the development process, and of strong personal relations, between leaders and between peoples.

Sir Anthony Siaguru: The ties that bind Australia to us are strong: moral, historical, geographical, economic — yet they all pale before the security needs of its society and population against the insidiously disruptive forces of modern times which could find in an unstable, misgoverned, corrupt-ridden Papua New Guinea a choice breeding ground ... Maybe we are like tambu, a marriage relationship ... Not a traditional Papua New Guinea marriage, of course. Nor a traditional European one either. Something much more modern, as befits an emergent nation like Papua New Guinea, which despite its problems and its

⁴⁰ Senator Gareth Evans, addressing the first Australia-Papua New Guinea Colloquium at Townsville, August 1988.

troubles, still can hold its head high and look for better days ahead ... with support and patience and understanding from Australia. Let's say an open marriage.⁴¹

1.7.8 This is a far more apposite metaphor for the relationship in the 1990s than that of the parent and adolescent child that yet lingers in some quarters. Mr Richard Woolcott said: 'Australian efforts to manage Papua New Guinea would be counterproductive. If solutions are to be found, they have to be found by Papua New Guinea itself'.⁴² Professor Helen Hughes agreed:

There has been a dramatic change in the ability to manage the economy in the last two or three years since the international organisations have come into the debate on where the economy is heading. There was always a problem, while we were the chief advisers, not to mince words, that we were the former colonial power. We were like the gringos in Latin America, loved and hated simultaneously.⁴³

1.7.9 But Mr Russell Rollason added a note of warning:

I do not believe we have an adequate dialogue yet. There is talk about dialoguing with Papua New Guinea ...⁴⁴

1.7.10 'We have in Papua New Guinea a multiplicity of identities, often within an individual's head, competing as part of the process of wider integration.'⁴⁵ Such cultural complexities, arising from the speedy transitions not only of a nation but of thousands of the individuals within it, at varying speeds and in different ways, can only be comprehended by positive personal contact.

1.7.11 This shift in the relationship would be best effected by the establishment of an Australia-Papua New Guinea Council, which might attract both government and private sector funding. It is a considerable gap in the Australian cultural map that institutes have been established to develop Australia's understanding of other nations, but not yet of its closest neighbour. (See Recommendation 27.)

1.7.12 Reliability in the relationship between the countries, then, is a vital factor. It can only emerge from a sound, mature and broadly-based range of human relationships.

⁴¹ Quoted in Anderson, D op cit, p. 63.

⁴² *Evidence*, 5 November 1990, p. 971.

⁴³ *Evidence*, 21 November 1990, p. 1331.

⁴⁴ *Evidence*, 23 October 1990, p. 942.

⁴⁵ *Evidence*, 22 October 1990, p. 849.

1.8 The Structure of the Report

1.8.1 This report does not strictly follow the structure of the Committee's Terms of Reference. It examines first political, social and security developments as these are matters internal to Papua New Guinea and as such are background issues to the actual relationship between the two countries; then economic issues, including trade, investment and aid; and finally, regional relationships, before summing up prospects for the future of the relationship.

1.8.2 In its task, the Committee was well aware of the delicacy of its task, brought home in different ways by the evidence of two Australian residents of Papua New Guinea:

I do not think we can criticise Papua New Guinea for its money being ill-spent as long as we know it is ill-spent. The major area is for us to look after our own, and to make sure that money is not ill-spent. That is what I am here for: to see benefit and that the money we provide gives benefit.⁴⁶

and

I have heard a lot of negative comments about this Committee. These include saying it is another example of the patronising attitude that Australia takes and questions as to why it should be inquiring into Papua New Guinea's internal affairs when Papua New Guinea does not set up committees to look at Australia's internal affairs. I would not say it is going to destroy Australia-Papua New Guinea relations or anything like that, but it is a delicate matter.⁴⁷

⁴⁶ Buchanan, *Evidence*, 10 September 1990, p. 349.

⁴⁷ Regan, *Evidence*, 20 February 1991, p. 1395.

Section 1

Section 1: Political and Social Issues — Implications for Australia

Chapter Two

Political Developments in Papua New Guinea

Section 1 of the report looks at the political and social developments within Papua New Guinea. Since 1975 these matters have been entirely within the jurisdiction of the Papua New Guinea Government. However, in the context of this inquiry, they are significant for two reasons. First, they have been affected by the legacy left to Papua New Guinea by Australia and second, and more importantly, they shape the aid, trade and investment environment which is the basis of the relationship. Chapter 2 looks at political developments since Independence. It examines the choice of constitutional government made as it was out of familiarity with Australian constitutional practice and the modifications of the Constitution that have occurred over the last 16 years. In particular, the chapter notes the problems associated with the weakness of the party structure, the distracting effect of the no confidence motions, the corruptibility of the electoral allowance system and the viability of the provincial governments. Planned and actual electoral reform is outlined. Finally the Committee, from an Australian perspective, comments on the capacity of the Papua New Guinea political system to provide a stable environment for investment and an effective vehicle for directing development.

2.1 The Australian Legacy

2.1.1 It has always been recognised that it is vital to Australia's interest that Papua New Guinea, so geographically close, should be politically and economically stable. It was a recognition of this that led to the McIlwraith annexation in 1883. The interest remains the same today. Political stability also assumed, to some extent, political sympathy.

2.1.2 The concept of a nation state whose political life is determined by a constitution was bequeathed to Papua New Guinea by Australia. It was the inevitable consequence of 90 years of 'colonial' rule whereby the political ideas and administrative structures of the governing power were the main experience of government for three generations of Papua New Guineans. Therefore the Westminster system was the most familiar system of government, and the only one that Papua New Guineans had encountered, which attempted to encompass into one nation state hundreds of disparate groups, each with its own language. For Australians too, there was little question that the system of government they knew best, was the best. Sir John Gunther's comment on the argument about whether Australia had imposed an alien system on Papua New Guinea is illustrative of this view:

I never had any reservations about it; I was sure it was the right thing to do. Now I could use two arguments. One was that we introduced what we knew about. I think that in these kinds of situations where you're moving rapidly towards independence, experimentation might be dangerous. So you implant what you know rather than try and find something different. Number two is that we never proposed that anything we did should be everlasting. We always said, 'Look, the day after they get independence they can repeal, amend, do anything they like. But we're giving them something we know about; it mightn't work for them, but it does work for us, and we think it can work for them. So we'll use it.'¹

2.1.3 Much of the basis of the present political system in Papua New Guinea was established long before independence was in sight. The Queen of England, represented by a Governor-General, was the head of state. In 1964 the House of Assembly was established and from that evolved a ministerial system. The Prime Minister was the member of the Assembly who could command a majority. Once established, these elements of the Westminster system formed the framework, accepted through custom and practice, for later constitutional developments. Whether many of them were really suitable for Papua New Guinea however has become open to question in the period since Independence.

2.1.4 However, Australian rule of Papua New Guinea, too paternalistic for too long and lacking in sufficient political tutelage, was largely benign and well-intentioned. It was a rule that was pragmatic rather than ideological. Australia saw itself as holding a trust of limited duration though the end point was never clearly defined until the last minute. As a consequence, there was no widespread clamour for independence and yet suddenly much consultation about how the political system would operate after independence. From 1967 until 1975 there was constant discussion within the country of the constitution that an independent Papua New Guinea should have. In particular the Constitutional Planning Committee, which included Fr John Momis and John Kaputin:

... traversed the country to consult with representatives of each region in an effort to supply the drafters of the constitution with comprehensive deliberations by which a truly 'autochthonous' charter could be written. The House of Assembly sat as a special constitutional assembly in order to declare the constitution. Its birth as a legal instrument thus did not come as an act of the Australian Parliament, and was literally 'given' by the people of Papua New Guinea to themselves.²

¹ Nelson, H op cit, pp. 217-18.

² Submission, p. S941.

To this extent the Constitution is an indigenous document. The selection of a constitution by the Papua New Guineans was inevitably the selection of something alien to the indigenous culture which was a culture based on kinship groups, whereas the nation state in Papua New Guinea was a colonial construct. The problem of building the nation was left to the newly independent government. Dr Hassell explained to the Committee:

Obviously you cannot have Nations based on kinship groups ... The system that was put in place which was the one that Australia was most familiar with obviously has taken root. I would say that it is possible to integrate the Westminster system with traditional culture. It has worked to a certain extent. It needs to be looked at and it needs to be constantly scrutinised and evaluated and responded to.³

2.2 The Papua New Guinea Constitution

2.2.1 The Constitution of Papua New Guinea was adopted in 1975. It maintained the position of the Queen as the head of state. Locally, she is represented by a Governor-General. The legislature and judiciary are separated. There is a single chamber, popularly elected through a compulsory first-past-the-post system of voting. The House of Assembly has 109 members elected for five year terms.

2.2.2 Despite the early emergence and success of the Pangu Parti, the party system is not strong; allegiances to parties change rapidly, even between elections and there is little party discipline within the Assembly. A multitude of parties contest elections at times forcing the winning per centage down to 10 per cent of the vote. In this sense it has operated quite differently from the political systems of Australia and Britain.

2.2.3 Apart from the national government there are two other levels of government — the provincial and the local governments. There are 19 provincial governments each with its own elected assembly and an executive council headed by a premier. The Organic Law of 1977 specified powers to be exercised by the provincial governments and by the federal government. Some powers are shared by both. In cases of conflict the national interest prevails.

2.2.4 Democratic principles are protected by an independent and respected judiciary, a Leadership Code which sets out the duties and responsibilities of the leadership, an Ombudsman Commission to oversee the implementation of the code and a fiercely independent and free press, largely owned by Australians. The media is dealt with in Chapter 5. There is freedom of speech and freedom of assembly and political association. Human rights have generally been respected and protected, with the exception of the recent events on Bougainville and perhaps the less publicised problem of the border crossers along the West Irian border. These issues are discussed in detail in Chapters 12 and 13.

³ Submission, p. S419.

2.3 Constitutional Developments

2.3.1 Since Independence, the Constitution and the parliamentary form of government have been widely accepted. In the early years of self-government the assembly was dominated by Michael Somare's Pangu Parti. It formed governments, albeit in coalitions, between 1972 and 1980. In March 1980, the first successful vote of no confidence was taken against Somare's government. It was significant because it revealed a means to power for ministers and backbenchers. Since then governments have changed either because of an election or a vote of no confidence in 1980, 1982, 1985, 1987 and 1988. However, over the whole period since Independence there have been only four Prime Ministers, Somare, Chan, Wingti and Namaliu and there has been no challenge, constitutional, legal or military, to any of the changes that have occurred. For a newly independent country, 16 years of unchallenged operation of a new constitution is a remarkable record. Perhaps the most significant test of the Constitution was the crisis occasioned by the refusal of the Governor-General, Sir Serei Eri, to sack the Deputy Prime Minister, Ted Diro after the findings of the Leadership tribunal into corruption in October 1991. The resignation of the Governor-General points to the basic constitutionality of the Papua New Guineans.

2.3.2 On the surface this suggests considerable political stability — continuity of leadership, adherence to constitutional forms and broad involvement in the democratic process. This is perhaps deceptive and increasingly so. For while Parliament has long terms, governments have been changed not by election but by votes of no confidence. There has been instability in the cabinet — a level of constant political horse-trading which has distracted from the business of policy making.

2.3.3 The party system is weak. There are many political parties whose names and the membership change often. (See Appendix 8 for a list of political parties.) No party has a comprehensive organisation, clearly defined ideology or disciplined approach to members' conduct and allegiance.

The political ideology that is in place is not clear; in truly democratic societies, the concept of a government and a loyal opposition is common — generally there are one to three parties that have a clear political philosophy and ideology. What seems to be the case in the Solomon Islands, Papua New Guinea and some other parts of the Pacific is that there is no clear political ideology or philosophy that holds the parties together. If you are not held together by a clear set of political principles and a philosophy that goes to the root of your association as a political party, then what holds you together? The worry in Papua New Guinea is that what holds political parties together and holds the system together is a system of resource allocation — so that loyalty is bought in a sense.⁴

⁴ Hassel, *Submission*, pp. S419-20.

So political parties are fluid organisations, the basis for forming coalitions and negotiating positions of power. At election time there need not be a single endorsed candidate so it is not important for members to adhere to political platforms or party regulations. Members of the one party can be in both the government and the opposition. Mid-term, members can and do switch allegiances and so change coalitions and governments. The negotiations to form a government after an election can be protracted.

2.3.4 Sir Anthony Siaguru, formerly MP and government minister and presently Deputy Secretary-General of the Commonwealth, believes that:

Since the reduction of the once all-powerful Pangu Party and the loss of its stabilising effect, we have been infected with a *too-weak Executive which is now enshrined in our constitution and which needs two-thirds or three-quarters majority to be changed. Unfortunately, the backbenchers on both (or rather all) sides of Parliament, whose support is needed for those majorities, constitute the very group which benefits most from the present system and which stands to lose the most from the reform.*⁵

2.4 The Effect of the No Confidence Motion

2.4.1 The weakness of the party structure encourages two phenomena of Papua New Guinea politics: the frequent use of the no confidence motion and alleged corruption, or at best pork barrelling, at a local level. Both within the Assembly and at election time, members or candidates act as individuals rather than as members of parties.

2.4.2 There is not a single endorsed candidate from each party for a particular seat so in most seats there is a plethora of candidates seeking election. As the method of voting is first-past-the-post, a winning candidate may get only 10 per cent of the vote. Moreover, in any election 60 per cent of the members may lose their seats. As Mr Anthony Regan explained to the Committee:

individual members get into Parliament not through party support but through other things. In Papua New Guinea it is clan support or the amount of money you can spend to raise clan support ... Because there are no parties, motions of no confidence are the way for different groupings to get together to get into power to get their hands onto the goodies of office, to make themselves more wealthy, or to give themselves a better chance to get back into office next time.⁶

2.4.3 The electorate development fund, intended to be available for worthwhile development projects, fulfils the expectations of an electorate that their representative will bring back some prospect of growth and

⁵ Anderson, *D op cit*, p. 63.

⁶ Evidence, 20 February 1991, pp. 1399-1400.

services to the region. Approximately 100,000 kina is given per electorate per annum. Over 109 seats that constitutes the sizeable amount of 10 million kina. The amount available to each member through the electorate allowance has grown rapidly over recent years. In 1986 under Paia Wingti it was increased from 20,000 kina to 40,000 kina. In 1989 Rabbie Namaliu increased it to 100,000 kina. It is, it seems, an amount open to abuse. Mr Anthony Regan's assessment of the electorate allowances was given to the Committee:

Some no doubt do bring useful developments. But this comes back to the point that I was making about the nature of the parliamentary system in Papua New Guinea. Where the individual parliamentarian gets back, discretionary funds are one of the very few ways where they can use government money to build support. ... But the imperatives of the political system make it very hard for any politician to put the money into a sensible project.⁷

2.4.4 The Namaliu Government is aware of the problems associated with the fund and currently the Ombudsman and other authorities in Port Moresby are scrutinising its use.⁸ The Chief Ombudsman, Mr Charles Maino, said 'It would appear that as the slush funds increase, so do the abuses by MPs'. He is looking at the misuse of the funds by 90 of the 109 members of parliament, including most of the ministry. 'We have 60 to 90 substantial cases. They require immediate and substantial investigation under the leadership code.'⁹ The problem is a problem of accountability. A large amount of public money is involved and the refusal, or at best the failure, of most Members of Parliament to supply the mandatory information about the use of the funds can only fuel the widespread public suspicion that the fund is used for personal gain rather than public development.

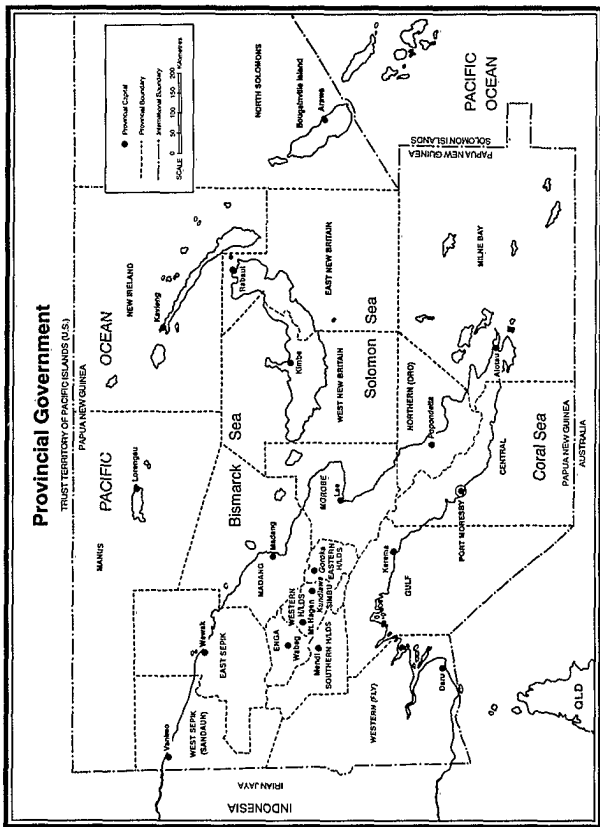
2.4.5 So in conclusion, the political style of Papua New Guinea's democracy is very Melanesian. The multitude of parties and the individualism of politicians reflect the huge diversity of the population. It is a very open and vigorous democracy. There is a capacity for talking things through, negotiation, consensus and coalition, but also patronage and largesse to be delivered to supporters.

⁷ *Evidence*, 20 February 1991, p. 1407.

⁸ *Evidence*, 5 November 1990, p. 1061.

⁹ Paul Asora, *The Sunday Herald*, 23 December 1990, p. 8.

Provinces of PNG



2.5 The Provincial Governments

2.5.1 Since Independence the Government of Papua New Guinea has modified the centralised system of the 1975 Constitution by creating, through the Organic Law of 1977, a system of provincial governments. This development was intended to take account of the diversity of the population, maintain some closeness between government and the people and ease the pressures for secession in particular regions, notably Bougainville.

2.5.2 The 19 provinces that were established were the 19 administrative districts of the old Australian administration. Views on the success of the provincial governments have been divided. On the one hand they are seen as a costly and confusing duplication of government services which have inhibited speedy decision making and multiplied the possibilities for corrupt practices. Professor Jarrett told the Committee:

something took place that I regard as disastrous, that is, splitting a country of that size into 19 provinces each with a provincial level of government. Some of the provincial politicians have not shown the degree of probity, shall we say, that one might have expected and so some of the provinces [five at present] are in fact being managed by the central government.¹⁰

2.5.3 Mr Tos Barnett reiterated this point in relation to his inquiry into corruption in the forestry industry:

... it was as if a mad butcher had just dismembered the carcass of the National Forestry Service — cut off the limbs and left them in the provinces and left the head in Port Moresby but with no arms capable of feeding plans up to the head. If you did make plans, there were no limbs to carry out the plans. The public service and its dismemberment was an absolute disaster for forestry.¹¹

2.5.4 On the other hand, provincial governments can be seen to be in a development stage; that the need to establish governments with which people could identify is still important; that the course of political development cannot be expected to run smoothly. Anthony Regan argues:

There is a danger with the debate about provincial government that you might end up with a sort of pendulum, of people abolishing a decentralised system, establishing a centralised system, finding that things are no more efficient, decentralising again and just swinging back and forth.¹²

¹⁰ Evidence, 4 December 1990, p. 1353.

¹¹ Evidence, 20 February 1991, p. 1417.

¹² Evidence, 20 February 1991, p. 1401.

2.6 Political Corruption and the Electoral Allowance

2.6.1 Public disenchantment with the political process has grown. The feeling that the system is *fragile and unstable* is widespread and the general public's cynicism towards politicians is increasingly expressed in the media. The most obvious illustration of this disillusionment has been the prolonged student strikes and protests over corruption in July 1990 and over proposed pay rises for Members of Parliament in 1991. Prime Minister Namaliu himself has admitted that:

... there is a growing cynicism among ordinary Papua New Guineans about politics, especially the contortions of Parliament, which seem to have ever diminishing relevance to questions of principle, policies or matters of public importance. It's a power game here in Waigani [the Port Moresby suburb where the Parliament is]. People are out to extract things for their own self interest and the nation's interest becomes secondary.¹³

2.6.2 The consequences are policy paralysis and policy inconsistency. The preoccupation of the government with preserving itself has left no time to consider the wider concerns of the country or to supervise the implementation of decisions formerly made. There is a decline of the government's presence in rural areas, a slowing in the delivery of government services in education, health and agriculture and problems of law and order and at times rumours of a military coup.¹⁴

2.6.3 The cost of the government and the administrative structure is another area of concern. In its submission to the Committee, the Department of Foreign Affairs and Trade stated that:

There is widely perceived to have been a decline in the standard of administration over the last decade, particularly in the delivery of social services and the maintenance and extension of infrastructure ... The creation of 20 separate bureaucracies (national government plus 19 provincial governments), employing some 50,000 public servants, has meant that skilled personnel are spread thinly across the country.¹⁵

Furthermore,

... the salary bill for national departments, provincial departments and non-commercial statutory institutions was K371 million in 1987, which represented 42 per cent of total government expenditure on goods and services.¹⁶

¹³ *The Canberra Times*, 14 November 1990.

¹⁴ Exhibit No. 5, Hegarty, D *Papua New Guinea: At the Political Crossroads?* Working Paper No. 177, Strategic and Defence Studies Centre, Australian National University.

¹⁵ *Submission*, pp. S449-50.

¹⁶ *Submission*, p. S450.

2.7 Planned Constitutional Reform

2.7.1 Papua New Guinea's own examination of its political problems has not been wanting. All four prime ministers, Somare, Chan, Wingti and Namaliu have recognised problems with the system and have advocated reform. Sir Anthony Siaguru sees constitutional reform as central to Papua New Guinea's successful development:

My own attempts when a Minister in the 1982-87 Parliament to introduce a small program of reforms aimed at strengthening the executive without undermining the democratic basis of our nation were all miserable failures. I was defeated by sheer indifference ... Stability, discipline and a guiding hand ... are the very qualities that most of us in Papua New Guinea would like to see in our government.¹⁷

2.7.2 Michael Somare on handing over to Namaliu in 1988 said:

This country is not pulling together in the desired direction ... The political leadership is headed in one direction — towards reaping wealth and status for themselves — while the masses are stuck with the problems of increased crime, unemployment, urban drift and substandard health and education services.¹⁸

2.7.3 Yaw Saffu of the University of Papua New Guinea has described a 'serious case of ungovernability':

There is a real danger of the system collapsing through the lack of effective leadership, a sense of direction and the political will to stop the slide towards ungovernability.¹⁹

2.7.4 Prime Minister Namaliu has proposed numerous constitutional reforms to address the problems of political instability. In July 1990, a number of amendments to the Constitution were introduced. They require a two-thirds majority and need to be approved at two sessions of Parliament. They include:

- a Bill prohibiting motions of no confidence for an 18 month period of grace following the election of a Prime Minister after a general election; and
- an amendment relating to the Leadership Code, bringing members of provincial assemblies under the ambit of Papua New Guinea's Leadership Code, which sets out standards of conduct required of proscribed public office holders.

¹⁷ Anderson, D op cit, p. 63.

¹⁸ Quoted in Hegarty, D op cit, p. 11.

¹⁹ Quoted in Jennings, P *Managing Constitutional and Political Change in the South Pacific Island States*, p. 16.

On 18 July 1991, the Papua New Guinea Parliament passed the constitutional amendment relating to no confidence motions. It was passed by 73 to 5 and requires an 18 month period of grace for all new governments before a no confidence motion can be put in the Parliament. This is seen as a positive move towards achieving political stability.

2.7.5 Amendments relating to the integrity of political parties and candidates and aimed at strengthening the party system have also passed the first reading stage, and have been referred to the Parliamentary Committee on Constitutional Law and Acts. The Speaker would be given the authority to 'recognise' parties and individual MPs as members of 'recognised parties'. A 'recognised political party' would be one which had polled 2.5 per cent or more of the votes in the previous general elections, and whose endorsed candidates comprised 5 per cent of the total number of MPs. A 'recognised' MP could not be a minister in a government if his or her 'recognised' party were not also in the ministry. A 'recognised member' of a 'recognised political party' would not be eligible to be a minister if he/she resigned from that party under whose banner he/she was originally elected to parliament. This should bring some stability to party membership.

2.7.6 A parliamentary committee of inquiry into the provincial government system, chaired by Mororbe MP, Hisingut, has recommended significant changes to the existing system of provincial government, including the abolition of elections to the provincial assembly and in its place the election of the provincial premier through a conclave of presidents of local government authorities and the national MPs from the province. The Committee's report has been tabled in Parliament. The recommendations have been incorporated in draft legislation which seeks to amend the Organic Law governing provincial governments.

2.7.7 The Papua New Guinea Government has also announced its intention to amend the electoral law. Some amendments would involve amendments to the Constitution. The main provisions include:

- nomination fees for candidates to be lifted from K100 (\$A135) to K2,500 (\$A3,375);
- the minimum age for MPs to be raised from 25 years to 30 years;
- a campaign period to be set at one month;
- issuing of voter identification cards;
- death or withdrawal between nomination and the return of writs not to affect proceedings, except where the candidate was the winning one, in which case a by-election is to be held; and
- national and provincial elections to be conducted simultaneously.

2.8 The Implications for Australia

2.8.1 The Committee is firmly of the view that the evolution of the political system in Papua New Guinea is something for the people of Papua New Guinea to determine. It upholds the view stated in the Joint Declaration of Principles that the relationship is one of 'mutual respect for one another's independence, sovereignty and equality'.

2.8.2 However, Papua New Guinea is our closest neighbour. As with any neighbour, Australia does have a strategic and political interest in the stability of government and to some extent in the nature of government. In this regard, we should recognise the errors we have made and give advice and assistance on constitutional matters when it is requested.

2.8.3 This natural strategic concern is heightened by the uniqueness of relationship with Papua New Guinea. Although the direct and personal bonds are beginning to weaken as the generation that was part of the pre-independence relationship grows older, with no other country have we had such close involvement, ties of common historical experience, mutual interest and sentiment. Our economic interests through both trade and aid are substantial.

2.8.4 Therefore Australia's interest in Papua New Guinea extends to concern for internal security and to support and encouragement in the reform of the political and administrative process. The Committee believes that there is a need for a substantial deepening in the relationship as it affects the political and administrative system.

2.8.5 The need to improve the personal contacts between Australians and Papua New Guineans is important in the political sphere, especially among the backbench parliamentarians of both parliaments. The Australia-Papua New Guinea Parliamentary Friendship Group, chaired by Mr John Langmore, MP, has been established as a result of the visit of the Committee to Papua New Guinea in February this year. It provides a mechanism for achieving greater personal contact between the politicians of both countries.

Recommendation 1. The Committee recommends the establishment of a mechanism for ensuring regular exchanges between Papua New Guinean and Australian politicians. This report wishes to restate the recommendations made in the *Report on the Visit to Papua New Guinea: February 1991*²⁰ namely, that regular and reciprocal parliamentary exchanges be instituted. They should be formalised by agreement of the Presiding Officers of the Parliaments. An Australian delegation should visit Papua New Guinea every second year, with a Papua New Guinean delegation making a visit during the

²⁰ *Joint Committee on Foreign Affairs, Defence and Trade, 1991, p. 12.*

alternating years. A program of discussions and observation should be arranged at both national and state/provincial level.

Recommendation 2. The Committee considers that liaison between committees of similar purpose and function should also be developed and that ministers of the Papua New Guinea Government should be encouraged to attend the Ministerial Council.

Recommendation 3. The Committee supports the continuation and further development of aid projects aimed at actively assisting in the development of administrative expertise in the Papua New Guinea Public Service. Again, this could be achieved by secondment and/or exchange of personnel in areas of need identified by the Papua New Guinea Government.

Chapter Three

Social Developments in Papua New Guinea (1)

Papua New Guinea, no less than any developing nation, is suffering the dislocations of rapid social change. The leisurely pace adopted by successive Australian administrations came to an abrupt end with the Foot Report on New Guinea in 1962. Although this report engendered a sense of urgency into Australian preparation for Papua New Guinean independence, the years between 1962 and 1975 were insufficient and the task was left incomplete. Today, Papua New Guinea has a rapidly expanding and urbanising population. It is, therefore, a struggle to build an education system to cater for the growing population. Illiteracy remains high. There are too few skilled Papua New Guineans who can manage and implement the development policies of the government. And yet, despite the shortage of skilled labour, there is also high unemployment which creates frustration and lawlessness. Health services do not keep pace with the growth of the population. The environment too is under pressure from the expansion of industry, especially in the mining and forestry sectors. The Committee believes that there is a continuing responsibility on Australia's part to aid Papua New Guinea through this development phase, not only because Papua New Guinea is a former colony but also because it is our closest neighbour. The nature and scale of that aid is discussed in the chapter on development assistance.

3.1 Rapid Social Change

3.1.1 Papua New Guinea came to independence 16 years ago unexpectedly and ill-prepared. The period just prior to independence and the years since have been a time of force-fed change which has stretched the capacity of the country to the limit. The legacy of the rapid move to independence has been social dislocation, evident in a number of areas. Health improvements, although fewer than might have been hoped, have been sufficient to see population growth and population pressure; the beckoning force of high wages, material possessions and urban lifestyle has led to urbanisation; poor skill development and narrowly based and slow industrial growth have produced insufficient jobs; unemployment has been accompanied by increasing lawlessness. The curfews imposed by the government in Port Moresby and Lae in 1991 and the closure of the university indicate the seriousness of the situation and at the same time the determination of the Namaliu Government to address the problems. Indeed, the problems have produced a malaise because violence has reached such proportions that investment in projects other than the largest ones like mining has largely dried up. Mining, while financially lucrative, is not labour intensive and does not help to absorb the growing numbers coming onto the labour market each year.

3.2 Population

3.2.1 The population of Papua New Guinea is around 3.6 million making it the second largest nation in the Pacific after Australia. Eighty-five per cent of the population is involved in agriculture either as subsistence farmers or as self-employed farmers. There is relatively low population density, eight people per square kilometre. This overall figure for population density is deceptive, however, as the Highlands are very densely populated for an agricultural area. In the Highlands the pressure of population on the land is seen as a cause of much of the violence.

3.2.2 The population growth rate is 2-3 per cent, a rate now much faster than the economic growth rate which has stagnated since the mid 1980s. Lack of economic growth in sectors which are employers of labour has exacerbated the unemployment situation. Life expectancy has not improved markedly since the 1970s although it has risen from 46 to 54 years between 1970 and 1988. Infant mortality rates (per 1,000 live births) have dropped from 125 in 1970 to 103 in 1987. The fertility rate is relatively high at 5.9 children per woman in 1980 and 5.1 in 1987. Despite considerable improvement since independence, these indicators remain poor compared with many other developing countries.

TABLE 3.1: Social Indicators

Country	Literacy rate (%)	Primary school enrolments (%)		Life expectancy at birth (years)		Infant mortality rate '000 births (aged <1year)	
	Latest	1970	Latest	1970	Latest	1970	Latest
Cook Islands	75	..	98	65	70	36	37
Fiji	86	101	110	61	71	50	19
French Polynesia	94	..	..	..	72	..	..
Kiribati	96	112	100	54	63	59	82
Nauru	..	..	..	..	..	..	..
New Caledonia	91	..	..	61	68	..	..
Niue	100	..	..	..	..	..	..
Papua New Guinea	45	52	64	46	54	125	103
Solomon Islands	51	61	62	51	67	52	39
Tokelau	97	..	..	..	..	..	..
Tonga	93	140	77	56	66	16	7
Tuvalu	98	..	..	..	68	..	38
Vanuatu	53	..	..	..	64	..	42
Western Samoa	98	75	80	61	66	48	51

Source: NCDS — Exhibit 67, p.39

3.2.3 It is a young population with 43 per cent under 15 years of age. Estimates of the population in the year 2015 range from 5.5 million to 9.3 million. In March, when the Committee visited Papua New Guinea, members discussed problems of family planning and population growth, along with a wide range of other issues, with a group of women in Port Moresby. A list of the women involved in the discussions with the Committee is provided at Appendix 6.

3.2.4 The women recognised the need for improved family planning. They saw a need for education of both men and women to overcome negative attitudes caused by fear. They also thought that population control needed to be made a priority of government with programs directed at reducing the high maternal and infant mortality rates. (See Table 3.1.) There should also be more recognition and support given by the government to the NGOs' efforts to promote birth control. The women claimed that family planning services had declined throughout the eighties. They claimed that in the early 1980s there were 22,000 'acceptors' of family planning but that by 1986 the number was down to 15,000. This was a tiny proportion of the people of child bearing age. Coupled with the breakdown in traditional methods of family planning, this decline, if unchecked, represented serious population problems for Papua New Guinea in the future. The problem stemmed from the fact that family planning services had become a function of provincial governments and so were subject to the whim or interest accorded them by particular provincial governments.

3.2.5 Already Papua New Guinea has not been able to expand its education system or its employment opportunities at a rate that keeps pace with population growth. Therefore, continued growth in the population at a rate higher than economic growth is potentially very serious. It puts pressure on the land; it stretches the capacity of the education and health systems; it worsens the unemployment situation; and it creates problems of lawlessness in the towns and in the highlands.

3.2.6 The Namaliu Government announced a National Population Policy for Papua New Guinea on 27 February 1991. It is to be a broadly directed policy that looks not just at population size but also at population distribution. It will be applied to key areas such as health, education, migration and urbanisation. In particular, it aims to slow down population growth through the increased use of family planning. The development, implementation and monitoring of the policy will be effected by an Advisory Committee which will create and monitor policies and a National Population Council (NPC) which will co-ordinate the efforts of the various departments affected by population issues.

Recommendation 4. The Committee recommends that Australia offer a specific project to the family planning associations of Papua New Guinea in order that they might develop and promote comprehensive services on birth control. This aid could be delivered either through an expansion of current Non-government Organisation

(NGO) services or through an AIDAB health project. We should also encourage the United Nations Family Planning Association to be involved.

3.3 Urbanisation and Unemployment

3.3.1 Both the colonial and the independent governments of Papua New Guinea have had economic and social policies that have encouraged people into urban areas. It is in the urban areas that the wealth and the material goods that go with 'development' are concentrated and in all developing countries these things have proved to be irresistible attractions. The benefits of urban living can be illusory, especially where there is unemployment, poor housing and urban services.

3.3.2 There has been a flow of permanent settlers to the towns, which have grown from 5 per cent of the total population in 1966 to 13 per cent in 1980. The temporary and permanent influx of citizens to the towns is largely a male phenomenon.¹

3.3.3 Papua New Guinea must find ways of expanding the formal economy (as opposed to the subsistence economy). This is proving difficult and the most obvious sign of the difficulty is the rate of youth unemployment. It should be noted, however, that as more than half the population is in the subsistence farming sector so the statistics on employment relate to a small per centage of the workforce. Only 200,000 or 13 per cent of the population is in the formal workforce. On 1980 census figures, it was estimated that unemployment was then 17 per cent and higher at 25 per cent in urban areas. Or stated another way by the Department of Foreign Affairs and Trade:

We are looking at an enormous rate of increase in the number of young people. We estimate that only about 5,000 out of 50,000 new entrants into the workforce each year get employment.²

3.3.4 The stagnation in the rural economy, where low commodity prices and poor infrastructure have discouraged investment, has also encouraged the drift to the towns but it has been a drift into unemployment and 'raskol' gangs not into paid employment. The disaffection of the unemployed is heightened by the relatively high wages and material prosperity of the largely public sector workforce. Many people who spoke to the Committee perceived a widening gap between rich and poor, employed and unemployed, urban and rural people.

¹ Goodman, R, Lepani, C, Morawetz, D *The Economy of Papua New Guinea*, Pacific Policy Papers No. 1, p. 171.

² *Evidence*, 5 November 1990, p. 984.

TABLE 3.2: Labour Force

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Wage employment	185	192	210	204	192	192	196	200	203	208	213	223
(i) Public service ('000)	50	51	53	55	53	49	51	52	50	50	49	49
(ii) Private sector excl. mining('000)	130	136	152	143	130	133	138	143	146	149	155	166
Per cent of private sector (excl. mining)												
Agriculture	34	33	32	36	36	39	39	39	40	40	41	40
Construction	16	16	17	18	12	12	10	17	16	15	14	18
Commerce	15	15	14	15	16	18	17	16	15	14	13	13
Transport	10	10	10	8	9	9	8	8	8	10	9	9
Financial institutions	5	6	6	7	8	7	7	7	7	6	6	7
Other	20	20	22	18	20	15	18	13	13	16	16	14
(iii) Mining (persons)	4860	4893	5043	6101	8742	9496	6387	5867	7040	8019	9247	8084

Source: AIDAB — Exhibit No 73, p.75

3.3.5 The drift to the cities and the problems of unemployment among young men were often cited as a serious concern. The government's proposed vagrancy legislation and the reintroduction of the death penalty reflect this concern at an official level. The vagrancy laws propose to enable the government to move people back from urban areas to rural areas and place the burden of proof on an individual charged with a crime. These measures attack the immediate law and order problem but they will not solve a problem that is structural in origin. It is unlikely that young people can be forced to stay in villages which do not offer expanding opportunities for employment and entry into the cash economy and all the material advantages which that offers. As far as the death penalty is concerned, although the Committee understands the seriousness of the problem that has led to this decision, it holds the view that the death penalty is an unacceptable form of punishment.

3.3.6 In the longer term, policies which direct investment into improvements in the infrastructure of the country, which facilitate an expansion of employment-intensive rural or urban industries, and which raise the skill levels of labour so that expatriates can be replaced would seem more productive.

Recommendation 5. The Committee recommends that one of the priorities in the new program aid system should be the development of special programs aimed specifically at unemployed youth e.g. technical and vocational training,

agricultural and business extension and small scale local public works. These should be developed in consultation with the Papua New Guinea Government.

3.4 The Educational Crisis

3.4.1 Education has been a central focus of the relationship between Australia and Papua New Guinea both before Independence and since. It is also the area where Australia is most culpable in leaving Papua New Guinea totally inadequately prepared to meet the challenges of national development. Papua New Guinea is still constrained by its lack of trained people in implementing many of its plans for development. Much of the aid from government has gone into education and, both before and after Independence, missionary activity has focused largely on education and health. Australia had moved at a somewhat leisurely pace to build up a base level of education until the 1960s. Primary schools were established, mainly by the churches:

In 1960, 75 per cent of school age children were still not attending primary school and most of those who did had the missions to thank for their education. Secondary education was virtually non-existent. (In 1963 there were 25 students at the top secondary school.)³

Then, with independence looming suddenly within ten years, there was a flurry of activity to increase the base to include secondary and tertiary levels. The first seven graduates from the University of Papua New Guinea graduated in 1970, just five years before independence. The development was haphazard. The submission from the Department of Employment, Education and Training recorded that, by 1984 when the Papua New Guinea Government set up the Commission for Higher Education:

... there were 67 institutions of higher education ... administered by 15 government ministries, church and other agencies.⁴

3.4.2 Education in Papua New Guinea today is partly the responsibility of the national government and partly the responsibility of the provincial governments. The national government provides the core curriculum for primary schools, all secondary school curricula, and runs the national high schools, teachers' colleges and the universities. The provincial governments are responsible for non-formal and vocational education, the number and location of primary schools and for the non-core parts of the curriculum.

3.4.3 Primary or community schools are from grades 1 to 6, high schools from grades 7 to 10 and the national high schools are for years 11 and 12. In 1988 there were 123 provincial high schools with 52,000 students and 4 national high schools with 1,800 students.

³ Turner, M *The Challenge of Independence*, Penguin, 1990.

⁴ Submission, p. S538.

3.4.4 In post-secondary education there are six technical colleges and two business colleges. Access is from years 10 and 12. At present 65 per cent of the students entering technical education are male. Not all available places are taken up. There are facilities for 1,800 students but there only 1,053 places have been taken up. There is a network of vocational training centres as well. The *Education Sector Review*, 1991 has assessed that they are of varying quality; the instructors are in need of training; there is a lack of relevance in curriculum to the local needs; and they are often poorly funded.⁵

3.4.5 The evidence brought before the Committee, from witnesses, in submissions and in other academic works offered as exhibits to the inquiry, all attested to the fact that the return on the investment has been disappointing. Costs relative to other developing countries are high. Literacy rates are low. (See Table 3.1.) Retention rates are low. Standards of achievement are poor. Teacher training needs improvement. Skilled labour is an acute shortage within the economy. The system is top heavy with too little funding going into the primary sector. The *Education Sector Review* expressed serious concern at the state of education, for despite 'the recent figures showing growth [and] the planning and management of the system is in some disarray'.

TABLE 3.3: Expenditure on Education

Year	Provincial Expenditure	National Expenditure	Total	Total in 1983 Kina
1983	61.8	39.19	101.0	101.0
1984	70.05	42.76	112.81	105.03
1985	68.28	44.46	112.75	101.21
1986	75.05	42.71	117.75	100.29
1987	78.55	42.04	120.59	99.33
1988	80.21	45.21	125.42	97.98
1989	90.40	51.80	142.20	106.27
1990	100.94	55.06	156.00	109.09
1991	99.68	50.97	150.65	100.43

Source: PNG National Statistical Office

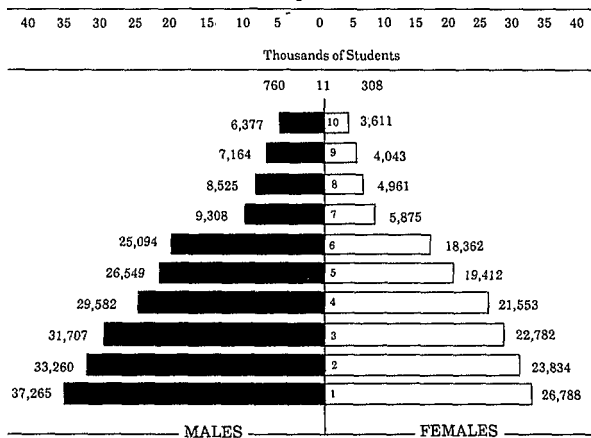
3.4.6 In the failures of the education system lie many of the explanations of the problems of development in Papua New Guinea — the shortage of skilled labour, the difficulty of implementing government policy, the rates of youth unemployment and lawlessness.

3.4.7 Over the last decade enrolments have increased at 4 per cent per annum, short of the government's target of 5 per cent needed to ensure universal primary education by the year 2000. (There is concern that this rate has dropped in recent years and the *Education Sector Review*, quotes a

⁵ *Education Sector Review*, 1991, p. 120.

figure of 2.8 per cent for the annual average increase in enrolments.) Girls comprised 44 per cent of enrolments at primary school, 38 per cent at lower secondary and 27 per cent at upper secondary. Overall enrolments are now high — 95 per cent of the age cohort enters grade 1 — but retention is low with only 63 per cent of those entering primary school completing grade 6 and there is an even sharper decline in the secondary sector.

TABLE 3.4: First to Eleventh Grade Progression



Source: PNG National Department of Education

3.4.8 The result is an extremely low level of literacy. In their submission to the Committee, the National Centre for Development Studies (NCDS) commented:

Less than one-third of the population over 15 years of age is literate compared to an average of three-quarters in comparable developing countries. Educational participation is among the lowest in the world, particularly for girls. Not only are the participation rates low but the quality of

education is extremely poor ... Inadequately trained staff create problems in high schools. Post secondary education is in a critical situation.⁶

The *United Nations Statistical Yearbook for 1989* puts the literacy rate at 45 per cent for the whole population of Papua New Guinea.

3.4.9 Central to the problem is the high cost of education. Detailed studies and analyses have been made of this complex area which it is not the place of this report to repeat. However, the NCDS submission summarised the problem:

Expenditures on education are high as a proportion of budget expenditures and per pupil. For example, expenditures per pupil are double that of the average of low middle income countries at the primary level, nearly three times the average of low middle income countries at the tertiary level. Put another way, the average expenditure per tertiary student is US\$9,500 in Papua New Guinea and US\$5,000 in industrial countries.⁷

TABLE 3.5: Government Expenditure on Education and Health

	Share of Government expenditure on		Government expenditure as % of GNP		
	Education	Health	Education	Health	Other
Papua New Guinea	16.4	9.7	5.7	3.4	25.5
Low income economies (excl. China and India)	9.8	3.4	2.1	0.7	18.8
Middle income economies	11.6	5.1	2.8	1.3	20.6

Source: NCDS Exhibit No, 79. p33

3.4.10 Sheldon Weeks, from the Division of Educational Research within the National Research Institute, disputed this assessment. He believed that establishment and developmental costs raised the cost of tertiary education in Papua New Guinea above that of industrialised countries. He also pointed out that many of the bald statistics did not allow for the regional variations in standards and organisation, and that some provinces like East Britain and Manus had attained very high standards in primary and secondary schools.⁸

⁶ Submission, p. S517.

⁷ Submission, p. S518.

⁸ Exhibit No. 68.

3.4.11 Nevertheless, Gannicott in his analysis, *Education in Papua New Guinea: A Case Study in Wasted Resources*, sees high educational costs resulting from low pupil/teacher ratios (a mean ratio of 28:1 in Papua New Guinea compared with 36:1 for 94 developing countries), the cost of boarding many students at secondary and tertiary level, relatively high teacher salaries (the World Bank commented that primary teachers in Papua New Guinea receive pay corresponding to 11 times the GNP/capita despite the fact that about 25 per cent are minimally trained), and the cost of expatriate teachers. It should be noted that Papua New Guinea has been replacing expatriate teachers with nationals: the two-thirds of expatriate teachers has been reduced to one-quarter. Gannicott concludes:

The diagnosis is that economic returns to human capital investment in Papua New Guinea are low, not because of a lack of demand for skills, but because the education system is internally inefficient: the output it produces, from primary graduates onwards, is both expensive and of poor quality.⁹

3.4.12 In its submission the Department of Employment, Education and Training outlined the needs of education as defined by the Papua New Guinea Government as a result of its 1984 review. It concluded that the Papua New Guinea education system faced difficulties such as:

- a shortage of textbooks and other learning materials;
- inadequate or inappropriate curricula;
- limited educational services;
- low quality facilities;
- a shortage of schools and school buildings;
- a lack of teaching aids;
- underqualified teachers;
- uneconomic teacher training facilities and programs;
- and
- a lack of trained or experienced educational administrators and curriculum developers.

The major problems faced by the system include:

- a need to increase enrolments at lower secondary level;
- differing participation rates from province to province; and
- a shortage of school buildings.¹⁰

3.4.13 Complaints to the Committee by companies about the quantity and quality of locally trained personnel were numerous and unanimous. Ove Arup and Partners in their submission claimed that:

⁹ Gannicott, K *Education in Papua New Guinea: A Case Study in Wasted Resources*, Islands/Australia Working Paper No. 87/9 pp. 51-53.

¹⁰ DEET, *Submission*, p. S541.

Engineering is vital to the development of Papua New Guinea. However, whilst it is apparent that an increasing proportion of the population is receiving education, there is a shortage of trained local engineers and other professionals. It is evident that not only is the standard of education dropping but the numbers of engineers graduating are declining.

There is a need to:

- lift standards of secondary education;
- encourage more students to study engineering;
- raise the standards of university engineering courses;
- offer further university level education in Australia; and
- offer assistance to Australian engineering firms providing practical experience to Papua New Guinean engineers.¹¹

3.4.14 Dr Andrew Elek also stressed the need for greater technical and professional skills in Papua New Guinea:

Economics, computer skills and accountancy skills are weak and this is retarding their ability to engage at a more sophisticated level of business ... similarly in the surveying, engineering and construction skills areas. So, perhaps picking up one or two faculties and injecting quality into them, there is an opportunity that will free up more of their resources to deploy at the basic level of primary and secondary education.¹²

3.4.15 Professor Jackson suggested to the Committee that the severe cutbacks in higher education in Papua New Guinea and what he called the 'desperate situation' of education might in part be alleviated by tied education aid from Australia in the form of increased enrolments of Papua New Guinean students in Australian tertiary institutions.

3.4.16 However, Professor Jarrett commented:

In the education sector ... we have pushed the establishment of the tertiary institutions in Papua New Guinea, in the form of two universities, one in Port Moresby and the other in Lae, at the expense of getting the primary education and teacher education systems right. The result is that we have a top heavy structure in Papua New Guinea, and too much of the country's resources are devoted to the tertiary sector. That has created a superstructure which is built on very poor foundations.¹³

¹¹ Ove Arup and Partners, *Submission*, p. S933.

¹² *Evidence*, 8 April 1991, p. 1488.

¹³ *Evidence*, 4 December 1990, p. 1352.

3.4.17 The Papua New Guinea Government's strategic plan for education recognises these problems. *The Higher Education Plan 1986-1990: A Strategy for Rationalisation* proposed three main changes:

- the closure of very high cost university programs which did not fulfil national economic needs;
- the amalgamation of several tertiary institutions which were situated close to each other geographically, with a view to economies of scale; and
- the closure of a number of very small institutions whose students could be absorbed into other institutions which offered essentially the same programs.

3.4.18 The Namaliu Government has made education, along with law and order and constitutional change, one of its priorities:

The major objectives of the Government's education program are to expand community education, to improve the quality of education at secondary level, and to rationalise tertiary institutions in line with future manpower requirements: 25 per cent of total aid is directed to training programs and scholarships.¹⁴

3.4.19 Australia's role in the development of Papua New Guinea's education continues to be significant. It provides for the entry of Papua New Guinea students to Australian educational institutions and for the training of personnel through programs in Papua New Guinea. The Treaty on Development Co-operation acknowledges the importance of human resource development and specifies that there will be joint training in both the public and private sectors and co-operative activities between educational institutions in both countries.

3.4.20 In 1990/91, of the \$30 million allocated to project aid, \$8 million was allocated to academic and other training. There are a number of schemes. This year, 1991, 286 students from Papua New Guinea are studying in Australian secondary schools. This represents an intake of 150 for this year. This scheme supplements the four national high schools which are inadequate to meet the demand for places. Ten to twelve thousand students graduate from year 10 each year but there are only one thousand places at the four national high schools in Papua New Guinea. Also, under the sponsorship training awards, there are 302 students studying in tertiary institutions or in short-term work-related courses. Finally, under the Equity and Merit Scholarship Scheme (EMSS), a further 107 students (63 new and 44 ongoing) have received tertiary awards. In

¹⁴ DFAT, *Submission*, p. S47.

1993, AIDAB intends to rationalise the sponsored student program and the EMSS program, incorporating the best features of both. It will be renamed the John Crawford Scholarship Scheme.

3.4.21 The Committee is of the view that education is an area in need of considerable extra assistance. It should be the target of increases in aid both to increase the capacity of the education system within Papua New Guinea and to expand the number of scholarships for both secondary and tertiary study in Australia.

3.4.22 AIDAB also runs a Community Teachers College Lecturers Training Program which aims to improve the quality of primary education at community colleges through teacher training. Participants in this scheme undertake study at the Queensland University of Technology. This scheme reflects the Papua New Guinea Government's desire to upgrade primary education.

3.4.23 Australia is also assisting in the improvement of literacy skills in Papua New Guinea through the joint Australia/UNESCO Literacy Development Project for Melanesia. This is a relatively recent project of vital importance to Papua New Guinea. It operates outside the formal education system and so offers a safety net or a catch up for those over 15 years who have not achieved literacy — over half the population. In Papua New Guinea the Department of Education and UNESCO held a literacy workshop in 1990 to develop a basic curriculum for adults. Four similar regional workshops will be held to train the trainers. By the end of 1991 it is hoped that the curriculum will be ready to be trialled.

3.4.24 The World Bank has conducted a major education project in Papua New Guinea through the 1980s. The First Primary Education Project (Education 11) aimed to train provincial education planners. At the University of Papua New Guinea it conducted a special course in educational planning which trained a substantial number of provincial personnel. However, the *Education Sector Review* assesses it to have had limited success. Few of those trained were still in the system by the end of the decade.¹⁵

3.4.25 Training also occurs through private sector development projects and through the on-the-job training offered by these projects in the mining, forestry or construction industries. Mr Humphries from Ove Arup and Partners told the committee:

We have been attempting to provide that in-country training. Of recent times we have brought engineers down to Australia for periods of three months and we would view that as an ongoing situation.¹⁶

At Ok Tedi, Mr Uiari, Executive Manager of Human Resources, explained:

¹⁵ *Education Sector Review*, p. 3.

¹⁶ *Evidence*, 2 October 1990, p. 557.

By agreement with the company we were obliged to set up the infrastructure, including the educational facilities in the township itself. We are now negotiating with the government to set up some kind of technical or vocational school with the provincial government.¹⁷

In consultation with Papua New Guinea, Australia is conducting a joint review of Australia's training program and an education sector study with a view to targeting aid more successfully to Papua New Guinea's needs. In particular, AIDAB plans to give more encouragement to training private sector employees to overcome severe shortages in middle management and entrepreneurial skills.

3.4.26 The Papua New Guinea Government is looking to reduce the unit cost of higher education while expanding student numbers at about 3 per cent per annum and upgrading equipment and facilities. Therefore, they will be looking to the private sector to fund vocationally-oriented expansion.

3.4.27 The Committee felt very strongly that development of the whole education sector was of vital importance to the ongoing development of Papua New Guinea. All levels — primary, secondary, tertiary and vocational — needed a further infusion of funds and management expertise and that no part of the education sector should be supported at the expense of the others. This sector should be a major recipient of aid through the new program aid system.

Recommendation 6. The Committee recommends that, as the aid program moves away from budget to project or program aid, the education sector is given a high priority.

Recommendation 7. The Committee recommends that aid be directed through professional associations and company training programs to the development of such skills as accounting and engineering.

Recommendation 8. Australia can further assist by offering taxation concessions to Australian companies for the cost of their training investment in Papua New Guinea.

3.5 The Status of Women in Papua New Guinea

3.5.1 Seventy-five per cent of Papua New Guinean society are involved in subsistence farming. Consequently, the position of most women in Papua New Guinea reflects the traditional roles of women in agricultural societies. It is mainly women who grow and harvest the food. They are, therefore, responsible for the principal source of food for the bulk of the population. Few women have moved into the cash crop areas of

¹⁷ Evidence, 21 November 1990, p. 1284.

agriculture. The lack of involvement in the cash economy, either in agriculture, industry or in the public sector results in a lack of recognition and a lack of opportunities. There are no women in the national parliament and still fewer women than men in the education system at every level (although the ratios here are improving). Details of this discrepancy are cited in the education section of this report.

3.5.2 The Papua New Guinea Constitution guarantees social justice and equality of status for women. This has not been achieved. However, in 1991 the government has initiated a population policy (described in Section 3.2) that has been lobbied for by women's groups and has set up a Development of Women's Opportunities Project within the Department of Home Affairs and Youth with a budget of 196,600 kina in 1991. It has recurrent funding of 95,900 kina over the next three years. This project seeks to establish a women's information network, training programs in agriculture, health and management and to develop a credit system for women.

Recommendation 9. The Committee recommends that support be given to the Development of Women's Opportunities Project in order that women might have access to funds to develop commercial enterprises based on subsistence farming skills, and to promote women's financial independence.

3.5.3 On the Committee's visit in February 1991, a group of prominent Papua New Guinean women talked to the Committee about their status and concerns. They expressed concern that:

- Women in Papua New Guinea are disadvantaged by being accorded traditional roles of subservience to men. There is a need, they said, to change the psychological mind set of the Papua New Guinea culture towards women. There were hundreds of years of habit to change.
- It is difficult for women to have their views heard. There are no women in the present Parliament although there were three in the late 1970s and early 1980s. When the Law Reform Commission's interim report on domestic violence was produced in 1987, it was booed by the all male Parliament.
- There is a lack of educational opportunity for girls. The drop-out rate for girls in primary and secondary schools is very high. AIDAB noted in its submission that women make up only 14 per cent of all educational awards. Both governments have agreed to try and increase these numbers. Half the awards under the Equity and Merit Scheme are allocated to women. In 1991, 42 per cent of the EMSS scholarships have been awarded to women and

33 per cent of the places in the secondary schools project have been offered to women. The problems of getting equality of opportunity at primary and secondary school are exacerbated by the breakdown of law and order. Parents are reluctant to let their daughters walk very far to school.

- Domestic violence is a serious problem to which the government has paid scant attention. The police have ignored the problem in the past, although now the Law Reform Commission has begun a campaign against it. It was assisted by the missions who helped to disseminate leaflets, and the Australian High Commission which provided funding. A women's newsletter, *Nius Blong Meri*, has been established. In the edition handed out to the Committee a story dealing with the goaling of women illustrates the problems of domestic violence, polygamy, bride price and the inequality of women before the law.
- Bride price and polygamy raised problems for both men and women in the cash economy. Bride price was increasingly having to be paid in cash, in some places as much as 34,000 to 40,000 kina. Traditionally the bride price implied a kind of ownership. Margaret Nakikus' view on this was that although the traditional lifestyle can make women perfectly happy she would like to see the nexus between bride price and ownership rights broken.¹⁸ Other women in the group, however, felt that the increasing 'prices' paid for brides had the effect of upholding the 'worth' of women. However, they also noted that it had a way of rebounding on those caught in violent marriages as they had to repay it if they left the marriage. Where they could not, they were jailed.
- Family planning needed to be accorded a much higher place on the political agenda. There was too little education for either men or women on this subject. The traditional methods of isolation of women from their husbands had broken down but they had not been replaced by anything else. The issue came under the auspices of the provincial governments and their approach was haphazard or indifferent. Family planning services had declined since the 1960s.

¹⁸ *The Age*, 17 September 1991.

Recommendation 10. The Committee recommends that, after consultation with the National Council of Women in Papua New Guinea, a major increase in funds be made available through the Women in Development Fund and other appropriate agencies in support of family planning and for programs aimed at reducing domestic violence.

Recommendation 11. The Committee believes there is scope for a close association to be developed between women's groups and family planning organisations in Papua New Guinea and Australia with a view to sharing ideas and personnel. (See also Recommendation 4.)

3.5.4 Women in Papua New Guinea were working through the National Council of Women, the National YWCA, the Family Planning Association, the Commission for Higher Education, the Women's Unit in the National Broadcasting Commission and the Law Reform Commission to address these disadvantages. Australia's assistance program takes account of women's critical roles in agriculture as well as in efforts to raise standards in health and education. The Equity and Merit Scholarship Scheme aims to achieve equal participation of men and women within the Scheme. AIDAB also provides funds for women's activities through grants from the Women in Development Fund. Margaret Nakikus summarised her own aspirations for the women of Papua New Guinea in an interview:

My belief is that women have to participate, women have to be healthy, women have to be educated, women have to understand what is going on around them if they are going to play a role in development. They are wanting change and there is going to be.¹⁹

3.6 Health

3.6.1 Health services in Papua New Guinea are still provided by traditional as well as church and government systems.

3.6.2 Traditional medicine is still the source of health care for the majority of the population. As recently as 1986, 96 per cent of people surveyed in the Madang Province gave as their first preference traditional forms of medicine. However, as the coverage by church and government health centres broadens, they are turned to, if only as a last resort. Traditional medicine addresses itself to the causes of illness in terms of witchcraft and personal behaviour. Government policy is to encourage research on traditional medicine and to try to improve relations between the traditional and western systems.

3.6.3 The churches are a vital and integral part of the health care system of Papua New Guinea. Churches employ 16 per cent of the health care workers. They run one provincial hospital, several district hospitals,

¹⁹ *The Age*, 17 September 1991.

24 per cent of health centres, 64 per cent of health sub-centres and 5 per cent of aid posts. There are seven church schools training nurses and thirteen training nurses' aides.²⁰

3.6.4 In the 1970s, Papua New Guinea made remarkable progress in upgrading its health system. Facilities were expanded. Ninety-six per cent of the population were within two hours walk of medical assistance and most health indicators had improved. In the late 1980s there seems to have been a stagnation in this development.

The incidence of traditional diseases is increasing and new diseases are likely to appear. In sum, the health problems facing Papua New Guinea are increasing, the solutions are more difficult and the resources available are contracting relative to population.²¹

3.6.5 Although life expectancy and infant mortality have improved in Papua New Guinea since 1970, overall, the health status of the population remains low. (See Table 3.1.) In particular, some diseases such as typhoid and malaria are increasing. Through the 1980s there were over 50 new cases of tuberculosis in the Torres Strait. There have been outbreaks of malaria in the coastal areas and in the islands. They are expensive to treat as they require residual house spraying, mass blood slide examination and mass drug administration. The problem is compounded by the fact that the malaria involved now tends to be drug resistant cerebral malaria. Polio is endemic. The policy of the government is to immunise everybody, but in reality they do not have enough resources to do so.²² The absence of pure drinking water outside the major cities is the cause of disease and the high infant mortality. There are also problems of poor communication, poor administrative management and shortages of trained staff.

3.6.6 Of particular concern is the reported spread of AIDS. A report of the Papua New Guinea Health Department released in November 1990 expressed concern at the occurrence of the disease. There have already been 51 cases reported. The fear is that there could be hundreds more cases who do not know that they have the virus. The Health Department estimated that Papua New Guinea was seven to ten years behind the African situation.

3.6.7 The Namaliu Government has increased spending on health services but the increase has not redressed the overall decline in health expenditure per capita or kept pace with the increase in population. Health, like education is the responsibility of the provincial governments. As a result the services vary according to the efficiency of the individual governments, but on the whole the capacity to deliver services is stretched to the limit.

²⁰ Exhibit No. 25, Richardson, *J Human Resources Development in the Pacific*, pp. 36-37.

²¹ *ibid.*, p. 25.

²² Queensland Government, *Evidence*, 2 October 1990, p. 525.

3.6.8 Australian assistance, direct and indirect, has come from both research and training. Research into tropical diseases is carried on through the Tropical Health Program (THP) established by the University of Queensland and the Queensland Institute of Medical Research in 1987. This program aims to develop research and training to improve the health care of people living in tropical areas. Currently 35 students are enrolled. They come from all over the world but particularly from Africa, South East Asia and the Pacific. Many are aid funded by UNESCO, WHO or AIDAB. Research being conducted into acute respiratory infections, HIV/AIDS, malaria, mosquito control, nutritional and infectious diseases of childhood and skin sores is of interest to Papua New Guinea. The THP has established institutional and collaborative links in many countries. A significant proportion of the THP staff has worked in Papua New Guinea in research on malaria, oral cancer, and acute respiratory infections. In March 1991 a Queensland-Papua New Guinea Health Liaison Group was established to advise the Health Department on cross border health issues relating to Papua New Guinea and Queensland.

3.6.9 Australia's further contribution to health services in Papua New Guinea includes health fellowships and clinical training and hospital attachments in Australia under the Medical Officers Training Program. Recent initiatives include:

- A Hospital Management Project which aims to improve the operation and management of hospital services. This project is awaiting approval from the Papua New Guinea Government at the time of writing.
- The Medical Officers Training Project.
- The UNICEF Immunisation Project. This program aimed to immunise all children against seven major diseases by the end of 1990.

According to the AIDAB submission to the Committee, the aim of Australian aid in the health area is to develop, in co-ordination with other donors like the Asian Development Bank and Japan, an appropriate, sustainable program of assistance to health. The focus will be on institution strengthening.²³

3.6.10 The Queensland Government submission to the Committee drew attention to its concern and the concern of the Torres Strait Islanders for the health risk involved in the free movement rights allowed under the Sovereignty and Maritime Boundaries Treaty. The submission claimed that there was:

... a transient population movement across the 'open' border in the vicinity of 4,000 plus annually, many of whom are neither documented nor vaccinated against disease.

²³ Submission, p. S373.

The submission further cited:

- outbreaks of drug resistant cerebral malaria;
- numerous cases of tuberculosis (14 times the state average);
- 13 new cases of leprosy (76 per cent higher than the state average); and
- Papuans in increasing numbers presenting to Queensland Government Medical Aid Posts for treatment. This was costing the Queensland Government considerable amounts of money. The Thursday Island Hospital Board has written off as unrecoverable \$264,965.79 for the period 1985 — 1989.²⁴

Recommendation 12. The Committee recommends that priority be given to directing Australian program and project aid towards health projects which improve disease eradication in Papua New Guinea and expand medical research and training through a commitment by the Commonwealth Government to funding for the Tropical Health Program (THP) at the University of Queensland and the Queensland Institute of Medical Research. (See also Recommendation 50.)

Recommendation 13. The Committee also recommends that the Australian Government negotiate with the Papua New Guinea Government to establish tighter systems of quarantine and immigration control in the Torres Strait.

3.7 Environmental Protection and Conservation

3.7.1 The conservation movement in Papua New Guinea is a longstanding one. This is unusual in that it is rare for underdeveloped countries to devote much of their time or resources to conservation questions. Environmental concern figures as the fourth of the National Goals of Papua New Guinea enshrined within the Constitution:

4. Natural resources and environment

We declare our fourth goal to be for Papua New Guinea's natural resources and environment to be conserved and used for the collective benefit of us all, and to be replenished for the benefit of future generations.

²⁴ Queensland Government, *Submission*, pp. S212-14.

Papua New Guinea's Constitution calls for 'wise use to be made of our natural resources and the environment ... in the interests of our development and in trust for future generations; the conservation and replenishment, for the benefit of ourselves and posterity, of the environment and its sacred, scenic and historical qualities; and all necessary steps to be taken to give adequate protection to our valued birds, animals, fish, insects, plants and trees'. Instituted in 1975, this aspect of the Constitution demonstrated a concern well ahead of its time, in terms of the later development of a popular, international environmental movement.

3.7.2 Since Independence the government has passed a comprehensive set of environmental legislation, it has established a Department of Environment and Conservation and it has signed a wide array of international conventions relating to the environment. These include:

- Convention on International Trade in Endangered Species of Wild Flora and Fauna, 1973
- Convention on the Prevention of Marine Pollution by Dumping of Wastes and other Matter, 1972
- Law of the Sea Convention, 1982
- International Convention for the Prevention of Pollution of the Sea by Oil, 1954 (amended 1962 and 1969)
- International Convention on Civil Liability for Oil Pollution Damage, 1969
- International Plant Protection Convention, 1951
- Plant Protection Agreement for the South East Asia and Pacific Region (amended 1956)
- The Antarctic Treaty, 1959
- Treaty Banning Nuclear Weapon Tests in the Atmosphere, in Outer Space and Under Water, 1963
- Convention on the Prohibition of Military or any Other Hostile Use of Environmental Modification Techniques, 1976
- Convention on Conservation of Nature in the South Pacific, 1976
- Convention for the Protection and Development of the Natural Resources and Environment of the South Pacific Region, 1988
- South Pacific Nuclear Free Zone Treaty, 1989

In a number of cases enabling legislation is still to be enacted.

3.7.3 Over the last ten years a number of very effective non-government organisations concerned with environmental matters have been established. For example, there are Friends of the Earth, Wau Ecology Institute, the Melanesian Environmental Foundation, the Goroka Environmental Awareness Group, and the Madang Citizens for a Better Environment.

3.7.4 However, as in many areas of government activity, implementation of policy falls far short of the legislative intention. The Papua New Guinea Department of the Environment and Conservation was, for the first few years after Independence, seen as something of a sinecure. The country's major environmental concerns included the possible over-hunting of the dugong and of certain bird of paradise species. There was little industrial investment, and consequently little controversy on the issue — until on Bougainville the pollution of the Jaba River by the copper mine aroused considerable concern.

3.7.5 In the environmental area there are problems of shortage of information, lack of skilled personnel and lack of finance. This is notwithstanding the fact that since Bougainville most major projects are required to develop environmental impact assessments as part of their feasibility studies. In their excellent paper, *Papua New Guinea: An Environment Situation Report*, Unisearch Papua New Guinea assessed the effectiveness of environmental legislation in the following terms:

The environmental plans prepared for mining projects have been, without exception, comprehensive in scope and of high professional standards when compared with those produced in the forestry and agricultural sectors. [It should be noted however that all these plans] have usually been prepared by the proponents themselves.²⁵

3.7.6 The two major issues brought to the attention of the Committee were the environmental problems associated with mining, particularly the disposal of wastes into the Fly and Strickland Rivers and ultimately into the Torres Strait and the corruption and mismanagement of the forestry industry.

3.7.7 In the first of these, the mining industry, problems and questions have arisen in relation to all mining developments. In part this is because mining is such a large scale, unfamiliar, mechanised and scarring process. Part of the tension on Bougainville resulted from an instinctive opposition to radical changes to the landscape.

3.7.8 In January 1984, a severe land slip at the site of construction of a tailings dam for the Ok Tedi copper mine (30 per cent owned by BHP) rendered that site unusable; the project proceeded without a dam, so that

²⁵ Exhibit No. 70, Unisearch Papua New Guinea, *Papua New Guinea: An Environment Situation Report*, pp. 15-16.

all the over-matter was eventually washed down the Fly River system down to the Gulf of Papua. Then eight cylinders of cyanide, on their way by barge to Ok Tedi, slipped into the Gulf, and were not recovered — though dilution has been said to render the cyanide harmless. When oil comes into production in late 1992, it will be piped down to the Gulf and then transported for refining by oil tankers. Mr Getano Lui, of the Island Co-ordinating Council, Torres Strait, urges that:

... because of the narrowness of the channels, it is important that we have compulsory pilotage. All we need is an incident like the Argentinian tanker that went aground, and that will be the end of the Torres Strait.²⁶

3.7.9 Papua New Guinea oil terminal workers have attended the Department of Transport and Communication's oil spill counter-measure operators' courses.²⁷ About 1,700 ships, many of them bulk carriers, pass through the Strait annually.²⁸

3.7.10 Drainage from the major Highlands resources projects, including the Porgera gold mine (which like Ok Tedi does not have a tailings dam) finally seeps down the Fly River system to the Gulf. The northern fisheries (the Torres Strait seafood resources alone represent an annual \$30 million) and the Great Barrier Reef are of great importance to the region and Australia. The Committee believes that it is essential that measures are taken to ensure that no damage is done to the fisheries and the reef environment.

3.7.11 One of the problems in assessing the effect of mining projects such as Ok Tedi, is the lack of base-line statistics to enable the impact of future developments (or accidents) to be accurately assessed; a survey is now, however, being carried out, managed by the Great Barrier Reef Marine Park Authority. 'At this stage, to the best of our knowledge, there is no evidence of damage having been done to the Torres Strait environment.'²⁹

3.7.12 The Department of the Arts, Sport, the Environment, Tourism and Territories submitted that:

Australian interests would be better served by greater knowledge of activities in the region and their implications for the marine environment ... Australia and Papua New Guinea have a mutual interest in managing the natural resources and environment of the south west Pacific.³⁰

²⁶ Evidence, 28 August 1990, p. 244.

²⁷ Submission, p. S240.

²⁸ Islands Coordinating Council, Submission, p. S1136.

²⁹ DFAT, Evidence, 5 November 1990, p. 1003.

³⁰ Submission, p. S409.

Both countries are members of the South Pacific Regional Environmental Program. And, the department believes that Australia/Papua New Guinea close co-operation on Torres Strait environmental matters could become a model which could be adopted elsewhere.

3.7.13 Papua New Guinea has proposed a jointly sponsored environmental management plan for the Torres Strait region, leading to eventual world heritage listing. Its aim would be to ensure continued sustainable use of its resources, especially by traditional inhabitants, and to protect indigenous species and genetic diversity.³¹ A joint Environmental Monitoring Committee is already in place whose role will be to advise governments on and develop strategies for implementing the environmental management requirements of the Torres Strait Treaty.

3.7.14 For all these assurances, the Committee feels great concern about the long term effects of the wholesale dumping of mineral wastes into such a sensitive environment.

Recommendation 14. The Committee recommends that for those mining operations that have an impact on the Torres Strait, assiduous and independent monitoring and, if necessary, immediate preventative or restorative action by both the companies and governments need to be guaranteed, both before and during mining operations.

Recommendation 15. The Committee recommends that Australia offer assistance to the Papua New Guinea Government to develop their administrative and scientific expertise in the process of monitoring and enforcing their environmental guidelines.

3.7.15 The second major environmental problem is in the forestry industry. The forestry industry's problems are a case study in the issues associated with development in Papua New Guinea; the need for development and export, the ready aid from foreigners, corruption at an official level, the dissipation of control between federal, provincial and local levels of government, and the failure to implement government policy.

3.7.16 Forests are one of Papua New Guinea's major resources. According to the Department of Foreign Affairs and Trade:

[Papua New Guinea] would have the highest level of forest availability per capita of any country in South East Asia, perhaps with the exception of Sarawak ... About 75 per cent of the land area is forest ... We think there is something in the order of 36 million hectares of tropical forests in Papua

³¹ Great Barrier Reef Marine Park Authority, *Submission*, p. S869.

New Guinea ... Within that area, what you might call commercially accessible forest from a production forestry point of view, is 14 million hectares.³²

Logging in the last five years has been at the rate of 70,000 hectares per year. New Ireland has been cut out and the north coast of West New Britain has been cut for conversion to palm oil. The Department's view was that those areas that have been logged and not converted to agriculture, have potential to recover given reasonable forest management:

3.7.17 However, the description of the process by Mr Tos Barnett in his submission to the Committee was much bleaker.

The control of operations [in forestry] was left to the newly decentralised, dismembered, disorganised and demoralised forestry service administering the toothless and out of date Forestry Act. Consequently the scene in the forests in 1987-1988 was fairly likened by the Commission of Inquiry to one of 'rampage and pillage' by logging companies moving from one illegal and destructive operation to another. Operations were commencing illegally, Forest Working plans, if submitted at all, were being widely ignored, logging tracks were being pushed through at the discretion of the bulldozer drivers, hillsides and river banks were being logged and the immature future forest resource was being bashed and trampled in the reckless haste to get the logs down to the waiting log ships. The dazed and disillusioned forest owners stood watching in disbelief as foreign operators removed their trees before moving on to the next area, leaving environmentally disastrous logged-over hillsides, temporary gravel/mud roads and rotting log bridges to erode and cave in to clog the watercourses.³³

Not only has the corruption and mismanagement in the industry meant the defrauding of the government and the cheating of the landowners, it has also been accompanied by a reduction in the value-added processing of the logs being exported. This is reflected in the following timber export figures (expressed in cubic metres) which are taken from the Commission's Final Report Vol. 1 pp. 176-177.³⁴

	1979	1987
Logs (m ³)	472,500	1,442,200
Sawn Timber (m ³)	62,000	2,700

³² Evidence, 5 November 1990, pp. 1011-12.

³³ Submission, p. S1637.

³⁴ Barnett, Submission, p. S1639.

3.7.18 The losses this reduction in processing has caused to the Papua New Guinea economy can be seen in the following figures supplied to the Committee by the Department of Foreign Affairs and Trade:

The average export price of logs going from Papua New Guinea to Japan is about 65 kina per cubic metre; export price as lumber raises the price to 235 kina per cubic metre; plywood, 695 kina per cubic metre ... Incidentally, the price for chipwood, which goes off the east coast, is actually less than saw-log price — it is 60 kina a cubic metre.³⁵

3.7.19 The problems of Papua New Guinea forestry outlined in the Barnett Report have now been addressed by the Namaliu Government. At the time of writing, legislation has been introduced into Parliament to rebuild the whole forestry system. In introducing the legislation, the Forests Minister, Mr Jack Genia, said, 'With the passage of new forestry legislation ... the government can feel confident in being able to meet the challenges that lie ahead in the proper conservation, management and utilisation of our resources'. The legislation sets up a new Forestry Authority to control the industry and grant permits. There are to be strict environmental guidelines to ensure sustainability for all new forest projects. Companies applying for permits will need to submit a five-year working plan, which would need approval by the Forestry Authority. There are to be penalties of up to 100,000 kina or five years' goal for anybody who logs trees without a permit, or bribes or uses threats against forests inspectors. Finally, a State Marketing Authority will be set up with the power to buy up to 25 per cent of the annual exportable volume of logs in order to maintain competitive prices.

3.7.20 This legislation creates clear policy guidelines for the industry, a marked improvement over the incoherent and directionless state of affairs that has prevailed to date. The challenge for the government will be to see that the policy is implemented. Tos Barnett expressed some concern about this in his evidence to the Committee:

And that is one of the worries about the new policy and the new legislation. For instance, the survey work which is desperately required to find out what the resource actually consists of, is to be carried out in a one-year go by the provincial forestry officers. Whether they are national officers now or otherwise, they are the same people that we found to be incapable of carrying out that sort of work.³⁶

3.7.21 A more serious concern about the genuineness of the government's intention to enact reform in the forestry industry arose in July when the Forests Minister 're-assumed the discretion to grant timber

³⁵ Evidence, 5 November 1990, p. 1019.

³⁶ Evidence, 20 February 1991, p. 1420.

leases — at a stroke negating the findings of the Barnett Inquiry into the industry'.³⁷ This is a formalisation of the situation that Unisearch saw as continuing in February this year. In its report to AIDAB it stated:

Permits are still being issued for many new forestry projects, despite the moratorium declared by the Minister of Forests at the Tropical Forest Action Plan meeting in Port Moresby in April 1990.³⁸

3.7.22 In 1978 the World Bank produced a policy paper on forests in the developing world. Since then concern has not diminished about the rate of deforestation, especially in tropical moist forests. The rate of decline in tropical forests has been rapid and is increasing (in developing countries half the forests have disappeared this century). In response, a Tropical Forests Action Plan has been set up by the World Bank. It aimed to prevent excessive deforestation and to ensure adequate planting and management of existing resources.

3.7.23 In Papua New Guinea in the last few years there has been a massive expansion in the rate of logging. It is estimated that by the end of 1991 more than half the operable forest area (15 million ha) will have been allocated to logging contractors.³⁹ The plan for Papua New Guinea proposes a network of protected areas, including six World Heritage areas, to be funded by a program of financial assistance from the World Bank and donor governments.

3.7.24 Australia is to be a major donor to Papua New Guinea's Tropical Forest Action Plan. We have already commenced resource assessment work and expect to commence environmental planning, landowner awareness, general institutional support and training activities quite soon. AIDAB has the main carriage of this project and has developed a package of support measures totalling \$3.2 million over three years. An allocation of \$1.6 million has been set aside for these activities in 1990/91.

Recommendation 16. The Committee recommends that AIDAB monitor the impact of the Tropical Forest Action Plan and that AIDAB report to the Parliament on its success.

3.7.25 The Wewak-Angoram Land Development Feasibility Study has established proposals for environmentally sound forestry and agricultural development in the project area.

3.7.26 Less obvious perhaps than the exploitation of the forests, but of considerable environmental significance, is the exploitation of and human impact on native flora and fauna in Papua New Guinea. Whether as a result of growing population and therefore the spread of farming or the

³⁷ Callick, *R Financial Review*, 29 August 1991, p. 17.

³⁸ Exhibit No. 70, *Papua New Guinea: An Environment Situation Report*, p. 34.

³⁹ Exhibit No. 60, ACFOA, *The PNG Tropical Forest Action Plan: Recommended Australian Government Response*, p. 14.

increasing trade in exotic wildlife, the diminution of species of wildlife seems to be occurring. It 'seems' to be so because a complete register of species has never been compiled for Papua New Guinea. There is legislation to protect wildlife but, as with so many areas of government administration in Papua New Guinea, enforcement is limited by lack of staff and funds or connivance in the face of a trade that is the only source of income for some groups of people trying to move into the cash economy.

3.7.27 The establishment of more Wildlife Management Areas (WMAs), of which there are two already, would seem to be a way of protecting species. These areas are a Papua New Guinean equivalent of nature reserves. They are run by local landowners who devise the rules and police them.

Recommendation 17. The Committee recommends that Australia support a survey of species of Papua New Guinea flora and fauna and, through connections with wildlife and conservation groups in Australia, offer expertise in the development and management of nature reserves.

3.7.28 Finally an environmental dispute arose over a proposal for the incineration of toxic waste in Oro Province. A plant in Oro Province was to be built by Global Telesis Corporation and Applied Technology International to handle 600,000 tonnes of toxic waste per month. The fees that were offered of US\$30/tonne to the provincial government and US\$50/tonne to the national government fell far short of fees in the United States which range from US\$200 to US\$2,000/tonne. The proposal did not comply with Papua New Guinea's environmental legislation and seemed to have had little popular support.⁴⁰ In May 1991, the new Minister for Conservation and Environment, Mr Michael Singan, rejected the proposal.

⁴⁰ Exhibit No. 70, Unisearch PNG Pty Ltd, *Papua New Guinea: An Environment Situation Report*, p. 30.

Chapter Four

Social Developments in Papua New Guinea (2)

Of particular concern to the government and people of Papua New Guinea is the level of violence that exists in the country. A tradition of tribal warfare has long existed in the highlands but today 'raskol' gangs belie the mischievousness of their name and spread real fear throughout the towns. It is a development that destroys the order and peace of the lives of local inhabitants, mars Papua New Guinea's reputation and threatens seriously to inhibit economic development. Worst of all it has the potential to infiltrate and corrupt the political process. Chapter 4 examines the efforts of the government to contain the development of violence. The Committee understands the need for strong measures but regrets the imposition of capital punishment which it sees not as a deterrent but as an extension of violence to state violence.

4.1 'A Violent Place': Law and Order

4.1.1 One of the most worrying developments in Papua New Guinea is the profound effect of violence on the economic and social developments of the population. Urban violence, tribal warfare, payback killings and widespread domestic violence create a generally negative impression which poses a serious impediment to continued growth and investment.

4.1.2 Violence has always been an integral part of life in most parts of Papua New Guinea. The fact that the country has around 750 separate languages reflects the isolation in which small groups of people evolved their ways of life. Isolation and the inability to communicate bred suspicion and fear and a violent defence of territory. Moreover, where there was pressure of population on the land, competition for it was a source of fighting. Men enhanced their claims to leadership by their superior strength and fighting skills.

4.1.3 The Western Highlanders' culture illustrates the central role of violence in many Papua New Guinea societies. They were scattered across a landscape marked by high positions, defensible from outsiders. Food gardens were nearby. The survival of a multiplicity of language groups is evidence of the impregnability of each group of families. Highlanders are traditionally more vocal, volatile and prone to violence than their coastal brothers. Ritual fighting was not unknown in the coastal areas but the longer history of contact with Europeans has seen long-standing prohibitions on warfare take effect.

4.1.4 Coastal people generally lived together in villages, and had a more orderly life-style. The violence now affecting coastal towns is regarded as being 'imported' especially from the Highlands. It has, of course, many modern causes in places such as Port Moresby and Lae. It is

related to the social dislocation of rapid urbanisation, unemployment, boredom and a gap in the distribution of wealth between those with employment and those without. Violence affects both Papua New Guinea nationals and expatriates, but the effects on the former are by far the most significant. In general, expatriates have more protection from violence than local people. Lack of effective policing and the slowness of the judicial system have given encouragement to the gangs of young men, known as 'raskols', that are the main perpetrators of violence today. Their seemingly innocuous title belies their activities and their effect.

The young, particularly the males, gravitate to the urban squatter settlements in search of jobs. They are rejected and congregate in so called 'raskol' gangs. Self-esteem and group identity are asserted in burglary, rape and occasional rioting and looting.¹

4.1.5 In an exhibit to the inquiry,² Mr Bruce Harris analysed the growth in power and sophistication of the 'raskol' gangs and the dangers he believed they pose for the social disintegration of Papua New Guinea. In the 1960s the gangs were confined to the towns, poorly organised and involved in petty theft and vandalism. Today they are efficient criminal organisations. They have developed effective distribution systems for stolen goods. Harris claims some are heavily involved in the drug trade and they are exchanging axes and spears for shotguns and rifles. The capacity to inflict serious damage and to intimidate opponents including police is growing faster than the capacity of the law to contain them.

The most worrying development, however, from the point of view of social stability and the ability of the government to govern fairly has been the reported connection between the 'raskol' gangs and politicians. For Bruce Harris this is seen as an alarming prospect rather than a present reality.

Rascal gangs are now poised to evolve into political or militant or even revolutionary organisations ... the preconditions for the politicisation and radicalisation of urban gangs now exist in Papua New Guinea.³

Chris Ashton saw the same possibility:

Today there is a palpable sense that the rule of law is in retreat. It shows in the growing boldness of the 'raskol' gangs and in some instances that they are being harnessed to political purposes.⁴

¹ Exhibit No. 49, Ashton C, *Papua New Guinea: A Broken-Backed State?*, p. 38.

² Exhibit No. 66, *The Rise of Rascalism*.

³ *ibid*, p. 44.

⁴ Exhibit No. 49, *Papua New Guinea: A Broken-Backed State?*, p. 38.

Dr Peter King in evidence to the Committee also saw a merging of political interests and violent criminal activity that was disturbing:

The study we have of the 'raskols' shows that particular politicians have used them partly for standover tactics during elections and partly for pay back after elections.⁵

Even political associations which were connected with quite progressive causes had become involved in a form of violent politics.

There is a new very militant nationalist movement, Melsol-pan Melanesian, pro-Kanak and pro-OPM which is sympathetic to the Bougainville struggle. Some of its people have been associated with outrageous acts of intimidation and violence at the University of Papua New Guinea and elsewhere.⁶

4.1.6 The failure of the law to deal with the problems affects every stage of the policing and judicial process. 'The police force is unequal to the challenge, as is the arcane judicial system inherited from Australia.' The police are under strength, poorly equipped and trained and with little effective leadership. Their procedures for responding to crimes are inadequate and their motivation to do so is limited as poor documentation rarely achieves a successful prosecution. Only 3 per cent of break and enters resulted in arrests. Only 5 per cent of stolen property was recovered.⁷

4.1.7 The malaise is worsened by the connivance of politicians tainted by corruption. The Ombudsman Commission, Papua New Guinea's political watchdog, was recently investigating 90 of the 109 Members of Parliament for alleged misdemeanours and misappropriation of funds.⁸

4.1.8 Although Papua New Guineans often complain of negative Australian media reports on the country, especially on law and order questions, the government itself has acknowledged the seriousness of violence as a social evil needing urgent attention. It has placed law and order at the top of its list of priorities in the last budget. The Prime Minister, Mr Namaliu, at a crime summit in Port Moresby in February this year likened crime to a cancer eating away at Papua New Guinea's social and economic stability. He saw it as the result of a collective failure to deliver the benefits of development to the community, a failure to set the right example and exercise discipline and a failure of police efficiency.

⁵ Evidence, 3 October 1990, p. 666.

⁶ *ibid.*, p. 667.

⁷ Ashton, *op cit.*, p. 38.

⁸ *The Australian*, 12 February 1991.

4.1.9 As a result of this recognition a curfew has been imposed and extended on people in Port Moresby, Lae and the Western Highlands Province and Parliament has passed legislation to strengthen laws against violence. This legislation includes vagrancy laws which will return people from urban to rural areas.

4.1.10 The reintroduction of capital punishment for the most violent crimes, including wilful murder and pack rapes is a more controversial reaction to this situation which has been opposed by some members of the judiciary in Papua New Guinea. The Committee's view is that, while it understands the seriousness of the law and order problems facing the government and the frustration it faces in trying to change the culture of violence, capital punishment has never proved to be an effective deterrent and that violent solutions perpetuate rather than diminish violent cultures. In particular, the Committee endorses the view of the Australian Government that capital punishment has no place in modern societies and is a most serious human rights violation:

We are very strongly opposed to the application of the death penalty, the existence of the death penalty anywhere in the world. We will say that frankly and robustly to whatever country that continues to apply it and certainly we'll be taking advantage of Prime Minister Namaliu's presence in Australia over the next few days to make very clear to him that, while we understand all the law and order problems that Papua New Guinea's got, this is not going to be helpful in resolving them, that there is no evidence that capital punishment operates in any society as a deterrent and it is a deeply unhappy way for a government to choose to act.⁹

4.1.11 From the perspective of Australians and others seeking to invest in Papua New Guinea, the extent and unpredictability of violence in Papua New Guinea society has a dampening effect. The Committee heard a great deal of evidence about the extent of violence in Papua New Guinea and the effect it had on investment. The perception universally was one of a deteriorating situation, and one that had a negative effect on business investment. In terms of investment, the perception is probably as significant as the reality.

4.1.12 Mr Humphries, Director, Ove Arup and Partners told the Committee that:

At the present time I consider there are very significant disincentives [to an involvement in Papua New Guinea] ... The law and order problem has caused our company considerable difficulties in the last 12 months. There have been two armed hold-ups involving our staff and as a result one person at a senior level has decided he does not want

⁹ Senator the Hon Gareth Evans, Minister for Foreign Affairs and Trade, interviewed on ABC PM, 30 August 1991.

to stay any longer ... In terms of trying to recruit good quality staff to go and fill the places of those people [the law and order problems] are a disincentive. You find people do not want to go and work there. We notice a considerable degree of absenteeism.¹⁰

Mr McLellan, General Manager Pacific, Burns Philp confirmed this experience.

From a commercial point of view, it is becoming very difficult to recruit people to Papua New Guinea because of the stories they hear ... We have had break-ins; we have had robberies; we have had many personal attacks on staff; we have had cases of staff being intimidated, receiving death threats ... it is not just restricted to urban areas. If you move up into the Highlands, in particular around the coffee growing areas, violence gets well away from the town centre of Hagen.¹¹

4.1.13 The result is a more expensive operation for many companies. Dr Peter King, Senior Lecturer in Government at the University of Sydney:

It just makes operating any industry up there so much more expensive because you have got to have wire fences, search lights, security forces, dogs, patrols, and be surrounded by wire or brick compounds. The extra overheads in the security problem are colossal.¹²

Burns Philp claimed the cost of security to their operation in Papua New Guinea was approximately one million kina per annum.¹³

4.1.14 However, Ok Tedi Mining Limited, did not see the problem affecting its area so seriously. Mr Uiari told the Committee:

By comparison to other parts of the country, our area is the safest place you can go to. ... [The problems] are blown out of all proportion.¹⁴

4.1.15 If violence is bad for business, particularly small business, it is especially bad for the tourist business. Papua New Guinea with its spectacular scenery, cultural diversity and exotic flora and fauna has enormous tourist potential. There are tourist hotels and lodges offering 2,000 rooms and over 7,000 tourists come to Papua New Guinea each year. It is an industry that offers employment potential both in the towns and in more remote districts but one whose expansion is hindered by Papua New Guinea's reputation for violence.

¹⁰ Evidence, 2 October 1990, p. 560.

¹¹ Evidence, 23 October 1990, pp. 908-12.

¹² Evidence, 3 October 1990, p. 667.

¹³ Evidence, 23 October 1990, p. 914.

¹⁴ Evidence, 21 November 1990, p. 1305.

4.2 Australian Response to the Law and Order Problem

4.2.1 Australia is heavily involved in police training projects in response to the level of violence in Papua New Guinea. The Australian Council for Overseas Aid (ACFOA) has protested at the level of Australian aid dedicated to security (defence and police) activities:

We are of the view that the Department of Foreign Affairs and Trade is too focused on the issue of support for the present government and the present style of government in Papua New Guinea. We believe that is reflected in the influence that is brought to bear on AIDAB to continue to have a major element of its aid program focused on the law and order area ... The law and order issue is a major issue in Papua New Guinea — the issue of rascals — but we believe that it is symptomatic of a problem rather than a problem itself ... We believe there needs to be far greater investment in social development.¹⁵

In the last financial year, of the \$A30 million of Australian aid committed to projects, \$A7.9 million supported police training. An additional \$A54 million was given for defence co-operation. Given that, of the remaining \$A22.1 million of Australian donated project aid, \$A1 million was committed to the Customs project, the point is well proven that our project aid is strongly directed towards the policing end of the law and order problem.

4.2.2 AIDAB's view is that the police training project is important to address seriously deteriorating social order, and the infrastructure weaknesses of law and order systems in Papua New Guinea (police management, organisation and methods and police training). More importantly, it is a program which fits within the government's priorities.

4.2.3 Currently, Australia and Papua New Guinea are reviewing defence and security needs. This review may suggest changes to the use of personnel across the whole area. The blurring of distinctions in the police and army functions on Bougainville has raised the question of the nature of the security risk in Papua New Guinea. Mr Woolcott, Secretary of the Department of Foreign Affairs and Trade told the Committee that he felt it was better not to blur the distinction and not to use the armed forces in internal security matters:

It is better to use the police, mainly because villagers seem to be less concerned by the police who tend to live there regularly.¹⁶

¹⁵ Evidence, 23 October 1990, pp. 928-29.

¹⁶ Evidence, 5 November 1990, p. 985.

However, the weaknesses of the police force have left a vacuum which will not quickly be met by the AIDAB police training project which is a longer term institution strengthening process. The suggestions that the PNGDF might be used for internal policing, is no doubt appealing but the Committee believes it would be a dangerous precedent and would like to see clearly stated guidelines for the respective roles of each force.

Recommendation 18. The Committee is extremely concerned about the crime problem in Papua New Guinea and therefore recommends that there be an increased emphasis on the aid directed to the fight against crime, including:

- the setting up of local police stations;
- support for a major upgrading of police training;
- the strengthening of the AIDAB police training project;
- the improvement of security in prisons;
- the provision of equipment and resources; and
- increasing co-operation between the Australian and Papua New Guinean police forces.

4.3 Illegal Drugs

4.3.1 The recent rapid expansion of growing and distributing illegal drugs in Papua New Guinea has been a further development with serious implications for Australia. Private evidence given to the Committee has, in recent months, been reaffirmed by press articles on the extent of the problem. Since 1985, there has been evidence of more extensive and more organised cultivation and distribution of marijuana and, in these three years, discoveries of plantations and shipments worth millions of dollars. Mary-Louise O'Callaghan reported in the *Sydney Morning Herald* on 3 August this year that in 1988, 11 tonnes of Papua New Guinea cannabis were intercepted in Honolulu and in June last year a shipment from Goroka in the highlands worth \$2 million was found in the Papua Hotel in Port Moresby. The dealers were a New Zealander and an Australian.

4.3.2 A large haul of cannabis (approximately 344 kilos) hidden on a Torres Strait island, was discovered by accident by Australian Army personnel in October 1990. The drugs appeared to have been loaded in Port Moresby and were presumably destined for Australia.

4.3.3 The size and nature of the detected activities suggest operations that are already large and have the potential to grow larger. The climate and rugged nature of much of the countryside in Papua New Guinea makes it an ideal place for growing cannabis. Socio-economic factors (the need for cash without the jobs available to earn it, and the established practice of small-holder cash cropping as well as the severe downturn in the prices of legitimate crops) and the lack of enforcement by police and customs officials add to the possibility of Papua New Guinea becoming a significant supplier of cannabis to the Australian illegal drug scene.

Recommendation 19. The Committee supports the increase in customs and coastwatch activities in north Queensland and recommends continued liaison with and assistance to Papua New Guinea customs and police forces. The report looks at aid in these areas in Section 4.4 below and in Chapter 12.

4.4 The Customs Project

4.4.1 The Customs project, one of the few project aid programs administered by Australia in Papua New Guinea, recognises the importance to Australia of a highly trained Papua New Guinea Customs unit. The Customs project is not a direct response to the illegal drug threat, but it should become more attuned to this threat in future.

4.4.2 This is a five year project begun in 1987 to 'improve the capability, operations and self-image of the Papua New Guinea Bureau of Customs and Excise'. The Australian Customs Service manages the project for AIDAB. The project involves training of officers, development of upper and middle management, improvement of procedures for invoices, audits and investigation.

4.4.3 It is important to Australia that Papua New Guinea has an efficient customs service and it is in Australia's interests to develop systems that allow for co-operation along our common borders, especially the Torres Strait. Article 11 of the Torres Strait Treaty allows for free movement and traditional activities prescribing that each party shall continue to promote free movement and the performance of lawful traditional activities in and in the vicinity of the Protected Zone by their respective traditional inhabitants. For this reason the Strait is seen as a vulnerable place in our border controls, a place where already smuggling of illegal birds, flora and artefacts occurs. Changes in modes of transport from canoes to dinghies and motor boats have increased the flow of traffic through the Islands.

4.4.4 It is, according to the Queensland Government, a point of crossing for illegal migration. 'Papua New Guineans are quite visible in reasonable numbers well outside the Protected Zone in the shops, streets, parks and hotels of Thursday Island.'¹⁷ However, the Committee could find little evidence to support this assertion. Chapter 12 of this report examines the problems associated with the Torres Strait border in more detail.

4.4.5 Associated with customs and immigration questions is the question of quarantine. In its submission to the inquiry the Queensland Government described the Papua New Guinea/Queensland border as highly significant in terms of possible entry into Australia of plant and animal pests and diseases. The proximity of areas such as the Torres Strait to the neighbouring countries of Papua New Guinea and Indonesia, the presence of serious exotic pests and diseases in these countries and the

¹⁷ *Submission*, p. 5211.

widespread movement of indigenous people and fishermen combine to create special quarantine problems. Air travel and motor boats facilitate movement and further increase the risk. Although the quarantine service has adopted a Northern Australia Quarantine Strategy and upgraded its activities in the area, the Committee endorses the Queensland Government's call for on-going commitment to this strategy with appropriate resource allocation from the Australian Customs Service.

Recommendation 20. The Committee further recommends that the Australian Customs Service strengthen the liaison and develop further co-operative systems with their opposite agencies in Papua New Guinea and Indonesia in order to monitor breaches of customs and quarantine regulations.

Recommendation 21. The Committee recommends that AIDAB evaluate the present Customs Project and report to Parliament with recommendations for the continued co-operation between enforcement agencies in both Papua New Guinea and Australia.

Chapter Five

People to People Links

Central to the argument of this report is the view that the relationship between Australia and Papua New Guinea has weakened over time, especially at the individual level; that the understanding the people of each country have of the other is not as deep or as thorough as it should be for such close neighbours. It is a cultural trade imbalance. Papua New Guineans know much more of us than we know of them. The fault lies particularly with Australians. Apart from those people whose connections with Papua New Guinea go back to pre-independence days and the small group who deal with the relationship at an official level there are few in Australia who know or understand Papua New Guinea well. Papua New Guinea does not figure in Australian school curricula, there are few cultural, sporting or tourist links and the media in Australia present a narrow and sensationalised view of Papua New Guinea as a violent and disintegrating society. The Committee believes there must be vast improvement in these links from the Australian side.

5.1 The Media — Perspective from Papua New Guinea

5.1.1 The constant cry amongst politicians and public servants in Papua New Guinea is that the Australian media's coverage of their nation is shallow, sensationalist and ill-informed. These are not easy charges to refute.¹ Mutual perceptions are a key element to a relationship. In that regard, Australia-Papua New Guinea relations are at a low ebb. Here, the chief responsibility for change lies with Australia. For in Papua New Guinea, information about all elements of Australian life is comparatively easy to find, whereas the opposite is not true. School and tertiary students learn about Australia; the popular media contain stories about Australian political and sporting events; ABC television, and to a secondary extent commercial television deriving from Townsville, is widely and fortuitously viewed in Papua New Guinea by satellite dish (with TV broadcasts deriving in a variety of other countries), in homes and in institutions such as schools and clubs; Australian music is widely played on radio stations, and is popular; Australian products dominate their markets; Papua New Guineans who have the means, or those who seek further education or career enhancement, frequently visit and stay in Australia. The only daily newspaper in Papua New Guinea, the *Post-Courier*, is owned by an Australian company News Corporation. The only television station, EM-TV, is owned by Australia's Channel 9. Both provide managerial and other assistance out of Australia, and inevitably reflect their ownership to a degree in their content. Perhaps because the material about Australia is originally directed towards a domestic audience, Papua New Guineans tend to lack the contextual explanations that are important if they are to make sense of what they are seeing, reading or hearing about Australia.

¹ Mr Sean Dorney, ABC, in *Australian Media's Treatment of the Developing World*, AIDAB.

This sometimes leads even to political misunderstandings or dislocation. There has been a clear and manifest decline in the quantity and quality of media reporting since the 1970s, in each direction.²

Recommendation 22. The Committee recommends that News Corporation and Channel 9, which have businesses in Papua New Guinea, be urged to contribute more fully towards the relationship between Australia and Papua New Guinea by secondment of staff in each direction, and by the basing of Australian journalists in Papua New Guinea and vice versa.

5.1.2 The Papua New Guinea domestic media, despite suffering considerably from the recession caused by the Bougainville conflict and the collapse of agricultural commodity prices (one daily newspaper, the *Niugini Nius*, went out of business in 1990), provide a robust account of political affairs and untrammelled commentary, sometimes in the face of considerable (unofficial) intimidation. Mr Tos Barnett, on his forest industry inquiry, said:

The press did a really excellent job ... Insofar as they were capable of getting the message that was coming over — and that was not always easy because there were some complex matter — they did not pull any punches.³

5.2 The Media — Perspective from Australia

5.2.1 In Australia, Papua New Guinea fits only marginally and occasionally into school or university curricula. The overwhelming majority of travellers to Papua New Guinea from Australia are visiting relatives or friends, or conducting business — today, in most cases, mining and oil business. Only two Australian media organisations today base correspondents in Papua New Guinea: the ABC and Australian Associated Press; earlier, the *Melbourne Herald* and *Weekly Times* group, *The Age* and *Sydney Morning Herald*, and *The Australian* have deployed full-time staff there, and other newspapers such as the *Australian Financial Review* have made heavy use of Papua New Guinea-based freelance journalists. News coverage in Australia has tended to be dominated by stories of law and order problems, although coverage of financially-related news from Papua New Guinea is more substantial and acceptable.

Recommendation 23. The Committee recommends that the Australian Government initiate a program of awards, with support from government and commercial sponsors, for Australian journalists to travel in and write about Papua New Guinea.

² Denoon, *Submission*, p. S1199.

³ *Evidence*, 20 February 1991, p. 1428.

5.2.2 The only bright spot has been the ABC which has shown a commendable persistence and preparedness to invest in its Papua New Guinea operation, maintaining a substantial office including a Papua New Guinean as well as an Australian journalist. Radio Australia's English and Tok Pisin services (21 hours of programming per week are dedicated to Papua New Guinea, and listened to regularly by 28 per cent of the population) are widely heard, and the wide availability of ABC TV presents a unique situation for a foreign correspondent, whose output is immediately available in the country in which he is based. The \$700,000 AIDAB-sponsored project through which the ABC is playing a prominent part — involving about 20 ABC staff, with Papua New Guinea broadcasters and technicians also visiting Australia — in rehabilitating the monopoly state-owned National Broadcasting Commission, one of Papua New Guinea's key nation-building institutions, is a fine example of project aid well directed and well received (it is managed on the spot by ABC correspondent Mr Sean Dorney, seconded for the task). The ABC office in Port Moresby has also installed a system through which it can transmit TV or radio messages directly to Australia via satellite.

Recommendation 24. The Committee recommends that the ABC be urged to consider having a regular exchange of Papua New Guinean and Australian journalists.

5.2.3 Papua New Guinea restricts foreign-sourced advertising in order to support the domestic advertising industry, in a similar way to Australian legislation. Any change in the situation in Papua New Guinea would, given the dominance of the country's media by Australia, depend on Australian reciprocity. This most affects North Queensland TV, which carries some advertising aimed at Papua New Guineans, and also from Papua New Guinea businesses aimed at north Queenslanders, because of the overlap of the AUSSAT 'footprint' between Queensland and Papua New Guinea.

5.2.4 The Australian Film, Television and Radio School has provided training for commercial TV and radio in Papua New Guinea. The National Film and Sound Archive has significant holdings of audio and film materials on Papua New Guinea, in the absence of Papua New Guinea media archiving activity. Film Australia has been involved in the production of a number of documentary films in Papua New Guinea.

5.3 The Need for Change

5.3.1 The weight of opinion presented to the Committee that the Australian media neglected or, worse, distorted the image of Papua New Guinea was overwhelming. Witness after witness testified to the imbalance in the presentation. Professor Jackson told the Committee:

Pacific islanders look to Australia very strongly, whereas we, in my opinion, are largely ignorant about their day-to-day affairs. Consequently, I do not blame the public of Australia for having a fairly negative attitude towards

the Pacific as sort of everlasting beggars coming to us ... It seems to me that we should really push Australia's image in the Pacific and do in fact more, not less, particularly in informing the Australian public better as to what is going on there.⁴

Representatives from companies whose operations gave them an intimate knowledge of conditions in Papua New Guinea reiterated the view:

Australia needs to assist in promoting the image of Papua New Guinea in Australia so that Australian individuals and companies are more aware of and comfortable with the better aspects of Papua New Guinea. Currently most publicity is aimed at the sensational, which generally does not encourage people or organisations to become involved with the country.⁵

The Department of Foreign Affairs and Trade saw the perpetuation of such views as detrimental to the relationship. Perceptions of administration in Papua New Guinea are something which we recognise do have an effect on support for our aid programs in Australia.⁶ Whereas to the Papua New Guinea Social and Cultural Group it pointed to the need for change, the need for greater personal interaction:

It is most unfortunate that the media in Australia seems to be dominated by prejudice against Papua New Guinea, by a view of the country as 'primitive, violent and strange' ... The solution lies, we believe, in enhancing the opportunities for travel and for cultural exchanges.⁷

Interestingly, some concern was expressed to the Committee of the obverse — of a poor image being presented to Papua New Guineans of Australia by the media: 'Much of the ABC television transmission portrays the very negative side of Australian society, through drama, which deals mostly with evil people, and news — which concentrates on bad news'.⁸

5.3.2 One of the obstacles to more frequent visits to Papua New Guinea by Australian journalists, beside the considerable cost, is the difficulty in obtaining visas. This can take several weeks, much longer than visas for ordinary visitors which are issued on the spot. Journalists are seen as a special category whose applications are put through time-consuming and obstructive processes. Multiple entry visas are virtually unobtainable for journalists. The Australian Government should seek to have this question addressed by the Papua New Guinean Government.

⁴ Evidence, 30 August 1990, pp. 304-306.

⁵ Burns Philp Ltd, *Submission*, p. S1196.

⁶ Evidence, 5 November 1990, p. 1069.

⁷ PNG-Australia Social and Cultural Group, Darwin, *Submission*, p. S1168.

⁸ Allen, *Submission*, p. S814.

Recommendation 25. The Committee recommends that Australia request Papua New Guinea's consideration of a fast-track system of granting visa approvals for journalists; and of the issue of multiple entry visas for those who express an interest in making frequent visits to Papua New Guinea.

5.3.3 Papua New Guinea-Australian relations are characterised by a sense of immediacy: events in Port Moresby in the morning are discussed on lunchtime radio in Australia and Australian reaction has found its way back to Papua New Guinea in time for the evening news.⁹ With a Papua New Guinea political culture that, although now accustomed to criticism at home, is more brittle when it comes to portrayals overseas, media coverage has become a central feature in the relationship. It also has a significant bearing on the attempts by the Australian Government and other organisations to explain and gain support for their policies on and commitments towards the relationship with Papua New Guinea.

Recommendation 26. The Committee recommends that all government departments be urged to publicise more widely their programs and links with Papua New Guinea.

5.4 Cultural Exchanges

5.4.1 Considering Australia's geographical proximity and our historical links with Papua New Guinea, it is appalling that our cultural links with the country are so poor. Of all the areas of the relationship between the two countries that the Committee examined, this seemed to offer most scope for improvement and to be most in need of improvement. As has been stressed in the report so far, the relationship needs to re-establish its human face; to make many more contacts at a level other than the official. Few Australian schools study Papua New Guinea history or culture. Australian students do not go on exchanges to Papua New Guinea schools as they do to schools in most other countries in the world. Tours displaying Papua New Guinea art, dance or music are rare. Competition between Papua New Guinean and Australian teams in a variety of sporting activities is virtually non-existent. Cultural and sporting contacts would seem an ideal starting place.

5.4.2 The Department of Arts, Sport, the Environment, Tourism and Territories (DASETT) reported that the current budget for cultural exchanges was a paltry \$75,000, administered by the Department of Foreign Affairs and Trade. Some of the activities involving both Australia and Papua New Guinea include:

⁹ DFAT, *Submission*, p. S441.

- Australian support for the protection of Papua New Guinea artefacts through the return of objects already in Australian museums and the policing of the smuggling trade in artefacts through the Torres Strait.
- The Festival of Pacific Arts, held in Townsville in 1988 and due to be held in the Cook Islands in 1992. This is a Pacific-wide festival.
- Australia Council funded projects such as a touring art exhibition entitled, *New Art from Papua New Guinea 1969-89* or the publishing of books on Papua New Guinea.
- In late 1991 the Australian National Gallery had a print exhibition in which Papua New Guinean work featured.
- The National Library of Australia has particularly strong collections of material on Papua New Guinea and has a long and close relationship with the National Library Service of Papua New Guinea. Australia's independence gift to Papua New Guinea was the National Library building and stocks of books and equipment. Since independence Australia has continued to assist through an insignificant grant over ten years of \$38,650 as part of the Regional Co-operation Program for library facilities and training.
- Various museum services and assistance provided through institutional links with Australian museums.
- The provision of resources in film, television and radio as part of a regional program of training and assistance.

5.4.3 These measures are totally inadequate. As Mr Dempster from DASETT told the Committee:

The sort of thing I would like to say about the cultural aspects of the relationship with Papua New Guinea is that they are scattered and looked after in a piecemeal way by a number of committees and a number of statutory authorities.¹⁰

Recommendation 27. The Committee recommends the establishment of an Australia-Papua New Guinea Council similar to the Australia-Indonesia or Australia-China

¹⁰ *Evidence*, 23 October 1990, p. 897.

Councils within the Department of Foreign Affairs and Trade in order to strengthen the cultural and educational links between Papua New Guinea and Australia.

Recommendation 28. The Committee recommends that one of the projects within the program aid budget be directed towards developing cultural exchanges and links between the people of Papua New Guinea and Australia. This could be administered by an Australia-Papua New Guinea Council.

Recommendation 29. The Committee recommends that individuals and/or cultural organisations be encouraged to tour Papua New Guinea as part of an overall cultural exchange.

5.5 Migration Issues

5.5.1 'Interest in migration for permanent settlement from Papua New Guinea to Australia is relatively low.'¹¹ In 1986/87, 822 applications were lodged; in 1987/88, 882 applications; and in the first six months of 1988/89, 696. About one half of such applications are from expatriate workers in Papua New Guinea, mostly nationals of Britain, the Philippines and Malaysia; most other applications fall within the Family Migration Program.

5.5.2 Entitlement to Australian citizenship by birth in Papua New Guinea before Independence is 'one of the most complex areas of Australian citizenship legislation'.¹² This arises from the complex interaction between legislation covering Papua New Guinea Independence and the citizenship legislation, and principally remains an issue for a small number of people of mixed Papua New Guinean and Australian parentage. Those born in Papua New Guinea before Independence (16 September 1975) lost their Australian citizenship if they had two grandparents born in Papua New Guinea.

5.5.3 Papua New Guinea does not permit dual citizenship. This, combined with the reservation of a range of economic activities for Papua New Guinea citizens, has led a substantial number of Australian residents of Papua New Guinea to seek citizenship (no accurate numbers are available). The chief qualification is eight years' continuous residence in Papua New Guinea. There is anecdotal evidence of considerable delays, running into years, in obtaining consideration of such applications. Delays in the issuing of work permits and visas have been a contributing factor to Papua New Guinea's failure to attract non-mining investment — and have attracted criticism of the susceptibility of the processes to corruption.¹³ However, in 1990 the constraints were recognised as such and reforms begun, including the computerisation of migration records.

¹¹ DILGEA, *Submission*, p. 5559.

¹² DILGEA, *Submission*, p. 5563.

¹³ Burns Philp Ltd, *Evidence*, 23 October 1990, p. 924.

5.5.4 A small number of Papua New Guineans, (defined as those whose last place of residency was Papua New Guinea) have also sought residency in Australia. In the year 1989/90, 556 Papua New Guineans gained residency status in Australia. They fell into the following categories:

• Business migrants	—	12
• Skilled migrants	—	174
• Family reunions	—	200
• Humanitarian	—	1
• Special eligibility	—	169

5.5.5 About 20,000 Papua New Guineans and 2,500 Australians are entitled to travel across the border between their countries within a Protected Zone established by the Torres Strait Treaty, for traditional purposes. The Department of Immigration, Local Government and Ethnic Affairs has established a Movement Monitoring System through which island residents are paid to maintain registers and identify arrivals and departures of visitors, to decide whether a visit is for legitimately traditional purposes, and if so, to monitor the length of stay (three weeks is the maximum permitted under the Torres Strait Treaty). They report to the DILGEA Area Director on Thursday Island, but have no powers under the Migration Act.¹⁴

5.5.6 Both the Island Co-ordinating Council representing Torres Strait Islanders' interests and the Queensland Government¹⁵ are, despite the precautions taken by DILGEA, concerned about the 'apparent and steady increase in the presence of Papua New Guineans in the Torres Strait, both inside and outside the Protected Zone, for purposes which are other than traditional and as such are not sanctified by the treaty arrangements concerning free movement ... It is apparent that colonies of Papua New Guinean people are establishing themselves in the Australian islands close to the Papua New Guinea coast, and that many may be utilising the traditional movement provisions of the Treaty to settle in Queensland, securing Queensland-based employment and economic gain in fishing or other occupations ... It seems that a clearer understanding of 'lawful traditional activities' as prescribed by Article 11 (in the Torres Strait Treaty) is needed.'¹⁶

5.5.7 After a moratorium on illegal immigration in 1980, a number of Papua New Guineans who had been living in the Torres Strait gained permanent resident status or Australian citizenship. 'They have assimilated well into our island community ... (but) today most visits by Papua New Guinea citizens are for the purpose of contacting such former residents of the Papua New Guinea mainland, rather than native Torres Strait Islanders Island Co-ordinating Council.'¹⁷ An increase in infectious diseases such as tuberculosis, and in malaria, has resulted. And 'medivacs' are undertaken

¹⁴ DILGEA, *Submission*, p. 5565.

¹⁵ *Submission*, p. 5211.

¹⁶ Queensland Government, *ibid.*

¹⁷ *Submission*, p. 51134.

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5.5.1 'Interest in migration for permanent settlement from Papua New Guinea to Australia is relatively low.'¹¹ In 1986/87, 822 applications were lodged; in 1987/88, 882 applications; and in the first six months of 1988/89, 696. About one half of such applications are from expatriate workers in Papua New Guinea, mostly nationals of Britain, the Philippines and Malaysia; most other applications fall within the Family Migration Program.

5.5.2 Entitlement to Australian citizenship by birth in Papua New Guinea before Independence is 'one of the most complex areas of Australian citizenship legislation'.¹² This arises from the complex interaction between legislation covering Papua New Guinea Independence and the citizenship legislation, and principally remains an issue for a small number of people of mixed Papua New Guinean and Australian parentage. Those born in Papua New Guinea before Independence (16 September 1975) lost their Australian citizenship if they had two grandparents born in Papua New Guinea.

5.5.3 Papua New Guinea does not permit dual citizenship. This, combined with the reservation of a range of economic activities for Papua New Guinea citizens, has led a substantial number of Australian residents of Papua New Guinea to seek citizenship (no accurate numbers are available). The chief qualification is eight years' continuous residence in Papua New Guinea. There is anecdotal evidence of considerable delays, running into years, in obtaining consideration of such applications. Delays in the issuing of work permits and visas have been a contributing factor to Papua New Guinea's failure to attract non-mining investment — and have attracted criticism of the susceptibility of the processes to corruption.¹³ However, in 1990 the constraints were recognised as such and reforms begun, including the computerisation of migration records.

¹¹ DILGEA, *Submission*, p. S559.

¹² DILGEA, *Submission*, p. S563.

¹³ Burns Philp Ltd, *Evidence*, 23 October 1990, p. 924.

5.5.4 A small number of Papua New Guineans, (defined as those whose last place of residency was Papua New Guinea) have also sought residency in Australia. In the year 1989/90, 556 Papua New Guineans gained residency status in Australia. They fell into the following categories:

•	Business migrants	—	12
•	Skilled migrants	—	174
•	Family reunions	—	200
•	Humanitarian	—	1
•	Special eligibility	—	169

5.5.5 About 20,000 Papua New Guineans and 2,500 Australians are entitled to travel across the border between their countries within a Protected Zone established by the Torres Strait Treaty, for traditional purposes. The Department of Immigration, Local Government and Ethnic Affairs has established a Movement Monitoring System through which island residents are paid to maintain registers and identify arrivals and departures of visitors, to decide whether a visit is for legitimately traditional purposes, and if so, to monitor the length of stay (three weeks is the maximum permitted under the Torres Strait Treaty). They report to the DILGEA Area Director on Thursday Island, but have no powers under the Migration Act.¹⁴

5.5.6 Both the Island Co-ordinating Council representing Torres Strait Islanders' interests and the Queensland Government¹⁵ are, despite the precautions taken by DILGEA, concerned about the 'apparent and steady increase in the presence of Papua New Guineans in the Torres Strait, both inside and outside the Protected Zone, for purposes which are other than traditional and as such are not sanctified by the treaty arrangements concerning free movement ... It is apparent that colonies of Papua New Guinean people are establishing themselves in the Australian islands close to the Papua New Guinea coast, and that many may be utilising the traditional movement provisions of the Treaty to settle in Queensland, securing Queensland-based employment and economic gain in fishing or other occupations ... It seems that a clearer understanding of 'lawful traditional activities' as prescribed by Article 11 (in the Torres Strait Treaty) is needed.'¹⁶

5.5.7 After a moratorium on illegal immigration in 1980, a number of Papua New Guineans who had been living in the Torres Strait gained permanent resident status or Australian citizenship. They have assimilated well into our island community ... (but) today most visits by Papua New Guinea citizens are for the purpose of contacting such former residents of the Papua New Guinea mainland, rather than native Torres Strait Islanders Island Co-ordinating Council.¹⁷ An increase in infectious diseases such as tuberculosis, and in malaria, has resulted. And 'medivacs' are undertaken

¹⁴ DILGEA, *Submission*, p. S565.

¹⁵ *Submission*, p. S211.

¹⁶ Queensland Government, *ibid.*

¹⁷ *Submission*, p. S1134.

on behalf of Papua New Guineans, without any clear indication as to who is responsible for bearing the costs; to date, the Thursday Island Hospital Board has had to do so, unbudgeted.¹⁸

5.5.8 Joint patrols of the Torres Strait are undertaken by the Queensland Boating and Fisheries Patrol and Papua New Guinea officers. The Australian Customs Service sees it as 'potentially a strong conduit for illegal activity'.¹⁹ In the two years to November 1990, a very small number of illegal migrants from Germany, Afghanistan, Britain and Pakistan (eight persons in all) were detected attempting to enter Australia via the Torres Strait. Twelve Irian Jayans seeking refugee status have also entered Australia in groups via the Torres Strait, between 1985 and 1987; two have been granted such status, and the cases of the remainder are pending. There has been no request from the UN High Commissioner for Refugees or the Papua New Guinea Government to resettle Irian Jayans who crossed the border between Indonesia and Papua New Guinea.

5.5.9 Shortage of labour in north Queensland is seen as a reason for illegal immigrants entering from Papua New Guinea. 'People coming in on a visa find that there is plenty of work in the north. Because there is a lot of tourism and we are used to itinerant-type workers, they can mingle in society fairly easily without being noticeable.'²⁰ In the Torres Strait, some Papua New Guineans are employed by islanders as 'cheap labour'.²¹

5.5.10 The Committee investigated the matter of the alleged large numbers of illegal migrants coming through the Torres Strait and could find no evidence to support the fears of the communities of north Queensland. Over the last 11 years, 1980-91 there has been an accumulation of 443 overstayers from Papua New Guinea representing a very low overstay rate of one per cent. The annual arrival rate is between 12,000 and 13,000. See Recommendations 50, 51 and 52.

¹⁸ Thursday Island Hospital Board, *Evidence*, 28 August 1990, p. 251.

¹⁹ Australian Customs Service, *Evidence*, 21 November 1990, p. 1174.

²⁰ Cairns Chamber of Commerce, *Evidence*, 27 August 1990, p. 152.

²¹ Department of the Premier, Economic and Trade Development, Queensland Government, *Evidence*, 2 October 1990 p. 514.

Section 2

Section 2: Economic Issues

Chapter Six

The Economic Relationship in Overview

Section 2 of the report considers economic issues, the relationship between trade, investment and aid in the development of Papua New Guinea. In Chapter 6 there is an overview of the debate, conducted at Independence and today, on how development might best be achieved. There is an analysis of the achievement of macro-economic stability and strength set against the problems associated with a high exchange rate, high wages, low productivity, a weak skill base, falling commodity prices and a largely subsistence economy. In particular, there is too little involvement of Papua New Guineans in the cash economy; unemployment is high. The challenge will be to translate mining revenues into a broader economic base that will involve more of the population. The implications for Australia are manifold for, although Australian investment in mining is high, further investment in the non-mining sector — agriculture, manufacturing, processing — offers opportunities. The involvement of the World Bank and the subsequent structural adjustment programs are also examined.

6.1 Economic Strategies in Papua New Guinea

6.1.1 Before self-government Papua New Guinea was treated as a dependency of Australia and as a distinct economic unit. For strategic, humanitarian and economic motives the Australian Government used paternalistic policies from 1945 until 1972 to improve the welfare of Papua New Guinean people, as defined by Australians. Social aims predominated, particular emphasis being given to extending administrative control, health services, education and communication. The main instruments of economic policy were steadily increasing grant aid, used partly to pay the salaries of expatriate public servants, and the stimulation of agricultural exports from private expatriate-owned plantations and indigenous smallholdings. During the mid 1960s Australia's aims shifted towards establishing a self-supporting economy by further encouraging expatriate private enterprise, improving the quality of the workforce by greatly increased educational expenditure, and extending the infrastructure. Limited institutional changes were made to facilitate the process.

6.1.2 The result was an economy controlled by expatriates, with wide inequalities in the distribution of income, leaving Papua New Guinean producers an important share of output only in agriculture. Australia constructed a superstructure of foreign institutions and enterprises, but did not succeed in effectively integrating these with Papua New Guinea society. Policy makers assumed that relying on overseas aid and personnel would maximise the short-term rate of growth of GDP and that this would automatically lead to growing Papua New Guinea involvement in the

economy. However, the spillover was slight, and the growing power of the foreign presence made proportional increases in the share of income and influence more difficult for Papua New Guineans.

6.1.3 Belated, desultory attempts were made to correct this imbalance by beginning to localise the public service, and encouraging small scale Papua New Guinea commercial construction, transport and other service activity. But by the time of self-government these policies had made little quantitative impact. So while Australian policy was not generally deliberately exploitative, inadequate comprehension by policy makers of the nature of the Papua New Guinea economy resulted in the adoption of policies based upon misleading assumptions. Many Papua New Guineans at this time were attracted by the ideas encapsulated in African socialism, particularly as implemented in Tanzania.

6.1.4 Reorientation of economic policy began with the Report on Development Strategies for Papua New Guinea (Faber Report) in 1973 which recommended that the emphasis for the next few years should be on localisation rather than growth, while recognising the growth of national income would be a necessary prerequisite for movement towards this goal. This report provided the basis for the eight aims which became the foundation for economic policy. (See Appendix 12.) The central themes of the eight aims were increasing incomes for Papua New Guineans, equitable distribution of income, and self-reliance. A Central (later National) Planning Office was established to prepare and implement policies to achieve the eight aims. The major tasks of the Office were co-ordinating the renegotiation of the Bougainville copper agreement and rigorous reviews of public expenditure.

6.1.5 There has been a long-standing debate within the small community of Australian economic experts on Papua New Guinea, as to the appropriateness and success of the country's macro-economic settings. The protagonists are Professors Helen Hughes and Ross Garnaut, each of whom plays a considerable and influential role in advising on Australian public policy across a broad economic spectrum. Their debate focuses on the strength of the kina; Professor Hughes believes it should be encouraged to float down, Professor Garnaut otherwise. But both agree on the crucial importance now of micro-economic reform.

6.1.6 Through its 16 years of independence, one of Papua New Guinea's proudest boasts is that it has maintained an *exemplary*, cautious, macro-economic regime, with a 'hard', floating, freely convertible currency of high value, comparatively low inflation (4.4 per cent per year from 1980-87, compared with Australia's 7.8 per cent over the same period), prudent money supply policies and has discharged every foreign loan obligation on schedule. It has continued to attract major investment in resource development despite the problems on Bougainville — in part because it has a well-established tax regime understood and accepted by developers, many of whom are Australian. It has an open economy, with exports accounting for almost half of gross domestic product (compared with about 15 per cent of Australia's). It recorded trade surpluses in 1987 and 1988, before losing 40 per cent of export receipts with the closure of

the Bougainville copper mine. Over the three years 1987-89 (Papua New Guinea's financial year is the calendar year) the country's overall budget deficit was about 1 per cent of GDP, an unusually low figure. The tax base, which has been narrow, is broadening, with the proportion deriving from income taxes down from 55 to 41 per cent within a few years.

TABLE 6.1: Balance of Payments

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Current account									
Merchandise exports	702	826	946	1021	1143	1276	1116	1050	1253
Merchandise imports	-822	-867	-875	-902	-996	-1199	-1152	-1169	-1459
Balance of trade	-120	-41	71	119	147	77	-36	-119	-206
Invisible credits	111	103	120	160	141	208	214	254	250
Invisible debits	-430	-495	-490	-514	-550	-646	-580	-587	-718
Net private transfers	-81	-85	-89	-77	-95	-108	-112	-111	-125
Official transfers	215	233	218	207	185	188	186	227	254
Net invisibles and transfers	-185	-244	-241	-224	-319	-358	-292	-217	-339
Balance on current account	-305	-285	-170	-105	-172	-281	-328	-336	-545
Capital account									
Official capital flows	127	15	43	29	46	-25	-19	199	65
Private capital flows	262	220	127	107	97	202	228	192	471
Non-official monetary sector transactions	-2	18	3	-9	9	26	1	-	-
Balance on capital account	287	253	173	127	152	203	210	391	537
Net errors and omissions	1	64	1	-22	12	24	66	26	n.a.
Overall balance	83	32	-2	-	-8	-54	-52	81	-8
Memorandum									
Terms of trade (national account basis)	100	104	99	94	97	99	86	n.a.	n.a.
Balance on current account (% of GDP)	-14	-13	-7	-4	-6	-9	-11	-11	-16

Source: AIDAB — Exhibit No 73, p.74

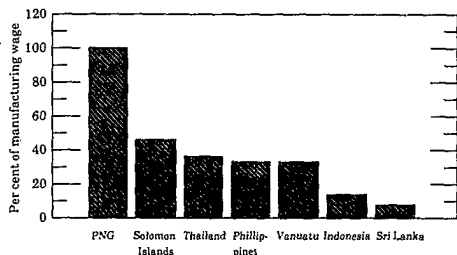
6.1.7 However, considerable problems persist — some of them arising from the stagnation that is the other side of the coin to such sound and conservative macro-economic management. For instance:

The real effective depreciation of the kina since 1982 has been significant but its effect has been largely only to offset the appreciation that occurred in the late 1970s and early 1980s. It has not therefore made any substantial impression on the problem of low competitiveness.¹

It is, to an extent, the substantial aid flows to Papua New Guinea that have held the kina rate 'hard', diminishing the cost of imports and therefore reducing imported inflation, but also holding down export receipts — which in Papua New Guinea's case directly affect the majority of the population, who grow cash crops in smallholdings.²

6.1.8 The combination of such a strong currency with comparatively high wages and low productivity, has damaged Papua New Guinea's international competitiveness. Thus Papua New Guinea, which adopted the Australian system of centralised wage awards, has failed to attract significant investment in manufacturing, to a degree because of its wage costs — more than four times the level that applies in regional competitors such as Thailand, Indonesia and the Philippines. Low labour productivity is another element in that equation — and relates to poor education levels. 'Papua New Guinea's stock of human capital is appallingly low.'³ Since 1950 only 800,000 students have entered grade 6, 280,000 grade 7 and 124,000 grade 10. By 1990, the two universities had awarded only 12,000 degrees. Yet the population is now 3.6 million, and more than 50,000 young people are entering the workforce annually, of whom less than 10 per cent find formal employment. In 1990 there were expected to be 1.3 million Papua New Guineans aged 15-65 outside the formal sector.⁴

TABLE 6.2: Comparison of Wages



Source: AIDAB Exhibit No.73, p.49

¹ AIDAB, *Submission*, p. S355.

² Savenaca Siwatibau, *Aid and Development in the South Pacific*, p. 29.

³ AIDAB, *Papua New Guinea Economic Situation and Outlook 1991*, p. 55.

⁴ DFAT, *Submission*, p. S473.

TABLE 6.3: Prices and Wages

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 Sept
Consumer Price Index (1977 = 100)	100	105.9	111.9	125.5	138.7	148.3	160.9	167.9	175.2	184.5	190.1	197.5	206.4	222.4
% change on previous year	n.a.	5.9	5.7	12.2	10.5	6.9	8.5	4.4	4.3	5.3	3.0	3.9	4.5	7.8
Nominal minimum wages (kina per week)														
Rural (primary industry)	11.4	11.5	11.9	12.4	13.7	14.5	15.5	16.3	17.0	17.7	18.6	19.1	19.5	20.6
Urban	28.1	28.5	30.8	33.2	36.8	38.8	41.5	43.6	45.5	47.6	49.8	51.3	52.3	55.2
Real minimum wages, 1977 (kina per week)														
Rural (primary industry)	11.4	10.8	10.7	9.9	9.9	9.8	9.6	9.7	9.7	9.6	9.8	9.7	9.4	9.3
Urban	28.1	26.9	27.5	26.5	26.6	26.2	25.8	26.0	26.0	25.8	26.2	26.0	25.3	24.8

Source: AIDAB — Exhibit No 73, p.76

6.1.9 The unions — whose peak body is the Papua New Guinea Trade Union Congress (PNGTUC), and whose membership is overwhelmingly urban-dwelling — have, especially since the Bougainville conflict, accepted a steady decline in the real wage. Wages in Papua New Guinea as in Australia are centrally determined. Formal co-operation between government, employers and unions, formerly confined to the three-yearly hearings of the Minimum Wages Board, has been boosted by the establishment of a tripartite council to consider joint approaches to economic challenges.

6.1.10 The financial and economic structures that Australia bequeathed Papua New Guinea have not served Papua New Guinea uniformly well, and it is notable that frequently they have been retained long after the institutions in Australia upon which they were modelled have been reformed or discarded.

One of the difficulties for Papua New Guinea has been its relationship with Australia. Most of the institutions such as the industrial relations system, the tariff system and so on, are copies of Australian institutional situations and are not always helpful to a developing country.⁵

⁵ Hughes, *Evidence*, 20 November 1989, p. 42.

6.1.11 Now that Papua New Guinea has formed its own embryonic tripartite council between unions, employers and government, the possibility is being explored of establishing links with Australia's own National Labour Consultative Council.⁶ The Papua New Guinea Trade Union Congress has links to 70,000 members through 30 affiliated unions, many of whom are employed by Australians. Like the ACTU, the PNGTUC is affiliated with the non-communist International Confederation of Free Trade Unions, whose South Pacific office is in Port Moresby.

6.1.12 During the 1970s and 1980s, such a situation may have been of slightly less concern — because agricultural prospects were good, and almost all Papua New Guineans have access to farming land. However, over the last three years Papua New Guinea's terms of trade have turned sour and, in the range of tree crops that are its principal agricultural exports, the prospects for improvement in the 1990s are rated low by the World Bank. This leaves Papua New Guinea with a very serious situation with respect to employment.

6.1.13 This places all the more pressure on two areas: the continued success of the resources sector, and the government's current campaign to remove the obstacles to a more broadly-based growth.

6.1.14 Papua New Guinea today depends heavily on its mines for export receipts, as does Australia (i.e. 51 per cent in 1989/90 in Australia's case; 69 per cent in 1988 in Papua New Guinea's). Resource receipts in 1991 are expected to reach Kina 844 million — the equivalent of two-thirds of the annual budget. (See Table 6.3.) This will more than double in 1993 if the Kutubu oilfield begins flowing on schedule before the end of 1992. However:

Much of PNG's private borrowing has gone into the development of its mineral resources ... Much of the revenue gain will need to be used to pay off these debts. Moreover, PNG needs to remain cautious as to its capacity to translate an exploration boom into an exploitation and production boom. As the experience of Australia in the early 1980s has shown, an anticipated resources boom can dissipate quite rapidly.⁷

Further, the Papua New Guinea Government has adopted a policy of taking up its statutory entitlement to obtain equity in every major resources venture — placing strains on its borrowing capacity in a somewhat risky area of investment; and also putting itself in a position of potential conflict of interests, as both regulator and developer.

6.1.15 One of the principal causes of the high cost of mining in Papua New Guinea is the range of expectations of economic rents, and the resulting disputes:

⁶ DFAT, *Submission*, p. S470.

⁷ DFAT, *Submission*, p. S466.

The landowners, the wider community around the mine (sometimes represented by local government), the provincial government, the national government, the workers at the mine and the mining corporation all lay claims to the rents arising from the mineral deposits. To some extent, these claims are in cash terms (wages, dividends and royalties) but some are in kind, with demands for urban facilities at the mine and infrastructural facilities such as roads and ports.⁸

6.1.16 Government receipts from mining are filtered into budget revenue through the Minerals Resources Stabilisation Fund, which is in theory tapped only when this can be done without fuelling inflation or causing balance of payments problems. This, however, is only one shield — though a useful one — against the distortions which Papua New Guinea faces if it does enjoy a boom in its resources sector. For ability to absorb such new revenues will be as important in this case, as is its ability to absorb rapidly increased project aid. The test will involve preventing government spending from rising in anticipation of minerals and oil revenues or as fast as such revenues when they do come on stream; and preventing the real exchange rate from rising sufficiently to destroy the competitiveness of other sectors in the economy, especially rural smallholders.⁹

6.1.17 Mr Namaliu introduced the 'forum' process to resource project approvals, whereby meetings are held between landowners, provincial and national government representatives and developers, in an attempt to reach an unambiguous agreement before formal agreements are signed. This has been so far 'a very successful way of operating. It has been an important element in Mr Namaliu's salesmanship of investment in Papua New Guinea'.¹⁰

6.1.18 As in Australia, resource development in Papua New Guinea is an enclave business, which generates income considerably greater than its value in terms of direct jobs — though a succession of major projects has in Papua New Guinea's case sustained much of the country's construction industry.

6.1.19 Papua New Guinea failed during the 1970s and 1980s to link its considerable revenues from aid and from Bougainville Copper, to a broader-based growth. This link has not been made by local entrepreneurs; they mostly remain circumscribed within the distributive sector (retail and transport rather than growth making, value-added light industries or agriculture) that has been effectively protected against foreign involvement. But, although the Bougainville conflict at first virtually transfixed the Papua New Guinea administration, halting progress in any area, it finally became a catalyst in forcing a considerable re-thinking across the complete economic front. Thus today there is virtual bipartisan

⁸ NCDS, *Submission*, p. S521.

⁹ AIDAB, *Submission*, p. S359.

¹⁰ DFAT, *Evidence*, 5 November 1990, p. 1023.

agreement in the country on the priority to be given to removing the barriers to growth. Despite some academic debate on the actual numbers, it is now agreed that Papua New Guinea has not enjoyed real economic growth (given its extraordinarily high population growth, pitched by Prime Minister Mr Rabbie Namaliu at 3 per cent) from Independence to the mid 1980s, when it was driven by mining construction.

6.1.20 The barriers to growth include:

- the dispersal of the population within a difficult terrain, of mountains and scattered islands, where the capital is not connected to any other major centre by road;
- the system under which 97 per cent of land is communally owned, little of which is formally registered and, says Professor FG Jarrett, 'it is extraordinarily difficult to find out who owns what in parts of Papua New Guinea, because what has grown up is a system of rights associated with usage... and if you go back far enough the ownership usually vests in whoever burned it and cleared it in the first instance';¹¹
- skills shortages, exacerbated by a strict localisation policy that makes recruitment of foreign staff very difficult;
- the growth of protective barriers, especially in the strategic area of food processing (and the benefits of such protection 'flow to Australian and other foreign corporations, to expatriates and to wealthy Papua New Guineans';¹²
- the heavy expectations on employers to provide fringe benefits including housing and annual air fares to the worker's home province (applied originally by analogy from entitlements of Australian colonial officials);
- the high rate of crime, in rural areas as in towns;
- considerable delays in the granting of strategic official approvals, with the inevitable risk of corrupt expectations;
- the overlapping of provincial and central government responsibilities; and

¹¹ *Evidence*, 4 December 1990, p. 1369.

¹² NCDS, *Submission*, p. 5523.

- frequent changes in key administrative personnel, resulting in the past in part from the political nervousness caused by the constant fear of parliamentary no-confidence challenges (since July 1991 calmed by the granting of 18 months grace for a new government).

6.1.21 However, in close association with the World Bank, the Papua New Guinea Government has, since the start of 1990, taken on the task of instituting an ambitious range of micro-economic reforms, cutting recurrent spending, devaluing the kina, replacing the obstructive National Investment and Development Authority with an Investment Promotion Authority, freeing up the definition of 'foreign enterprise' to facilitate foreign investment and joint ventures, replacing cumbersome localisation requirements with a 2 per cent training levy, re-introducing a five year tax holiday for pioneer industries, maintaining wage restraint, imposing urban curfews as part of a law and order campaign and 'commercialising' a range of government agencies, including agricultural extension.

6.1.22 This must be viewed as timely; the Papua New Guinea central bank has reported that 'economic activity declined sharply in Papua New Guinea in 1990'.¹³

6.1.23 Papua New Guinea's manufacturing sector, of which expectations are increasing, accounted for about 9 per cent of GDP in 1988, focused on primary processing such as beverages, tobacco, timber, food processing, and fabricated metal products, with production, centred in Lae and Port Moresby, primarily taken up by domestic demand. Its sugar, produced by a monopoly in the Markham Valley near Lae, costs Papua New Guinea consumers three times the world price.

PNG is likely to become more competitive in those industries in which a high proportion of the value of the output is made up of inputs that are special to PNG, eg timber or other raw materials processing. If the present obstacles to efficient manufacturing can be overcome, production may be expanded significantly, in which case a large part of the increased output will need to be exported in order to achieve economies of scale. In this regard, PNG is well situated in close proximity to very large markets in south east Asia, and enjoys privileged access to the markets of Australia, New Zealand, North America, Japan and Northern Europe.¹⁴

6.1.24 Service industries have tended to stagnate under the former, highly regulatory environment, dominated by government agencies. But during the latter years of the 1980s there has been a considerable improvement in performance by the leading commercial statutory authorities — the Electricity Commission, Air Niugini (the state airline

¹³ Bank of Papua New Guinea, *Quarterly Economic Bulletin*, December 1990.

¹⁴ DFAT, *Submission*, p. S467.

which has enjoyed a monopoly over trunk routes), the Post and Telecommunication Corporation and the Harbours Board; these bodies have been given more freedom in corporate planning, have been denied all special exemptions from taxes, and have been expected to provide a commercial return on investment.

6.1.25 In other parts of the South Pacific region, tourism has proved a key foreign exchange earner, employer, market for locally made goods and for components of the service sector such as transport, power, entertainment, restaurants, laundry and building maintenance. It may also facilitate a dispersal of economic activity, and the preservation of national cultures and environmental assets.¹⁵ In the 1980s, however, the industry stagnated in Papua New Guinea. Only about 10,000 people entered the country as tourists in 1988 (less than 5 per cent Fiji's total), more than half from the USA, and most of the rest from Europe and Japan. Australia accounts only for 8 per cent. 'Although Papua New Guinea has a reasonably good tourist potential in being able to offer travellers a glimpse of a unique culture, the purchase of native artwork, water recreation, and beautiful and intriguing natural flora and fauna, the industry suffers from a number of handicaps.'¹⁶ The economic infrastructure, e.g. airports, is comparatively undeveloped. Prices are high. And crime is a major deterrent. It is unclear, in such circumstances, what impact a new National Tourism Corporation will be able to make.

6.1.26 Papua New Guineans have demonstrated a considerable readiness to engage in the cash economy on their terms. For instance, coffee is now a primary source of cash income for at least half of the households of Papua New Guinea¹⁷ and represents 45 per cent of agricultural exports. The bulk of Papua New Guinea's coffee exports, which come from the Highlands, derives from smallholders, not plantations. The continued slide in coffee price that is anticipated will add to social strains. In the past, such strains have been eased by the stabilisation fund formed from taxing exports, used to subsidise returns to growers during cyclical lows in the world price. And the same structure broadly applies to Papua New Guinea's other principal agricultural commodities — cocoa, palm oil, copra (rubber and tea are the other major products).

6.1.27 These stabilisation funds — which have in any case been effectively drained recently — are scheduled to be dismantled, following World Bank/IMF advice that they promote inflexibility leading to longer-term problems as markets change.

6.1.28 The only significant investment in agriculture in Papua New Guinea has come from Britain and Belgium; none from Australia. The form it has taken has tended to be in the establishment, with government

¹⁵ AIDAB: *Papua New Guinea: Economic Situation and Outlook*, 1991, p. 51.

¹⁶ *ibid.*

¹⁷ ACFOA, *Evidence*, 23 October 1990, pp. 937-38.

support, of nuclear estates promoting quality and presenting a model for the much larger production by smallholders in the vicinity — with the estate also processing, to an extent, and exporting the crop.

6.1.29 The extent of the challenge yet ahead of Papua New Guinea in meeting its people's fast-growing economic aspirations is indicated by Dr Paul McGavin: 'Papua New Guinea is a conglomerate of societies that have traditionally lived and still live with a high degree of insecurity and conflict' — managed by intricate processes such as gift-giving. Wealth is associated with cycles, including those of distribution, not with development. 'It seems to me that in Papua New Guinea, where economic growth stops with independence, there is a further heightening of attempts to resolve things by redistribution and a further heightening of distributional conflict.' Economic and cultural change 'get locked'. In this context, the Australian lead-up to independence — the establishment of the infrastructure for a modern state — was essentially a gift-giving. The gift-giving was a generous one and one that has continued since Independence with the continuation of budget aid. It has led to a concentration on the distribution of wealth rather than a focus on economic and social development. 'We applied an inappropriate model.' A start has been made in shifting that perspective, by 'ceasing to fund ability to buy allegiances'.¹⁸

6.1.30 But 'the surpluses gained in Papua New Guinea ... need to be tied to developmental purpose and the development of infrastructure', physically and in personal competence. For the present reliance on the extraction of metals only appears part of the former, distributional approach to wealth; the 'rents' imposed do not relate to the adding of value.¹⁹

6.2 Implications for Australia of Economic Developments in Papua New Guinea

6.2.1 In announcing his major package of economic reforms, which he described as his 'almost revolutionary proposals', Mr Namaliu, addressing the Port Moresby Chamber of Commerce on June 6 1990, stressed, 'Real and sustained growth ... can only come through a confident, expanding and less regulated private sector.' It is against this perspective that Australia's impact on the Papua New Guinea economy in the 1990s must be measured. Those trading with and investing in Papua New Guinea are advised by the Australia-Papua New Guinea Business Council²⁰ that this 'economic revolution' amounts to 'a renegotiation of the current social contract' between people and governments, which may entail further dislocation and delays before leading to smoother and more predictable processes. Foreign companies can, in such circumstances, become the targets of those who feel they are on the losing end — since such companies tend to be more vulnerable to pressure, which can be exerted

¹⁸ McGavin, *Evidence*, 13 May 1991, p. 1566.

¹⁹ *ibid.*

²⁰ *Submission*, p. S289.

as an indirect means to obtaining a favourable outcome from the national government. Mixed public signals have led to business decisions being made against certain conditions which are not then met.²¹

6.2.2 Australia stands to gain substantial benefits if Papua New Guinea's growth strategy is successful — in a direct role in the mining and petroleum industries, in supplying to those industries, in assembling commercial financing packages, in selling other services, in investing in a broader range of activities, in building from its already dominant trading role, and finally from the stability in its closest neighbour that would derive from a more healthy economy.

6.2.3 Resources companies have learned from recent developments such as the Bougainville conflict, and also from the changing expectations thrown up by the new forum process that 'they cannot have standing agreements and they cannot even have fixed point reviews. They have just got to keep the process evolving.'²² They also have to develop considerable political sophistication in order to preserve the delicate balance needed to pursue their business. Bougainville Copper had itself insisted on the North Solomons provincial government being represented at a review of the mining agreement due in 1981, despite opposition from the central government,²³ but the national government failed eventually to hold the review — or the next, that fell due in 1988.

6.2.4 Resource companies are also required, to an extent, to act as developmental agents in remote areas where government services have either never penetrated, or have evaporated.

We do not rely on third parties to tell us what the landowners want. We do not rely on the state to provide services to people. We have a constant program of communicating with the village landowner groups. We have direct access to them. We provide community support and assistance ... Wherever possible we try to involve all the three levels of government in the decision making process.²⁴

In order to be consistent, Australian governments need to provide strong moral support for Australian resource companies operating in Papua New Guinea; for the programmed decline in budget aid is predicated on its replacement by increased mining and petroleum revenues.

6.2.5 The key questions for any future large-scale natural resource projects in Papua New Guinea, Mr Don Carruthers, Chairman of Bougainville Copper Ltd, believes are:

²¹ *ibid.*, p. 290.

²² DFAT, *Evidence*, 5 November 1990, p. 1024.

²³ Carruthers, *Evidence*, 26 September 1990, p. 445.

²⁴ Ok Tedi Mining Ltd, *Evidence*, 21 November 1990, p. 1288.

- Is it possible to get unanimous landholder agreement to the project?
- Is it practical to proceed and to maintain operations with unanimous landholder agreement?
- Can landholders be held to an agreement which involves the permanent or long term alienation or destruction of land?
- Can one imagine a situation other than constantly escalating demands for compensation?
- Can the envy generated by unequal distribution of income be contained?²⁵

These problems relating to investment in Papua New Guinea are dealt with in Chapter 8.

6.2.6 The Papua New Guinea finance sector is today dominated by Australian banks. Partial deregulation in 1981 led to a British and a French bank also being established — but their Papua New Guinea activities have since been taken over by Australian banks. The largest commercial bank is the state-owned Papua New Guinea Banking Corporation, which took over the Commonwealth Bank's business in Papua New Guinea and retains close contacts with the latter; next in size is Westpac, followed by ANZ and the Bank of the South Pacific (whose parent is the National Australia Bank). Finance Minister Mr Paul Pora in July refused permission for Westpac to take over the Bank of the South Pacific. These Australian banks have a vital role to play in Papua New Guinea's development — in providing capital for investment across as wide a geographical and social spread of the community as possible, and in facilitating healthy relationships between would-be Australian investors and Papua New Guinea joint venture partners. Plans for a stock exchange — about 20 Papua New Guinea companies are listed on the Australian exchange — in order to help mobilise domestic savings, are only progressing slowly; Malaysia has been vying with Australia to be the model for a Papua New Guinea exchange.

6.2.7 This close involvement of Australian financial institutions has therefore obvious economic advantages for Australian companies and potential Australian investors in Papua New Guinea. But there are dangers. For example, industry protection has had a strong element of nationalism in it. Foreign corporations (including some well-established Australian companies), sometimes together with Papua New Guinea partners, are major beneficiaries of this protection.²⁶ Despite the benefits that accrue to such joint venturers, as protection is lifted, from which new

²⁵ *Submission*, p. S1098.

²⁶ NCDS, *Submission*, p. S524.

Australian investors and/or traders are likely to benefit, competition will become fiercer. Consequently tensions may temporarily emerge that may take a nationalist, anti-Australian form.

6.2.8 Australia's concentration, in official aid, on institution-strengthening projects, also 'carries some risks, as it relies critically on socio-cultural factors'.²⁷ Such factors include the availability of Papua New Guinea staff motivated to adapt ideas to their own environment; political influences beyond the scope of the projects; problems of financial management; and a perception in some Papua New Guinea agencies that Australians should occupy in-line positions rather than advisory roles to support the development of counterparts.

6.2.9 The ability of banks to lend to projects in Papua New Guinea has become heavily dependent on political risk (or 'sovereign risk') insurance and this market may have little capacity to absorb further exposure on Papua New Guinea.²⁸ Such manifest anxiety on the part of international insurance markets demonstrates the importance of Australia's reinforcing political moves in Papua New Guinea towards enhanced stability. It underlines the vital role played by EFIC in securing major funding.

6.2.10 Despite the tough provisions of the Leadership Code, administered by the Ombudsman Commission, corruption in senior offices appears to be an increasing concern. The structures are in place, but providing the resources to enable them to work effectively is another matter. 'There are some improvements required but basically, most of the legislative controls are there for that.'²⁹

6.2.11 Of particular concern to Australia is the evidence of some activity in Papua New Guinea by Australians who have already been subject to legal or company-code disciplinary penalties within Australia. 'I think you will find that Australians are getting to the stage of buying their way in through graft and corruption.'³⁰ The Manager of Placer Niugini, Mr R A Hiatt submitted that:

Because of lack of sophistication PNG nationals are being targeted by wheeler-dealers, carpet baggers and maverick Australians. Semi and illiterate landowners are increasingly vulnerable to rapacious groups of foreigners.³¹

When you are putting in place a project of any sort, small or large, you have to steer right through the middle. You certainly sometimes get the request [for corrupt payments], but you have to go straight down the middle — otherwise, once you bend you have had it.³²

²⁷ AIDAB, *Submission*, p. S370.

²⁸ AUSTRADE, *Submission*, p. S626.

²⁹ Barnett, *Evidence*, 20 February 1991, p. 1419.

³⁰ Buchanan, *Evidence*, 10 September 1990, p. 359.

³¹ *Submission*, p. S1611.

³² Placer Pacific Ltd, *Evidence*, 4 December 1990, p. 1384.

Recommendation 30. The Committee recommends that Papua New Guinea anti-corruption and immigration authorities be granted access to relevant records held by their Australian counterparts.

6.2.12 The current priority accorded law and order measures within the Papua New Guinea administration and within the AIDAB Papua New Guinea project portfolio is clearly consonant with the requirements of Australian investors and would-be investors in Papua New Guinea. Burns Philp, for instance — probably the single company most widely known as Australian, and one of the longest established traders in the country — spends 1 million kina per year on an internal security force, and, in part as a result, questions as an investor the country's whole future.³³ It is obviously desirable for AIDAB to consult as closely as possible with such investors when drawing up designs for law and order related projects.

6.2.13 As Papua New Guinea politicians develop a widening range of alliances and contacts through the Asia-Pacific region, so a broader group of investors and traders is beginning to move in to Papua New Guinea. At the same time, difficulty in recruiting managers, professional staff and technicians from Australia is leading to increased recruitment from Britain, New Zealand, North America, Asia and Africa — essentially from other parts of the Commonwealth.

6.2.14 Inevitably such key personnel bring with them a range of contacts and suppliers from beyond Australia. Such new patterns are also likely to see the introduction of different attitudes to democratic and other institutions from those that have applied from Australian rule to date.

6.2.15 Only a renewed commitment by the Australian private sector to maintain and enhance its presence in Papua New Guinea — with a view to the longer term — will redress such a seepage of influence. 'I think it would be a great pity if Australian business abandoned investment in Papua New Guinea, because it will be our loss. It is potentially a very rich country.'³⁴ One way to counter such a trend would be to ensure that a high proportion of the narrowly based emerging managerial class of Papua New Guinea has the opportunity of building close relations with Australian counterparts and of benefiting from activities of their professional organisations.

Recommendation 31. The Committee recommends that through AIDAB and the Australia-Papua New Guinea Business Council, the Australian Government promote the short-term exchange of middle managers between businesses in Papua New Guinea and Australia, so that middle managers can gain training through practical experience.

³³ Burns Philp (PNG) Ltd, *Evidence*, 23 October 1990, p. 920.

³⁴ Hughes, *Evidence*, 21 November 1990, p. 1347.

Recommendation 32. The Committee recommends that the Australian Government encourage professional organisations and institutes to build bridges with their counterparts in Papua New Guinea with a view to sharing expertise and information.

6.2.16 Nevertheless, 'Australian industry has managed to expand its share of the Papua New Guinea market across a broad panoply of products and services, which clearly demonstrates Australia's potential as a broad-based manufacturing and service centre for the region'.³⁵ Its proximity, as a bulk supply source for major resources projects, however, will decline in relevance as Papua New Guinea's own economy diversifies.

6.2.17 There has been an understandable focus on Australian investment in Papua New Guinea — but Papua New Guinea is also a not insubstantial investor in Australia; for instance, it has been for the last few years the fourth major source of investment in Queensland real estate. Over the four years ending 1987-88 the Australian Bureau of Statistics recorded net private investment (as opposed to that of public companies) from Australia to Papua New Guinea as zero; but over the same period Papua New Guinea invested \$339 million in Australia.

6.2.18 Papua New Guinea's potential as a base from which Australian manufacturers or processors of primary produce can gain privileged access to markets around the world that are protected against competition from Australia itself, has only marginally been exploited. However, if prospects for international freeing up of trade continue to stagnate, and if Papua New Guinea is able to dismantle the obstacles inhibiting industrial investment, this path may be pursued in the later 1990s, as it has been in Fiji by Australian garment manufacturers. Papua New Guinea could serve as a source of manufactured products for the Australian domestic market if Australian entrepreneurs relocated there.

6.2.19 Australian suppliers to Papua New Guinea are now competing successfully in a market which at the capital and design end is increasingly influenced by major overseas players.³⁶

At the same time, in the markets of south east Asia where they are competing with markedly less success, Australian firms can no longer claim to be seriously disadvantaged by the publicly secured aid and financial arrangements available to their competitors, nor are they at a disadvantage with any more than one competitor country in any single market on account of historical ties.³⁷

Thus the lesson to be learned from the relationship with Papua New Guinea may be that Australian industry can perform much more competitively in regional markets than it has to date. There has been an

³⁵ DITAC, *Submission*, p. S607.

³⁶ *ibid.*, p. S608.

³⁷ *ibid.*, p. S608.

exports surge recently to those markets — which are far greater than Papua New Guinea — but volumes and values still lag behind those related to Papua New Guinea. 'Arguably the most important implication of Australia's relationship with Papua New Guinea for Australian industry, therefore, is the proof of what Australian industry really could achieve in the markets of ASEAN and Indochina — if it set out to do so.'³⁸ Significantly, the continued growth in the trade with Papua New Guinea has been achieved as Papua New Guinea exports have shifted towards Japan and Germany, and as official aid sources have been diversified. Patterns of success in the Papua New Guinea market, then, should repay careful assessment.

6.2.20 Although Australia has been relatively successful commercially in Papua New Guinea, evidence was given to the Committee of areas of neglect or decline where there is scope for improvement in the relationship. Australian NGOs have had only a restrained interest in the country. A variety of reasons were suggested for this:

- Some NGOs are associated with international organisations whose major activities are in Africa or the sub-continent, and are necessarily heavily committed there.
- Papua New Guinea, although a subsistence economy, appears to be relatively affluent — there is no starvation and little malnutrition.
- Or, as Helen Hughes suggested, 'Many NGOs are very romantic. Africa is somehow more romantic for Australians than our own backyard.'³⁹

Therefore, the growth and development of Papua New Guinea is more dependent on private sector investment. In the absence of NGO activity there is more stress on the Australian private sector to engage itself fully in the Papua New Guinea community, to 'fly the flag' for Australia.

6.2.21 There is further scope for involvement in the dominant area of economic activity occupying Papua New Guineans — agriculture 'Australia is in the main withdrawing its investment [in agriculture]'.⁴⁰ This has helped reinforce a growing identification of Australian investment with the resources industry. This may have a sound commercial basis but it is an area which will inevitably continue to be at the centre of commercial and political controversy. Moreover, the resources projects are not enterprises that address Papua New Guinea's basic problems of unemployment. Nor has Australia, at the official level, yet been identified with a major post-war infrastructure development; it is Japan, for instance,

³⁸ *ibid.*

³⁹ *Evidence*, 20 November 1989, p. 60.

⁴⁰ Australia-Papua New Guinea Business Council, *Evidence*, 5 November 1990, p. 1130.

that has sponsored the comparatively modest pre-feasibility study for a trans-island highway from Port Moresby, which would open up major new options for development.

6.2.22 As Papua New Guinea looks increasingly to the private sector to provide the country with the jobs it sees as the main answer to its biggest problems, so it is the Australian private sector that is assuming the crucial role in building a new and enduring relationship between Papua New Guinea and Australia. The base of understanding of the private sector in the broad Papua New Guinea community may be thin, confined to notions of *materia 'luck'* or the obverse; but there are today few words with more positive connotations in Tok Pisin than *bisnis* (business) and *ekwiti* (equity).

6.3 The World Bank

6.3.1 One of the most significant developments in terms of the relationships between Australia and Papua New Guinea over recent years has been the multilateralisation of assistance to PNG through the involvement of the World Bank. The establishment by Papua New Guinea with the World Bank of a consultative group handling aid relations with PNG and the donor community generally has provided a forum for the sorts of discussions, the sorts of advice, the sort of dialogue on policy issues which were lacking previously, which Australia did not have with Papua New Guinea.⁴¹

6.3.2 Papua New Guinea soon formed a close relationship with the World Bank, which in 1988 published a detailed survey recommending, among other matters, the introduction of a Public Investment Program to re-focus government spending towards developmental aims.

6.3.3 Since 1988, too, the Bank has co-ordinated an annual consultative meeting of donors to Papua New Guinea, attended by representatives of the governments of Germany, Japan, South Korea, New Zealand, the United States and Australia as well as Papua New Guinea (which has been represented by either the Prime Minister or Finance Minister), and by delegates from the Asian Development Bank, the European Community, the International Monetary Fund, the United Nations Development Program and the World Bank itself (which takes the chair). Representatives from France, Singapore and Britain have attended as observers.

6.3.4 The practical outcomes have been considerable. The proportion of aid deriving from Australia was reduced from 70 to 38 per cent over the three years to 1990. The implementation of a five-year rolling Public Investment Program, identifying priority projects in accord with sectoral strategies, has transformed Papua New Guinea's approach to project aid. Where a shift to such assistance, urged by the Jackson Report on aid in 1984, had originally met considerable hostility in Papua New Guinea, today it forms a mere part of a national strategy and an international

⁴¹ AIDAB, *Evidence*, 22 October 1990, p. 804.

network. Policy concerns raised by Australia, especially in relation to fostering private sector growth, had been accepted, on the whole, only theoretically; now Papua New Guinea has moved comparatively rapidly into implementation of appropriate reforms.

6.3.5 The World Bank itself has sought to ensure that adequate funds are allocated to operations and maintenance, including essential services in education, health and law and order. AIDAB believes, however, that the priority policy agenda recommended by the World Bank is 'a very broad and ambitious agenda which would perhaps benefit from a narrower focus and a clearer prioritisation. Bank officials recently agreed with this suggestion in discussions with the Bureau'.⁴² The social impact of the structural adjustment package has been taken into account through a Special Interventions Program aimed especially at employment creation in urban areas, and containing a strong element of providing relief.

6.3.6 The World Bank projects in which Australia is involved, in co-financing and providing expertise, include land mobilisation and information, and a national forestry action plan that incorporates establishing world heritage conservation areas. The Bank, supported by the consultative group, has stressed the need for progress in a reform package that includes privatisation, a shift towards indirect taxation including the introduction of a consumption tax, more open trade policies including an end to import protection, a flexible exchange rate, wage restraint, deregulation of transport and more user-pays charges for town dwellers.

6.3.7 'Such a dialogue with advisers outside Australia is essential because if Australia were to be the sole economic adviser to Papua New Guinea, whatever mistakes were made — and mistakes will be inevitable — would be blamed on Australia.'⁴³

6.4 The Status of Economic Analysis of Papua New Guinea in Australia

6.4.1 Australia's universities and other academic institutions contain a range of expertise on Papua New Guinea — chiefly anthropological, political and to a lesser degree, economic. But the history of the relationship, and the continuing close ties of key Australian financial and economic institutions with Papua New Guinea, have led to the development of more diverse sources of economic analysis — within the commercial banks, the major mining and petroleum houses, and across the spectrum of official bodies.

6.4.2 Many of those engaged in such analysis have formerly worked in Papua New Guinea, and inevitably their predispositions are to an extent coloured by the reference points provided by this experience.

⁴² Submission, p. S712.

⁴³ Hughes, *Evidence*, 20 November 1989, p. 43.

6.4.3 Papua New Guinea too has generated its own economic expertise — whose focus has inevitably tended to dwell on the macro-economy which has proven most amenable to rational management, and which is less susceptible than micro-economic management or reform to political distortion.

6.4.4 The three principal problems in developing a constructive analysis of the Papua New Guinea economy have been:

- gaining an agreement on the accuracy of the raw data (the output of the Papua New Guinea Bureau of Statistics has been steadily slowing, as has that of the central bank, the Bank of Papua New Guinea);
- there has been a long-running disagreement among Papua New Guinea economy watchers about post-independence growth/negative growth rates; and
- there has been a lack of independent analysis from within Papua New Guinea, except from the important private sector funded Institute of National Affairs.

6.4.5 The post-independence 'hands off' approach has discouraged a more active focus on the Papua New Guinea economy, an understanding of which is of course the key to an understanding of the developing nation.

The real research capacity on what is happening up there has run down a lot. Our university [the Australian National University] used to have major programs on the Papua New Guinea economy until about independence; and that was quite important in informing Australia generally ... Now, you do not have that much sophisticated understanding of what is going on within the bureaucracy; less, for example, than a lot of other countries where our own role is less crucial than it is in Papua New Guinea. So, as a society, we have to re-engage, starting from building the analytic base, because we will get things wrong unless we do that ... This will involve being closely engaged in a lot of ways. It will involve some Australians getting into messy situations at times, because development in its early stages is a mess anywhere.⁴⁴

6.4.6 Professor F G Jarrett agrees:

The lack of interest in Papua New Guinea showed up in a variety of ways, but in my own field the research on the economy of PNG [has] virtually collapsed. At the time of independence the Australian National University had a very

⁴⁴ Garnaut, *Evidence*, 8 April 1991, p. 1486.

active research unit in Port Moresby with a first class library. This unit virtually collapsed at independence, the library and facilities were handed over and Australian academics appeared to walk away from the research areas in Papua New Guinea ... I believe that Australia has paid the penalty for this ... in as much as the information and knowledge which would have been important in development co-operation was badly eroded.⁴⁵

6.4.7 One of the major blows from such a withdrawal is that it mitigates against the long-term perspective required. There are no quick fixes, and to expect everything to be marvellous through a few changes of policy is an error.⁴⁶

6.4.8 Professor Helen Hughes' National Centre for Development Studies tends to agree:

Although Papua New Guinea is still a developing country, it is a modern, independent state that must be accorded the analytical sophistication and economic monitoring that is given to other states with which Australia has, or wishes to develop, economic relations.⁴⁷

To help accomplish this, the centre has developed a computer model of the Papua New Guinea economy. The Department of Foreign Affairs and Trade is also now interested in acquiring its own such database.⁴⁸

6.4.9 Such programs have been developed in response, mostly, to individual initiatives. The Department of Employment, Education and Training has done 'very little' to encourage positive links with, or to take an interest in Papua New Guinea.⁴⁹ This department has focused instead on assessing and fostering relationships with the economies of south east and north east Asia. 'One of the reasons why we have not embarked on that in the case of Papua New Guinea is that all those exercises require dollars, and we are looking for something to spark the allocation of dollars.'⁵⁰

Recommendation 33. The Committee recommends that the Department of Employment, Education and Training establish a unit within its International Division with the specific objective of developing links between tertiary institutions in Australia and Papua New Guinea, particularly teacher training institutions. Through these links the department should seek to facilitate both

⁴⁵ Submission, p. S928.

⁴⁶ Garnaut, Evidence, 8 April 1991, p. 1464.

⁴⁷ Submission, p. S514.

⁴⁸ Evidence, 5 November, 1990, p. 1076.

⁴⁹ Evidence, 8 April 1991, p. 1497.

⁵⁰ ibid, p. 1506.

programs of training and exchange among both staff and students, supporting and extending the work of the International Development Program (IDP).

Chapter Seven

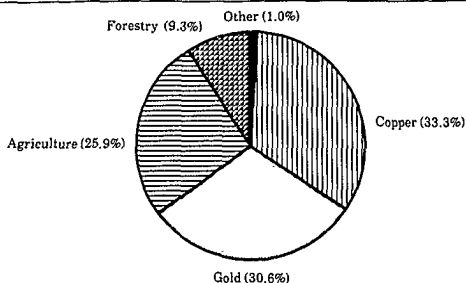
Trade Links

Papua New Guinea's trade is based on resources. Increasingly through the 1990s minerals will be a valuable source of export income. In agriculture, however, a sector where most of the population is employed, there has been a severe decline in prices. Even the improvement in productivity that has been achieved in agriculture has not offset this decline in prices, nor has there been a successful movement into value added manufacturing, linked to commodities. In spite of the loss of income from Bougainville and low commodity prices, in 1990 there was a balance of payments surplus, achieved by a devaluation of the kina. Japan is Papua New Guinea's largest export market; Australia the largest importer. The trade imbalance between Australia and Papua New Guinea runs in Australia's favour and this is unlikely to change while Papua New Guinea remains a commodity and mineral exporter like Australia. There is a lack of complementarity between us. The Committee sees great potential for increased trade in the regional links between north Queensland and Papua New Guinea. Further potential is seen through investment in value-added manufactures.

7.1 An Overview of Trading Links

7.1.1 Papua New Guinea relies on a very narrow range of exports for the bulk of its revenues: 72 per cent, in 1989, from copper, gold and coffee alone. The Misima and Porgera mines, experiencing their first full years of production in 1990 and 1991 respectively, have stepped provisionally into the gap caused by the closure, from mid 1989, of the Bougainville copper mine; and Ok Tedi has produced strong performances. In sectoral terms, in 1989 copper and gold provided 64 per cent of 1989 exports; agriculture, 26 per cent; forestry, 9 per cent; and 'other' — including manufactures — only 1 per cent. By value, coffee dominated the agricultural sector with 37 per cent; forest products sold 25 per cent; cocoa, 12 per cent; palm oil, 10 per cent; coconut oil and copra, about 4 per cent each; 'other' — including cardamon and other spices, rubber and tea — 5 per cent; and fish, 2 per cent. The latter represents a potential growth sector so far untapped; Papua New Guinea's considerable exclusive economic zone harbours, during much of the year, for instance, a substantial resource of migratory tuna.

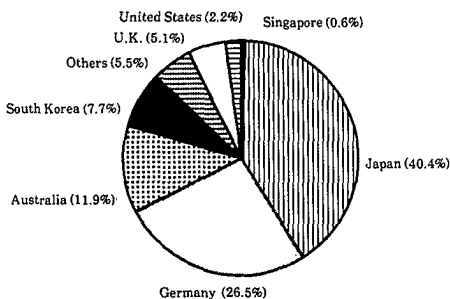
TABLE 7.1 Composition of Exports



Source: AIDAB Exhibit No.73, p.24

7.1.2 Concentration in commodities is echoed by a similar concentration in terms of markets. Papua New Guinea's three leading customers — Japan, Germany and Australia — absorb 78 per cent of all exports. Japan is by far Papua New Guinea's biggest export market (as it is Australia's), taking 40 per cent by value in 1989, followed by Germany, 27 per cent; Australia, 12 per cent; South Korea, 8 per cent; Britain, 5 per cent; and the United States, 2 per cent.

TABLE 7.2: Destination of Exports



Source: AIDAB Exhibit No.73, p.25

7.1.3 Terms of trade have declined disturbingly for Papua New Guinea since Independence. Taking a standard of 100 points in 1977, by 1989 they had fallen to a low of 68 points. The weighted average decline in kina prices of all agricultural and forestry products, based on 1988 values, was 17.4 per cent in 1989 and 8.4 per cent in 1990 (the latter decline softened by the 10 per cent devaluation in January 1990). But volumes of these products have nevertheless been rising, indicating an improvement in productivity.¹ As the second largest country in the South Pacific region (after Australia), and as a country whose population is heavily dependent on agricultural exports, Papua New Guinea has not involved itself greatly in the international struggle for a fairer international climate for commodity producers.

Recommendation 34. The Committee recommends that Australia seek to enlist Papua New Guinea as a member of the Cairns Group of nations.

7.1.4 Papua New Guinea's attempts to add value to its commodities — either for import substitution or for export — have been largely unsuccessful. The sugar from the government-protected monopoly producer Ramu Sugar costs Papua New Guinea consumers about three times the world market price. Efforts to establish export processing zones, the most recent at Lae, have not attracted the sought investment.

Usually, such zones provide a prospective investor with a package which includes port, communication, power and factory facilities plus the provision of labour at rates lower than the rest of the economy. In addition, generous taxation benefits are bestowed. Even if all these conditions were met, it is doubtful whether this would see any expansion of Papua New Guinea's manufactured sector. What is often overlooked is that the success of export processing zones has tended to hinge on (among other factors) the availability of a labour force which is not only reasonably literate but also disciplined.²

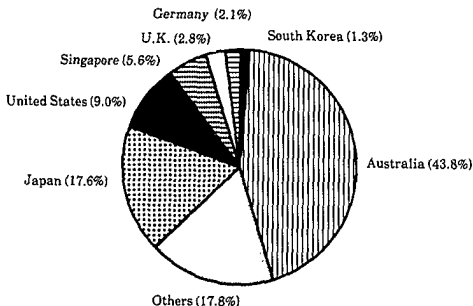
7.1.5 Australia dominates Papua New Guinea's imports, providing in 1988 44 per cent; next came Japan and 'others', each with 17 per cent; the USA, 9 per cent; Singapore, 6 per cent; Britain, 3 per cent; Germany, 2 per cent; and South Korea, 1 per cent. Again in 1988, manufactures comprised 64 per cent; food, 24 per cent; fuel, 10 per cent; and other primary products, 2 per cent. Papua New Guinea is Australia's 14th largest export market, and veers between its third and fourth largest market for elaborately transformed manufactured products, which comprise 56 per cent of Australian exports to Papua New Guinea, compared with 13 per cent worldwide. Papua New Guinea is Australia's largest single market for mining equipment, and also for rice (consuming about 25 per cent of Australian production). And the aggregate profile of Australian exports to Papua New Guinea follows closely that of the overall composition of

¹ Bank of PNG Quarterly Economic Bulletin, December 1990, p. 11.

² AIDAB: Papua New Guinea: Economic Situation and Outlook, p. 26.

Papua New Guinea imports. Australian brands have established exceptionally high profiles and consumer loyalty in Papua New Guinea. Australian exports to Papua New Guinea, 1.8 per cent of Australia's total in 1988, grew by 13.3 per cent over the five years to 1988, above the worldwide average of 11.6 per cent. In 1990, when Australian exports to Papua New Guinea were \$757 million, exports to Thailand were \$582 million.

TABLE 7.3: Origin of Imports to Papua New Guinea



Source: AIDAB Exhibit No.73, P.27

7.1.6 The government is phasing out import bans, which will be replaced by high tariffs. In the 1991 budget, tariffs for many items used as inputs to the manufacturing, agricultural, fishing and tourist industries were reduced to zero; and the tariff base was changed from an f.o.b. to a c.i.f. basis, in line with more general international practice today.

In the main, Papua New Guinea has had a fairly liberal trade regime where, with a few exceptions (mostly in food), measures to provide across-the-board import protection have not been adopted. Tariffs have generally been imposed with a general revenue raising function in mind, and have been negligible with regard to inputs and basic food items.³

³ AIDAB, *ibid*, p. 26.

7.1.7 A balance of payments surplus of K30 million was recorded in 1990, turning around a 1989 deficit of K52 million — but was in part achieved because of a 10 per cent devaluation of the kina on January 9 1990, and because of new external funding assistance. The Bank of Papua New Guinea reported in its *Quarterly Economic Bulletin* (December 1990): 'In the absence of any policy measures, the balance of payments would have recorded an overall deficit of around K270 million in 1990, leaving foreign exchange reserves at an unsustainably low level.' Besides the loss of copper production from Bougainville, Papua New Guinea also lost substantial agricultural income: the province had been producing, before the rebellion that began in December 1988, up to 40 per cent of the country's cocoa, up to 30 per cent of its copra, and up to 15 per cent of its log exports.

7.1.8 Threats to Australian exports have occasionally arisen through subsidised sales by third countries into the Papua New Guinea market, and through Papua New Guinea companies (which may also include locally incorporated subsidiaries of Australian companies) securing agreements from the Papua New Guinea Government to protect their corporate interests. 'Australia has successfully argued against discriminatory Papua New Guinea trade measures in the past. Further monitoring of the situation, and continuing negotiations on both the principle involved and on specific cases, will, however, continue to be necessary.'⁴ Such a case is the export of fruit and vegetables from Cairns to Port Moresby, which has declined for one company from \$700,000 to \$400,000 per year within three years — chiefly as a result, not of domestic Papua New Guinea competition, but of restrictions imposed by the Papua New Guinea government.⁵

7.1.9 Most of the opportunities for doing business with Papua New Guinea are being seized by Queensland companies.

If one spends any time in north Queensland, one can only be struck by the large numbers of Papua New Guineans coming through, and by the degree to which Papua New Guinea and north Queensland are being structurally integrated. There are possibilities there, for example, for combined tourism promotions, opportunities for integrated manufacturing, taking advantage of lower labour costs in Papua New Guinea.⁶

In 1986/87 Queensland exported \$191 million of goods to Papua New Guinea, about 30 per cent of total Australian exports to the country. The Papua New Guinea government has sent two trade missions to north Queensland (with a focus on promoting reverse trade to backload ships and aircraft), and two have been sent in the other direction too.

⁴ DFAT, *Submission*, p. S439.

⁵ Tong Sing Pty Ltd, *Evidence*, 27 August 1990, p. 166.

⁶ Jackson, *Evidence*, 23 October 1990, p. 861.

7.1.10 But the Cairns Chamber of Commerce has expressed concern about 'the urgent need for waterfront reform in Cairns'⁷ in order to take advantage of growing prospects in Papua New Guinea and in Irian Jaya, where there are also major minerals projects. Queensland coastal shipping company John Burke (now registered in Papua New Guinea) had stopped serving Cairns in December 1989 because of high, externally imposed operating costs.

[The] stevedoring company had 23 waterside workers, much in excess of what the requirements are in this area and involving a tremendous amount of idle time, people sitting around not actually working.⁸

The concerns of the Cairns Chamber of Commerce were presented to the Committee in August 1990. Since then the stevedoring industry in the port of Cairns has been restructured. The Waterfront Industry Reform Authority has reported to the Committee that, following a provisional agreement reached in December 1990, 13 employees left the industry, leaving a port strength of 10. This represents a manning reduction of around 56 per cent with an estimated annual saving to the port's customers of \$360,000. Put another way the reduction in the cost of labour is from \$70 per manhour to \$14.10 per manhour.

7.1.11 Air travel has burgeoned, however, with direct flights being inaugurated from Cairns to Mt Hagen in the Papua New Guinea Highlands, besides the daily flights to Port Moresby. Besides a small number of tourists, such routes are well patronised by resource company staff employed on a 'fly-in fly-out' basis. Townsville has enjoyed, if anything, greater returns from its proximity to Papua New Guinea, with a regular shipping service and a constant demand for provisioning, mechanical equipment and spare parts for the resources sector.

This trade has revitalised the port of Townsville, with plans for major port expansion currently under consideration and has introduced another important market for local manufacturers previously reliant on the major domestic minerals operations of MIM and Queensland Nickel.⁹

Both Cairns and Townsville are closer to Port Moresby than to Brisbane. Papua New Guinea could attract overseas visitors already in Australia as an add-on destination, via Queensland as the logical gateway.¹⁰ At present most travel to Papua New Guinea from Australia is for business.

⁷ Cummings, *Evidence*, 27 August 1990, p. 115.

⁸ *ibid.*, p. 116.

⁹ Queensland Premier's Department, *Submission*, p. S216.

¹⁰ *ibid.*

7.1.12 Trade and transport links between north Queensland and Papua New Guinea have developed to the extent that a Papua New Guinea consulate would find itself busily occupied, if established. Air passenger flows from Cairns to Port Moresby have almost reached those from Brisbane and Sydney.¹¹

Recommendation 35. The Committee recommends that the Australian Government should encourage and facilitate the opening of a Papua New Guinea consulate in Cairns.

7.1.13 Papua New Guinea holds especial value for Australia as a confidence-building 'nursery market' for new exporters wishing to establish their products within an environment that is, while part of the developing, tropical world, also substantially English-speaking, with good telecommunications, has a similar business culture to Australia's, is close to Australia itself (for half the year on EST) and is generally familiar with and favourable towards Australian products. It is also potentially a 'demonstration market' for Australian industrial capabilities in moving on to the larger markets of South East Asia and Indochina.¹² About 2,400 Australian companies are exporting goods and services to Papua New Guinea, AUSTRADE records.

7.1.14 Australia might also exploit more, the potential of Papua New Guinea as a supply source for its food processing industries:

... and opportunities in this regard are likely to increase as the PNG government progresses with its plans to base long term growth on rural industries ... Given Australian industry's competitive advantage in food processing, there could be a high opportunity cost in failing to support the development of these industries in Papua New Guinea and to invest in their value-added, whether through import into Australia or through direct investment in Papua New Guinea. The same argument holds in respect of forestry, though to a lesser degree considering Australia's own current difficulties in developing pulp, paper and other forest product industries.¹³

The Asian Development Bank has estimated the sustainable log harvest of Papua New Guinea as four times the current harvest. A NSW food processing company, James Barnes Pty Ltd, has taken the step of establishing a tinned meat plant in Papua New Guinea rather than continuing to supply the market by export from Australia. Papua New Guinea's policy of reducing protection for inputs into exports will further facilitate such industries.

¹¹ Cairns Chamber of Commerce, *Evidence*, 27 August 1990, p. 115.

¹² DITAC, *Submission*, p. S580.

¹³ *ibid.*

7.2 The Trade Imbalance

7.2.1 In 1990, Australian exports to Papua New Guinea totalled \$767 million. Imports from Papua New Guinea were \$368 million, producing a surplus for Australia of \$182.9 million. Thus the balance was about 1.3:1 in Australia's favour — a considerable reduction from 1989's surplus of \$607 million, that produced a balance of 3.6:1, and of 1988's, 7.5:1. The transformation is almost solely the result of gold being imported for refinement at the Perth mint: \$312 million worth in 1990, 80 per cent of total Papua New Guinea exports to Australia (next was coffee, at \$31 million, providing about 35 per cent of Australia's total supply).

TABLE 7.4: Trends in Australia — Papua New Guinea Trade

	1988-89	1989-90	1990-91
Exports to PNG	785.2	841.8	767.2
Growth (%)	(5.6)	(7.2)	(-8.9)
Rank - Aust exports	14th	16th	18th
Rank - PNG imports	1st	1st	1st
Imports from PNG	104.7	235.2	584.3
Growth (%)	(-4.0)	(124.6)	(148.4)
Rank - Aust imports	34th	27th	19th
Rank - PNG exports*	4th	4th	3rd
Total Trade	889.9	1077.0	1351.5
Growth (%)	(4.5)	(21.0)	(25.5)
Balance	680.5	606.6	182.9
Growth (%)	(7.4)	(-10.9)	(-69.8)
Ratio	7.5:1	3.6:1	1.3:1

*refers to calendar years (1988, 1989, 1990)

Source: AUSTRALIA Submission

7.2.2 By far the most valuable item exported by Australia to Papua New Guinea is petroleum — \$109 million in 1990, about 30 per cent of the total. Even if the Kutubu petroleum project starts producing on schedule in late 1992, it is unlikely that this will change substantially; the crude oil output will not be refined within Papua New Guinea. However, a proportion of it may be refined in Australia — which would considerably reduce the trade imbalance. Australian raw materials, such as grain, meat and structural steel still supply Papua New Guinea manufacturers.

7.2.3 Given the two countries' competitive material resource endowment, a high degree of complementarity in trade is unlikely. Papua New Guinea is well advised to develop markets in Japan and north east

Asia and western Europe. These could be expanded by sales of labour intensive horticultural products ... As shipping and internal transport develop, Australia's share of exports is likely to fall.¹⁴

Papua New Guinea competes with Australia in the production and export of minerals, timber, marine products, and a range of other tropical and sub-tropical products. Ease of shipping, wholesaling, and foreign investment links have made Australia a logical source of imports in the past; but this will change, without substantial work by Australian exporters.

7.2.4 Although Papua New Guinea Government representatives have urged greater concessional quotas to boost Papua New Guinea exports to Australia through PATCRA (the Papua New Guinea-Australia Trade and Commercial Relations Agreement) 'evidence presented to the Joint Committee's earlier report on Australia's relations with the South Pacific suggests that the benefit of concessional quota arrangements may accrue more to Australian importers than to the Pacific producers.'¹⁵ PATCRA provides duty and quota free entry to Australia for all Papua New Guinea exports, except for those affected by any of the four Australian industry sector programs: steel, cars, sugar, and textiles, clothing and footwear. Of these, Papua New Guinea only currently exports to Australia within the latter, TCF sector (\$1.5 million of clothing in 1990). Since most raw materials — certainly those exported by Papua New Guinea — have zero or low tariffs, and are subject to global price structures, the advantage of such arrangements lies in access to markets for labour intensive products. But Papua New Guinea has 'severe supply constraints'¹⁶ and has yet even to approach existing quotas. And as Australia reduces its overall levels of protection, so Papua New Guinea and others granted privileged access will inevitably find their marginal advantage reduced; thus the danger of Papua New Guinea's relying too much on such factors. Further, the Department of Industry, Technology and Commerce 'strongly believes' that, while it understands Papua New Guinea's dependence on revenues from import duties, 'many of the high duties placed on Australian exports should be reduced as soon as possible, through the mechanisms established under PATCRA'.¹⁷ Australia provides a market advisory service to identify market opportunities for Papua New Guinea in Australia, via the South Pacific Trade Commission based in Sydney.

7.2.5 What is required to expand Australian imports from Papua New Guinea is an improvement in the supply capacity of Papua New Guinea ... We are doing what we can in policy terms. It is up to the Australian private sector to take advantage of that. How fast ... will depend on the investment climate in Papua New Guinea ... I think that when this question of bilateral imbalance comes up, our only response is that Australia provides favourable access to Papua New Guinea — more favourable than to any other country — and that the utilisation of that is a

¹⁴ NCDS, *Submission*, p. S530.

¹⁵ DITAC, *Submission*, p. S594.

¹⁶ NCDS, *Submission*, p. S530.

¹⁷ *Submission*, p. S1405.

matter for Papua New Guinea. Investment insurance is very effective aid in Papua New Guinea ... I think that in the current situation of great political risk, for us to provide insurance for Australians investing in PNG could be quite an effective way of expanding the economic capacity there.¹⁸

PATCRA is a one-way agreement in terms of trade. That said, obviously the medium term and longer term benefit is to Australia, if the economy of Papua New Guinea can be strengthened through the avenue of the agreement, and it has certainly strengthened our relationship with Papua New Guinea.¹⁹

7.2.6 The imbalance in trade might be a matter for concern for Australia as well as for Papua New Guinea — 'if it reflected a situation where Australian industry was failing to capitalise on its proximity to sources of material supply for industries in which it held or could hold competitive advantage'.²⁰ There is undoubtedly potential for more such activity — indeed, the lack of Australian non-mining investment in Papua New Guinea is disturbing — but probably not in the areas of major current Papua New Guinea projects. Copper is Papua New Guinea's major export, but Australia is itself a producer and has limited smelting capabilities. There are thus no strong grounds for encouraging a diversion of Australia's mineral processing resources towards the smelting of Papua New Guinea copper ore, either in Papua New Guinea or in Australia.²¹ There may be better prospects, though, in the processing of coffee and coffee products — Papua New Guinea's major agricultural export. There is also scope for investment in food processing, particularly fish and palm oil and to an extent forestry, areas which the Papua New Guinea Government plans to develop in the wake of the mineral boom. These will be important to Papua New Guinea as employment generating industries. But they are also areas where Australia has expertise and experience.

7.2.7 It should be recognised that Australian budget support increases economic activity as a whole and therefore allows Papua New Guinea to maintain a higher level of imports, largely from Australia, than would otherwise be possible.²²

Recommendation 36. The Committee recommends that Australia and Papua New Guinea study the possibility of making a free trade agreement, similar to CER (New Zealand), between the two countries.

¹⁸ Garnaut, *Evidence*, 8 April 1991, p. 1491.

¹⁹ Farrow, DITAC, *Evidence*, p. 1531.

²⁰ DITAC, *Submission*, p. S589.

²¹ *ibid*, p. S590.

²² AIDAB, *Submission*, p. S708.

7.3 The Roles of AUSTRADE and EFIC

7.3.1 'Papua New Guinea is an important market in terms of AUSTRADE's overall priorities.²³ A senior trade commissioner and deputy commissioner are based in Port Moresby, with the latter deputed to focus on Lae, Papua New Guinea's major industrial centre. AUSTRADE operates in Papua New Guinea as in many other countries, principally as a representative service, functioning through a network of personal contacts, through building and constantly revising a market intelligence database, and through arranging a succession of trade exhibitions and missions. Its clients are mainly small to medium sized exporters, and typically first-time exporters. AUSTRADE is developing a package of services for the first-time exporter entering the Papua New Guinea market, to be called the 'wantok' program. Priority targets for AUSTRADE's development of Australian trade in Papua New Guinea are: the mining industry, power systems, communications equipment, computer hardware and software, the automotive industry, processed foods, fresh fruit and vegetables, wine, infrastructure projects, and building materials and equipment.²⁴ AUSTRADE's overall goal is to expand Australia's share of the Papua New Guinea import market from 44 per cent in 1988 to 50 per cent by 1991/92 — meaning an increase in Australian exports by \$400 million. 'AUSTRADE believes this is achievable with a modest increase in resources, which can be provided from within its present allocation.'²⁵

7.3.2 It remains as yet unclear what impact the McKinsey review²⁶ of AUSTRADE will make on the organisation's operations in Papua New Guinea.

However, obviously a crucial question is going to be the extent to which Papua New Guinea fits the efficiency market model of North America, western Europe or New Zealand, or whether it falls into the category of the more difficult market where AUSTRADE assistance is crucial for Australian exporters. It could be said that in McKinsey terms Papua New Guinea for Australian exporters does not rate as a complex market — unlike, for example, Indonesia, the USSR or Japan — but rather is one in which the demand is for quick, efficient market research and for cost-effective trade promotion and in-market support. However, other factors ... perhaps put Papua New Guinea more in the middle of those two extremes. These include the extent of cultural differences that are emerging in Papua New Guinea as the pace of nationalisation is continuing to accelerate; and on the other hand, the lack of real alternative service providers to AUSTRADE in the export facilitation field.²⁷

²³ AUSTRADE, *Evidence*, 8 April 1991, p. 1433.

²⁴ AUSTRADE, *Submission*, p. S622.

²⁵ *ibid.*

²⁶ *Organising to Deliver Export Impact: Australian Trade Commission 1990.*

²⁷ AUSTRADE, *Evidence*, 8 April 1991, p. 1435.

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²⁵ *ibid.*

²⁶ *Organising to Deliver Export Impact: Australian Trade Commission 1990.*

²⁷ AUSTRADE, *Evidence*, 8 April 1991, p. 1435.

7.3.3 Because of the growth in trade and travel between Cairns and Papua New Guinea, and the regional rivalry with Townsville which already has an AUSTRADE office, representations have been made for an AUSTRADE office to be established also in Cairns. AUSTRADE might find it useful to look at ways of servicing both areas to their satisfaction.

7.3.4 AUSTRADE operates very closely in Papua New Guinea with EFIC — the Export Finance Insurance Corporation, Australia's export credit agency — which remains with the Department of Industry, Technology and Commerce as AUSTRADE is shifted to the Department of Foreign Affairs and Trade. EFIC guaranteed \$80 million of supply credit towards the establishment of the Bougainville copper mine; guarantees of \$224 million towards Ok Tedi; \$57 million towards the Misima mine; a \$US240 million credit line to support procurement from Australia for the Porgera gold mine; and \$120 million to the MIM-controlled Papua New Guinea mining company Highlands Gold. Each has led to very substantial growth, and quite lumpy growth, in the export of Australian manufactured capital goods.²⁸

Papua New Guinea has come to be seen by the world financial markets as a high risk market — of course, largely revolving around the events on Bougainville. It is not possible to obtain bank finance for large projects in Papua New Guinea without what is called political risk cover, either by way of government guarantees or by way of investment insurance policies. There must be government supported protection against what are called political risks.²⁹

In Papua New Guinea's case, it is EFIC which more than any other agency has mobilised such support. But besides such large-scale credit insurance, EFIC's provision of finance for the export of capital goods and related services is becoming an increasingly important level for Australian business in Papua New Guinea.³⁰ Loans through EFIC's direct lending facility are provided on terms competitive with those offered by other countries, and the government reimburses EFIC for shortfalls between its commercial borrowing rates and concessional lending rates. Now, however, EFIC's exposure in Papua New Guinea is building towards a potentially lopsided 25 per cent or more of its total portfolio by 1995. Thus:

AUSTRADE has indicated to the government that, while it considers the payment risk in Papua New Guinea acceptable, it is unable to accept risks of this magnitude in a single market. The government is currently examining the extent to which it might directly support future Australian involvement in such projects.³¹

²⁸ EFIC, *Evidence*, 8 April 1991, p. 1438.

²⁹ *ibid.*

³⁰ DITAC, *Submission*, p. S603.

³¹ *ibid.*

If Australia does not provide political risk cover for Papua New Guinea investments, it is unlikely that other international agencies would either:

... because they would see us as being much closer to the situation; they would see Australia as having more influence than they would have; and if we thought it was too risky, I think those projects would not proceed. So we have had greatness thrust upon us by events. We have suddenly become very, very important in the way in which we decide to address these projects.³²

³² EFIC, *Evidence*, 8 April 1991, p. 1439.

Chapter Eight

Australian Investment in Papua New Guinea

The investment potential of Papua New Guinea is great but it is significantly inhibited by security problems. In the last 12 months the government has passed a plethora of laws to address the breakdown in law and order. Political stability and bureaucratic efficiency are also necessary prerequisites and the Government of Papua New Guinea has been addressing those questions. The success of these measures will be vital to the expansion of investment beyond the high profit, isolated capital-intensive mining ventures. The mining sector has continued to attract investment despite the nervousness engendered by the closure of Bougainville.

8.1 The Investment Climate and Security Problems

8.1.1 Investment, along with security, have been the two dominant motives behind Australia's interest in Papua New Guinea since Queensland first promoted the idea of annexation in 1884. Whilst our relationship has grown more complex and sophisticated, for many Australians, particularly Australians living in Papua New Guinea, investment is the primary reason for continued involvement.

8.1.2 Papua New Guinea is the sixth largest recipient of Australian investment. For the investor, the enormous potential for profit taking or profit sharing, is in constant conflict with the risks of trouble of one sort or another with the local people or the Papua New Guinea bureaucracy.

8.1.3 The problems faced by the investor in Papua New Guinea can be summed up in the following way:

Having discovered who owns the land on which the investment is situated or on which it depends, one has only to negotiate an acceptable price for using the land; ensure that claims for additional compensation are not constantly pressed; hope that the owners who negotiated the deal are not themselves challenged by some other would-be owner; protect the property from violent criminals (an exercise which might involve the recruitment of a private army); make arrangements in lieu of standard infrastructure such as roads, airports and telecommunications; possibly build a town (including a school, hospital etc) in which to house employees; and train at least part of the workforce. One can then carry on with the running of mine, factory or farm in much the same way as one would conduct a similar venture in any country.

8.1.4 This is in stark contrast to the desirable investment conditions sought by the private sector — stability both political and social, security internal and external, consistency, predictability and efficiency in policies and services.

8.1.5 The view of all businesses and private sector organisations that spoke to the Committee was that, against these criteria, the investment climate in Papua New Guinea is deteriorating. The law and order situation is becoming critical. Living conditions, especially under a curfew, are very difficult and militate against the recruitment of staff and add seriously to the cost of operations. The administration of government, while conscientious and dedicated, is lacking in technical and financial resources. The land title system is complex, making the outcome of negotiations uncertain. The education level remains very low, so that there are very few appropriately skilled local workers.

8.1.6 The figures for Australian investment are expected to show an increase over the next five years, but most of this is concentrated in the mining industries which are so far more resilient than smaller concerns to the threats of social disorder. The NCDS in its 1991 update on Papua New Guinea explains, however, that even here the appeal of Papua New Guinea as a place of investment may be damaged:

While foreign companies are unlikely to relinquish substantial investments already made, they will be cautious about increasing their investment if the law and order climate does not improve ... Combating the law and order problem raises the cost of production for individual projects and hence the size or grade of reserves required for economic development. Smaller and lower grade mines are not likely to be developed in this environment.¹

This concentration of investment within an area of the economy that is capital-intensive is beneficial for the overall Papua New Guinea economy, especially for government revenues and export earnings, but it does not resolve the unemployment problems. The level of investment required for such capital intensive projects also disguises what is, in other areas, a flight of capital. As Mr Barclay from the Australia Papua New Guinea Business Council explained to the Committee:

There is no investment anymore in agriculture as far as Australia is concerned.

Mr Preston, also from the Business Council, said:

In the main, Australia is withdrawing its investment in the country. The coffee farms are being sold; plantations have been sold to either local interests or the development is in the hands of the new estates — for instance in palm oil and cocoa.

¹ NCDS, *Papua New Guinea Handbook 1991 Update*, p. 4.

There are problems for both Papua New Guinea and Australia in this situation. For Australia, there is the loss of investment opportunities and the consequent trade benefits. For Papua New Guinea, there is the loss of much needed investment capital for broadly based development. The National Centre for Development Studies in their Papua New Guinea Handbook warns that there are dangers in narrowly-based investment in a single sector:

Mining in Papua New Guinea takes place in enclaves. Virtually all production is exported, projects are financed predominantly by foreigners and most of the physical capital and current input requirements are imported.

This is a situation that does not absorb the growing surplus of unskilled labour in the economy, a surplus worsened by the rate of population growth. The high unemployment rate while some have highly paid jobs exacerbates violence and lawlessness and this in turn makes the investment climate more risky.

8.1.7 The Governments of Papua New Guinea and Australia have gone some way to lessen the risks. In September 1990 'The Agreement for the Promotion and Protection of Investment' (APPI) was signed in the presence of both Prime Ministers. The APPI provides for:

- the promotion of investment and the admission of personnel associated with investment;
- the transfer abroad of funds related to investments;
- the treatment for investment on terms no less favourable than those accorded to any other country's investment;
- full protection and security for investment;
- a mechanism for the settlement of disputes, including the use, if necessary, of independent arbitration; and
- prompt, adequate and effective compensation in the case of appropriation and nationalisation of investments.

The time was probably ripe for some sort of official encouragement of investors, particularly with the uncertainty created by the CRA's investment in Bougainville Copper. Nevertheless, it is difficult to see how the Papua New Guinea Government can deliver the security promised under the fourth point.

8.1.8 The Papua New Guinea Government has taken prompt action where possible to support and attract investment. The National Investment Development Authority, an organisation which has plagued would-be

investors, has been dismantled. This authority had fostered a system that caused protracted delays and developed a climate of uncertainty for investors. It is to be replaced by a new body — the Investment Promotion Authority. It remains to be seen whether this authority can overcome the administrative inadequacies of the old system.

8.1.9 Further, Australia and Papua New Guinea signed a double taxation agreement in 1989, formalising arrangements for the equitable treatment of earnings made in one country by the residents of another. Papua New Guinea has since made a series of such agreements. In October 1991, Mr Namaliu's Government announced a new taxation plan to encourage investment. The plan before cabinet at the time of writing would increase deductions to resource companies in order to encourage them to spread more of their income to Papua New Guinea's infrastructure. For every kina spent on allowable infrastructure projects, one kina, up to an allowable cap, could be deducted from company income tax. Mr Namaliu hoped that these types of investments in local communities would have the added benefits of curbing landowner dissatisfaction with mining projects.

8.1.10 The last two years have seen an embryonic change in the figures for Australian investment. In 1989/90 (most recent data) Australia's estimated investment stock in Papua New Guinea was \$A1.56 billion. This represents 1.7 per cent of Australia's total foreign investment stock. Investment in Papua New Guinea has increased significantly from \$A0.86 billion in 1985/86 to \$A1.56 billion in 1989/90. Industry estimates suggest the flow of new investment from Australia to Papua New Guinea over the next five years could be as much as \$A4.2 billion.

8.2 Investment in Mining

8.2.1 Nowhere is the conflict between great riches and great risks seen more clearly than in the mining sector. The past 12 months have witnessed an explosion of new projects. While the mine at Panguna (Bougainville) was quiet, Mt Kare continued to yield its alluvial gold, Porgera and Misima came into production, an agreement was signed to begin the Kutubu oil project, gas will soon flow from Hides and Iagifu, and the mighty mountain at Ok Tedi, having given up its golden crown, is now yielding copper.

8.2.2 Bougainville, the first of the major mining projects in Papua New Guinea, began operations in 1972 and ceased in 1989. It was a significant factor in the Papua New Guinea economy. There are financial losses in the loss of revenue — 10 per cent of the Gross Domestic Product, 36 per cent of export earnings and 18 per cent of government revenue — and in the loss of investment in skilled personnel and in the closure of the mining school and the Arawa Technical College. Until the suspension of operations 12,000 employees had received training from BCL of a kind required for industrial operations. In 1989, Bougainville Copper Limited had a paid up capital of K401 million. From this it generated K1.7 billion in profits over the 17 years of operation of which 61.5 per cent went to the

National Government, 4.3 per cent to the Provincial Government, 1.4 per cent to the landowners and 32.8 per cent to the non-government shareholders. The company estimates that there is 15 to 25 years of life left in the Panguna ore body.²

8.2.3 Ok Tedi is now the largest mining investment in Papua New Guinea. The mine is located close to the Irian Jaya border. It is an open cut mine producing gold, silver and copper. It began operations in 1984, reached full production in 1989 and expects to deplete the known ore reserve in 2008. The total capital and reserves at 1989 were K595 million. The State of Papua New Guinea holds a 20 per cent share in the mine. OKML employs 2,002 people of whom 1,728 are Papua New Guinea nationals. It has provided town infrastructure, spends K3 million annually on education and training, K1.7 million annually on compensation for landowners, and pays K19 million annually in taxes and customs receipts. Local businesses around the town recorded an annual turnover of K22 million. Export earnings for Papua New Guinea from Ok Tedi are substantial (approximately K500 million in 1990). However debt servicing obligations have prevented it from contributing to government revenues from profits, dividends or royalties yet.

8.2.4 Placer Pacific Ltd operates the Porgera and Misima gold mines. Production began in 1990, although the gold mining interests of the company in the area date back to the 1920s. Porgera employs 1,100 workers, a number that they expect to rise to 1,590 by 1995. Of these approximately 1,200 will be Papua New Guineans. The State of Papua New Guinea holds a 10 per cent interest in the project. Of that, 4.9 per cent is held for the benefit of the local landowners and the Enga Provincial Government. Other contributions to the Papua New Guinea economy are:

- 1.25 per cent royalty on gross revenue;
- customs receipts on imported goods and equipment;
- income tax of PAYE employees;
- compensation payments to landowners; and
- substantial infrastructure — roads, power generation facilities, an airstrip, a town site, health facilities and schooling facilities.

Approval for the mine and agreements as to the nature of the development were worked out by the Porgera Development Forum, a group consisting of the Porgera Joint Venturers, the National Government, the Enga Provincial Government and the local landowners and other affected people. This has proved to be a model for other such negotiations. Mr Ron Hiatt, the Manager of Placer Niugini, told the Committee:

There was constant consultation with the landowners and the national government ... A forum was introduced for the Porgera project. [It] was introduced to make sure that the landowners were involved right through the negotiations and, particularly near the end before the Special Mining

² CRA, *Submission*, p. S1090.

Lease was signed, the provincial government and the national government. So there is a three way contra agreement, called the package, between the national government, the provincial government and the landowners ... [At Porgera] compensation to date to landowners for acquisition of land amounts to K21.5 million.³

8.2.5 Misima gold mine is located 190 kilometres east of the eastern most point of the Papua New Guinea mainland. Total capital investment was K180 million. It began production in 1989 and expects to complete production in 1999. The state of Papua New Guinea has a 20 per cent shareholding in the mine. It should provide revenue to the government of approximately K10 million per year. The company operates in a way similar to the arrangements for the Porgera mine in providing infrastructure, training and compensation to the islanders.

8.2.6 There are further gold mining developments at Mt Kare where the Special Mining Lease of the joint venturers has been contested by local alluvial miners, at Hidden Valley, at present shelved, and Lihir, where there is a particularly rich but isolated and difficult deposit.

8.2.7 The Kutubu oil project in the Southern Highlands is another massive resource investment. Development approval was given on 10 December 1990. The total investment is US\$950 million. Production should begin in 1992. In the construction phase there will be 4,000 people employed, 75 per cent of them Papua New Guinea nationals. After the construction phase 300 people will be employed. The national government has a 22.5 per cent equity share in the project. The provincial government and the landowners will each have a 7 per cent share in the company. Returns are expected to be between US\$500 million and US\$1,000 million annually depending on the price of oil.

8.2.8 The translation of the wealth generated by the resources boom to a more even prosperity for the whole country depends on the ability of the Government of Papua New Guinea to transfer the wealth successfully. The areas of need are higher agricultural productivity and a broader manufacturing base which will provide jobs, and a solution to the shortage of skills and physical infrastructure.

8.2.9 The maintenance of investment generally is dependent on confidence. A further factor affecting confidence has been the land tenure system of Papua New Guinea. DITAC explained to the Committee:

The current difficulties in the mining sector have arisen in part, at least, from the phenomenon of communal ownership of land in Papua New Guinea, which has been estimated to exclude foreign ownership from possibly 97 per cent of the country's land. Communal ownership in turn is reflected in, or otherwise linked with, strong regional

³ Placer Pacific, *Submission*, pp. S1376-83.

identities and the institution of provincial governments and, in the case of the North Solomons Province (Bougainville), with latent secessionism.⁴

The mining projects have sustained confidence so far despite the problems associated with land tenure, the experience of Bougainville, the problems of law and order and the frustrations of lack of skills and slow moving bureaucratic systems. *Smaller investment has not been so resilient.*

8.2.10 The work of such organisations as the Australia Papua New Guinea Business Council is of importance in promoting investment at this level. The Council supplies information to would-be investors or traders through fortnightly news digests and newsletters, through its library and inquiry service, through a members' directory, through regular seminars on Papua New Guinea and through personal contacts in both countries. It is an organisation ideally placed to facilitate an exchange program or special visit program for Papua New Guinea businessmen, especially for technical or management training.

8.2.11 The Committee believes that the changes being wrought by the present Government of Papua New Guinea to stabilise political and social conditions and the systems such as the forum devised by Placer Pacific developed to settle landowner claims and arrangements such as the Agreement for the Promotion and Protection of Investment to facilitate investment will be beneficial in inspiring confidence.

Recommendation 37. *The Committee recommends that, in conjunction with the Papua New Guinea Business Council and the Papua New Guinea Department of Trade and Industry, AUSTRADE develop investment seminars specifically directed at the manufacturing, processing or agricultural sectors of Papua New Guinea. (See also Recommendations 34, 35 and 36.)*

Further reference is made to trade and investment in Chapter 7.

⁴ Submission, p. S600.

Chapter Nine

Development Co-operation

From colonial times to the present, aid has dominated the Australia-Papua New Guinea relationship. This chapter begins with an overview of Australian aid. It then considers the context in which aid has come to colour all aspects of the relationship. Current aid arrangements are reviewed. The categories of bilateral aid (budget support, project, program and NGO support) are then assessed. The Committee concludes that budget support should be replaced by program aid, supported where necessary by project aid. The move from budget support to program aid should be undertaken as a matter of urgency, while taking steps to ensure a smooth transition. The choice of program areas should rest on sound long-term economic and social policies and be determined after close consultation between Australia and Papua New Guinea. The Committee recommends that the overall size of the aid budget should be maintained at current nominal levels at least until 1998, with the level being reassessed if increases in Papua New Guinea's resource-based income are significantly higher than anticipated. In the event that the total Australian aid budget is reduced, the Committee accepts that a pro rata reduction in aid to Papua New Guinea may be necessary, but it should be no more than a pro rata reduction and reasonable notice should be given. The capacity for non-government organisations to deliver cost-effective project aid should be supported with a greater share of available funds. The need for flexibility and compromise in the introduction of new arrangements will be essential to safeguard the interests of both Australia and Papua New Guinea. The chapter concludes with a consideration of multilateral aid as an alternative to bilateral aid.

9.1 An Overview of Australian Aid

9.1.1 Development Assistance (commonly called 'aid'), while only one of the inquiry's terms of reference, has been accorded more time and attention than any other single topic. This is perhaps inevitable given that one of the most developed countries in the region has for its closest neighbour, one of the lesser developed regional powers, which also happens to be its former colony. Nevertheless, Australia and Papua New Guinea look forward to a time when the practicalities of neighbourliness are not dominated by the unequal development patterns of the two countries. Such an ideal state should be the objective of the aid relationship. The development assistance provided by Australia for Papua New Guinea should be just that — it should be assistance for development.

9.1.2 Papua New Guinea receives the largest single share of the Australian aid program. For 1990/91 AIDAB estimated the share at \$325 million or approximately 25 per cent of the entire program. Current Official Development Assistance (ODA) to Papua New Guinea is provided under the Treaty on Development Co-operation, which provides for the transfer of \$1.5 billion in the five years from 1989/90 to 1993/94. Funds are transferred largely by way of budgetary support, with more recent

transfers through project aid and through a structural adjustment grant associated with the World Bank Consultative Group for Papua New Guinea. A survey of Australia's current aid program to Papua New Guinea is at Appendix 9.¹

9.1.3 While aid to Papua New Guinea remains the largest part of our overall official development assistance, it is a decreasing part of the Papua New Guinea budget. In the early 1970s Australian assistance accounted for around 60 per cent of the budget, but had fallen to 15 per cent by 1989.²

9.1.4 The main categories of development assistance in the period since independence are set out in Table 9.1.

TABLE 9.1: Australian Budget and Balance of Payments Support

PNG Financial Year	Australian Budget Support (KM)	Australian Balance of Payments Support (KM)	PNG Budget (KM)	Australian Budget and Balance of Payments Support (% of PNG Budget)
1976	109	-	415	26
1977	169	-	433	39
1978	172	-	494	35
1079	175	-	538	33
1980	175	-	635	27
1981	184	-	689	27
1982	186	-	707	26
1983	213	-	785	27
1984	230	-	823	28
1985	214	-	864	25
1986	203	-	920	22
1987	181	-	972	19
1988	182	-	1067	17
1989	184	-	1190	15
1990	205	11	1176	18

Source: AIDAB Statistics Section, 1989 and 1990 PNG Budget Papers Vol 2

In addition to these main categories there are many smaller areas of expenditure of aid to Papua New Guinea. There is a complicated network by which funds are transferred from Australia to Papua New Guinea. Some examples follow:

¹ AIDAB, *Submission*, July 1990, pp. 5785-89.

² Garnaut and Elek, *Submission*, p. 51782.

- funds spent by the Australian Centre for International Agricultural Research (ACIAR) in Papua New Guinea amounted to about \$460,000 in 1990/91;
- funding for ACPAC (AIDAB Centre for Pacific Development and Training), is used for training Papua New Guineans as well as trainees from other developing countries;
- Australia pays the United Nations Commissioner for Refugees for the upkeep of 3,000 or so refugees from West Irian (sometimes euphemistically called 'border crossers'). Another \$500,000 was paid for this purpose in May 1991;
- payments to a former staffing assistance scheme (for employees of the former colonial administration) are also, by some sleight of hand, categorised as aid; and
- a special payment of \$100,000 to the International Red Cross and \$258,000 to the Committee for Humanitarian Assistance and Rehabilitation Aid to Bougainville (CHERAB).³

9.1.5 Some non-government organisation funds transferred to Papua New Guinea originated from the taxpayer. AIDAB funds such organisations as the Overseas Service Bureau and Community Aid Abroad, so that some NGO funds are really ODA (official development assistance).

9.1.6 In addition some Australian funds arrive indirectly in Papua New Guinea via Australian payments to multilateral organisations. While the international financial institutions are obvious donors, the operational organisations are also active in Papua New Guinea. Papua New Guinea is a member of UNESCO (United Nations Educational, Scientific and Cultural Organisation) and Australia supports its membership in practical ways where possible. There is a UNDP (United Nations Development Program) office in Port Moresby. UNICEF and the UNFPA (United Nations Fund for Population Activities) are other multilateral organisations with interests in Papua New Guinea. All are supported (to some extent) by Australian funds.

9.1.7 Other financial flows to Papua New Guinea from Australia, while not being categorised as aid, have developmental assistance overtones. The Defence Co-operation Program (valued at \$54 million in 1990/91) is a case in point. The concentration on training is linked to Papua New Guinea's development needs. The Defence Department believes that the operations of the Army engineers in Mendi in Southern Highlands Province are such that AIDAB ought to fund the project.

³ Evidence, 21 October 1991, p. 1617.

9.1.8 Australian objectives in being so heavily involved in development assistance to Papua New Guinea are often seen as a function of self-interest rather than an altruistic humanitarianism. While it is perhaps doubtful if the motivation is of much consequence or concern to recipient countries, it is interesting to consider the stated objectives for aid in the July 1991 edition of AIDAB *Business News*, which states:

One primary objective for development co-operation with Papua New Guinea is the promotion of sustainable economic growth.

A second objective is a progressive reduction of the overall level of Australian assistance combined with a move away from budget support to programmed activities.

9.2 The Aid Context

9.2.1 When Papua New Guinea became a sovereign and independent state in 1975, the new country had little economic or financial substance on which to base its new-found political independence. As a consequence of Australia's lack of preparation for Papua New Guinea's independence, we had no option but to continue financial support for Papua New Guinea. In the words of Professor Helen Hughes, 'I think we have to acknowledge that Australia did not prepare the country for independence ... That, I think, is the key weakness and the key to the problems of Papua New Guinea'.⁴

9.2.2 After 1975, funding continued in the same way that it had before independence, and in the same way as the Australian states were funded — by direct grant from the Commonwealth. This type of funding, known in the aid context as *budgetary support*, while no longer the chief source of income for Papua New Guinea, has continued to be its chief source of income from Australia. Other transfers such as Australian project aid, defence co-operation and funds obtained through non-government organisations, are minor in comparison.

9.2.3 The context in which development assistance is provided to Papua New Guinea has changed a good deal since 1975. As the politics of dependency are replaced by the rhetoric and diplomacy of equality, budgetary support has come under increasing scrutiny within Papua New Guinea, and more particularly, within Australia. While the increasing political maturity of Papua New Guinea has been a factor in the evolution of the aid context, the development of a more sophisticated analysis of development economics has also been significant.

9.2.4 In this regard, the 1984 Jackson Report⁵ has been seminal. Many of the observations aired in the report have informed the study of developmental economics in recent years. Since 'Jackson' the micro-economic issues arising from aid have passed into the thinking of

⁴ *Evidence*, 21 November 1990, p. 1326.

⁵ *Report of the Committee to Review The Australian Overseas Aid Program*, AGPS, 1984.

politicians, officials and the aid community in general. They remain a vital part of the evolving aid context of the Australian-Papua New Guinea relationship. The following three quotations are examples of sort of approach the Jackson Report has encouraged:

Aid levels should be sufficiently firm to encourage long-term planning, yet flexible enough to avoid 'bunching' and other short-term administrative problems.⁶

A diversification of projects over too many sectors should be avoided as far as possible.⁷

In the 1950s and 1960s, the Republic of Korea and Taiwan were assisted by large quantities of aid from the United States. Aid was vitally important and helped them to build up infrastructure, but it alone did not bring economic development.⁸

9.2.5 A major change in the aid context since Independence has been the establishment of the World Bank Consultative Group for Papua New Guinea, which met first in Singapore in May 1990. This change, dubbed 'the multilateralisation of assistance' by AIDAB's Tim Terrell, provides a significant opportunity for Papua New Guinea to consider development assistance from a wider economic perspective. Papua New Guinea is now considerably less reliant on Australian advice and expertise in making development co-operation decisions. Mr Terrell, in giving evidence to the inquiry, made the following observation on the significance of the Group:

... the fact of the establishment by Papua New Guinea with the World Bank of a consultative group handling aid relations with Papua New Guinea and the donor community generally has provided a forum for the sorts of discussions, the sorts of advice, the sort of dialogue on policy issues which were lacking previously, which Australia did not have with Papua New Guinea. I think that is a mechanism which is providing an opportunity to assist Papua New Guinea with its micro-economic adjustments and its macro-economic policy adjustments.⁹

9.2.6 The aid context in which Australia provides support for Papua New Guinea is affected by political and economic events and analysis within that country, perhaps more than it is by external circumstances. The changes taking place within Papua New Guinea are finding expression in a more critical scrutiny of aid in a wider economic context.

⁶ *ibid.*, p. 182.

⁷ *ibid.*

⁸ *ibid.*, p. 191.

⁹ *Evidence*, 22 October 1990, p. 804.

9.2.7 During a visit to Papua New Guinea in February 1991, the Committee was urged by ministers, provincial politicians and businessmen to consider aid in the trade context, particularly in relation to the considerable trade imbalance in Australia's favour. While recognising that the trade imbalance is of serious economic consequence for Papua New Guinea, the Committee does not consider it should be considered as an aid 'offset'. The Committee reiterates the view expressed in its 1989 report *Australia's Relations with the South Pacific*:

The Committee rejects the idea that aid should be seen as in some way offsetting our trading surplus with the region, and is concerned that this attitude could lead to an expectation that in time aid will equate with the degree of trade surplus.¹⁰

9.2.8 A further significant factor in the aid context is the relative unreliability of aid funds. The decrease in the aid budget in 1985/86 was a severe jolt of Papua New Guinea. The Treaty on Development Co-operation (signed in 1989) was designed in part to protect the country from further vulnerability to sudden policy changes in Australia.

9.2.9 Another significant element in the aid context is the climate of rapid change which has accompanied agreement on the phasing out of budget support. The question of what will replace it, and the approaching review of the Treaty in September 1992, have given the aid debate an increasing urgency.

9.2.10 The expansion of Papua New Guinea's aid sources has increased its sensitivity to the policies of others — always the most bitter pill for the recipients of aid. A structural adjustment program has been determined in consultation with the World Bank and other donors and international financial institutions. The implementation of the program, particularly in relation to tight fiscal and wages policies, has caused political and social pain.

9.3 Current Aid Arrangements

9.3.1 Australian development assistance to Papua New Guinea is regulated by a Development Co-operation Treaty. The current five year treaty period will end in 1993/94, with a review being due in September 1992. The Treaty is subject to adjustments from time to time resulting from changed circumstances. An opportunity to consider these arises at the annual Papua New Guinea-Australia Ministerial Forum. The treaty is also subject to adjustment because its funding is dependent on the annual Australian budget cycle.

9.3.2 Ministerial or Prime Ministerial visits are sometimes the occasion of announcements about adjustments to the current arrangements. During Dr Blewett's visit to Papua New Guinea in October 1991 for example, he

¹⁰ Joint Committee on Foreign Affairs, Defence and Trade, *Australia's Relations with the South Pacific*, AGPS, 1989, p. xxviii.

announced a transfer of \$5.5 million from budget support to project aid.¹¹ Other major announcements about development assistance were made during Mr Hawke's visit to Papua New Guinea in September 1990 and Mr Namaliu's visit to Australia in September 1991.

9.3.3 The state of flux of current arrangements is emphasised in the following AIDAB letter:

You will be aware that the two Prime Ministers agreed, during Mr Hawke's visit to Papua New Guinea last September, to explore the issues involved in a faster shift from budget support to project aid in the remainder of the current Treaty period. It was agreed in principle during Mr Namaliu's recent visit to Australia that a shift would take place in 1992-93 and 1993-94 — the last two years of the Treaty. Most recently, it was also agreed, that an amount of \$5.5m should be reallocated from Budget Support to project aid in 1991-92, to fund overprogramming caused largely by the decision to double the size of the Police project and to maintain the current momentum of the project aid program. Budget support in 1991-92 is therefore to be reduced from \$275m to \$269.5m, and project aid increased from \$31.6m to \$37.1m this financial year. Part of the agreement was that the Australian Government would immediately make available the \$5.5m of Australia's structural adjustment grant which had been set aside for Bougainville reconstruction ...¹²

9.3.4 Recognition of the urgency of changes resulted in the recent establishment of a joint officials working group. It was formed to identify and develop options for the future level and form of Australian aid beyond 1993-94. The options will be considered by ministers at the September 1992 review provided for in the Development Co-operation Treaty.¹³ The Working Group met in August 1991 and is scheduled to meet again in November 1991, when it will consider a faster shift to project aid in 1992/93 and 1993/94.¹⁴ The draft terms of reference for the Working Group are attached at Appendix 11.

9.4 Categories of Aid. — Budget Support

9.4.1 Since Papua New Guinea achieved independence in 1975 the major part of Australian aid (\$3.7 billion of the total of \$4 billion) has been given as budget support — straight transfers from Australia to Papua New Guinea's general revenue. The essence of budget support is that it involves the least interference in the affairs of the recipient country by the donor country. However, the degree of 'assistance' afforded by this method of aid to Papua New Guinea's 'development' is very difficult to measure.

¹¹ DFAT, *Submission*, p. S1814.

¹² AIDAB, *Submission*, p. S1804.

¹³ DFAT, *Submission*, p. 1813.

¹⁴ *ibid.*

9.4.2 The Auditor-General's Report No. 13 on AIDAB's aid to Papua New Guinea,¹⁵ while reporting that the Audit Office was advised that it was not possible to monitor directly the effectiveness with which budget support funds had been spent, nevertheless seemed to accept that the funds had not been spent effectively. The audit found that 'despite \$4 billion in aid assistance by Australia ... real living standards for most of the population are lower than those for comparable developing countries'.¹⁶ The Audit Office did not seek to establish what the real living standards for Papua New Guineans might have been if the aid (most of which was budget support) had not been forthcoming. Perhaps the answer to this question might have been a better indicator of the effectiveness of 16 years of budget support. The Committee was not persuaded that the budget support given by Australia to Papua New Guinea during the past 16 years has been ineffective, or that more progress could have been measured if the bulk of the money had been spent on projects.

9.4.3 The Auditor-General is just one of the many voices raised against the concept of budget support. The Committee received many opinions that budget support had not been effective. It seems to be an idea that has had its time. The combination of a maturing relationship with a maturing neighbour, and the Australia taxpayers' legitimate demands for accountability for the expenditure of public funds, require a new approach to development assistance. The Papua New Guinea Government also supports the phasing out of budget support. Prime Minister Namaliu has stated publicly on several occasions that budget support is to be phased out by the year 2000.¹⁷

9.4.4 Budget support should be assessed as a product of a particular time, rather than as a matter of giving the wrong sort of aid for the past 16 years. This view is shared by senior AIDAB officials:

... there is no single type of aid which is applicable to all circumstances, and circumstances in any particular country change over time. So what may have been appropriate aid at one time may be inappropriate at another time.

Australia's emphasis on budget support was sensible when Papua New Guinea needed to bridge the gap between expenditure and revenue shortfalls in the first decade after Independence. It allowed Papua New Guinea to concentrate on the urgent short-term issues of macro-economic stabilisation ...¹⁸

¹⁵ Auditor-General's Report No. 13 1990-91: *Australian Development Assistance Bureau — aid to Papua New Guinea*, AGPS 1990.

¹⁶ *Ibid.*, p. ix.

¹⁷ AIDAB, *Submission*, p. S1805.

¹⁸ McCawley, P and Phillips, S 'Australia's Aid to Papua New Guinea Issues and Prospects', in Anderson, D (ed.) *The PNG-Australia Relationship*, 1990, p. 57.

9.4.5 Despite the general consensus that budget aid is an idea whose time has passed, there has been little economic analysis addressing the efficacy of budget support. (An exception is the submission by the National Centre for Development Studies, which argues for a lessening of all aid.¹⁹ The view that the time is ripe for new aid arrangements to displace budget support appears to be based on factors other than economic analysis. The context in which this assistance will be negotiated reflects the frustration felt by both countries in the face of continuing developmental problems despite 16 years of independence and \$3.7 billion of budget support. The context has been starkly put by the Department of Foreign Affairs and Trade:

Papua New Guinea's problems are for it to solve. If the solutions are to be effective they must also be implemented by Papua New Guineans. If they are to be sustainable they must also be solutions using — to the extent possible — Papua New Guinea's own resources.²⁰

9.4.6 While the Committee agrees that continuing budget support indefinitely is not in the best interests of Australia or Papua New Guinea, it does not approve wholeheartedly the government's proposed alternative:

It is the Australian Government's intention that budget support will be replaced, though not on a dollar-for-dollar basis, with a substantial project aid program. The level and composition of that program remains to be determined. But the Government considers appropriate the current sectoral focus on law and order, human-resource development, rural development and institution strengthening.²¹

9.4.7 It appears that reactions against budget support have unwittingly been adopted as arguments in favour of project aid, without a clear analysis of whether project aid is the best possible alternative. The Committee applauds the moves to at least consider other options, but recommends a stringent and urgent analysis of the effectiveness of different aid options. The pace recommended is something more than that revealed in the following:

AIDAB has also commenced some exploratory work on options for sector program assistance. This type of assistance is usually conditional on the recipient government implementing a range of policy and institutional reforms in relation to a specific sector. AIDAB is currently exploring the scope for innovative mixes of project and program aid which could enhance the developmental impact of the future development co-operation program.²²

¹⁹ Submission, p. S1527.

²⁰ Submission, p. S1807.

²¹ DFAT, Submission, p. S1813.

²² AIDAB, Submission, p. S1805.

9.4.8 While budget support has fallen into disfavour, it has been the means by which large sums have been transferred to the support of Papua New Guinea at a time when it was most needed. As a method of aid transfer it is the least administratively complex, while maximising flexibility. It is a sign of change within Australia that this aid mechanism has fallen into disrepute, but it also signifies change within Papua New Guinea. The Australian taxpayers (and their elected representatives) demand transparency and accountability. Papua New Guineans, particularly their elected representatives at the provincial and local levels, demand visible signs of progress as a result of international aid. They wish to be reassured that aid is not disappearing into the bureaucracy.

9.5 Categories of Aid — Project Aid

9.5.1 Project aid is the most common form of assistance from developed to less developed countries. A 'project' is requested (at least in theory) by a recipient country, and the details are determined by negotiation between the donor and recipient. The projects are very often implemented by contractors from the donor country. The essence of a project is that it is something done for a recipient country by a donor country. A summary of current projects is at Appendix 10.

9.5.2 AIDAB has developed a sophisticated project cycle, encompassing at least the following stages: feasibility study, implementation stage, monitoring, evaluation and assessment. Each stage is accompanied by extensive negotiations with officials of the recipient country. With large projects there would be many more stages than this, with many thousands of dollars expenditure before any results can be seen in the recipient country.

9.5.3 The cycle is time-consuming as well as costly. Large projects must be put to tender. It is not unusual for years to pass between pre-feasibility study and the first stages of implementation. As an example, the Auditor-General's Report No. 13 analysed the steps taken for one particular project (the taxation assistance project), before implementation began. In this case the project was sought in April 1985. The Auditor-General identified twenty steps before the preferred tenderer was selected (step no. 21) in November 1988.²³

9.5.4 The emphasis in designing projects is on efficiency and effectiveness, but the process is laborious. A large proportion (87 per cent) of the funds spent on project aid are spent in the donor country (figure quoted in a speech by Dr Peter McCawley, Deputy Director General of AIDAB). Most of these funds go to Australian contractors for supplies and/or services. Project aid, when compared with budget support, is also a large consumer of human resources in the aid agency. The six people who currently staff the Papua New Guinea Section of AIDAB, would not be able to manage a much enlarged project aid output.

²³ op cit, pp. 47-48.

9.5.5 Despite the care taken in designing projects it is impossible to guarantee a successful outcome. There is a particular problem in many human resource development projects where training in-country might cover up to 12 months. It takes only a few transfers of the people who received the training to delete the benefits of the project. Infrastructure projects are also fraught with difficulties, especially where the implementation is hampered by a lack of trained personnel and security problems for Australian contractors. The developing world is littered with once-splendid projects, unable to be maintained once the builders have departed.

9.5.6 A further recognised problem with project aid is the absorptive capacity of the recipient country. In addressing the Lae Colloquium in September 1991 Dr Blewett said:

I do recognise that it is harder, at least at the start, to absorb project than budget support aid.

Projects require skills, especially in planning, on the part of both donors and recipients, and until those skills are built up, it can be difficult to realise the benefits of project aid activities. But project aid, once a start is made in implementing it, can create a virtuous circle — the more people trained in project activities, the more assistance can be absorbed, and so on.²⁴

9.5.7 The absorptive capacity of Papua New Guinea has been studied by the National Centre for Development Studies (NCDS) which concluded:

We believe that Papua New Guinea's absorptive capacity for foreign financed investment is limited. Under the Treaty ... Australia is committed to providing ... program and project aid ... rising to \$A35 million in 1993/4. Other donors are expected to be giving something like \$A140 million of aid by 1993/94 ... a complete transference of all Australian aid to program and project aid in 1993/94 would imply doubling of total foreign financing over its 1988 levels, even if private investment inflows did not exceed their 1988 levels. It is impossible to envisage the productive absorption of such transfers. The Centre proposes that such transfers be increased as budget aid is wound down.²⁵

9.5.8 The inherent difficulties in a rapid change to project aid need to be considered in the light of the positive attitude towards this type of aid by many of those most affected by it. The Papua New Guinean Government would like Australia to undertake more projects than our present project aid commitments under the treaty.²⁶ The Committee was told during its visit to Papua New Guinea in February 1991 that politicians

²⁴ DFAT, *Submission*, p. S1838.

²⁵ *Submission*, p. S728.

²⁶ DFAT, *Submission*, p. S1814.

at the provincial and local levels of government are strong supporters of more project aid at the expense of budget support. Discussions with politicians at the provincial and local levels revealed no shortage of ideas on how project aid should be spread throughout the country. The Eastern Highlands Provincial Government formalised its view in a submission:

At our round table discussions on Tuesday afternoon, several of my Ministers made it clear to you that they are not happy with the Australian Government giving untied budget aid to our country.

I would like to now formally advise you that the Eastern Highlands Provincial Government is convinced that it would be far better for all financial aid to Papua New Guinea in the future to be tied. By this we mean that we believe it would benefit the people of the Eastern Highlands far more if the Australian Government targeted all financial aid to specific projects or programs in the provinces.

Our criticism of the present system of the untied budget aid is that we do not see any direct physical benefit of Australian aid money in the Eastern Highlands Province.²⁷

9.59 The essence of project aid (when compared with budget support) is the prominent role of the donor and the consequent lessening of control by the recipient country, over the end use of the funds. The positive side of this provides the attraction of project aid for many people in Papua New Guinea. Project aid is seen as the means by which Papua New Guinea can have institutions and services which it cannot deliver without assistance. Where technical expertise as well as money are needed, project aid has often been found to be the most suitable method of assistance.

9.510 The negative side of the same aspects of project aid are less than attractive to recipient countries. The constraints which may be imposed on the recipient country have been highlighted by the helicopter affair. In commenting on this matter a DFAT official told the Committee:

We would obviously not be providing support for any particular activity if we did not share the aim for which the PNG Government had set up that particular activity.²⁸

9.511 The lack of control is a difficult matter for proudly independent countries.

9.512 Project aid also has a number of problems inherent in over dependence on expatriate workers. The Overseas Service Bureau listed some of the difficulties (in reference to expatriate workers in general, but the problems also hold good for expatriate aid-workers):

²⁷ Submission, p. S1800.

²⁸ Evidence, 21 October 1991, pp. 1630-31.

- The disparities in salaries between local and expatriate staff employed on the same task perpetuate rather than break down barriers between different cultural groups. Expatriate enclaves contribute to social disruption.
- Expatriate staff are often recruited on the basis of technical competence alone, with insufficient attention paid to selection criteria that take account of cultural sensitivity, and the ability to transfer skills and relate to counterparts on an equal basis.
- Costs associated with recruitment through normal bilateral and commercial consultants are high.²⁹

9.5.13 Plans are being developed for a substantial increase in project aid to Papua New Guinea:

... it is the Australian Government's intention that budget support will be replaced, though not on a dollar for dollar basis, with a substantial project aid program. The level and composition of that program remains to be determined but the Government considers the current sectoral focus on law and order, human resource development, rural development and institution-strengthening to be appropriate. Our current activities in these sectors are likely to be expanded as the project aid program increases.³⁰

9.6 Categories of Aid — Program Aid

9.6.1 After consideration of hundreds of pages of submissions and hearing weeks of evidence on the budget support/project aid debate, the Committee believes that a better way can be found to support the development needs of Papua New Guinea by methods that are consistent with Australia's interests. Consequently the Committee collected evidence and studied a type of assistance commonly called 'program aid'. Program aid is used here in the sense of direct funding of a sector, such as education or the police to achieve designated outcomes. The implementation of the individual elements of the program would normally be undertaken by the recipient country, with the donor country implementing some elements of the program (i.e. projects), when requested.

9.6.2 The sort of program aid proposed by the Committee can be defined further by a description. Subject to consultation with the Papua New Guinea Government, program aid would have the following features:

²⁹ Submission, p. S300.

³⁰ AIDAB, Submission, p. S1805.

there would be definite goals:

An example might be program support for the education sector. The objective could be to achieve a certain level of education for all children within four years. The objectives would be approved by the Australian and Papua New Guinea Governments.

the program would be monitored each year:

AIDAB would be required to monitor the program, assessing it against the agreed objectives. The actual methods of monitoring and reporting would need to be determined by the Papua New Guinea and Australian Governments. It is possible that some form of joint Auditors-General report might serve the purpose. The collaboration involved would itself be a form of institution building, offering developmental benefits to both Papua New Guinea and Australia.

non-government organisations (NGOs) could participate:

NGOs would be able to participate in the program, having access to Australian funds earmarked for the purpose. Those parts of the program (or individual projects) implemented by NGOs would also be subject to monitoring by AIDAB.

funding would be reasonably long term and would be additional to the funds allocated by the Papua New Guinea Government to the program area:

Designated programs would be funded over a period of years, subject to the monitoring process revealing satisfactory progress in achieving the identified goals. It is not expected that Australian program aid would provide total funding for a particular sector. Ideally, current Papua New Guinea funding for a particular sector should continue at the same level, so that outcomes of Australian additional funding for the sector would be clearly identifiable.

project aid in the program area could be included:

It is likely that the Papua New Guinea Government would seek technical assistance with the implementation of some areas of the program being supported by Australia. If so a limited number of projects, preferably consistent with the areas of program aid supported by Australian aid, could be funded and administered by AIDAB. This project funding would be in addition to the funds earmarked for the program aid.

9.6.3 AIDAB has a cautious attitude to program aid. The Deputy Director General expressed his concerns to the Committee:

AIDAB has also commenced some exploratory work on options for 'sector program assistance'. This type of assistance is usually conditional on the recipient government implementing a range of policy and

institutional reforms on relation to a specific sector. AIDAB is currently exploring the scope for innovative mixes of project and program aid which could enhance the developmental impact of the future development co-operation program. As I understand the Committee is interested in the concept of program assistance I have attached a set of draft guidelines on program assistance prepared by the Development Assistance Committee of the OECD. You will note from these guidelines that program assistance is complex and involves a reasonable degree of involvement of donor governments in the policy formulation process of recipient governments. As stated above we are beginning to explore these issues with PNG but it is an area where in view of our historical links with PNG we need to proceed cautiously and sensitively.³¹

9.64 While the last sentence is very sound advice, it is based on the assumption that a new Australian program aid package for Papua New Guinea would necessarily follow the guidelines developed by the OECD and the World Bank. The concerns about excessive policy intervention, for example, could be allayed if program aid was thought of in much the same terms as project aid, but with the Papua New Guinea Government being the agent, in place of an Australian contractor.

9.65 Clearly both Australia and Papua New Guinea could benefit from studying the implementation of program aid in other countries, and documents such as that produced by the DAC and referred to above. But a form of program aid agreed between Australia and Papua New Guinea would be based on principles determined by these two countries, and would not necessarily be the same as models employed elsewhere. An appropriate model for Australia and Papua New Guinea would take account of the independence and dignity of Papua New Guinea, but could still support policy reform and structural adjustment in keeping with directions chosen by the Papua New Guinea Government.

9.66 In short, the Committee does not accept the AIDAB description of program aid, which it sees as unnecessarily invasive, as in the following example:

Program aid would be delivered in a lump sum but, unlike budget support, it would be subject to the Papua New Guinea Government making policy changes in that sector.³²

9.67 Similarly, the Committee regards the following example offered by AIDAB with some disquiet:

Let me explain a little bit about program aid. Normally program aid is given and, during the negotiations, a policy matrix of policy changes is agreed between the two

³¹ AIDAB, *Submission*, p. S1805.

³² *Evidence*, 21 October 1991, p. 1661.

governments. If we take the education sector, we might say that the tertiary education sector in Papua New Guinea is inefficient; they have too many faculties at the University of Papua New Guinea; they are too small; they are not addressing the needs of the country of Papua New Guinea adequately; and therefore we would want to see some policy changes in tertiary education in Papua New Guinea. If we were to agree upon that, the money would be given conditional on those policy changes taking place. The program aid would probably be given in a number of tranches and, if the policy conditions were not met, we would not proceed to the second or third tranche of the funds.³³

9.6.8 There are signs that program aid is attracting increasing attention (see paragraph 9.4.7.). In addressing the Papua New Guinea-Australia Colloquium in Lae in September 1991, Dr Blewett made this observation:

I want to end my discussion of the role of the Australian Development Assistance Program by suggesting a new approach that might come increasingly to feature in the overall program, that of program aid. By this I mean assistance that is not tied to a specific project, but rather to a specific program or sector, particularly in support of policy reforms. One example of Australian program assistance was the Australian co-financing of the World Bank's structural adjustment loan. You will see from this example that program assistance calls for close dialogue on the policy objectives that the government is aiming to achieve. This is creating new dimensions to our partnership and is a reflection of the maturity of our relationship.³⁴

9.6.9 Once more attention is paid to program support, particularly in consultation with the Papua New Guinea Government, ways and means of providing this support will become clearer. On the evidence presented to the Committee, areas which are likely to need program aid are institution building, education and areas of law and order and internal security. The latter were identified as areas of high priority in the recent security review carried out by the Papua New Guinea Government.³⁵

9.7 Categories of Aid — Non-government Organisations (NGOs)

9.7.1 NGO aid may be funded either from official development assistance sources (through AIDAB), or from the fund-raising activities of the organisations themselves. The Committee has received a considerable amount of evidence on the use of government funds to support NGO

³³ *ibid.*, p. 1667.

³⁴ *Submission*, p. S1839.

³⁵ *Evidence*, 21 October 1991, p. 1617.

projects in Papua New Guinea. Such aid is of particular value in two situations which pose particular difficulties for normal government-to-government assistance.

9.7.2 The first of these is when the political situation is such that the normal channels of official aid are not a viable option. The second situation is where the scale and/or nature of the aid project is such that NGOs are more suitable agents of implementation than official aid workers. This situation arises where people-to-people contacts are the essence of the aid, such as in some types of health care and some training. The delivery of aid to rural villages is likely to be a particularly suitable arena for NGO implemented aid.

9.7.3 An example of the first type of situation is Bougainville. Given the political difficulties of direct Australian official aid, official funds have been channelled through the NGOs. The International Red Cross has received \$100,000 and the Committee for Humanitarian Assistance and Rehabilitation Aid to Bougainville (CHERAB), \$258,000.³⁶ But Bougainville has also shown that where it may be difficult on political grounds to give direct government-to-government aid, it may also be difficult to ensure the effective implementation of NGO aid. Up to the present, no child has actually received a measles vaccination from the Red Cross.³⁷

9.7.4 The Committee believes that there is considerable scope for increased transfers of official development assistance through NGOs. In particular assistance to rural areas can be facilitated by the sort of small scale projects already being implemented by NGOs. Papua New Guinea's law and order problems, in so far as they arise from rapid social change, might respond well to a renaissance of village and hamlet life — a process in which NGOs could play a vital role. Such a renaissance would demand a lifting of the standard of living in rural areas, including the provision of clean water and electric power. The technical expertise needed to deliver such improvements would need to be delivered in a small scale and personal way compatible with rural life and rural people. It is difficult to chose a normal contractor on human qualities, but this is an area well within the experience of NGOs, who have developed special selection and briefing techniques to maximise the success of projects.³⁸

9.7.5 The Small Grants Scheme is particularly useful for funding NGO activities. It provides small grants (up to K20,000) to directly support communities.³⁹ The importance of small projects has been stressed by Fr John Momis speaking, one suspects, for many Papua New Guineans:

In Papua New Guinea many of the projects that have more relevance, and real relevance to the needs of the people, are the small or micro projects. In Papua New Guinea a very

³⁶ Evidence, 21 October 1991, pp. 1616-17.

³⁷ Evidence, 21 October 1991, p. 1641.

³⁸ Overseas Service Bureau, *Submission*, p. S301.

³⁹ *ibid.*, p. S304.

big per centage of our budget is being spent on the bureaucracy. This is not altogether good for the people who, in the end, must manage their own affairs.⁴⁹

9.8 Replacing Budget Support

Recommendation 38. The Committee recommends that budget support should be replaced by program aid, supported where necessary by project aid.

9.8.1 The Committee believes that program aid (or sectoral support) is the most suitable form of assistance for Australia to give to Papua New Guinea at this stage of its development. It has the desirable attributes of budget support (maximising control by the recipient country) while providing openness and accountability for Australia. It is compatible with project aid where necessary, and provides a vehicle for increased NGO involvement.

9.8.2 Reasons for the Committee's support for the concept of program aid include perceived problems with both budget support and project aid. Dissatisfaction with budget support in both Australia and Papua New Guinea stems largely from the inability to monitor its effectiveness, as there is no mechanism for identifying expenditure from Australian-sourced funds from other areas of general revenue. This provides a focus for frustration in Papua New Guinea when perceived needs are unmet. It is also unsatisfactory from the Australian taxpayer's perspective, in a climate when other areas of public expenditure are subject to stringent accountability.

9.8.3 In relation to project aid there is dissatisfaction, again in both Australia and Papua New Guinea, with the large role played by Australians in the implementation of the projects. This intervention can limit the effectiveness of some projects from the Papua New Guinean perspective. A further drawback is the long lead time necessary for the project cycle.

9.8.4 It would be very difficult to switch large amounts of budget support to project aid in the short term. The absorptive capacity of Papua New Guinea and the administrative constraints within AIDAB and the NGOs would hinder a large and sudden switch to project aid.

9.8.5 At the same time the Committee recognises the demand for projects in Papua New Guinea, particularly at the provincial and local government levels. This demand was a constant theme during the Committee's visit to Papua New Guinea in early 1991. Accordingly, the Committee recommends that project aid should be a limited part of the overall bilateral assistance available for Papua New Guinea. Subject to the wishes and requests of the Papua New Guinea Government, new projects should be associated with designated programs supported by Australian

⁴⁹ Quoted in World Vision of Australia, *Submission*, p. S1545.

aid. However, the fact that a requested project is not associated with a designated program area, should not, of itself, be a cause for rejection of any request for project aid.

Recommendation 39. The choice of program areas (designated programs) should be based on sound long-term economic and social policies and be determined after close consultation between Australia and Papua New Guinea.

9.8.6 Education, institution building, law and order and agricultural research and extension should be proposed as possible programs, for the purpose of initial consultations.

9.9 The Level of Australian Aid

9.9.1 The Australian Government's current intention is to lower the overall level of aid to Papua New Guinea, possibly by as much as 50 per cent by the year 2000.⁴¹ Cuts to budget support will be sharp while increases to project aid will be gradual. The following table shows the rate of proposed reductions for the current treaty period:

TABLE 9.2: Annual Aid Disbursements to PNG 1988/89 — 1993/94

Australian Financial Year	Budget Support \$M	Balance of Payments Support \$M	Project Aid \$M	Total \$M	Change in Real Terms %
1988/89	275	-	15	290	
1989/90	275	15	23	313	+1
1990/91	275	-	30	305	-8
1991/92	275	-	30	305	-5
1992/93	275	-	30	305	-5
1993/94	260	-	35	295	-8
				1523	

Source: AIDAB *Supplementary Submission*, July 1990, p.22

9.9.2 The Australian Government's justification for the decrease is that a sharp rise in returns from Papua New Guinea's mineral resource developments will obviate the need for external funds:

⁴¹ *Evidence*, 21 October 1991, p. 1665.

... the Papua New Guinea Government will have substantial resources at its disposal as a result of the increases in earnings from resource projects. Even conservative projections show budget revenues from mining peaking at around \$600 million a year by 1995 — and my own view is that they will be considerably higher and will probably plateau rather than peak. ... I want to look at the implications for our development assistance program of the trends in the Papua New Guinea economy I have just discussed; and the clearest and most important implication is that Papua New Guinea will be able to achieve its goal of fiscal self-reliance by the end of this decade.⁴²

9.9.3 The Committee opposes the proposition that Australian assistance to Papua New Guinea should be cut. The development needs in Papua New Guinea are such that revenues from resource exploitation are needed in addition to international aid.

Recommendation 40. The Committee recommends that the overall size of the aid budget should be maintained at current nominal levels for the foreseeable future, with the level being reassessed only if increases in Papua New Guinea's resource-based income are significantly higher than anticipated. In the event that the total Australian aid budget is reduced, aid to Papua New Guinea should be cut by no more than a pro rata reduction. Any arbitrary reduction in aid should only be made after reasonable notice is given.

9.9.4 The Committee has been persuaded by many diverse issues in arriving at the conclusion that Australia ought to maintain support for Papua New Guinea even though that country anticipates a rise in income from 1993. The issues include:

(i) humanitarian concerns:

The social indicators for Papua New Guinea are of great concern. The quality of life in many rural parts of Papua New Guinea leaves a lot to be desired. Relatively small amounts of project aid, especially implemented by NGOs, could alleviate some of the hardship. For example, if more solar powered electric systems and clean water services could be provided to villages, this could stop the flow to the towns; there are serious health problems — particularly in the areas of maternal and infant health — which should attract greater attention from Australia on humanitarian grounds.

⁴² Speech to Lae Colloquium attached to DFAT, *Submission*, pp. S1836-37.

(ii) strategic concerns:

Australia has a vested interest in the development of Papua New Guinea. Low development achievements can result in social and political unrest. As stability in a neighbour is highly regarded by all governments, now is not the time to be cutting back on development assistance to Papua New Guinea.

(iii) economic interest:

Papua New Guinea is less than an ideal investment area because of its law and order problems. Papua New Guinea needs Australia's help to overcome these problems. As the Papua New Guinea economy grows it will be better able to import more goods. Australia is well placed to supply these goods. Economic growth in Papua New Guinea is likely to be reflected in more trade.

(iv) moral grounds:

Australia had a responsibility to Papua New Guinea before Independence. It has been argued that Australia did not fulfil this responsibility, resulting in great social, economic and political problems for Papua New Guinea. It is not too late to make good the oversight.

(v) Australia's international profile:

Australia spends about .34 per cent of GNP on aid. This is well below the average per cent of GNP of developed countries, and very much below the level of .7 per cent recommended by the Development Assistance Committee of the OECD. Australia's position as a developed country in a geographic area which is mostly underdeveloped, renders its aid record susceptible to international criticism. It can do Australia's reputation no good if aid to Papua New Guinea is cut, especially if part of the savings are diverted to countries with fewer claims on Australia's aid than Papua New Guinea has.

(vi) Papua New Guinea's economy:

Although no agreement has been reached on the level of cuts to Australia's aid to Papua New Guinea, it is clear that Australia is able to contemplate sizeable cuts because of Papua New Guinea's anticipated increase in mineral revenues.⁴³ But the assumptions on which the expectations are based may be faulty. Papua New Guinea experienced negative growth in 1989 and 1990 and its problems are considerable. The law and order problem threatens stability and therefore the potential income from resource developments. The experience of Bougainville cannot be forgotten, as noted by former frontbencher Mr Aruru Matiabe,

⁴³ *Evidence*, 21 October 1991, p. 1658.

who warned Parliament that the Mt Kare project could become another Bougainville because of demands by a group of landowners to become more involved in the mine.⁴⁴

9.10 Timing the Shift to New Aid Arrangements

Recommendation 41. The Committee recommends that the move from budget support to program and project aid should be undertaken as a matter of urgency, commencing in 1993 or as soon as possible thereafter. During the transition there should be a mix of budget support and program and project aid, with the former being phased out by the end of 1998.

Given that negotiating projects and programs involves great administrative complexity and absorbs large amounts of scarce, high-level managerial capacity, the Committee recognises that there may be delays in the implementation of this recommendation. If that occurs, the total level of aid should be maintained through continuing budget support.

9.10.1 Recognising the need for certainty, especially for the Papua New Guinea Government, the Committee has given considerable thought to a concrete proposal for the timing of the shift to new aid arrangements. The Committee believes that Australian officials should begin preparations as soon as possible, so that by the scheduled date for the review of the current treaty (September 1992), the minister will be well equipped to consult with Papua New Guinea ministers on the details, including the timing, of program aid.

9.10.2 Program aid could begin during the last year of the current Development Co-operation Treaty (1993/94), and be phased in progressively as budget support is phased out. The Committee believes that in each of 1993 and 1994 (Papua New Guinea financial years) 10 per cent of moneys currently earmarked for budget support could be diverted to programs. In each of 1995, 1996, 1997 and 1998 the remaining 80 per cent of current levels of budget support could be cut (with equal cuts of 20 per cent per year). All the funds cut from budget support should be used to support program aid and project aid. This proposal for timing the shift is set out below. The table does not include any provision for structural adjustment grants (\$A5.5m in 1991), but such grants could form part of the program aid amounts shown for future years.

⁴⁴ *Sydney Morning Herald*, 7 November 1991, p. 31.

PNG FIN. YEAR	BUDGET SUPPORT \$Am	PROGRAM/ PROJECT AID	TOTAL
1991	269.5	37.1	306.6
1992	275	30	305
1993	247.5	57.5	305
1994	220	85	305
1995	165	140	305
1996	110	195	305
1997	55	250	305
1998	—	305	305

9.10.3 While the Committee regards the need for more direct aid to meet specific problems in Papua New Guinea as a matter of urgency, the difficulties in attaining the timetable are admitted. The timing of the move away from budget support is a critical factor in the impact the move could have on development in Papua New Guinea. Time is needed for study and analysis in Australia and Papua New Guinea. Above all, sufficient time must be allowed for consultation between both governments. It will not be easy to replace budget support in such a short time span. A realistic view should be taken so that the transition to other forms of aid assists Papua New Guinea's development process and does not detract from it. There will be a need for flexibility and compromise in the introduction of the new arrangements in order to safeguard the interests of both Australia and Papua New Guinea.

9.10.4 In assessing the preparations needed for program assistance, much can be learned from the draft principles developed by the Development Assistance Committee of the OECD:

Program assistance requires careful preparation. While approaches and requirements differ, there should in principle be no difference in the standards of preparation and appraisal between program assistance and project assistance. Program assistance is as management demanding as project assistance. However, different analytical and, indeed, diplomatic skills are required. Aid agencies which have in the past emphasised project financing need to develop adequate expertise for the design of program assistance.⁴⁵

9.10.5 Even if program assistance from Australia to Papua New Guinea is not as 'management demanding' as project aid, much study, consultation and negotiation, especially in the early stages, will be essential. AIDAB has provided the Committee with the following assessment of lead times:

⁴⁵ Attachment to AIDAB, *Submission*, p. S1804-05.

In the case of both project and program aid, the lead times are longer than the average observer normally thinks. For instance, to get a major project under way in Papua New Guinea or a major program grant, the minimum time would be 12 months. A more likely time would be two years to develop the actual project design for the project or a policy matrix for program aid.⁴⁶

9.10.6 Subject to consultation with the Papua New Guinea Government, program aid should replace budget support in the following stages:

- (i) the Australian and Papua New Guinean Governments should consult on policies, goals and objectives, and monitoring and reporting mechanisms, for Australian-funded parts of designated program areas (1992);
- (ii) the transfer of funds from budget support to designated programs should be tied to agreement on, and implementation of the matters in sub-paragraph (i).

9.11 Attitudes to Multilateral Aid

9.11.1 Australia's participation in the World Bank Consultative Group for Papua New Guinea has been a notable change in the directness of the aid relationship. Australia's involvement in multilateral aid has been somewhat less than wholehearted. At the November 1991 World Development Forum held in Canberra, Australian concerns were expressed about aspects about the way multilateral aid agencies were run. It was noted that world agencies were sometimes put under political pressure to follow directions Australia disagreed with. This was reflected in the International Monetary Fund's lending policy to Vietnam which continued unproductively, to reflect United States' attitudes.

9.11.2 On the credit side, the Minister for Overseas Trade and Development said that Australia would continue to provide support to multilateral agencies because it considered they could carry out large-scale projects which could not be achieved by single countries. Their political neutrality was also important in dealing with sensitive international issues such as population planning, the environment, AIDS strategies and narcotics control.⁴⁷

9.11.3 There may well be advantages for both Australia and Papua New Guinea to continue channelling some aid through the Consultative Group, which could be regarded as one area of program aid. It is administratively easier than the types of program aid discussed, and the benefits of political

⁴⁶ Evidence, 21 October 1991, p. 1668.

⁴⁷ From the report of the conference by Julian Cribb in *The Australian*, 7 November 1991.

neutrality could also be attractive. Nevertheless, the majority of Australian aid should continue to be given on a bilateral basis in recognition of the need to strengthen, rather than loosen, the ties between the two countries.

Section 3

Section 3: Strategic Issues

Chapter Ten

Strategic Issues and Defence Co-operation

Section 3 of the report deals with security issues. Since Bougainville there has been a shift in perception in Australia and in Papua New Guinea as to what constitutes the security threat to the region. The conventional view reinforced by the experience of World War II that Papua New Guinea formed a natural barrier and defence for Australia has been modified by the more immediate problem posed by the secession movement on Bougainville. Certainly for Papua New Guinea, the likelihood of national disintegration has been of particular concern. The performance of both the police and the defence forces on Bougainville has also shown up weaknesses in the command structure and training of the forces. This, and the failure of the police to deal effectively with the law and order breakdown in the towns, has prompted a review of the whole security arrangement. In Chapter 10 there is a review of the history and development of the Papua New Guinea Defence Force. They have a fine tradition going back to World War II but during the 1980s have suffered from neglect, inadequate funding and political intervention leading to low morale and indiscipline. The politicisation of the force is one danger, not realised but feared, to the constitutionality and the stability of Papua New Guinea. The rivalry that exists between police and armed forces has also created tensions and, at times, violence. Australia's defence ties with Papua New Guinea are determined by the Joint Declaration of Principles and the Defence Co-operation Program. Through these arrangements Australia supplies training, equipment and advice to Papua New Guinea. Since 1991 Papua New Guinea has begun to diversify its sources of defence aid and purchases. This year has also seen a major review both in Australia and Papua New Guinea of defence arrangements.

10.1 An Overview

'Papua New Guinea is of strategic importance to Australia.'¹

10.1.1 Australia's first interest in Papua New Guinea was strategic, aimed at protecting its own security. It was largely for strategic reasons that the colonists of Queensland sought to annex the Papuan coast in 1885, fearing as they did the activities of the Germans on the north coast of the island of New Guinea. Whitehall reluctantly accepted this new addition to the British Empire, which it was only too happy to pass to the new Commonwealth of Australia in 1906.

10.1.2 Australia's early leaders were convinced of the strategic importance of Papua New Guinea as a bulwark against a feared but usually ill-defined threat from the 'North', namely Asia. Accordingly, Australian Prime Minister Billy Hughes fought long and hard at the 1919 Versailles Peace Conference for the New Guinea mandate, and

¹ Department of Defence, *Submission*, p. S102.

obtained it. A little over two decades later these strategic views were seen as justified when the Japanese advance on Australia was halted in the jungles of Papua New Guinea. The strategic importance of Papua New Guinea to Australia became, and has largely remained, proven doctrine.

10.1.3 It is only since Australia formally withdrew from Papua New Guinea in 1975 that this doctrine has even been questioned. Coincidentally Papua New Guinea's independence came in the same year as the fall of Saigon, ending the Vietnam War. The failure of allied strategy in Vietnam and the fact that the rest of South East Asia did not then fall to the Communist threat, coupled with China's opening to the West, all worked to undermine the fear of the northern threat. With no foreseeable threat, bulwarks against such a threat became less important to the Australian community.

10.1.4 Nevertheless, Papua New Guinea's strategic importance for Australia has remained axiomatic in the minds of Canberra's defence planners. Thus in its submission to the Committee the Department of Defence argued:

Papua New Guinea is of strategic importance to Australia by virtue of its close geographic location to Australia's north-eastern coast, and to the sea lines of communication to our north. Because of the potential strategic implications, Australia would be concerned should a hostile power gain lodgement in or control over Papua New Guinea. Control of Papua New Guinea by an enemy would facilitate the protection or denial of Papua New Guinea for operations by hostile forces, thus decreasing the problems and cost of defending not only northern Australia but also the east coast of the nation.

Papua New Guinea is a major Australian export market and a significant destination for Australian investment. Attendant with activity by Australian owned, or partly owned, companies in Papua New Guinea is the presence of large numbers of Australian nationals. Papua New Guinea's economic development, and the safety of Australians resident there, is dependent to a large degree upon the political and social stability of the country.²

10.1.5 The developments of recent years would suggest Australia's security interest in Papua New Guinea may need to focus on the second issue listed above, namely the internal threat, as opposed to any increasingly unlikely external threat. From time to time the continuing problems with the Organisasi Papua Merdeka (OPM) along Papua New Guinea's border with Indonesia, and Indonesia's tendency to cross the border in pursuit of the OPM, raises questions about Indonesia's intentions. However, there is no evidence that Indonesia wishes to undermine the territorial integrity of Papua New Guinea, and the signing

² Submission, p. S102.

of the *Treaty of Mutual Respect, Friendship and Co-operation* in 1987 is strong evidence to the contrary. Rather the OPM has become more of an irritant to the Papua New Guinea Government's control of its border area.

10.1.6 A much greater threat to central government authority has been the Bougainville secessionist movement, which is dealt with in detail below. The situation in North Solomons Province remained uncertain at time of writing. The activities of the rebel Bougainville Revolutionary Army (BRA) closed the giant Panguna Copper Mine in 1989, and they eventually took control of the province in 1990. Since then, the Papua New Guinea Government, with the support of local leaders disenchanted with the BRA, has regained control of Buka and the northern part of Bougainville Island. Meanwhile the closure of the mine has damaged Papua New Guinea's economy and the situation on Bougainville, its causes and the course of events that followed, has had a dramatic impact on the other provinces of Papua New Guinea. This issue is dealt with in more detail in the chapter on Bougainville. The rebellion has also created tension in the relationship between the Solomon Islands and Papua New Guinea which has tried to assist a negotiated solution to the problem.

10.1.7 The Bougainville crisis has demonstrated the inability of the country's security forces — the Police and the PNGDF — to control and overcome the outbreak of unrest. While Bougainville has been the most outstanding example of this, the deteriorating security situation in the Highlands, Lae and Port Moresby also bear witness to it. The impact of this situation on the police force, and the reasons for the problems being faced by them, are outlined in Chapter 4.

10.1.8 This situation in particular raises questions for the Police/PNGDF relations, and the role of the PNGDF in suppressing internal unrest. The PNGDF was originally established as a force to protect the country against an external threat. It was not seen as having a role in controlling internal civil disturbances, except in exceptional circumstances, requiring a declaration of a State of Emergency under complicated constitutional provisions. This was done in Bougainville. But it soon became clear that the PNGDF was not well trained for an internal counter-insurgency role.

10.1.9 In democratic societies the tradition has developed of separating the armed forces and the police. The armed forces of a country are developed, armed and trained to deal with an external enemy. The police preserve law and order, but are expected to deal evenhandedly and apolitically with the population, being mindful of the democratic rights to free speech and free association. Their weapons are therefore much more limited than those of the army and their task more delicate. Their role is fundamentally protective rather than defensive or offensive. The separation of the forces seeks to prevent the concentration of the arms of a country within a single force and so prevent political partisanship or military dictatorship.

10.1.10 Nevertheless, the question arises, whether Papua New Guinea can afford the luxury of a force primarily trained for an highly unlikely external threat, while a much more immediate and pressing internal threat

exists? Is it, however, appropriate for the PNGDF to be engaged in an internal role? Is it funded at an appropriate level? All these are questions for the Papua New Guinea Government to determine, and have been the subject of Papua New Guinea's Security Review.

10.1.11 However, as Australia is heavily involved in the training of the PNGDF, these questions affect the type of aid offered. It is appropriate for Australia to determine whether it is in our interests to maintain the same level and nature of assistance to the PNGDF as in the past.

10.1.12 Conventional warfare training has proved to be of little value unless supported by an adequate command structure. But infrastructure development assistance, such as that provided by the 12CE Works Unit in Mendi, which was visited by Committee members, is achieving excellent results and should be extended to other provinces. Such activities also contribute to rural development and internal stability as well as enhancing the profile of Australia in Papua New Guinea and providing valuable training and experience to our Army engineers. The Committee was impressed by the work of the Army engineers at Mendi and opposes any threat to their viable operation. Furthermore, the Committee believes there should be an extension of such operations to the Vanimo area.

10.1.13 Internal security and stability are important in safeguarding Australian investment in Papua New Guinea. Australian assistance can usefully be directed to promoting the development of a strong and competent police force, and to support the capacity of the PNGDF to aid the civil power, if the Papua New Guinea Security Review so decides. It is not in Australia's interests to contribute a substantial amount of money into training the PNGDF for a role it is unlikely to be called upon to perform and, given its small size, unlikely to be able to carry out, if faced with an external threat. The Security Review has clarified the PNG Government's view of the role it wants for the PNGDF. Consequently, it is now appropriate for Australia, in the light of its own interests, to decide upon its contribution.

10.2 The Papua New Guinea Defence Force

10.2.1 A nation's security cannot enduringly be left to reside in the hands of its disciplined forces: it depends fundamentally on its economic well-being, its social coherence, its management of change, its international friends and allies and its range of national institutions, as well as on the authority of its chosen leaders. On these counts, Papua New Guinea's security veers on the positive side of the stability/instability divide — but not yet assuredly so. Blame cannot be attached to the country's defence force for this tenuous situation — nor should it be. Its problems, dramatically underlined by its poor showing on all counts on Bougainville in early 1990, are symptoms of an underlying malaise, and it would be unrealistic and dangerous to quarantine the question marks hanging over PNG's long-term stability to the defence force alone.

Papua New Guinea's economic development, and the safety of Australians resident there, is dependent to a large degree upon its political and social stability. Thus it is to Australia's interest not only to assist Papua New Guinea to improve its ability to resist external pressures but also to resist internal threats to the political and social stability of the country.³

10.2.2 The government's security policy is determined by the National Security Council, composed of members of cabinet and supported by the National Security Advisory Committee of senior officials. Policy is implemented by the Papua New Guinea Defence Force, the Royal Papua New Guinea Constabulary and the National Intelligence Organisation.

The Papua New Guinea government regards internal security primarily as a police role, but has employed the PNGDF where national development and stability are threatened. The use of the security forces, however, both the RPNGC and PNGDF, to quell civil unrest has however led to a questioning of their role in PNG society. Elements of both forces have been involved in disturbances in recent months and it has been suggested that such disturbances demonstrate that they are prepared to take action in order to press their demands in defiance of government authority. There has, however, been no evidence of the security forces posing a serious threat to constitutional government.⁴

10.2.3 The Papua New Guinea Defence Force has a proud and honourable tradition, but this has been undermined by the neglect of succeeding governments. The history of the PNGDF, culminating in their recent Bougainville debacle, may prove valuable according to the lessons learned on all sides — including by the PNGDF and, as importantly, by its political masters.

10.2.4 The Papuan Infantry Battalion, a battalion of the Australian Army and with Australian officers, was raised in Port Moresby in June 1940. It fought courageously in the Owen Stanley Ranges, and then as the Japanese were driven back after they were halted on the Kokoda Trail, three New Guinea Infantry Battalions were raised on the New Guinea side of the island. All four battalions were grouped as the Pacific Islands Regiment in 1944, before being disbanded in 1946. During the Pacific War the regiment killed 2,200 Japanese troops for the loss of 63 men. They fought chiefly in a fragmentary way, valued especially for their reconnaissance and other small-group skills; the regiment won 11 battle honours and 23 soldiers were decorated. The first battalion was re-formed, in Port Moresby again, in 1951; and the second battalion, just over ten years later, in Wewak — at the time of Indonesia's *Konfrontasi* with Malaysia. Australia re-formed the regiment to underpin its forward defence strategy. As independence

³ Department of Defence, *Submission*, p. S102.

⁴ DFAT, *Submission*, p. S452.

approached, 'there was much debate over what shape the force should take ... Some argued that the PIR should be turned into a para-military force and given a police back-up role.'⁵

Australia's smart decolonisation footwork deprived Papua New Guinea even of a decent nationalist struggle. There was no really large, country-wide nationalist party with depth in society and a place in the hearts of the masses, let alone a nationalist guerilla party. Thus the military has no *legendary, heroic past to exploit* in its contest with civilian institutions for power, unlike, for instance, the neighbouring Indonesian army. *Its one brief period of glory occurred after independence, when it helped Vanuatu put down a secessionist bid in 1980.*⁶

The force's role before Independence was that of a regular army. Its commander, an Australian brigadier, answered to Army headquarters in Canberra, not to the administration in Port Moresby.

10.2.5 The Constitutional Planning Committee agonised over the relevance and cost of the PNGDF, nervous about the African experience in a number of countries of military expansion into the political realm following Independence.⁷ Finally, it stuck to the status quo — but attempted to ensure the Army's subordination to the civil authorities by withholding the office of commander-in-chief and having the commander report to the Minister for Defence as his chief military adviser, while the Secretary of the Department of Defence offers further advice from the civilian disposition.

10.2.6 The Army's constitutional functions are to defend Papua New Guinea; to fulfil international obligations; to assist the civil authorities in civil disasters; and to restore public order and security on being called out under instruction of the Governor-General acting on the advice of the cabinet, or during a period of declared national emergency. Its members are 'subject to all laws in the same way as other bodies and persons'.⁸

10.2.7 At Independence, the Defence Force consisted of 3,681 military personnel, consisting of an Army of two infantry battalions, an engineer battalion, a signals squadron and a few logistics units; a Navy of five Attack class patrol boats and two heavy landing craft; and an Air Force of four Dakota DC3 aircraft. Of the \$33.55 million running cost of the PNGDF in 1975/76, Australia paid 72 per cent, through a grant from the Australian Defence Department to the Papua New Guinea budget of \$8.1 million and through paying the salaries of the seconded Australian service people, which totalled \$16 million. The PNGDF share of the total

⁵ Dorney, *S op cit*, p. 187.

⁶ Professor Yaw Saifu, *Military Roles and Relations in Papua New Guinea*, p. 2, presented at ANU conference 'The Armed Forces in Asia and the Pacific: Prospects for the 1990s', November 30 — December 1 1989.

⁷ *ibid.*

⁸ Papua New Guinea Constitution, Section 203.

Papua New Guinea budget was 4.7 per cent. Two years later there were still 306 Australian loan personnel, comprising about 75 per cent of the *officer corps* and 50 per cent of NCOs.

One of the last institutions over which Australia relinquished control was the Papua New Guinea Defence Force. At the time of independence it was described as an elite. As an institution the PNGDF had ample resources and was well respected. As individuals the soldiers had both material possessions and high education levels, which gave them an enviable status. The PNGDF and its members were part of the modern world and were seen to have benefited from it.⁹

10.2.8 The PNGDF's 'finest hour' was its intervention immediately after independence in Vanuatu, in August 1980, to quell a rebellion led by Mr Jimmy Stevens on Espiritu Santo Island.

The significance of this first deployment of soldiers from a Pacific island country to help another was that, for the first time in the Pacific, the use of force was no longer the sole preserve of the white administering powers. It marked a change in regional relations. For the French in particular, it set new parameters on what could happen ... It also led to a greater sense of cohesiveness amongst the new Melanesian countries, which eventually found its expression in the sub-regional Melanesian Spearhead Group of Papua New Guinea, Vanuatu and Solomon Islands.¹⁰

The then Opposition Leader, Mr Michael Somare, had opposed the action as unconstitutional, seeking unsuccessfully a court ruling to that effect. Australia was also nervous about the operation, but eventually provided logistical support — though none of its seconded soldiers were permitted to be used in action. Since Australia also strongly supported Fr Walter Lini's Government's authority over the former British/French condominium, it was finally relieved and pleased with the outcome. The rebellion was quashed within two months, at the cost of two lives; Papua New Guinea's Kumul Force suffered no fatalities. But resources did not consequently flow; by 1986, a promised campaign medal had still not been struck, until 400 soldiers raised the issue. By 1983, Defence Secretary Mr Tas Maketu reported to Parliament that the PNGDF would be incapable of staging another Santo operation.

10.2.9 During the 1980s, the Papua New Guinea Defence Force suffered a series of grave blows, all but destroying its morale:

- First there has been a sharply declining budget and static pay and deteriorating physical conditions. The only substantial capital expenditure by Papua New

⁹ Turner, M *Papua New Guinea: The Challenge of Independence*, p. 117.

¹⁰ Dorney, *op cit*, p. 192.

Guinea on defence since independence, was that on three Israeli-made Arava light transport planes in 1985. Australia provided two more Dakotas, five Nomad planes and four Iroquois helicopters, and replaced the old patrol boats with six of the longer-range Pacific class boats, from 1987, with — at Papua New Guinea's request — greater fire-power than other similar vessels supplied to other countries in the region.

In September 1983 Cabinet imposed a ceiling of 3,050 military personnel on the PNGDF and aimed to relocate several units. The first battalion of infantry was at Taurama Barracks in Port Moresby; the second battalion at Moem Barracks in Wewak, the engineer battalion and signals squadron at Murray Barracks, the PNGDF headquarters, in Port Moresby; the Navy, at a base used substantially by the USA during the Pacific War, at Lombrum on Manus Island; the Air Force and officer training at Lae; and advanced training took place in Australia.

Little has changed since then except for the final relocation of the Air Force to Port Moresby, and the establishment of one rifle company at Kiunga, near the central border with Indonesia, and another at Vanimo, at the northern end of the border. One patrol boat and the two landing craft are based in Port Moresby. There is a small advance naval base at Alotau in Milne Bay province. The infantry soldier uses Australian-designed and made rifles and submachine guns. Its heaviest weapon is the 81mm mortar; apart from cost, the terrain mitigates against the use of artillery or armoured vehicles.¹¹ By 1990 there were 29 Australian loan personnel, half with the air squadron, the rest as advisers, no longer in line roles. There is no reserve force.

- Second there has been constant intervention by politicians, promoting and sacking the senior ranks. In 1982, the founding commander, Brigadier-General Ted Diro, left the Army after seven years at its helm. He was elected to Parliament and has achieved the Deputy Prime Ministership and — earlier, in 1987 — the Foreign Ministry. He has uniquely bound the previously fissiparous Papuan MPs into a single group, the People's Action Party. His first three successors, also Papuans, all followed him into politics — though as advisers or losing candidates, not into Parliament itself. This process of politicisation began at the top, with new commanders being appointed by incoming

¹¹ Australian Defence Association, *Submission*, p. 522.

governments as an aspect of their generally increasing patronage. The Defence Minister under Prime Minister Mr Pias Wingti — Mr James Pokasui from Manus, a former captain in the Army himself — sacked four of the top eight soldiers; all who were removed were Papuans.

- There has also been a series of ad hoc involvements in domestic security actions, for which it was not trained and a series of breakdowns in discipline, which went all but unpunished. (Because of a constitutional drafting technicality, the force cannot hold court martials). These incidents go back to World War II. They generally developed around industrial disputes. Evidence of indiscipline this year came from the operation on Bougainville, when in June 1991 Colonel Nuiā admitted the dumping of bodies at sea and in October when there was a naval attack on a police station on Manus Island. On these occasions the commanders, Colonel Nuiā and the commander and deputy of the Lombrum Naval Base, have been sacked or suspended.

10.2.10 The constant changes at the top led to a certain edginess in the armed forces. Then, on 14 May 1987, Lt Col Sitiveni Rabuka led the South Pacific's first coup, in Fiji. There have been some attempts to draw parallels between Papua New Guinea and Fiji. In Papua New Guinea those who have said they believed a coup is possible, have included the late former Governor-General Sir John Guise and two former commanders, Messrs Ted Diro and Tony Huai. However, the circumstances in Fiji were and remain vastly different from those in Papua New Guinea: Fiji has a larger regular army, battle-hardened from more than a decade serving with the UN in the Middle East; its indigenous population speaks a single language and has a broadly common culture, which remains clearly differentiated from that of the Indian community which shares the country; its people continue, generally, to accept chiefly discipline; and communication between the islands is comparatively simple.

10.2.11 *Therefore, although the possibility of a coup remains unlikely — not least, because of the logistical barriers, in one quality the PNGDF is well placed to intervene, if it perceives say, that corruption and instability have rendered the political establishment ineffectual:*

Of all institutions in Papua New Guinea, it was the PNGDF which had overcome regional and primordial loyalties and had forged a new communal identity. A soldier believed he was first and foremost a member of the PNGDF and not a Tolai or a Simbu.¹²

¹² Turner, *op cit*.

On 1 June 1988, disturbing indications of a new sense of autonomy within the force first surfaced. The new commander, Brigadier-General Rochus Lokinap (the first non-Papuan commander, from New Ireland), flew 60 combat soldiers to Lae from Port Moresby, with the instruction to 'secure' the airport so that it could continue to be used by the Defence Force's air element, in the face of a decision by cabinet to close Lae airport (in the centre of the city) down in order to transfer it to more spacious accommodation at Nadzab, 40 kms away. The commander claimed the force did not have the funds to re-establish its air element elsewhere (it has since done so, with Australian assistance, in Port Moresby).

10.2.12 In 1988, after 13 years without a single pay review, the Defence Department hired Australian consultants to examine the situation; it uncovered serious anomalies. The review led to considerable anticipation as to the timing of resulting rises, and as to the sums involved. Finally, on 8 February 1989, in frustration 400 soldiers marched to Parliament where they demonstrated for higher pay. Pay rises already in the pipeline were implemented, and a board of inquiry was established. Three ringleaders were charged with mutiny but were dealt with in comparative leniency. Brigadier-General Lokinap and Defence Secretary Mr Stephen Mokis were suspended but finally reinstated after being absolved by the board of inquiry, which commended the initiative of certain officers in rallying against the mutiny and locking the armoury. 'Such timely action,' it stated, 'helped save some degree of authority albeit very much eroded. The most notable and worthy of mention is Colonel Leo Nuiua' — who, however, was sacked by the Defence Minister in July 1991 for failing to act accountably over his command of forces on Bougainville Island.

10.2.13 The board of inquiry — mapping out just those problem areas that later were to let the force down in the later stages of its Bougainville campaign, leading to its withdrawal in March 1990 — concluded that there was 'an apparent inability and/or reluctance by commands at all levels to impose discipline'; officers and soldiers were 'becoming too familiar with each other'; there was a lack of clear line management, so that constant vying for the commander's position led to 'the formulation of inconsistent policies'; a 'significant deterioration' of all aspects of service conditions had adversely affected discipline; and there was 'an apparent failure by Defence Force training institutions to instil leadership qualities in the younger generation officers'.¹³

10.2.14 The strategic environment in which the PNGDF operates includes Indonesia, a nation with a population almost 50 times that of Papua New Guinea, whose army has since independence exercised a considerable grip on the levers of power but which, in 1987, signed a Treaty of Mutual Respect, Friendship and Co-operation that Papua New Guinea had initiated.

¹³ Cited Dorney, *op cit*, p. 196.

10.2.15 However, the relationship between the PNGDF and the Indonesian authorities has been complicated by the fact that both former commanders Messrs Diro and Huai have admitted to receiving gifts from General Benny Murdani, the former Indonesian commander who became Defence Minister. In Mr Diro's case it was a cash donation of \$200,000 — agreed in March 1987 when he was Foreign Minister — for his party's 1987 electoral campaign fund which, he told Parliament, had attracted attention partly because some Papua New Guineans had inherited from Australia an anti-Indonesian 'phobia'.¹⁴ Mr Huai was sacked as commander in December 1987 after he had informed General Murdani, during a visit to Jakarta, of the proposed content of the defence section of the Joint Declaration of Principles between Papua New Guinea and Australia, providing for immediate consultation in the event of either country coming under attack. Mr Huai felt this was 'inconsistent' with the treaty Papua New Guinea had already signed with Indonesia. He wrote in a newspaper article: 'It could easily be misread by Jakarta, and therefore it could create unnecessary tension and suspicion between the two countries' (the JDP clause in question, however, had been introduced chiefly at the request of the Papua New Guinea Government). Mr Huai had earlier, on a visit to the Irian Jayan capital Jayapura in May 1986, been given a suite of furniture by General Murdani, which had been flown back to Port Moresby on a PNGDF plane.

10.2.16 Another complication in the relationship with Indonesia is provided by the Irian Jayan rebel movement, the OPM, whose guerilla activities against the Indonesian Army have been focused in the jungle-clad mountains which traverse the arbitrarily drawn up and scarcely marked 750 km border (Indonesia's longest land border) with Papua New Guinea. The OPM is chiefly reliant on traditional weapons, and on its ability to melt back into village life as soon as an operation is over. Budget cuts in 1982 reduced the PNGDF's patrolling capacity on the border, from once a month to once a quarter. Frustration with Papua New Guinea's inability to block OPM activities regularly leads to Indonesian forays in 'hot pursuit' over the border.

10.2.17 Australia and Indonesia increasingly understand each others perspective on events in Papua New Guinea. Both seek strategic stability. 'The situation between Papua New Guinea and Indonesia has been generally improving in the last couple of years. There are some increased measures of consultation they have put in place with regard to the border they share, and that is welcome to Australia.'¹⁵

10.2.18 Another function of the PNGDF is its role in relation to illegal fishing, catching internationally-based offenders within Papua New Guinea's massive exclusive economic zone. 'They have been very successful in terms of apprehension of illegal fishing vessels.'¹⁶ Similarly, the Defence Force is used to try to prevent narcotics smuggling, observing

¹⁴ *ibid.*

¹⁵ Department of Defence, *Evidence*, 22 October 1990, p. 760.

¹⁶ Department of Defence, *Evidence*, 20 November 1989, p. 40.

and apprehending smugglers using Papua New Guinea as a conduit through which to import hard drugs into Australia, or as a source for marijuana, grown in the Papua New Guinea Highlands.

10.2.19 The director of the National Intelligence Organisation (NIO) is a former PNGDF commander, Mr Ken Noga. The Prime Minister, Mr Namaliu, in May 1989 on a visit to Australia, sought assistance in upgrading the NIO. And later Mr Namaliu stated that Mr Hawke had offered the services of ASIO to 'get the NIO back on its feet again'.¹⁷

The Australian government recognises the importance of Papua New Guinea intelligence organisations functioning effectively in terms of meeting Papua New Guinea's security requirements, and is prepared to assist the Papua New Guinea government, to the extent that it wishes it, in its current program to reinvigorate the NIO.¹⁸

Dissatisfaction with the quality of the NIO's products had led to the establishment in 1988 of a Defence Intelligence Branch (DIB) within the PNGDF. It is administratively part of the Defence Department, but is directly responsible to the Defence Council that consists of the Minister and Secretary for Defence and the PNGDF commander. The DIB, with 33 staff, is led by a chief of intelligence, a civilian, under whom are two directorates: the Directorate of Strategic Defence Intelligence, which is a civilian body; and the Directorate of Military Intelligence, that more directly supports PNGDF operations. With Mr Noga at the head of the NIO, co-operation between that organisation and the DIB has been enhanced.

10.2.20 The 1986 PNG Annual Defence Report stated that the PNGDF's financial straits could result in 'longer term deterioration in military competence', with operational effectiveness down to 65 per cent. From 4.7 per cent of budget in the first year of independence, the defence share had slumped by 1988 to 3.3 per cent, when the department failed to effect the cuts required to stay within its vote and overspent by 15 per cent (\$7.8 million). But after the 1989 pay riot and the involvement on Bougainville, it was raised in 1990 to 4.2 per cent of total budget (\$65 million).¹⁹ The PNGDF had been unable to deploy more than 500 soldiers in combat roles at one time on Bougainville in 1989 and early 1990 (whereas counter-insurgency operations usually require a military advantage of 10:1.²⁰ This might have been seen as 'the civilian authorities' undeclared war of attrition on the military'²¹ whose roles remained unresolved and whose modus operandi remained discrete. 'Papua New Guinea government evidently believe they get more political mileage by handing out funds to MPs, allegedly for development projects, rather than channelling the funds through the military for civic action projects. In 1988

¹⁷ Cited Dorney, *op cit*, p. 207.

¹⁸ Department of Defence, *Submission*, p. S454.

¹⁹ Dorney, *op cit*, p. 193.

²⁰ Australian Defence Association, *Evidence*, 26 September 1990, p. 395.

²¹ Saffu, *op cit*, p. 6.

for instance, K3 million earmarked for civic action projects was diverted to the National Development Fund, known as the MPs' slush fund.²² Yet the current Defence Minister, Mr Ben Sabumei, believes that the PNGDF should take on a greater civic action role, 'carrying out government's development programs and priorities ... while basic soldiering skills for combat situations should continue to be maintained at respectable levels of competence'.

10.2.21 The PNGDF has not had to perform under treaty and international obligations to date — except through participation in joint exercises with friendly powers. The government in September 1988 offered troops for UN peacekeeping operations, but this has not been pressed.

10.2.22 The internal security role, assisting the police, has appeared to have become the primary preoccupation of the government in its deployment of the PNGDF.²³ It has been called out five times since Independence in such a role, and all have been since 1984. In that year, in Operation Green Beret, it helped police a state of emergency declared in Port Moresby to combat crime; in 1987 in Operation Coolax it worked with police in Morobe, Madang and Eastern Highlands Provinces; in 1988, in Operation Lo-Met (Law and Order: Murder, Entry and Tribal Fighting) it was called out to help the police in the Highlands provinces; from 1989 to 1991 it has been engaged in restoring government authority on Bougainville and the smaller island to its north, Buka; and in May 1991 it was further asked to assist police in a major anti-crime campaign including curfews in all major centres.

10.2.23 At the Defence Board of Inquiry of 1989, officers criticised the use of the PNGDF for what they termed 'police work', insisting that soldiers were not trained for such a role; nor is the force prepared for a considerably enhanced civic action role, as envisaged by the Minister. There have been wider criticisms among Papua New Guineans that a focus on internal security by the PNGDF will lead to its further politicisation.²⁴ But the military is no more susceptible to anti-liberal democratic, anti-capitalist or anti-Western ideologies than is any other sector of society, i.e. scarcely at all.²⁵ The exhibitions of dissatisfaction demonstrated by the PNGDF have 'generally been over specific issues that are very close to the PNGDF's own interests' rather than to concern about events in the wider community.²⁶

10.2.24 The PNGDF is 'capable of conducting small sub-unit operations very effectively, but within an organisation of that size (about 3,300 men) it has difficulty coming to terms with what I call the operation level of activity: planning a major campaign, developing and maturing the thing fully and carrying it through. That is understandable in an organisation of that size and it is something that comes to armies or defence forces

²² *ibid.*, pp. 9-10.

²³ *ibid.*

²⁴ Dorney, *op cit.*, p. 211.

²⁵ Saffu, *op cit.*, p. 24.

²⁶ Department of Defence, *Evidence*, 20 November 1989, p. 30.

gradually; normally from experience in operations. In fact, the PNGDF is developing its own experience now. That is the thrust of it. In some instances the Australian army itself has been slow to come to maturity in some of these aspects.²⁷ The Bougainville operation was hugely demanding task for the size of force that Papua New Guinea has'.²⁸ Because of the PNGDF's experience on Bougainville, 'there is a growing awareness that the operations of the security forces must be brought into harmony with the political objectives and most be subservient to those objectives.'²⁹

10.3 Defence-Police Overlap

10.3.1 There has been a rivalry — if not conflict — of long standing between the Defence Force and the police who are, of course, an armed force.³⁰ This has culminated, from time to time, in outbreaks of fighting between the two groups.

10.3.2 Both groups recruit throughout the country, and house their forces in barracks. By policy, they tend to be based away from their home areas. The police, a considerably larger body, 4,700 strong, has a much older tradition in Papua New Guinea, one of a prominent role in assisting government patrol officers pacify and rule large areas. But the Army, until the 1980s, when conditions declined rapidly, tended to enjoy better conditions and greater public esteem, adding to tensions with the police.

10.3.3 Such tensions have not been relieved by the Army's deployment since 1984 on internal security operations, assisting the police (such army call-outs require legislative approval from Parliament, and its regular renewal). For, although the two disciplined forces have been working more closely together, there has been an element of resentment on the part of the soldiers, about being called to such a task at all. It was the arrival of the riot police on Bougainville, not the PNGDF, that 'first began tactics which started to alienate people who would have liked to see the violence end'.³¹ The riot squads were established before independence, in response to a revival of tribal fighting in the Highlands; but have not had marked success in this role.

10.3.4 Both forces felt humiliated by their enforced withdrawal from Bougainville in March 1990. But the controller of the emergency operations there, Police Commissioner Paul Tohian — who had taken all the police off the island despite government instructions to the contrary — decided to call for support to arrest the Prime Minister, Mr Namaliu, and Leader of the Opposition, Mr Paias Wingti. He received no Army support at all, and only a small group of riot police escorted him to the government buildings, where he was arrested and then sacked. The continued existence

²⁷ Sanderson, *Evidence*, 20 November 1989, p. 24.

²⁸ *ibid.*, p. 36.

²⁹ Sanderson, *Evidence*, 22 October 1990, p. 755.

³⁰ Australia Defence Association, *Evidence*, 26 September 1990, p. 393.

³¹ Kemelfield, *Evidence*, 22 October 1990, p. 793.

of separate disciplined forces does ensure that 'there is a countervailing power group which would make the conduct of some military coup virtually impossible'.³²

10.3.5 Police and Army resources and training have been entirely separate. There has been no institutional overlap, nor any institutionalised mechanism for the sharing of information, save on an operation-by-operation basis.

10.3.6 Australian support for the two groups has also been managed totally separately: the PNGDF through the various defence co-operation arrangements, the police through AIDAB.

10.4 Defence Ties with Australia

10.4.1 The importance of Australia's defence ties with Papua New Guinea and the interconnection between the two countries in defence arrangements was explained to the Committee.

As Australia's nearest neighbour, Papua New Guinea will always have strategic importance for Australia. As in 1942, the possibility that a potential aggressor against Australia should be able to develop naval and air facilities in Papua New Guinea would be of substantial strategic concern to Australia. This is even more true today with the large volumes of shipping that pass through Papua New Guinea waters en route to or from north east Asian ports.³³

The denial of Papua New Guinea for operations by hostile forces decreases the problems and cost of defending not only northern Australia, but also the east coast of the nation.³⁴

Further:

Papua New Guinea's role in the region as the largest Pacific island state, and its links with ASEAN, gives added weight to the importance of the bilateral relationship and to shared perceptions of the region's strategic and security interests.³⁵

10.4.2 The Joint Declaration of Principles signed by the Prime Ministers of Australia and Papua New Guinea on 9 December 1987 states under 'Defence':

³² Australian Defence Association, *op cit*.

³³ Australia Defence Association, *Submission*, p. S12.

³⁴ Department of Defence, *Submission*, p. S102.

³⁵ AIDAB, *Submission*, p. S320.

- a. Recognising that each government has primary responsibility for its own security, the two governments undertake to continue to maintain and develop their respective defence capabilities.
- b. Conscious of their unique historical links and shared strategic interests, the two governments will continue to engage in defence co-operation through consultation and in such areas as agreed exchanges, consultancies, combined projects, military training and combined exercises as would be decided by them from time to time.
- c. The two governments reaffirm the existing agreement and arrangements between the two countries covering the status of service personnel from either country present in the other, the provision of supply support and consultations on politically sensitive situations in which Australian loan personnel might be involved.
- d. The two governments will consult, at the request of either, about matters affecting their common security interests. In the event of external armed attack threatening the national sovereignty of either country, such consultation would be conducted for the purpose of each government deciding what measures should be taken, jointly or separately, in relation to that attack.

10.4.3 This declaration essentially formalised pre-existing arrangements, but took these a step further in (d), which makes explicit a desire for greater reciprocity in the relationship. Through it:

*Australia could expect that, in the event of an increase in regional tension, Australian forces could be granted access to bases, especially airfields, and naval fuelling installations at Port Moresby and Lombrum.*³⁶

The language of this defence section of the JDP is similar to that used in the Five Power defence arrangements which link Australia with Malaysia, Singapore, New Zealand and Britain, 'and as such underlines the reality that the south west Pacific is of no less strategic significance to Australia than is south east Asia'.³⁷ The JDP further provides for a Ministerial Forum to discuss political, economic and strategic issues. Both countries' Defence Ministers have participated in the forums held to date.

³⁶ Australia Defence Association, *Submission*, p. S26.

³⁷ DFAT, *Submission*, p. S433.

10.4.4 Australia's formal security commitment to Papua New Guinea was first formalised in a 1977 joint statement by Prime Ministers Michael Somare and Malcolm Fraser declaring their governments' intention to consult about matters affecting their common security, and confirming Australia's role in assisting the development of the PNGDF.

10.4.5 In 1977, a Status of Forces Agreement was signed, delineating the rights of service personnel stationed in each other's country; and a supply support arrangement was formalised, which allows the PNGDF direct access to the ADF logistic system for the purchase of supplies.

10.4.6 There are three annual combined exercises: Wantok Warrior, a reciprocal exchange land exercise; Night Falcon, a special forces exercise held in Papua New Guinea; and Paradise, a maritime exercise. These 'present opportunities for the Australian Defence Force and PNGDF to work together and enable the ADF to gain valuable operational experience in the demanding tropical environment of Papua New Guinea'.³⁸ Besides allowing such experience for ADF personnel, this also enables the PNGDF to gain experience in the sorts of operations that Australia conducts.³⁹

10.4.7 The ADF has helped to upgrade the Lombrum wharf to facilitate the operation of Papua New Guinea and Australian patrol boats in Papua New Guinea's northern waters, also to accommodate Royal Australian Naval vessels to FFG size; and to relocate the PNGDF's Air Transport Squadron from Lae to Port Moresby. The management teams working on these projects were scheduled to form the basis of a joint PNGDF/ADF engineering works unit being established in West Sepik Province, adjoining Irian Jaya, with a substantial road-building brief.

10.4.8 The major engineering input by the ADF to Papua New Guinea has been through a 23-man works unit deployed permanently to Mendi in the Southern Highlands Province. The unit participates in the planning, supervision and management of public works construction.⁴⁰ These Australian Army engineers run the provincial government's entire Works Department. The officer commanding the unit is the provincial works manager.

This project has been so successful that, when it was suggested that they should shift to another province, the competition between provincial governments to secure their services was so intense the idea was dropped for fear of upsetting not only the Southern Highlanders but also those other provinces ... On a trip to Papua New Guinea in late 1987 (then Defence Minister) Mr Kim Beazley promised Papua New Guinea the loan of as many army engineers as it wanted. He said one of the problems facing the army's

³⁸ Department of Defence, *Submission*, p. S108.

³⁹ Sanderson, *Evidence*, 20 November 1989, p. 29.

⁴⁰ Department of Defence, *Submission*, p. S108.

engineering units in Australia was that they were not allowed to take work that might be done by private companies or with union labour.⁴¹

10.4.9 There are 29 Australian loan personnel filling establishment positions in the PNGDF, and a further 19 servicemen with the Australian Training and Technical Support Unit based at PNGDF headquarters at Murray Barracks, Port Moresby. The unit is designed to provide such support in areas where the PNGDF has minimal expertise. Army surveyors are also seconded to the Papua New Guinea National Mapping Bureau; and an Army communications expert to the police.

Recommendation 42. The Committee recommends that the Australian Defence Force (ADF) engineers' program in the Southern Highlands Province be used as a model for an extension of such programs into other provinces of Papua New Guinea; and that this be pursued in partnership with the PNGDF engineering battalion.

10.4.10 Up to 300 PNGDF personnel train or study in Australia annually. There have been almost 3,000 such trainees since Independence. 'One of the new directions that we have been moving in has been to conduct much more training in-country, in Papua New Guinea, and in that way to provide it in a way which is better targeted at the problem areas of Papua New Guinea.'⁴² Such training seeks to foster professionalism in internal security operations and in the need to win the support of the civilian population.⁴³ 'The traditions of non-involvement in political matters were carried over from Australia to Papua New Guinea at the time of independence and are respected within the Papua New Guinea community. The kind of training that is provided by Australia in the current situation would continue to support that ethos.'⁴⁴

10.4.11 An exchange program has begun, with a Tok Pisin language instructor and a qualified flying instructor attached to Australian establishments. Papua New Guinea's own officer training college is at Lae. 'If there is a problem in the PNGDF it is not so much in the area of training, it is in the application of skills.'⁴⁵ 'The attitude [among the PNGDF officer corps] is that the longer Australians are directly involved with their leadership and training, the less likely it is that people will stand on their own feet. So there is an eagerness on the part of the leadership to assume full responsibility for [such roles].'⁴⁶ Australia also provides some training for police riot squads.

⁴¹ Dorney, *op cit*, pp. 210-12.

⁴² Department of Defence, *Evidence*, 22 October 1990, p. 758.

⁴³ Department of Defence, *Submission*, p. S1221.

⁴⁴ Department of Defence, *Evidence*, 20 November 1989, p. 26.

⁴⁵ Department of Defence, *Evidence*, 20 November 1989, p. 21.

⁴⁶ Sanderson, *Evidence*, 20 November 1989, p. 22.

10.4.12 The Defence Co-operation Program has been boosted in response to increased demands on the PNGDF from the Papua New Guinea Government, and from the latter to the Australian Government: from \$27 million in 1988/1989 to \$41 million in 1989/1990 to \$53 million in 1990/1991. In addition, Australia gave \$12 million in 1990/1991 towards training and equipping 450 newly recruited soldiers to bring the PNGDF establishment closer to its full strength of 3,800, plus \$3 million in civil aid, in part to train police riot squads. Overall, Australia has given Papua New Guinea more than \$500 million in defence aid since Independence.

10.4.13 The Australia Defence Association argues that:

The PNGDF frequently gives the impression that it owes too much to Australian tutelage in its organisation, concept of operations and training. Australia has consciously abandoned its once notable capability for jungle operations using small, lightly equipped and mobile units designed for harassment and ambush of hostile forces. Skill at such operations should be basic for the PNGDF which appears to prefer conventional stand-and-fight tactics.⁴⁷

Thus 'a PNGDF which is a pale imitation of the ADF ... is really not suitable for Papua New Guinea's needs'.⁴⁸

10.5 The Defence Review

10.5.1 In September 1990 the Papua New Guinea Prime Minister, Mr Rabbie Namaliu, raised with Australian Prime Minister, Mr Bob Hawke, a proposal to review Papua New Guinea's security arrangements, and inevitably also, Australia's role in those arrangements. Mr Hawke responded in a speech in Port Moresby 'The time is long past when Australian forces could act in an internal security role in Papua New Guinea, except perhaps in the most extraordinary, agreed, and limited of circumstances. That means no doubt that there will be some changes in emphasis in the Papua New Guinea Defence Force's objectives and perhaps structure. When Papua New Guinea is ready, we will be happy to help you develop the necessary capabilities under our Defence Co-operation Program'.⁴⁹ The Prime Minister went on, at a 6 September 1990 press conference in Port Moresby, to say: 'We both [Mr Namaliu and himself] agree that there will be a complementarity of the PNGDF and police roles in many respects and that it may be that you can get a degree of integration in regard to procurement issues perhaps, and some elements of training'. Mr Hawke developed this position in his opening remarks at the Ministerial Forum in Canberra on 21 February 1991:

We believe that it's necessary to give the highest priority to developing within the security forces a stronger capability to deal with law and order and internal security problems.

⁴⁷ *Submission*, p. S24.

⁴⁸ Australia Defence Association, *Evidence*, 26 September 1990, p. 31.

⁴⁹ Prime Minister R J L Hawke, MP, Port Moresby, 3 September 1990.

We reached that common agreement in our discussion on the basis that, whatever may have been some historical perceptions, we don't see that there's a threat externally to you; and that the core problems therefore are how do you deal with these very significant internal problems ... Consideration therefore has to be given to how Papua New Guinea and Australia's relatively limited resources can be best allocated and utilised to meet the highest priority needs.

10.5.2 A concern then had arisen since the start of the Bougainville operation that neither the PNGDF capacity nor the Australian Defence Co-operation Program was sufficiently focused on Papua New Guinea's real needs — which included better integration between all the disciplined services — including the corrective institution staff as well as police and soldiers. The failure of integration or co-operation between the services was highlighted by the Bougainville situation. The stability and integrity of Papua New Guinea is of strategic importance to Australia and the uprising on Bougainville implied the possibility of the disintegration of the nation. It also revealed the extent of deterioration in the discipline and effectiveness of the Defence Force.

10.5.3 The Australian Government considered that only by Papua New Guinea re-examining its own needs could it articulate best the ways in which Australian support might be applied in the future. Australia felt it important to maintain a role in training and basic skills formation and application, and not to be restricted to a funding source and provider of major equipment. It sought an advisory role in the operational area, rather than be quarantined to administration and management.

10.5.4 Australia's own side of the review was completed before mid 1991, but Papua New Guinea's first proposal, presented at this time, was for a formal Security Co-operation Treaty, containing largely attitudinal statements, the need for which the Australian Government has yet to be persuaded. Australia has taken the position that the JDP clause on defence covers the essential formal ground already. The focus on an internal security audit envisaged by Prime Ministers Namaliu and Hawke in September 1990 appears to have been temporarily diverted to one on bilateral relations.

10.5.5 The review by the Papua New Guinea Government has articulated the circular and interdependent nature of security and economic development. Security problems result from dislocation within the development process, from unemployment, educational inadequacy, lack of infrastructure development and health services. And, concomitantly, investment in development is inhibited by law and order problems in the towns, by the uncertainty created by opposition to mining projects and, at worst, by the violence inherent in secessionist movements. The government has decided to give a high priority to security. Australia supports this decision and is committed to continue helping the Papua New Guinea security forces enhance their capabilities.

10.5.6 The Committee recognises the problem of focus that has arisen between the constitutionally defined role of the PNGDF and the security needs of the country, especially that the expense of training, equipping and deploying two separate forces has been beyond Papua New Guinea's means.

Recommendation 43. As Australia has a Defence Co-operation Program with Papua New Guinea, the Committee supports the planned integration of the defence force and police force for the defined and limited purposes of joint training and logistical support. However, in the light of the dangers inherent in armies doing police work, the Committee is strongly of the view that the Papua New Guinea Government should develop strict guidelines for the deployment of the PNGDF for civilian tasks and that these guidelines should be reflected in the joint training program and in the use of equipment.

10.5.7 In September 1991, Mr Namaliu and Mr Hawke signed an Agreed Statement on Security Co-operation. The statement:

- makes clear the Papua New Guinea's internal security needs have the highest priority;
- foreshadows a comprehensive, integrated and planned approach by Papua New Guinea to its overall security requirements, reflecting this priority;
- underlines Australian commitment to provide assistance to help the Papua New Guinea Government implement the findings of its review, and to engage in wide-ranging programs of co-operation to strengthen Papua New Guinea self-reliance;
- gives priority to training; and
- establishes the annual security co-operation talks at officials level which will allow better co-ordination and help ensure the balance of Australian effort meets Papua New Guinea's real needs.⁵⁰

10.5.8 The Papua New Guinea Government is now developing a plan of action and a set of priorities for the implementation of the security review. Australia will discuss possible ways of assisting in the implementation of the review once the priorities are set. There is no expectation that there will be an increase in the overall budget for defence co-operation (\$A37.2 million in 1991/92 or aid for the police project \$A14 million. Nor is there an expectation that the channels for the delivery of aid will change — defence co-operation for security assistance and AIDAB for the police

⁵⁰ DFAT, *Submission*, pp. 1585-86.

project. However, there may be a redirection within the budget and, especially as project aid is increased, more of it will be directed into the security area.

10.5.9 The Department of Foreign Affairs and Trade in its evidence to the Committee assured members that an amalgamation of police and defence forces was not envisaged. They believed that the lessons of Bougainville were that, while there was a need for training and resources in both police and defence forces, this could be achieved by greater co-operation and co-ordination of their activities.

10.5.10 In particular, there have been proposals for joint training, joint logistics and joint trade skills. Officers from both the police and the armed forces could be trained together as could tradesmen in such areas as communications, vehicle maintenance or technical support. There is a hope to create a joint training facility where recruits from all security areas could be brought together and, in the process of training, come to understand each other. Logistical support from the Army could be given to the police in states of emergencies, especially for crowd and riot control. The defence forces have a disciplined logistics system whereas the police force does not have one of its own. Mr Nockels from the Department of Defence explained:

By logistics I mean support, not only for the provision of equipment of a new pair of boots or a new shirt, but also in the provision of police housing ... The same applies in the area of communications capabilities and maintenance of those, and in the area of maintaining the police transport fleet.⁵¹

10.5.11 One possibility for co-operation would be if the PNGDF supported the police mobile squads. According to the representatives of the Australian Department of Defence, the Papua New Guinea Minister for Defence believed that the placement of elements of the defence forces in various parts of the country might be useful. He would like to begin, they believed, in the Highlands where the presence of the defence force could back up the police mobile squads and provide additional manpower if there were an outbreak of tribal fighting. A second possibility would be in the use of the engineering skills of the PNGDF to support rural development, similar to the work of the Australian defence forces at Mendi. A third area would be to use the skills of the PNGDF to train local youth in the new national youth scheme.

10.5.12 The Department of Defence saw that there would be some overlap of activities but that the basic distinction between the roles of the defence forces and the police would be preserved. Certainly they saw the defence forces aiding the police but thought there would be less scope for the police being used in defence work. The Papuan New Guineans, they thought, were conscious of the dangers of the course on which they were embarking.

⁵¹ Department of Defence, *Evidence*, 21 October 1991, p. 1682.

They do talk very cogently about the different roles of a police force and of a force which is, primarily, trained for the application of lethal force. They believe they are not as well prepared as they need to be to assist the police force in these more extreme manifestations of law and order problems.⁵²

10.5.13 For all the assurances given to the Committee, the members expressed some concern about the consequences of the blurring of these roles of police and defence forces. Although the Defence Review stressed that there would not be an amalgamation of the police and the defence forces, there is nevertheless an expectation of the use of the defence forces as a backup to the police in certain circumstances. The Committee believes that this will require very specialist training in order to avoid the dangers inherent in *offensively trained troops working in the civilian sphere*.

Recommendation 44. Where Australia is involved, the Committee recommends that enhanced emphasis be applied to the training of the PNGDF for civilian tasks, encompassing humanitarian law and civic duties; and that Australia offer to continue a role in recruit and officer training.

10.6 Defence Arrangements with Other Countries

10.6.1 Papua New Guinea Prime Minister, Mr Namaliu, issued a statement on 21 January 1991 that: 'Papua New Guinea will diversify its sources of Defence aid and purchases, just as other forms of aid are being diversified. Our relationship with Australia is now a very mature one, and part of that maturity is the right of Papua New Guinea to choose its own course in its relations with other countries.' While co-operation with Australia remained strong, it was also continuing with New Zealand and the United States, and moves were being made to boost Defence links with other countries, 'most notably the members of ASEAN,' Mr Namaliu said. 'The Defence Forces of countries such as Singapore and Malaysia have much to offer Papua New Guinea as we expand the role of our own Defence Force.' One of the reasons for this diversification, he said, was the 'completely understandable' frustrations of the Minister for Defence and the PNGDF concerning limits on the use of the Australian-supplied Iroquois helicopters.

10.6.2 The involvements of other countries in Papua New Guinea's security program are to date limited, but growing steadily:

- a. New Zealand provides officer cadet training, some technical training, and engages in a company level annual exercise with the PNGDF.

⁵² Brabin-Smith, *Evidence*, 21 October 1991, p. 1690.

- b. In March 1990, Papua New Guinea and the USA signed a Memorandum of Understanding on a defence co-operation program. A General Status of Forces Agreement had been concluded earlier. The Memorandum allows for low-level training flights by US Air Force planes over Papua New Guinea territory, familiarisation flights by US naval surveillance aircraft and port visits and passing exercises by US warships. A US sergeant is attached for a long term to Goldie River Training Depot near Port Moresby, there have been a few small-scale combined exercises, and American Seabees have undertaken some engineering activities in civic action projects.
- c. The Treaty of Mutual Respect, Friendship and Co-operation between Papua New Guinea and Indonesia allows for regular exchange of information, but not explicitly for joint military programs.
- d. Some PNGDF officers have trained at staff colleges in Indonesia and in Malaysia.
- e. In August 1990, Papua New Guinea agreed to a Memorandum of Understanding on Defence Co-operation with Malaysia. The components include military training, personnel exchange and technology and equipment co-operation.
- f. The only major purchase of military equipment that Papua New Guinea has made so far, has been of three light freighter-type Arava aircraft made in Israel. In diversifying its sources of supply away from Australia, Papua New Guinea will also have to increase its defence budget since no other supplier is likely to do so as aid.
- g. A Russian embassy established in March 1990, has no military staff. The Ambassador, Mr Evgeni Rogov, said on presenting his credentials, 'Our intentions in the South Pacific are purely commercial'.⁵³
- h. The first training of the Vanuatu Mobile Force took place in Papua New Guinea, in Port Moresby and in Lae.

⁵³ AFP.

- i. Since then, the Papua New Guinea Prime Minister who approved the Vanuatu engagement of the PNGDF, Sir Julius Chan, has pressed at international forums for a multilateral security force to be established in the South Pacific, to engage in civic action, disaster relief, fisheries and smuggling patrols, and combating low level insurgency. He has not to date met with a positive response.
- j. The Melanesian Spearhead (linking Papua New Guinea with Vanuatu and Solomon Islands, with New Caledonia's FLNKS independence movement having observer status) 'is not seen by its participants as having security dimensions'.⁵⁴

⁵⁴ Department of Defence, *Evidence*, 20 November 1989, p. 38.

Chapter Eleven

Bougainville

Nation building in Papua New Guinea has been a process of overcoming regional differences, language differences and different development stages. On the whole it has been remarkably successful. However, Bougainville has become one of Papua New Guinea's most intractable problems. Its resolution is seen by the Papua New Guinea Government as a vital test of the unity of the nation. Chapter 12 outlines the historical background to the present struggle. Australia's concern with Bougainville is twofold: first is a general concern for the integrity of Papua New Guinea and the stability of the area; second, the interests of Australian mining companies have been central to the conflict. Australia has supported the unity of Papua New Guinea and has played a major role in the training and equipping of the Papua New Guinea Defence Force, including the controversial supply of helicopters that were used on Bougainville. These interests have precluded Australia from playing a significant role in finding a solution to the crisis. The Committee heard evidence of human rights abuses on both sides and of continuing hardships as a result of the blockade. Therefore, the Committee believes the Government of Australia should make every effort to help the Papua New Guinea Government and the people of Bougainville to bring about the earliest possible end to the crisis.

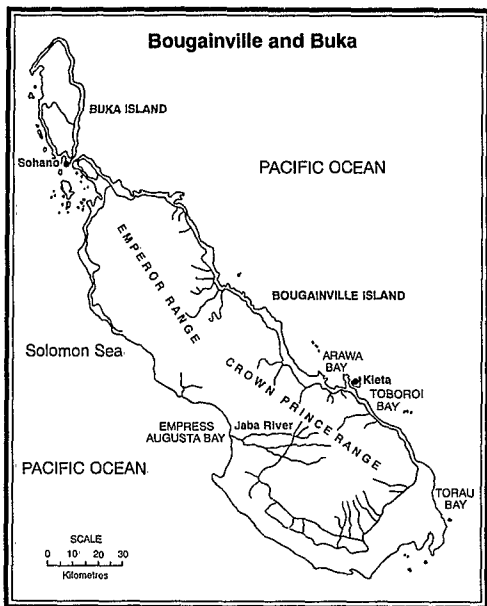
11.1 Background

Land is our life, land is our physical life — food and sustenance. Land is our social life, it is marriage; it is status; it is security; it is politics; in fact, it is our only world. When you take our land, you cut out the very heart of our existence.¹

11.1.1 The relationship between people and land is perhaps the key relationship in Melanesian society. The above quotation from three leading Bougainvillean students in 1974 graphically demonstrates its importance. The extent to which the Melanesian attitude to land is compatible with the national economic development is a key issue for the future of Papua New Guinea. It has implications not only for the future of Australian investment in Papua New Guinea, but also for the wider relationship because the way in which Papua New Guinea handles this issue will largely determine what sort of state it becomes.

¹ Dove, Miriung and Togolo, 1974, quoted in Quodling, *P W Bougainville Copper Limited — A History*, April 1990, Submission, p. S1114.

Bougainville



11.1.2 Bougainville has provided the most dramatic example since Papua New Guinea Independence of the problems that can emerge when land issues and economic development come into conflict. The discovery of copper on Bougainville in the 1960s, and development of the giant Panguna mine was always accompanied by controversy and landowner resistance. There was opposition to surveying and test drilling for which no permission was required in the early 1960s; there was fear of the extraction of wealth primarily for the benefit of people beyond Bougainville; there was dissatisfaction with the compensation paid for damage done to the land. These were attitudes complicated by long-standing suspicion on the part of Bougainvilleans of the control that outsiders — a variety of Europeans, Australians, Japanese and Papua New Guineans — had wielded over Bougainville. The Bougainvilleans were reluctant to join the independence movement of Papua New Guinea; they had already applied by petition to the United Nations Mission in 1962 to have their administration transferred to the United States. The complexity of traditional land tenure was neither fully comprehended nor adequately dealt with in the early negotiations of agreements.

11.1.3 The Agreement of 1967 was made with the administration of Papua New Guinea, ratified by the House of Assembly. Royalties were set at 1.25 per cent of the FOB value of exported product. A three year tax free period was to be followed by a rate that would escalate from 25 per cent to 50 per cent in later years. The administration took a 20 per cent equity on behalf of the future Papua New Guinea Government. Mining commenced in 1972. By 1974, Papua New Guinea was self-governing and, with the prospect of independence the following year, the agreement had to be renegotiated. Royalties remained unchanged, but the tax arrangements were to include an additional profits tax of 70 per cent when profits exceeded a specified threshold.

11.1.4 The commencement of operations, the scarring of the landscape, the relocation of landowners, the influx of outsiders and the renegotiation process all helped spark an attempt at secession in 1975. Dissatisfaction and conflict continued until, in 1988, violence again broke out, with militants forcing the closure of the mine and eventually taking control of the province. The situation remains unresolved at the time of writing.

11.1.5 The Bougainville crisis was of particular interest to the Committee because of the linkages with Australia. The Panguna mine was developed by Conzinc Riotinto of Australia (CRA) in partnership with the Papua New Guinea Government, through Bougainville Copper Limited (BCL). Many of the staff of BCL were Australian, and concern for their welfare resulted in the posting of Australian High Commission officers on Bougainville on a rotating basis from early 1989 until March 1990, when all Australians were evacuated. Australia supplied four helicopters to the PNGDF in August 1989, and their use on Bougainville gave rise to considerable controversy.

11.1.6 The Committee heard considerable evidence on the Bougainville crisis which has clearly been a watershed experience for Papua New Guinea. The Department of Foreign Affairs and Trade stated that the

threat of Bougainvillean secession was 'the most serious challenge to Papua New Guinea's internal stability'.² This was echoed in the evidence of many others. In examining the evidence, the Committee bore in mind the following crucial questions:

- how far was the outbreak of secessionism on Bougainville a product of a unique set of circumstances applicable only to Bougainville;
- could it inspire similar developments elsewhere in Papua New Guinea;
- what lessons had been learnt from the Bougainville crisis and were these being applied elsewhere; and
- what was the overall impact of the Bougainville crisis on Papua New Guinea, economically and politically?

11.1.7 Substantial deposits of copper were discovered on Bougainville near Panguna in 1964. Project evaluation was completed in 1969 and was followed by the commencement of mine construction. In April 1972 commercial production began.³

11.1.8 Bougainville had always had only tenuous links with the rest of Papua New Guinea. Its people were visually and ethnically distinct from peoples of the other parts of Papua New Guinea. Geographically, it is located more closely to the Solomon Islands, rather than the Papua New Guinea mainland. The major external influence on the island in the twentieth century were Catholic Marist missionaries from the USA, whose links with Australia and the rest of Papua New Guinea were limited.

11.1.9 With the discovery of copper and the approach of independence for Papua New Guinea, secessionist sentiment on Bougainville grew. As Mr Carruthers, Managing Director of BCL said:

There was opposition to our presence on Bougainville right from the beginning (1964).⁴

The Australian administration had no sympathy for secessionist feeling which it attempted to suppress because the revenues of the mine (it was to be Papua New Guinea's major source of foreign exchange throughout the 1970s and 1980s) were seen as essential for the viability of Papua New Guinea as a nation state. In 1969 there was a serious dispute with the Roravana people over the acquisition of their land for development associated with the mine. A secessionist organisation Napidakoe Navitu was active in the early 1970s. On 1 September 1975 shortly before Papua New Guinea's Independence, political leaders on Bougainville, including Leo Hannett and Father John Momis, declared its independence. However,

² DFAT, *Submission*, p. S454.

³ *Submission*, p. S1112.

⁴ *Evidence*, 26 September 1990, p. 435.

the lack of international recognition and a conciliatory approach by the Papua New Guinea Government resulted in a settlement by which Bougainville remained in Papua New Guinea, and was allowed a degree of autonomy through the provincial government system.⁵

11.1.10 Copper on Bougainville was mined by BCL whose ownership was divided between CRA (53.6 per cent), the Papua New Guinea Government (19.1 per cent), and other shareholders (27.3 per cent). Under the Bougainville Copper Agreement, signed in 1967 and renegotiated in 1974, 1.25 per cent of the value of production was paid in royalties, of which only 5 per cent went to the landowners and 5 per cent to the provincial government. Landowners were also paid some compensation for loss of gardens and dislocation.

Among the registered owners receiving annually paid rents, the average amount received was \$590 and the median \$450; the range was very wide, from \$103 to more than \$60,000, with several receiving more than \$10,000. It should be recalled, however, that very few of the 'registered owners' were sole owners.⁶

11.1.11 A review of the Bougainville Copper Agreement was scheduled for 1988. In 1987 Father John Momis launched his 'Bougainville Initiative' which denounced BCL and, under veiled threat of mine closure, demanded BCL pay an equivalent of 4 per cent of net sales revenues to the provincial government. The Committee was told that Father Momis was supported in this initiative by the Provincial Premier, Joseph Kabui, and landowner representatives, including Francis Ona and Perpetua Serero. It also, according to Paul Quodling, formerly of BCL:

... played a major role in raising pecuniary aspirations within the province.⁷

In any event it appeared to inspire the formation of a new Panguna Landowners Association in August 1987 which installed Serero as Chair and Ona, a BCL employee, as General Secretary. They demanded that royalties be paid to the landowners, and further that CRA pay 10 billion kina compensation and provide for tighter controls on environmental damage, in particular the silting and contamination of the Jaba River and the bay into which it flows. Douglas Oliver, in his book *Black Islanders*, described the problem:

Initially about 26 million tonnes of waste rock and 6.8 million cubic metres of soft overburden were removed and piled along the side of the valley of the Kawerong River, which flows westward from Panguna; and that was only the beginning. During the mine's seventeen years of operation, another 556 million tonnes of waste material

⁵ Submission, p. S1113.

⁶ Oliver, D *Black Islanders* Hyland House, 1991, p. 147.

⁷ Submission, p. S1117.

were separated from the ore and disposed of, along with 595 million tonnes of silt material left over from ore processing: altogether an additional 1,225 million tonnes were either stacked up alongside the Kawerong's banks or dumped into its stream. A few miles downstream the Kawerong and several other streams flow into the Jaba River and thence to the west coast. By mid 1971 those naturally clear streams were already silted, aggraded and widened. By 1988 the flow and spread of the tailings had raised (and thereby widened) the stream beds by up to 20 metres in the deepest parts.⁸

11.1.12 The company began monitoring the environmental changes in 1969. In 1973 agronomists were employed to begin the revegetation of the areas covered by waste rock and tailings. The company also constructed a 31 kilometre pipeline, completed in 1989, to take tailings out into the bay to allow for the commencement of a rehabilitation program along the river.

11.1.13 1988 was a politically unsettled year for Papua New Guinea, resulting in the replacement of the Wingti Government by the Namaliu-led Opposition on 4 July. Momis became the Minister for Provincial Affairs in the new government. But no substantial progress was made on the Bougainville review. Meanwhile on Bougainville tempers were simmering.

11.1.14 They erupted in late 1988 when Francis Ona rejected the findings of an Environmental Study commissioned by BCL as it did not go far enough in his view in sheeting home blame for environmental damage and social disorder on Bougainville to BCL. On 22 November explosives were stolen from BCL: on 23 November Ona (now in hiding) spoke on Radio Bougainville about 'big events' to occur; on 26 November a spate of arson attacks occurred, culminating on 1 December 1988 when a transmission tower providing power to the mine was toppled by explosives.⁹

11.1.15 The situation deteriorated throughout 1989, despite attempts by the Papua New Guinea Government to enter into negotiations with Ona and his rebels, organised as the Bougainville Revolutionary Army (BRA). These attempts included the formulation by the national government of a compensation package with the provincial government involving major public works, an increase in landowners share of royalties, an increase in revenue for the provincial government, and provision of equity in BCL for both the provincial government and the landowners.

11.1.16 However, they fell well short of Ona's demands of 10 billion kina (A\$15 billion) compensation, 50 per cent of profits to landowners and the provincial government, and localisation of BCL Ownership within five years. These were clearly impossible to meet. Emboldened by the recruitment of Australian Army-trained Lieutenant Sam Kauona, and with

⁸ Oliver, *op cit*, pp. 136-37.

⁹ Quodling, *Submission*, p. 51129.

their ranks swelled by members of a local cargo cultist movement led by BRA supporter Damien Damen, the BRA stepped up their attacks on BCL. There were further attacks on power pylons and BCL employees, culminating in the forced closure of the mine in May 1989. Local sympathies were harnessed for the BRA by the heavy-handed activities of the riot police flown in to restore order. Their methods of burning villages and bashing villagers did not go down well on Bougainville. Rather than restoring order they exacerbated the situation. In May they were supplemented by the PNGDF, but discipline also broke down amongst the latter's ranks. The BRA also strengthened their grip with selective terrorism, particularly with the brutal murder on 10 September of prominent Provincial Minister, John Bika, two days before the proposed signing of an agreement between the national and provincial governments and landowners.

11.1.17 Throughout this period, representatives of the Australian High Commission in Port Moresby travelled to Bougainville to keep the Australian Government briefed on the situation and to protect the interests of Australian nationals (of whom they were about 2,000 on Bougainville). They also kept in close touch with government authorities and BCL. In the light of the deteriorating security situation in early 1990, the Australian Government recommended the departure of its nationals and BCL decided no company employees should remain on Bougainville.¹⁰ Following their departure in March 1990, the Papua New Guinea Government withdrew its security forces, and the island fell into rebel hands. The BRA declared independence and the Papua New Guinea Government cut off services to the island.

11.1.18 In August 1990, talks held between the Papua New Guinea Government and the militants on Her Majesty's New Zealand ship, *Endeavour*, resulted in an accord, the Endeavour Accord, which set a framework for the restoration of services to the island. Since then, however, the Papua New Guinea Government has slowly regained control of the northern part of the island, while peace talks have continued fitfully. An exclusion zone continues around Bougainville and, despite informal traffic with Solomon Islands, life on the island has deteriorated considerably.

11.1.19 On 23 January 1991 the Honiara Declaration was signed. It too proposed a program for the restoration of services on Bougainville assisted by a Multinational Supervisory Team (MST) directed by an Interim Legal Authority (ILA) as well as an end to the blockade. Some parts of this program have been implemented. At the time of writing, some attempts at restoring limited services were being made. On Buka, most services have been restored, including schools, hospitals, shipping and air services. People from the main island also use these services. In Buin, in the south, the hospital and some schools are receiving help from the national government. However, the political and social situation in central Bougainville appears very poor.

¹⁰ Quodling, *Submission*, p. S1129; and DFAT, *Submission*, pp. S454-56.

11.1.20 As of November 1991, little progress had been made towards conducting talks. The sticking point according to the assessment of the Australian Department of Foreign Affairs and Trade is the very different expectations of the parties:

The BRA thought that the Horiara Declaration would be simply a step towards independence, whereas the Papua New Guinea Government saw [it] ... as providing an opportunity to put the political questions to one side for the time being and develop arrangements for restoring services and maintaining contact and framework for negotiations for the future.¹¹

In particular, the stumbling blocks were the unwillingness of the BRA to surrender weapons, disagreements about where the talks should take place, problems over the participants in and the role and legal authority of the MST and disagreements between the BRA and the Papua New Guinea Government over who would constitute the Interim Legal Authority. The BRA wanted the MST to be in place before talks began. It was hoped that the talks would finally take place in November 1991.

11.1.21 The Committee was concerned at the lack of Australian action or involvement in the attempts to find a resolution to the conflict between Bougainville and the central government of Papua New Guinea. This seemed especially stark in the light of the successful efforts of the Australian Government in helping to find a solution to the war in Cambodia. In final evidence given to the Committee in October 1991, the Department of Foreign Affairs and Trade stated their view that greater Australian involvement was not wanted, especially by the BRA:

The contacts that we had with people now in the BRA — before Australia left Bougainville — made clear that they were very suspicious of Australia and its role.¹²

The Department claimed that this was also the view given to it by journalists and by representatives from NGOs who had visited Bougainville earlier this year. The Department quoted five different sources: radio, television and print journalists, NGO representatives, as well as a letter from Mr Kabui, former Premier of Bougainville and currently Chairman of the Bougainville Interim Government, delivered to the Australian High Commission in Honiara on 14 March 1991. It read in part:

Since the signing of the (Honiara) Declaration, the Bougainville leaders have carefully re-examined Australia's position and in particular its close and indirect involvement with Papua New Guinea on the Bougainville crisis. It is with Australian supplied weapons and equipment that the Papua New Guinea security forces waged war against

¹¹ DFAT, *Evidence* 21 October 1991, p. 1623.

¹² *Evidence* 21 October 1991, p. 1622.

Bougainville. These are bad memories that are still fresh in the minds of many of our people and would be very difficult to erase ... Having therefore expressed the above sentiments I would regret to advise you that Australia's assistance on the peace keeping exercise on Bougainville may not be so required at this particular point in time.

The Department concluded, therefore, with the view of the Australian Government that only a political settlement reached by Papua New Guineans themselves will produce a lasting solution. But the Australian Government has said that it is ready to provide any practical assistance which is acceptable to all parties to facilitate a political settlement.¹³

A contrary view was put by Lissa Evans of the Community Aid Abroad:

Bougainvilleans claim that Australia has a direct responsibility in resolving this conflict in a conciliatory manner, respecting all points of view, because Australia helped create the crisis by opening the Bougainville copper mine against the wishes of the landowners in April 1972, and ignoring Bougainville's pleas for independence in 1975.¹⁴

Recommendation 45. The Committee recommends that Australia adopt a more active diplomatic role in trying to resolve the impasse between the Bougainvilleans and the Papua New Guinea Government.

11.2 Australia and the Bougainville Crisis

11.2.1 Australia was not directly involved in the Bougainville crisis, which was essentially a dispute between the Panguna landowners, on one hand, and the Papua New Guinea Government and BCL on the other. However, BCL had substantial Australian shareholding, being partly owned (along with the Papua New Guinea Government) by CRA, an Australian-based company. Many Australians worked for BCL. The mine had also been originally developed during the period of Australian administration, and its operation had, rightly or wrongly, become identified with Australian interests in Papua New Guinea.

11.2.2 More generally, the Department of Foreign Affairs and Trade stated that:

Australia has a strategic interest in the unity of Papua New Guinea, the maintenance of the authority of the central government, the restoration of law and order on Bougainville and the continuing viability of the existing and (potential) substantial Australian investment in the Papua New Guinea economy.

¹³ DFAT, *Submission*, p. S1842-43.

¹⁴ Community Aid Abroad, *Submission*, p. S1792.

It noted further that:

The Papua New Guinea government fully appreciated that Australia has fundamental interests involved and has ensured that we are kept closely informed of developments.¹⁵

11.2.3 While the Australian Government was careful not to get directly involved in the Bougainville dispute, it made no secret of its strong support for the Papua New Guinea Government. The Prime Minister, Mr Hawke asserted this in a speech made in Port Moresby on 3 September 1990, when he affirmed Australia's support for the preservation of Papua New Guinea's unity and integrity.

We fully support the Papua New Guinea Government's resolute commitment to a political solution [on Bougainville] and we agree with you that Bougainville must remain an integral part of Papua New Guinea.

11.2.4 A recognition of Papua New Guinea's sovereignty and integrity has had to be balanced by legitimate humanitarian concerns and the ability of Australia to offer assistance in the negotiation of a settlement or in the alleviation of suffering on the island. Australia's offers of practical assistance have included the provision in June or July this year (1991) of \$258,000 given to an ACFOA representative group of NGOs who are trying to open rural health centres on Bougainville and \$100,000 given to the Red Cross essentially for an immunisation program. These allocations were the result of initiatives taken by the Foreign Minister, Senator Evans, in November 1990 when he raised with the Papua New Guinea Government the possibility of NGOs delivering medical supplies onto Bougainville. The Papua New Guinea Government agreed in principle but has in fact prevented the entry of NGOs into what it defines as dangerous zones, namely central Bougainville. Prime Minister Namaliu said that any entry into this area had to be under the flag of the national government and had to be co-ordinated through Buka and the Papua New Guinea Health Department.

11.2.5 The Department of Foreign Affairs and Trade informed the Committee that the Australian Government has made representations about this refusal to the Papua New Guinea Government not least because two tonnes of medical supplies went in to Kieta and Arawa in February without incident. Information about the health situation on Bougainville is anecdotal and uncertain according to departmental officers. They believed that basic nutrition was good but that the lack of medicines could seriously affect people who needed surgery or women who experienced complications in childbirth or cause the spread of diseases like malaria. They were particularly concerned about the lack of immunisation over the last two to three years.

¹⁵ *Submission*, p. S455.

Recommendation 46. The Committee urges the Australian Government to press the Papua New Guinea Government to lift its restrictions on humanitarian aid to Bougainville and actively co-operate with Australian NGOs in the provision of this aid.

11.3 Helicopters

11.3.1 The most publicised and controversial action of the Australian Government in support of Papua New Guinea's territorial integrity was the supply of four Iroquois helicopters to the PNGDF at a key stage in the crisis in May 1989. The Committee was told that by such actions Australia has come to be identified on Bougainville with the actions of the Papua New Guinea Government, and regrettably, by association, with some of the abuses of the Papua New Guinea forces.¹⁶ In turn this has limited the role Australia has been able to play in assisting to resolve the crisis and may have had longer-term implications for our relations both with Bougainville and Papua New Guinea.

11.3.2 The issue of the supply of Iroquois helicopters has to some extent come to symbolise the problems for Australia of its involvement in Bougainville. Considerable concern was expressed to the Committee regarding the use of the four Iroquois helicopters given by Australia during the Bougainville conflict. The helicopters were scheduled to be handed over to the PNGDF for general use, but the handover was brought forward at the request of the Papua New Guinea Government, to assist with the operations on Bougainville. The helicopter project was to have included a training component but there was not time for training before the new handover date requested by the Papua New Guinea Government.

11.3.3 The helicopters began operating in Bougainville from the middle of 1989. According to the Department of Foreign Affairs and Trade they were to be used for 'transport, surveillance and medivac purposes'.¹⁷ They were given on condition that they not be used as 'gunships'. This meant they were not to be equipped with fixed machine guns. This 'definition' implied that although covering fire might be necessary to protect troops disembarking from the helicopters, they would not be used in an offensive manner.

11.3.4 The Committee believes that the helicopters were in fact used in a manner which contravened the conditions under which they were donated. There was evidence that the bodies of six Bougainvilleans were dumped at sea from the helicopters. In addition the helicopters seem to have been used to fire at vehicles and people from the air during Operation Footloose before the withdrawal of the Papua New Guinea security forces in March 1990.

¹⁶ Kemelfield, *Submission*, p. S1186.

¹⁷ *Submission*, p. S456.

11.3.5 Even more disturbing is information that helicopters (presumably the Australian Iroquois) were being used in effect as 'gunships' on occasions. An eyewitness account, dated 5 January 1991, and reported by Fr Mark Roberts, Vicar-General of the Diocese of Bougainville, stated that:

The villages of Manop and Ramundata have been destroyed by a combination of mortar fire from Buka Island by the PNGDF, attacks by Patrol Boats and being machine gunned from helicopters based on Buka Island. The Care Centre set-up at Sorom Primary School has also been attacked by helicopter. ... Helicopters have also attacked the St John Bosco Trade School and heavily damaged the school mess building ... Helicopters have also been reported to harass by firing on travelling vehicles on the Buka to Kieta highway.¹⁸

While Fr Roberts had close links with the BRA, these claims have been confirmed by the admissions of the PNGDF commander in the field, Colonel Nuia, on the Four Corners television program on 25 June 1991. Colonel Nuia was immediately sacked by the Papua New Guinea Government.

11.3.6 More generally, according to Mr Lafitte of the Bougainville Information Service:

Bougainvilleans are acutely aware that the weapons and training all comes from Australia. So I think that whatever reserves of goodwill may have existed towards Australia would be somewhat strained by now.¹⁹

11.3.7 When questioned in November 1990 about the use of helicopters by the Committee, Mr Richard Smith of the Department of Foreign Affairs and Trade in response to a question as to whether the Department was satisfied that the helicopters had been used properly, responded:

As you know, questions about their use arose while they were on Bougainville, and the government raised with the Papua New Guinea Government these sorts of allegations of misuse in terms of the conditions that had been established for their use. The Papua New Guinea Government assured us that the use was in conformity with the conditions they had agreed to and, as Senator Evans has said — including in Parliament — we accept those assurances.²⁰

This assurance was obviously at odds with the facts of the case. Whether the behaviour and activities of the PNGDF were known to the Papua New Guinea Government or, therefore, the Australian Government at the time

¹⁸ *Exhibit No. 57, Supplement to Bougainville Information Service*, p. 4.

¹⁹ *Evidence*, 12 November 1990, p. 1164.

²⁰ *Evidence*, 5 November 1990, p. 1042.

of their denials has yet to come to light. An inquiry into the affair has been promised by the Papua New Guinea Government, but has been deferred until evidence can be taken from Bougainvilleans.

11.3.8 From the Australian Government perspective, the Department of Foreign Affairs and Trade told the Committee that at the time of the rumours of the St Valentine's Day massacre in February 1990, Mr Hawke spoke to Mr Namaliu expressing Australia's concerns about the alleged incident. Again, according to the Department, in June after Colonel Nua's admissions of the strafing of areas of northern Bougainville, further representations were made to Papua New Guinea ministers. As a result of these complaints the helicopters were withdrawn from Buka for a time.

11.3.9 The question of whether the helicopters should have been given or not, and whether they should have had conditions attached has become a somewhat confusing one. In 1990, the view of the Department of Foreign Affairs and Trade seemed to be that the gifts once given were beyond the Australian Government's control, both actually and morally. Mr Richard Smith made the point:

They are not Australian helicopters, of course: they are Papua New Guinea Government helicopters.²¹

Mr Mark O'Connor from the Australian Defence Association supported this view:

There has to be a sensitivity in our relationship to recognise that Papua New Guinea is a sovereign country and that when we give assistance we cannot do it with strings ... otherwise we are seen to be unduly interventionist and neo-colonialist. I think there was at least the appearance given (by the Australian government) of a tendency to accept uncritically accusations of human rights abuses against the Papua New Guinea security forces, without a balancing concern about the human rights abuses carried out by the Bougainville Revolutionary Army ... It seemed to me to be a little too responsive to interest groups within Australia and not responsive to the concerns of the Papua New Guinea government to appear to be running its own country.²²

The Department of Defence has adopted this position since the controversy over the helicopters erupted. On 21 October 1991, officers from the Department informed the Committee that:

²¹ *Evidence*, 5 November 1990, pp. 1042-44.

²² *Australia Defence Association, Evidence*, 26 September 1990, p. 392.

What Senator Ray announced in Port Moresby was words to the effect that in future either we would give or sell defence equipment to Papua New Guinea with no strings or we would not give it at all.²³

11.3.10 However, in evidence given to the Committee in October 1991, the view of the Department of Foreign Affairs and Trade had shifted:

Papua New Guineans would say that if the helicopters are a gift, they should come without conditions, but I think they are a very particular kind of gift given at a particular time. It may be that they could not have been given at all if there had not been some conditions attached to them ... [It is] a practical fact that Ministers would not have been able to agree to it here had they not been able to put those conditions on them.

The departmental witness further explained that:

Assistance is given and sought on the basis of contributing to particular aims ... We would obviously not be providing support for any particular activity if we did not share the aim for which the Papua New Guinea Government had set up that particular activity.²⁴

From Australia's point of view then, the conditions for the use of the helicopters given in 1989 remain.

11.3.11 This is the crux of the issue. The imposition of conditions is to some degree an insult to the integrity of the Papua New Guinea Government. The Minister for Defence, Hon. Benais Sabumei, has been quoted as expressing his frustration at the limitations imposed by accepting free gifts from Australia. In any event, once provided, there are serious problems in Australia attempting to police effectively the conditions under which they are given. Nevertheless, the Committee believes that Australia can and should impose conditions on gifts of military equipment.

Recommendation 47. The Committee recommends that on providing gifts of military equipment to Papua New Guinea the Australian and Papua New Guinea Governments should develop clear and agreed guidelines about how the equipment will be used.

11.4 The Human Rights Issue

11.4.1 The apparent misuse of the helicopters raises the further wider question of human rights abuses on Bougainville by the Papua New Guinea security forces, and Australia's interest both on account of its

²³ Evidence, 21 October 1991, pp. 1699-1700.

²⁴ Evidence, 21 October 1991, p. 1630.

general international human rights policy and its special relationship with the PNGDF. The Committee was presented with substantial evidence of human rights abuses on Bougainville by the BRA and also by the police and Army. The latter were of particular concern, given the degree of assistance and training provided to the security forces by Australia, and has ramifications for such assistance in the future. Amnesty International, for instance, has further urged legislation requiring the human rights situation in receiving countries, such as Papua New Guinea, to be taken into account prior to commitments to provide equipment, training or other forms of support for foreign military or police bodies. Amnesty International encourages training in human rights to form part of training provided by Australia to Papua New Guinea soldiers or police and urges the government to explore concrete ways in which Australian aid to Papua New Guinea might enhance safeguards for human rights protection.²⁵

11.4.2 The evidence of human rights abuses on Bougainville is overwhelming. Abuses occurred both by the BRA and the government forces. Confirmation of exactly what has happened on Bougainville is difficult to obtain in the circumstances of the withdrawal of all BCL personnel and the blockade. Nevertheless, the information that is available through Amnesty International clearly indicates violence and intimidation perpetrated by both sides in the conflict. Amnesty International lists numerous cases of reported killings of civilian men, women and children, the burning of houses, the torture of members of the security forces already in custody and the murder of senior civil servants. However, it is only the Papua New Guinea Government which has a relationship with Australia that would allow an opportunity for the Australian Government to take up human rights concerns with it.

11.4.3 In its submission, Amnesty International also detailed over 50 cases of people who were ill-treated or tortured by members of the security forces, including 15 cases of people who died in 'apparent extrajudicial executions or after being tortured in police or military custody'.²⁶ Similar allegations were made by Mr Lafitte and Mr Kemelfield. Mr Kemelfield had visited villages which had been burnt by police, apparently in retaliation for BRA activity. He alleged that the police, particularly the riot squads, tended to target individuals who tried to mediate.²⁷ Officers of the Australian High Commission noted that they were aware of frequent allegations of human rights abuses and had on occasions made representations to the Papua New Guinea authorities, particularly where Australian citizens were involved.²⁸

11.4.4 The Prime Minister, Mr Namaliu has responded: 'The national government has made it abundantly clear that human rights abuses by any party in Papua New Guinea are intolerable ... We have repeatedly encouraged those who claim to have grievances to seek redress in the courts of the land. Papua New Guinea's judicial system is totally free of

²⁵ *Submission*, p. S1052.

²⁶ *Submission*, p. S1055.

²⁷ *Evidence*, 22 October 1990, pp. 787-893.

²⁸ *Evidence*, 5 November 1990, p. 1041.

control or influence from any political source'.²⁹ However, no legal structure prevails on the bulk of Bougainville, under control of the Bougainville Revolutionary Army. Thus, the option of seeking legal redress is available to victims of abuses neither by the Papua New Guinea security forces, nor by the BRA itself. Nevertheless, senior Australian ministers have raised concerns about such abuses, privately and publicly. The Papua New Guinea Government has announced it will establish an independent commission to examine these abuses once safe access to Bougainville can be provided; and meanwhile, the National Court at Rabaul has begun to hear cases brought before it by Bougainvilleans.

11.4.5 It would appear that much of this abuse of human rights was not systematic or directed from the Papua New Guinea Government. Nevertheless, their response to incidents of human rights abuses has been ineffective. The position was well put by Amnesty International in its submission where it acknowledged:

Papua New Guinea's strong traditional commitment to human rights and the substantial human rights guarantees which are provided in the country's constitution [while going on to note that] the legal and constitutional provisions and protection for human rights proved themselves very vulnerable when put to an unprecedented test by the Bougainville crisis.³⁰

The Department of Defence told the Committee, on the subject of human rights training as part of the training of PNGDF personnel, that it had always had a place, if a modest one, in the department's training programs but that:

We are currently in anticipation of a final and formal request looking at shaping training programs that will emphasise ... those fundamentals of discipline, authority, responsibility and the like. That will be part of the next training program we are establishing in the very near future.³¹

Recommendation 48. The Committee recommends, despite the inhibitions on Australia's actions caused by our past colonial and present commercial ties with Papua New Guinea, that the Australian Government should do more to encourage Papua New Guinea to investigate human rights abuses.

²⁹ Public statement, 26 November 1990.

³⁰ Submission, p. S1071.

³¹ Evidence, 21 October 1991, p. 1703.

Recommendation 49. In addition, in consultation with the Papua New Guinea Government, the Australian Government should explore ways in which Australian aid to Papua New Guinea might be used to enhance safeguards for human rights protection.

Chapter Twelve

Border Issues

The Irian Jaya border between Papua New Guinea and Indonesia offers another secessionist problem to the Papua New Guinea Government. In this case it is the secessionist ambition of the Irianese who oppose the inclusion of Irian Jaya in Indonesia. The movement across the border of people seeking refuge, often pursued by Indonesian troops, has caused tension between the two countries. Large refugee camps have been established along the border under the auspices of the United Nations High Commission for Refugees. Australia contributes funds for the running of these camps but has made no offer of resettlement for the refugees. The Papua New Guinea Government assesses applications for refugee status from the border crossers, but even if this is granted the people are confined to the camps. The Torres Strait border raises concerns of illegal entry as well. Here, it is a question of the movement of people from Papua New Guinea into the Torres Strait Islands for fishing or medical services. Fears of the smuggling of illegal goods were also raised with the Committee. The Committee recommends greater consultation with the local people and a strengthening of the surveillance systems in these areas.

12.1 OPM and the Indonesian Border

12.1.1 That part of the New Guinea island known as Irian Jaya or West Irian had been administered by the Dutch as part of the Dutch East Indies. When the newly independent country of Indonesia was formed it was expected that the whole of the former Dutch colony would form part of Indonesia. Ethnic and cultural differences led to this expectation being challenged, a challenge which remains in force amongst parts of the population of West Irian and by people from the former Portuguese colony of East Timor.

12.1.2 The challenge is being conducted in Irian Jaya chiefly by the *Organisasi Papua Merdeka* (The Free Papua Movement) commonly known as the OPM. The battle being waged by the OPM against the Indonesian authorities in Irian Jaya inevitably spills over into Papua New Guinea. Other Indonesian policies in Irian Jaya have also had repercussions on the other side of the border, notably the policy of transmigration. Under this policy people are moved from more crowded parts of the Indonesian archipelago to less densely populated parts such as Irian Jaya, and this policy has been less than popular. The former populations of these areas have been deprived of much of their traditional land — encompassing both their homes and means of livelihood.

12.1.3 Many of these transmigration settlements have been close to the Irian Jaya/Papua New Guinea border. In turn, conflicts arising from the establishment of these settlements have led to an outflow from time to

time of local inhabitants across the border. In 1984 an estimated 10,000 refugees fled across the Irian Jaya/Papua New Guinea border. In the seven years since, only 2,000 have returned to Irian Jaya. The Papua New Guinea Government at this stage accepted that their presence could be of some duration, and that the provision of supplies to a range of scattered camps in difficult terrain was uneconomic, so a policy of relocating the camps away from the border was implemented in 1987-1988. In this period nearly 3,000 people were moved from the border camps to the East Awin site, near Kiunga in Western Province. The East Awin site is actually a complex of thirteen camps spread out along a 45 kilometre section of the Nomad Road between the towns of Kiunga and Nomad. The camps from the west to east are: Blackwater, Niogomban, Atkamba, Iowarra, Dome, Iogi, Telefomin and Wamena. The camps north of Dome are: Mambrano, Tarakbits, Kungim, Komokpin and Kuiu.

12.1.4 This was an attempt to handle the problem in a more long-term fashion. The refugee camp is administered with the support of the United Nations High Commissioner for Refugees (UNHCR). A UNHCR office was established in Papua New Guinea in 1986 and in that year Papua New Guinea became a signatory to the 1951 Convention Relating to the Status of Refugees and to the 1967 Protocol Relating to the Status of Refugees. The Government attempted to move the refugees there from many smaller camps on the Papua New Guinea side of the border. Whilst this move met with some resistance, inspired by the OPM, over 5,000 Irian Jayans have been moved to East Awin, and many of the smaller camps closed.¹ The long-term status and future of those refugees who have moved to East Awin is however unclear.

12.1.5 Since 1984-85, Australia has supported the Papua New Guinea Government and UNHCR attempts to persuade border crossers to move voluntarily to the East Awin camps. It has contributed \$6.75 million to UNHCR for its programs along the border of Irian Jaya, which represents more than half the UNHCR program funds. However, Australia does not support the forcible repatriation of people into Irian Jaya. About 2,500 Irianese border crossers have voluntarily returned to Irian Jaya since 1986. The most recent voluntary return group was a group of 594 from the East Awin camps in November 1990, carried out under the auspices of the UNHCR. Most of these returnees have settled in the area of Mindiptana from where most originated.

12.1.6 However, the status of the border crossers varies. The Papua New Guinea Government is still in the process of devising appropriate laws and procedures to accord with Papua New Guinea's accession to the 1951 Convention Relating to the Status of Refugees and the 1967 Protocol. In the meantime, a set of ad hoc procedures was evolved for determining the status of Irian Javan border crossers seeking asylum. There are somewhat different procedures according to whether the application was made by an individual or a group. Individual applicants, who in the main tended to have an urban background, were interviewed by a committee

¹ Interview with UNHCR Assistant Representative, Port Moresby, 9 September 1988, *Submission*, pp. S1458-61.

comprising representatives of the Papua New Guinea Government and the UNHCR. If the applicant was deemed to have a legitimate reason for seeking protection in Papua New Guinea, he/she was considered to be a refugee. Groups seeking asylum were interviewed by the Provincial Affairs Border Administrative Unit and if necessary their cases were referred to a district court. Often the leading members of these groups were found to have legitimate reasons for seeking asylum, whereas other members tended to be immediate relatives or clansmen of the leaders and wished to accompany them for family or economic reasons. Provided the applicants continued to give consistent accounts of their reasons for seeking asylum in Papua New Guinea before the various tribunals, they were invariably allowed to remain as refugees and assigned to one of the border camps.

12.1.7 In October 1988 the Secretary-General of the Australian Section of the International Commission of Jurists (David Bitel) visited Papua New Guinea and discussed the plight and status of the refugees with the UNHCR Commissioner and the UNHCR Assistant Representative. Mr Bitel suggested to the Refugee Council of Australia that steps be taken to encourage the Papua New Guinea Government to grant some permanent status to the refugees, 'to the extent that it is appropriate and/or necessary the Australian authorities should be encouraged to make representations on behalf of the refugees to the Papua New Guinea authorities'.²

12.1.8 In 1988 the UNHCR Commissioner in Port Moresby had approached Australia, amongst other countries, as a possible re-settlement country for some East Awin refugees. He had little success, and the main hindrance to finding a permanent home for the East Awin refugees in Papua New Guinea from Papua New Guinea's point of view is the possibility that any permanent solution might offend its powerful neighbour, Indonesia. Presumably this sensitivity is also at least partly behind the failure on the part of other countries such as Australia to help deal with the problem. Since 1987, when some of the refugees moved to East Awin as a stage towards a permanent solution, Australia has offered considerable assistance to the settlement, but is yet to take any of its inhabitants for re-settlement.

12.1.9 OPM activity on the border has declined. While an irritant, is not a serious problem for Papua New Guinea. There has been no significant new flow of refugees into Papua New Guinea from Irian Jaya in recent years but it remains a potential problem, particularly for the Papua New Guinea/Indonesia relationship. This aspect is covered in Chapter 13.

12.2 Torres Strait Treaty

12.2.1 Australia is used to thinking of itself as the island continent, distant from all other countries. But in places our border with Papua New Guinea in the Torres Strait is located only three kilometres from the Papuan coast. At low tide animals can swim across the border to Australia's northern-most islands of Boigu and Saibai. The region

² Submission, p. S1466.

comprises more than one hundred islands, only 18 of which are inhabited. The Torres Strait Islanders are a distinct group who prize what they see as their separate and identifiable life style. The total number of Australian Islanders resident in the Torres Strait other than Thursday Island is about 3,200. Around 3,500 people, many of Islander descent, constitute the multi-racial population of Thursday Island.

12.2.2 Under the provisions of the Torres Strait Treaty traditional inhabitants of the Torres Strait Islands and nearby Papuan coast can move freely back and forth by dinghies. These peoples are related by kinship and custom. When the Treaty was conceived in the 1970s it was seen as unprecedented in the liberal approach taken to border movement in order to take account of the wishes and traditional practices of the local inhabitants. But it seems times have changed quickly for the Committee was told by the elected representatives of Australia's Torres Strait peoples:

... the Island Co-ordinating Council was initially supportive of traditional movements but have since become disillusioned with the whole concept of traditional visits by the traditional inhabitants of Papua New Guinea within Torres Strait. The problem stems from the fact that traditional movement appears to be mono-directional, that is the movement of Papua New Guineans south seeking better facilities and employment.³

The Island Co-ordinating Council told the Committee that since the 1980 moratorium on illegal immigration when many Papuans gained resident status, the numbers have increased. Most visits now are to contact these 'new' Torres Strait Islanders. Mr Gaetano Lui of the Island Co-ordinating Council felt very strongly that the environment and lifestyle of the Torres Strait were severely threatened:

The way the Torres Strait is heading, we feel that it is heading towards a course of destruction.⁴

12.2.3 At the official level the Torres Strait Treaty appears to have worked well in practice. Nevertheless, the Committee is strongly of the view that more account will need to be taken of the views of Torres Strait Islanders in the future, otherwise there is a real danger that the situation could deteriorate into an irritant in the bilateral relationship and an embarrassment internationally.

12.3 Islander Concerns

12.3.1 The Committee travelled to Thursday Island to see the border for itself, and to take evidence from Torres Strait Islanders directly. Evidence was received from members of the Island Co-ordinating Council, led by its Chairman Mr Getano Lui; from members of the Mura Kosker Sorority led by its President, Mrs Ellie Gaffney; and from Dr Peter Holt, Government

³ Submission, pp. S1134-35.

⁴ Evidence, 28 August 1990, p. 216.

Medical Officer on Thursday Island. There was a unanimous view from Torres Strait Islander representatives that the Torres Strait Treaty provisions were being abused by 'traditional' visitors from Papua New Guinea, and this was promoting friction between Torres Strait Islanders and Papua New Guineans. It was also causing problems in areas such as health, quarantine and immigration.

12.3.2 Mr Joey Nona of the Island Co-ordinating Council, from Badu Island, claimed that visitors from Papua New Guinea were overstaying their welcome, and bringing diseases such as malaria. Overstayers were also causing problems of overcrowding on the islands. He was supported by the ICC Chairman, Gaetano Lui. Mr Lui claimed the visitors from Papua New Guinea were taking advantage of treatment from Australian medical services for which they did not pay, and making visits specifically for this purpose.

12.3.3 Dr Holt argued that there had been an exponential increase in the last five years of visitors from Papua New Guinea seeking medical treatment. The number of arrivals throughout the Torres Strait who came into contact with the medical authorities had risen from a steady average for many years of 4,000 per annum over all the Torres Strait Islands to 3,000 alone on Saibai Island in 1989. In addition, the range and instances of serious diseases being treated had increased, and included illnesses such as tuberculosis, malaria and leprosy. The islands were now suffering from two to three outbreaks of malaria a year, and of the 35 cases of tuberculosis treated in the last five years, 11 of the patients were Papua New Guinean. Dr Holt asserted a direct correlation between the increase of traditional visits from Papua New Guinea and the rise in cases of serious infectious diseases.

12.3.4 To restrain the spread of disease in the Torres Strait, the health services saw it as necessary to treat these patients from Papua New Guinea, despite the costs involved. According to Dr Holt, between five to ten Papua New Guineans a day were being treated on Boigu and a similar number of Saibai. In-hospital costs alone that have not been able to be reclaimed from patients, largely Papua New Guinean, amounted to \$357,000.⁵

12.3.5 Another problem was Papua New Guineans engaged in crayfishing, sometimes on behalf of Torres Strait Islanders, staying for several months at a time on the islands. Mrs Gaffney, representing a Torres Strait Islander women's group, particularly complained at the burden this placed on the 'hosts', but noted that for cultural reasons it was difficult for Islanders to refuse visits even when their 'relatives' were uninvited. She claimed the scale of visits in recent years was becoming unreasonable. Mrs Gaffney asserted that the Treaty was now inflicting hardship on the Islanders, and was obsolete. Islanders had no reason to go

⁵ Evidence, 28 August 1990, pp. 249-52.

to Papua New Guinea any more, but they were compelled to accept visits from their unwelcome Papua New Guinea relatives. Mrs Gaffney called for a review of the Treaty, and more control of visits.⁶

12.3.6 These same concerns are reflected in their submission put to the Committee by the Islander Co-ordinating Council. It claims that the movement monitoring system to detect and prevent illegal movement into the Torres Strait has been largely unsuccessful. It recommends action be taken to address the root cause of the problem — the depressed economic conditions and lack of health facilities in the Papua New Guinea coastal villages. Accordingly, the ICC suggested a proportion of bilateral Australian aid to Papua New Guinea be directed to Western Province to be used to provide basic amenities and development projects. The improvement in living standards this would promote would be 'to the advantage of all inhabitants of the Torres Strait'.⁷

Recommendation 50. The Committee endorses the call by the Island Co-ordinating Council that Australian program aid be directed to the improvement of the economic situation and social services, particularly health services, of the Western Province, at least to the level of the better served parts of the country.

12.3.7 On the other hand the Department of Foreign Affairs and Trade in its submission noted:

The most recent Joint Advisory Council concluded that implementation of the Treaty was progressing satisfactorily. The main issues considered were breaches of the free movement provisions by Papuan traditional inhabitants, fisheries, protection of the environment, quarantine and promotion of and understanding of the Treaty among the traditional inhabitants. Resolution of these issues is an ongoing process, involving the Papua New Guinea and Australian Governments, together with the traditional inhabitants.⁸

The Committee is not in a position to determine whether the problems of the Islanders are of the magnitude that they claim. However, in view of the evidence presented to this Committee by Torres Strait Islanders themselves, the Foreign Affairs view is too sanguine, and does not take seriously enough the problems identified in the Torres Strait. These problems, particularly regarding disease spread, could have serious implications for Australia. Islanders were clearly of the view that the Australian Government was unresponsive to their concerns.

⁶ Evidence, 28 August 1990, pp. 261-66.

⁷ Submission, pp. 51134-35.

⁸ Submission pp. S480-81.

12.3.8 The concerns expressed about the Treaty are growing and are leading to the whole basis for the Treaty being questioned in the Torres Strait. In the past there have been calls by Islanders for independence because of dissatisfaction with the Treaty provisions and a sense of neglect by the Government. These could increase in the future, or the Islanders could take unilateral action to defy the Treaty, thus causing problems in our relationship with Papua New Guinea.

12.3.9 The Torres Strait Treaty is of fundamental importance in the relationship with Papua New Guinea, but it cannot be sustained if it does not enjoy popular support amongst the traditional inhabitants of the Torres Strait. As Australian citizens they are entitled to expect Australia to defend their interests and to ensure that harmony is maintained with Papua New Guinea over border issues.

Recommendation 51. The Committee recommends that the Australian Government begin urgent and regular discussions with the representatives of the Torres Strait Islanders to demonstrate sensitivity to their concerns.

Recommendation 52. The Committee recommends that steps be taken to discuss the problems of the Torres Strait with the Papua New Guinea Government and to put to the Papua New Guinea Government any modifications to the Treaty that are perceived to be necessary.

12.3.10 The other key concern in the Torres Strait is environmental. In particular there are real concerns that effluent from the massive Ok Tedi and Porgera mines, which is deposited in the Torres Strait by the Fly River, could damage the fragile environment of the Strait and nearby Barrier Reef. This issue is dealt with in detail in Chapter 3 of this report. To recapitulate, however, the Committee was provided with considerable evidence of the extensive monitoring which is now in progress. Some monitoring of the environmental impact began in 1983 but a detailed study did not commence until 1986, two years after the production of gold began at Ok Tedi. This study, conducted by consultants to the company, Ok Tedi Mining Limited (OTML), reported on a six-monthly basis to the Government of Papua New Guinea and was monitored by the Department of Minerals and Energy. It was this study that provided the basis for the setting of the Acceptable Particulate Level (APL) for sediment in the rivers. Dissolved copper levels in the water were below the World Health Organization standards. Although the study found that the levels of copper concentration in the flesh of fish from the area did not render them unsuitable for human consumption, concentration of copper in fish liver was above Australian standards. For all these assurances concern remained among people of the Torres Strait and this has prompted the establishment of the Torres Strait Baseline Study to be conducted by the Great Barrier Reef Marine Park Authority in co-operation with the Papua New Guinea Government in 1989/90 and 1990/91. The report is expected in 1992. The Committee has made recommendations on the environmental issues in Chapter 3.

Section 4

Section 4: Papua New Guinea, Australia and the International Context

Chapter Thirteen

Papua New Guinea's Role in the World

Section 4 of the report looks at Papua New Guinea's international relationships. The growing stature of Papua New Guinea in the region is evident in its greater involvement in regional affairs. It is increasingly seen as a strong, wealthy and independent nation. This chapter examines Papua New Guinea's involvement and significant voice in the South Pacific Forum, its admittance to ASEAN's Treaty of Amity and Co-operation, its work in the Melanesian Spearhead Group and its widening bilateral relationships with Pacific and European countries.

13.1 Papua New Guinea and the Region

The increasing diversification and consolidation of Papua New Guinea's relations with other countries is a natural consequence of our independence, of our development, and of other countries' increasing interest and involvement in the region which Papua New Guinea and Australia share.¹

Papua New Guinea cannot rely on armed force — our own or other countries' — to maintain independence and security.²

13.1.1 In international terms, Papua New Guinea is a small, developing country. In regional terms, its geographic position linking Asia with the South Pacific has given it a dual character. For while in international and Asian terms it is a small, albeit resource-rich nation, in Pacific terms it is a major power, second only to Australia and New Zealand. In both contexts however its limited state resources make it necessarily dependent on diplomacy, rather than force, to achieve its foreign policy goals.

13.1.2 In the 16 years since Independence Papua New Guinea's diplomacy has been remarkably successful in maintaining and indeed enhancing its independence and security in the region, despite some difficult challenges. It has demonstrated both the interest and capacity to play a major role in South Pacific affairs, and to influence developments in the South Pacific. At the same time Papua New Guinea has been anxious to be accepted as an economic player amongst the fast-developing Asian states. They, in turn, have been attracted by its significant natural resources.

¹ Mr Rabbie Namaliu, at Parliament House, Canberra, 24 May 1989.

² Wolfers, *Exhibit No. 56*, p. 2.

13.1.3 Papua New Guinea is likely to continue to be an active participant in Australia's neighbouring regions and, as its resources and involvement grow, its role will correspondingly increase. It is the view of the Committee that Australia's relationship with Papua New Guinea will also increasingly develop in the wider regional context, particularly through regional organisations like the South Pacific Forum. Accordingly, a co-operative approach to regional issues will be important to both countries.

13.1.4 In the latter 1980s, Papua New Guinea rapidly negotiated and concluded a series of treaties setting parameters for its relations with all its immediate neighbours: The Treaty of Mutual Respect and Co-operation with Indonesia signed in 1987; The Joint Declaration of Principles with Australia signed in 1987; and The Agreed Principles of Co-operation among Independent States in Melanesia signed in 1988. Papua New Guinea has also gained accession to ASEAN's Treaty of Amity and Co-operation, the first non-member country to be permitted to do so. Then Foreign Secretary Mr Bill Dihn said:

This gives us a stronger framework for doing business with ASEAN countries. But I don't see Papua New Guinea as a 'bridge nation' between Asia and the South Pacific. People walk over bridges.³

13.1.5 Papua New Guinea dominates the South Pacific island nations in population, comprising about twice as many people as the rest of the islands together. Countries and companies that want to do business with the region, consequently tend to decide whether to seek their entree through Port Moresby or through Suva, since Fiji is more central geographically to the South Pacific and also constitutes a slightly more mature and more easily reached market. However, the balance has changed a little, with the entry of Micronesian micro-states into the Forum. Papua New Guinea is now the second most populous country in the region after Australia, easily outstripping New Zealand.

³ *Australian Financial Review*, 16 September 1988, p. 15.

TABLE 13.1: Geographic and Demographic Indicators

Country	Land area square km	Sea area (⁰⁰⁰) square km	Population		
			Number (⁰⁰⁰)	Growth 1980-88(%)	Density per square km
Cook Islands	240	1,830	17	0.3	71
Fiji	18,272	1,290	719	1.6	39
French Polynesia	3,265	5,030	184	2.8	56
Kiribati	710	3,550	67	1.8	95
Nauru	21	320	8	0.2	381
New Caledonia	19,103	1,740	155	1.3	8
Niue	259	390	3	-1.2	12
Papua New Guinea	462,840	3,120	3,560	2.2	8
Solomon Islands	28,900	1,340	304	3.8	11
Tokelau	10	290	2	-	200
Tonga	750	700	99	0.8	132
Tuvalu	26	900	9	2.3	346
Vanuatu	12,190	680	150	3.4	12
Western Samoa	2,935	120	162	0.6	55

Source: NCDS Exhibit No. 67, p.39

13.1.6 Papua New Guinea has certainly taken a leading role in the region over such matters as the French control of New Caledonia, and has established sufficient missions overseas to enable it to pursue its causes diplomatically. Its shift from a foreign policy strategy of 'friend to all and enemy to none' at independence to 'selective engagement' has led to a focus on areas where it stands to gain materially, or in security terms. Following the settlement of relations with its neighbours via treaties, Papua New Guinea went on in 1989 to develop its superpower relationships, particularly building better links with the USA and the USSR. Papua New Guinea's regional prestige was set for reinforcement by its hosting in September 1991 of the South Pacific Games, with a stadium built in Port Moresby by China, and another in Lae. The South Pacific is decidedly Papua New Guinea's chief sphere of interest, if not quite yet sphere of influence. In 1992 a number of key anniversaries relating to the Pacific War are likely to re-focus the attention of Japan, the USA and Australia on the region — including, of course, on Papua New Guinea.

13.1.7 However, Rowan Callick, a journalist in Papua New Guinea for many years, sees the focus of Papua New Guinea's attention as being largely turned inwards at the start of this decade. This results from a combination of factors — economic problems, constitutional strains, and, simply, administrative arrangements:

The strategic scope of Papua New Guinea remains limited at the start of the 1990s by the detachment from the Foreign Affairs Department of the areas most crucial in evolving world plays. Trade has gone to the largely moribund Industry Department, and aid has gone to reinforce the power of the heavily World Bank-influenced Finance and Planning Department. Papua New Guinea is not a member of GATT nor — unlike its much smaller Pacific partner Fiji — of the Cairns Group ... Papua New Guinea is unlikely to develop a broader role in the 1990s at the same pace as it did with considerable success in the 1980s.⁴

13.2 The Melanesian Spearhead Group

13.2.1 At the initiative of the Wingti Government in March 1988 relations between Papua New Guinea and its Melanesian neighbours, the Solomon Islands and Vanuatu, were formalised into a Melanesian Spearhead Group (MSG) with a Joint Declaration of Principles. Fiji was invited to join the group. The MSG focused primarily on New Caledonia, and the situation of the Kanaks, as well as seeking to encourage economic and trade links between member countries.⁵

13.2.2 While there were some concerns expressed at the time that the existence of a sub-regional group like the MSG could undermine South Pacific unity, this has not proved to be the case. Australia's attitude to the MSG was expressed in a letter to the Melanesian Foreign Minister by the then Foreign Minister Mr Hayden in 1988, following the signing of the MSG Declaration. He welcomed their endeavours to build a basis for co-operation and consultation among their governments, in line with recognised principles of international co-operation.⁶

13.2.3 However, with the change of government, the new Foreign Minister, Mr Somare told the Committee in March 1991 that he did not want to have anything to do with the Melanesian Spearhead movement, as he preferred to deal with countries bilaterally.⁷ The Trade Minister, Mr Gigheno, said that the Spearhead Group had been mostly about helping New Caledonia. With that situation resolved by the Matignon Accords, he clearly thought it of less value than when the situation in New Caledonia was a major regional problem.

13.2.4 This downgrading of the role of the MSG has been demonstrated in the way Papua New Guinea has handled its relationship with the Solomon Islands over the course of the Bougainville crisis. This relationship had been extensive and on a bilateral basis. Despite noting that some Solomon Islands ministers were sympathetic to Bougainvillean aspirations because of their close kinship links, Prime Minister Namaliu

⁴ Callick, R 'Papua New Guinea's External Relations' in Anderson, D *The PNG-Australia Relationship*, p. 26.

⁵ DFAT, *Submission* p. S483.

⁶ DFAT, *Submission*, p. S482.

⁷ JCFADT, *Report on a Visit to Papua New Guinea, February 1991*, p. 42.

emphasised that the Solomon Islands Government had been helpful throughout the crisis. Prime Minister Mameloni recognised it was not in the interests of either country for Bougainville to be a separate state.⁸

13.2.5 For the present at the least, the MSG, while it continues to meet, appears to play a limited role. Australia never had a role in it, nor did member countries anticipate it having one. The MSG does not threaten the interests of Australia or of South Pacific co-operation more generally. It may be that this Melanesian grouping may play a greater role again, particularly if Mr Wingti returns to government in Papua New Guinea. However, the Committee believes Australia should take the view that its existence and role is purely a matter for Melanesian countries as they best seek to foster relations between each other.

13.3 The South Pacific Forum

13.3.1 Papua New Guinea's most immediate foreign interests are with its fellow regional countries in the South Pacific. Papua New Guinea was admitted as a full member of the South Pacific Forum at its fifth meeting in March 1974. It also became a member of the South Pacific Commission (SPC), which was founded in 1947, in 1975.⁹ Since Independence it has continued to take an active part in regional offices through the relevant regional organisations. Its limited diplomatic resources (Papua New Guinea has overseas missions in only three countries in the region — Australia, New Zealand and Fiji) have meant that the opportunities provided by regional organisations and meetings have been very valuable to Papua New Guinea as a means of promoting its interests and concerns in the region.

13.3.2 The Department of Foreign Affairs and Trade noted:

Papua New Guinea is an active participant in regional consideration of both regional issues and broader issues of relevance to the region, and has frequently shown leadership in the development of the significant measure of regional consensus and effective co-operation.¹⁰

There is no doubt that Papua New Guinea has been an activist in seeking change in regional organisations in accord with its interests. This is hardly surprising given that the two principal organisations for regional co-operation (the South Pacific Forum and South Pacific Commission) were founded well before Papua New Guinea's Independence, and it had no input into their creation.

13.3.3 This activist role by Papua New Guinea has not always been comfortable for Australia. Professor Wolfers noted:

⁸ *ibid*, p. 38.

⁹ DFAT, *Submission*, p. S483.

¹⁰ *Submission*, p. S484.

Papua New Guinea Governments had been active throughout the 1980s in pressing for reform of existing South Pacific regional arrangements and, in particular, for the Forum to become the pre-eminent regional institution. The Australian position gradually changed from opposition, through compromise, to reluctant acquiescence.¹¹

For its part the Department of Foreign Affairs and Trade more cautiously stated:

It cannot be expected that Papua New Guinea and Australia will always agree on all regional and broader international issues, since national interests and perspectives differ. The shades of difference within general consensus on New Caledonia provided a good example. The Department of Foreign Affairs and Trade seeks to ensure that such differences as do emerge are the subject of continuing close consultations with a view to reaching a mutually satisfactory outcome. The bilateral relationship clearly benefits from this process, as does Australia's reputation for working on the basis of consultation and consensus.¹²

13.3.4 As these extracts hint, two important issues for Papua New Guinea have made the South Pacific Forum the pre-eminent regional body. One is that it is totally regional in composition (as opposed to the South Pacific Commission about which it had reservations because of the role of 'non-regional' powers, especially France) and the other is its record in encouraging the South Pacific countries to take a more activist approach on New Caledonia. On both it has been successful, despite initial misgivings by Australia. Papua New Guinea has also played an important role on environmental and fisheries issues, and is clearly a key player in South Pacific regional diplomacy.¹³

Recommendation 53. The Committee recommends that Australia encourage and facilitate Papua New Guinea's taking an active role in relation to the smaller South Pacific island states, in providing training opportunities and modest numbers of technicians and professional people, as a contribution to broader solidarity within the Forum group of countries.

13.4 ASEAN

13.4.1 Papua New Guinea has enjoyed special observer status with ASEAN for almost ten years, including the right to attend ASEAN Foreign Ministers' meetings. This link provides a further strand to its relations with Indonesia, in part because ASEAN's secretariat is in Jakarta. On 7 July

¹¹ *Exhibit No. 56, p. 6.*

¹² *Submission, p. 5485.*

¹³ DFAT, *Submission*, pp. S482-86.

1989 Papua New Guinea acceded to the ASEAN Treaty of Amity and Co-operation — the only non-member country to do so. This focuses on economic co-operation and peaceful settlement of disputes.

An ASEAN protocol to pave the way for Papua New Guinea's accession to the treaty amends Article 14 which deals with the settling of disputes between parties through regional consultation. The amended article provides that the resolution of a dispute between Papua New Guinea and Indonesia, for instance, could be dealt with by a High Council comprising ministerial representatives of all parties to the treaty.¹⁴

Such strengthening of Papua New Guinea's ties with ASEAN may also facilitate closer co-operation between ASEAN and South Pacific Forum countries, including Australia — which is also an ASEAN dialogue partner.

13.5 APEC

13.5.1 Papua New Guinea was not invited by Australia to attend the inaugural meeting of the APEC group in Canberra in 1990. It was neglected in part because of its comparatively small economy, but this has since been recognised as an oversight. However, it is one which has proven impossible to amend in the short term — since a more pressing membership issue has arisen in the form of the debate over the Three Chinas (Taiwan, Hong Kong and the People's Republic). Papua New Guinea has instead been represented via the South Pacific Forum Secretariat, which has attended meetings as an observer. Mr John Giheno, Papua New Guinea Trade and Industry Minister, has been a member of the Forum observers' team.

Papua New Guinea Ministers were disappointed (about failing to be invited to join) but understood the circumstances.¹⁵

Recommendation 54. The Committee recommends that Australia promote Papua New Guinea's full entry into the APEC group of nations.

13.6 The World Bank

13.6.1 Since 1988, Papua New Guinea's relations with the bank have become virtually as important as any bilateral relationship. For the bank has co-ordinated donors to Papua New Guinea, helped draw up a new Public Investment Program outlining priorities for capital projects, and provided constant advice in restructuring the economy, especially in micro-economic reform. A World Bank Structural Adjustment Review

¹⁴ DFAT, *Submission*, p. 5480.

¹⁵ DFAT, *Evidence*, 5 November 1990, p. 996.

Mission visited Papua New Guinea in September 1990 and, with the International Monetary Fund, expressed positive support for its overall progress.

13.7 The Asian Development Bank

13.7.1 The Asian Development Bank is the second largest donor to Papua New Guinea after Australia. The bank has extended \$US377 million in loans to Papua New Guinea since it became a member in 1971, over two-thirds of which has been disbursed. In 1990 it provided an agricultural program loan of \$US80 million, co-financed with Japan's OFCF which supplied \$20 million. The ADB is to play a leading role in agriculture and livestock, fisheries and marine resources, road and port infrastructure, urban water supply and sanitation and health. The ADB is undertaking sectoral studies that will influence future lending; a total of \$US500 million is now under consideration.

13.8 The United Nations

13.8.1 The United Nations Development Program has an office in Port Moresby and its assistance to Papua New Guinea has emphasised human resource development and institution strengthening, guided by an agreement signed in 1989 which also stressed the agency's promotion of the roles of NGOs and of women.

13.8.2 UNESCO also maintains programs in support of the social sciences, science and technology information and library services, and in literacy — identified as an especially pressing need in Papua New Guinea.

13.8.3 The United Nations High Commissioner for Refugees has also had an office in Port Moresby for several years — but its role was greatly enhanced when in late 1987 Papua New Guinea invited it to take over the administration of the camps of more than 10,000 border crossers from Irian Jaya. It continues to fulfil such a role — funded almost entirely through Australian aid; and it also assesses the claims of certain of those Irian Jayans to be refugees, and therefore to seek a new, permanent status in another country.

13.8.4 Papua New Guinea plays an active role at the UN, where it has a permanent mission. It has been especially persistent in pressing the case of decolonisation of New Caledonia. It is a member, with Australia, of an informal South Pacific grouping that is acquiring influence — not least because it commands more votes than ASEAN.

13.9 The Commonwealth

13.9.1 Papua New Guinea's Commonwealth links were reinforced by the election in 1990 of Sir Anthony Siaguru, former Foreign Secretary and a former Minister, as Deputy Secretary-General. This connection played a role in the offer by the Commonwealth Secretary-General, Chief Anyaoku,

for his organisation to play a role in seeking a negotiated settlement in the Bougainville conflict. However, an envoy from the Commonwealth who visited Bougainville in March left after a brief meeting with rebel leaders, after failing to find common ground towards the introduction of a multilateral supervisory force.

13.10 The EEC

13.10.1 The European Community, which has a permanent mission in Port Moresby, provided \$US27 million to Papua New Guinea in 1990, \$US21.6 million of it in the form of capital grants. This relationship has become of considerable importance to Papua New Guinea. It has also earmarked \$US12 million to the rehabilitation program for Bougainville, when it is able to be implemented.

13.11 The Lome Convention

13.11.1 Papua New Guinea is a member of the African-Caribbean-Pacific nations that are signatories to this convention granting favourable economic relations with the European Community. In 1990 it hosted the ACP's annual meeting.

13.12 Bilateral Relations — Indonesia

13.12.1 After Australia, Papua New Guinea's key bilateral relationship is with the bordering Asian nation of Indonesia. It is a relationship of unequals. Indonesia has a population of over 180 million; Papua New Guinea, 3.9 million. Indonesia has had contact with the Western-developed economies for over 400 years; significant parts of Papua New Guinea did not make contact with Europeans until the 1930s. The stages of development, in Western terms, are vastly different. It has also been a tense relationship at times, because of the problems caused by the activities of the Irian Jaya separatist movement, the OPM, which from time to time takes refuge from Indonesian forces across the border in Papua New Guinea. In response, Indonesian forces have from time to time crossed the border in pursuit of the OPM. While in Papua New Guinea there is some sympathy for the separatist cause of their fellow Melanesians in Irian Jaya, the Papua New Guinea Government has been very careful not to provide any support to the OPM.

13.12.2 Border incidents have been of great concern to Australia. The Joint Declaration of Principles (JDP) commits Australia to helping maintain Papua New Guinea security. Australia's own relations with Indonesia have not always been smooth, and given Australia's security commitment to Papua New Guinea, any deterioration in Jakarta/Port Moresby relations could have the potential to become an irritant in Jakarta/Canberra relations.

13.12.3 While there are obvious trilateral interests in the management of the border problems, to date none of the three countries has desired trilateral consultations on the issues involved. Rather, Australia has encouraged Papua New Guinea and Indonesia to develop friendly relations in such a way that such problems can be more easily managed on a bilateral basis. This has occurred. At the same time the Committee was advised by the Department of Foreign Affairs and Trade that:

Papua New Guinea and Indonesia accept Australia's interest in being kept fully informed of developments in the border region.¹⁶

13.12.4 The keystone of the current Papua New Guinea/Indonesia relationship is the Treaty of Mutual Respect, Friendship and Co-operation negotiated and signed in 1986, and ratified in early 1987. The Committee was told by Professor Wolfers, an adviser to the Papua New Guinea Government at the time, that the Treaty had:

... contributed to reducing tension in an area where armed conflict had been widely judged to be not only possible ... but relatively likely.¹⁷

While there have been further border incidents causing strains to the relationship since the Treaty, the Committee was advised by the Department of Foreign Affairs and Trade that both governments:

... demonstrated restraint and sought to strengthen the effectiveness of their consultative mechanisms.¹⁸

According to Professor Wolfers again, the existence of the Treaty with Indonesia:

... made it easier for the Australian government to contemplate the kind of risks it has assumed and the kinds of assurances it has provided (particularly with regard to defence) in the Joint Declaration of Principles (signed in December 1987).¹⁹

Recommendation 55. The Committee believes it is important to Australia's relations with both Indonesia and Papua New Guinea that the Treaty of Mutual Respect continue to work harmoniously, and would encourage actions which strengthen it.

13.12.5 Indeed while the Committee was visiting Papua New Guinea in February/March 1991, the Foreign Minister Sir Michael Somare, told members that there had been a border crossing by Indonesian troops pursuing OPM guerillas on 28 February. He seemed relaxed about this,

¹⁶ Submission, p. S487.

¹⁷ Exhibit No. 56, p. 16.

¹⁸ Submission, p. S487.

¹⁹ Exhibit No. 56, p. 16.

emphasising that Papua New Guinea/Indonesian relations at a government-to-government level were good and his own personal relations with Indonesian Foreign Minister Alatas were excellent.

13.12.6 Nevertheless, the Indonesian border incursions are, strictly speaking, a violation of Papua New Guinea's territorial integrity, unless Indonesian troops are invited to pursue guerillas across the border. For a variety of reasons these incursions are being tolerated. However, Foreign Ministers in the past have been more concerned about the situation, and such actions could easily give rise to serious misunderstandings and indeed conflict in the future. Such conflicts would seriously test the trilateral relationship. Australia would find itself in an invidious position between Indonesia and Papua New Guinea. It is therefore important that the clearest lines of communication should be established between all three countries and that mechanisms be put in place to enable early and responsive actions to be taken.

13.12.7 At the same time, it is in Australia's interests, as well as those of Indonesia and Papua New Guinea, that Papua New Guinea's capacity to preserve order and control along its border with Indonesia be enhanced. Accordingly, the Committee supports the placement of an Australian Engineers Group in the northern border, Sondoun Province. Their work in building roads and enhancing the infrastructure of the province will make patrolling and access by the PNGDF easier. The work of this group is also looked at in Chapter 12.

Recommendation 56. The Committee recommends that Australian Defence Force training of the PNGDF take note of the need to develop greater proficiency in border patrolling.

13.13 Fiji

13.13.1 An important bilateral relationship exists between Papua New Guinea and Fiji. They are predominant in the region, but have developed at the governmental level close relations rather than rivalry — to a degree a reflection of the long-standing friendship between Sir Michael Somare and Fiji Prime Minister Ratu Sir Kamisese Mara. Papua New Guinea was reluctant, in 1987, to condemn the coups in Fiji. And in June Prime Minister Mr Namaliu made an official visit of several days, at which trade was discussed but mutual political support was more significant. Both countries are building close relations with Malaysia. The Melanesian Spearhead Group, of which Papua New Guinea is the leading member, has asked Fiji to join; but Fiji has to date demurred, probably because it perceives that this would diminish its considerable influence among the Polynesian and Micronesian nations.

13.14 New Zealand

13.14.1 Papua New Guinea has considerable military, commercial and social links with New Zealand. In 1990, New Zealand provided technical assistance in agriculture, of \$US3 million, and about \$US6 million for a reforestation demonstration project. New Zealand is the major provider of educational and training opportunities for Papua New Guinea outside Australia. Several New Zealand companies have developed a high profile in Papua New Guinea, with the major investor being Fletcher Challenge, now the country's largest construction company. Trade talks and political consultations are held regularly between the countries. New Zealand provided vessels for the conduct of peace talks between the Papua New Guinea Government and Bougainville rebels in August 1990, and has offered to do the same again.

13.15 Asian Nations (beyond Indonesia)

13.15.1 The closest connections are being forged with Malaysia. The first 25 schoolteachers worked in Papua New Guinea in 1990; one Malaysian finance house, Inter-Pacific Finance, went broke within a comparatively short period of operation, during which it lost the state-run National Provident Fund K1.5 million; a defence Memorandum of Understanding has been signed between the countries; and several Malaysian timber companies have set up business in Papua New Guinea, as their domestic resources diminish.

13.15.2 Papua New Guinea has a growing Filipino workforce, with skilled technicians the major focus.

13.15.3 Singapore has become an increasingly popular source of manufactured items.

13.15.4 South Korea has acquired a higher profile in Papua New Guinea, essentially through Hyundai's building the Yonki hydro-electric scheme, the country's biggest civil engineering project, at which 400 Korean workers were at first engaged. In 1990, the country undertook a \$US830,000 feasibility and design study for Milne Bay roads.

13.15.5 China: Papua New Guinea and China have embassies in each other's countries. Bilateral aid is \$50 million, with a trade balance that had — until the closure of the Bougainville mine — been running in Papua New Guinea's favour because of copper concentrate sales. In January 1991 Papua New Guinea signed a Memorandum of Understanding on trade with China, during a trade mission which also visited Hong Kong, Taiwan and South Korea. China has provided a K5 million interest-free loan for development activities.

Papua New Guinea's reaction to recent events in China has been fairly muted. Papua New Guinea's statement on the Tiananmen Square massacre described the events as 'regrettable'.²⁰

A \$US8 million interest-free loan has enabled Papua New Guinea to build a sports centre in Port Moresby for the September 1991 South Pacific Games.

13.15.6 **Taiwan:** Papua New Guinea has begun to pay considerably greater attention to Taiwan, with which it has decided to develop commercial relations. Foreign Minister Sir Michael Somare has visited Taiwan several times, and the Taiwanese Foreign Minister made a reciprocal visit in 1990. Some controversy was aroused with the Chinese delegation because of the presence of the Taiwanese group at Papua New Guinea's official Independence Day function. Taiwan and Papua New Guinea are to open trade offices in each other's countries and Taiwanese interests are funding the building for K15 million of Somare Haus, the new headquarters of the Pangu Party, in Port Moresby. This may be seen as part of a more general Taiwanese push into the South Pacific, building commercial ties and gaining political recognition from four island states already.

The Papua New Guinea Government has kept in close contact with Australia on the development of its relations with Taiwan, and has sought information on Australian experience in developing commercial relations with Taiwan ... We have indicated that Australia is interested in encouraging commercial and economic links with Taiwan, given its importance as a regional economy and trading partner.²¹

13.15.7 Australia welcomes Papua New Guinea's growing role in the South Pacific as another country of major regional significance. This will mean that a climate of trust allowing robust exchanges on regional issues should be developed.

13.16 Japan

13.16.1 The relationship has warmed steadily since Independence.

Earlier Papua New Guinea aid requirements for donors to accept its priorities for aid, and for open international tendering, the cause of a singular sense of frustration among successive Japanese ambassadors, were loosened in

²⁰ DFAT, *Submission*, p. S491.

²¹ DFAT, *Submission* p. S492.

1985 to permit Japan to undertake some major infrastructure projects — with a focus on maximum political visibility — in Port Moresby.²²

Japanese assistance began in 1974 and to the end of 1990 totalled 56 billion Yen, of which 82 per cent was in concessional loans and 18 per cent in grants. Japan is today the second largest bilateral donor to Papua New Guinea after Australia. Its biggest project in 1990 was the redevelopment of Port Moresby hospital. Also in 1990 there were 45 Japanese volunteers at work in Papua New Guinea. Its establishment in Lae of a Forest Research Institute with four long-term experts pre-dated the National Forestry Action Plan but will be linked closely with it.

13.16.2 Investment by Japanese companies has been essentially restricted to forestry — although in 1991 Burns Philp (PNG) Ltd sold a substantial shareholding to Toyota, whose vehicles it distributes. In March 1991 a Japanese loan of K109 million for road and agricultural development programs was announced.

13.16.3 Japan's failure to negotiate a multilateral fisheries access treaty with the Forum Fisheries Agency has been regretted strongly by Papua New Guinea. Japan has also been criticised for a narrow commercial focus on exploiting primary commodities, particularly fisheries and forests with scant regard for propriety:

There have been, for example, well publicised cases of Japanese companies failing to fulfil their contractual obligations to provide development in parallel with logging activity; promised furniture factories, wharves, mills and reforestation did not eventuate.²³

However, the Department of Foreign Affairs and Trade concluded:

It is clearly recognised in Tokyo that dealing with Papua New Guinea is important for Japan in terms of consolidating its South Pacific relations. Notwithstanding the frustrations that Japan occasionally encounters in its dealings with Papua New Guinea, there is growing recognition of the mutual benefits of strengthening the relationship.²⁴

13.17 The USA

13.17.1 Papua New Guinea has recently put considerable effort into developing its relationship with the USA. Papua New Guinea accepts visits from US ships and has been developing stronger bilateral links on defence and related activities. High level Papua New Guinea/US defence

²² Callick, R 'Papua New Guinea's External Relations' in Anderson, D *The PNG-Australia Relationship*, p. 25.

²³ DFAT, *Submission*, p. S490.

²⁴ *Submission*, p. S490.

talks have been held since November 1987, supplemented by visits of Papua New Guinea ministers to CINCPAC in Hawaii and increasingly frequent bilateral exchanges. The former Australian Defence Minister, Mr Beazley, welcomed the strengthening of US/Papua New Guinea relations.²⁵ USAID programs, which made use of NGOs including the Salvation Army, Red Cross, and Foundation of the Peoples of the South Pacific as executing agents, totalled \$US9 million in 1990, with a strong emphasis on health and marine resources. The South Pacific Regional Fisheries Treaty signed in 1987 brought in \$US5.3 million towards economic and social development. The Peace Corps program involved about 70 volunteers in 1990. American companies are increasingly active in resource projects, with Chevron, for instance, managing the pioneer Kutubu Petroleum Project. Prime Minister Mr Namaliu has made several visits to the United States, with a focus on the investment community, and has built a firm relationship with President Bush. In May 1990, an agreement was signed in Port Moresby recognising the US Agency for International Development as the body through which the US would provide aid to Papua New Guinea. Evidence of increasing US involvement is acknowledged but in the final analysis the United States sees Papua New Guinea as Australia's responsibility:

The US State Department sees this as our part of the world;
if there is a mess in Papua New Guinea, Australia is not
pulling its weight.²⁶

13.18 The USSR

13.18.1 In 1989 Papua New Guinea, after holding the request in abeyance since Independence, finally agreed to the Soviet Union's establishing an embassy, its first in the South Pacific outside Australia and New Zealand. The Ambassador opened the post in 1990. In March 1990 Papua New Guinea signed a fishing treaty with the USSR, anticipating additional revenue from providing ancillary services to the Russian fleet, as well as from the licence fees. Little has eventuated. The USSR had previous such treaties with Kiribati and Vanuatu, but declined to renew them because, it claimed, catches were too low. It was partly because Papua New Guinea Prime Minister Mr Namaliu considered it important to have the capacity to monitor the new embassy's activities, that he asked for Australian assistance in developing Papua New Guinea's National Intelligence Organisation. Sir Michael Somare, Foreign Minister, has mentioned the opening of a reciprocal embassy in Moscow but costs have not permitted this, to date. Trade is not substantial, and the visit of a Soviet trade mission to Papua New Guinea in 1989 was inconclusive. However, two of the world's largest helicopters, owned by a Soviet company and flown by Russian pilots, have been chartered since 1990 by major resources companies operating in the Highlands, in part for the demonstration value for further business.

²⁵ DFAT, *Submission*, p. S491.

²⁶ Garnaut, *Evidence*, 8 April 1991, p. 1479.

13.18.2 There was a time when Australia might have been concerned by an increasing Soviet presence in Papua New Guinea. The changes in the Soviet Union particularly over the last 12 months have lessened that concern considerably just as they have, for the time being at least, lessened the capacity of the Soviet Union to involve itself in Pacific affairs in a concerted way.

13.19 Conclusion

13.19.1 The relationship between Papua New Guinea and Australia is, as it has always been, one of unique closeness. The two countries are both geographically proximate and inextricably linked by a history of shared experiences. These factors have led to a common outlook on many issues, similar institutions, entwined economic development and sympathy and understanding for each other's ambitions. Yet Papua New Guinea's culture is very different from Australia's. Papua New Guinea is an independent nation which over the last 16 years has developed a style and a direction of its own. It has become less and less dependent on Australian aid, more and more self sufficient economically and politically. With its great potential for wealth derived from minerals and oil Papua New Guinea's future looks assured. However, it would be foolish not to recognise the difficulties of bringing about a smooth and evenly distributed development, a secure, prosperous and unified future for the nation. It is a recognition of the enormous changes that are occurring that has led to the reviews that have occurred in the last two years, reviews of defence co-operation and development co-operation. Australia expects that this kind of evolution will continue to be the basis of the relationship. It will be a relationship built on continuing dialogue and negotiation. Australia's concern for Papua New Guinea's welfare will remain paramount. It is only to be hoped that, as Papua New Guinea becomes more independent, the human, the individual and the cultural contacts are not lost.

Chris Schacht
Senator
Chairman

December 1991

Dissenting Report — Senator J Vallentine

I dissent from the majority report in two respects:

(a) *Recommendation 43*: I dissent from this recommendation in view of the past use of the PNGDF in internal security problems and the concerns expressed in paragraph 10.5.13. This is based on:

- the acceptance that PNG is not subject to external threats;
- the clear linkage between internal security problems and development problems (see paragraph 10.5.5); and
- the role of the PNGDF on Bougainville and the Australian Government's involvement in this.

I therefore *recommend* that funds currently provided to the DCP be redirected into development assistance projects via NGOs, and that development assistance programs be increased.

(b) *Recommendation 44*: While generally supporting this recommendation, I wish to stress that Australia's involvement should not include the advisory and operational roles mentioned in paragraph 10.5.3.

Jo Vallentine
Senator

Appendices

LIST OF SUBMISSIONS

Submission Number	Person/Organisation
1	Kim McMillan
2	Dr M M Turner Research Fellow Department of Political and Social Change
3	Mr M C Owens
4	National Council Australian Defence Association
5	Mr M B Katz Associate Director/Overseas Key Centre for Mines University of New South Wales
6	International Development Program of Australian Universities and Colleges
7	Warrnambool Institute of Advanced Education
8	Dr M Etherington Economic Department Research School of Pacific Studies Australian National University
9	Fr L Wearden, MSC Catholic Parish Fane
10	Cairns Chamber of Commerce
11	Mr R Callick
12	Department of Defence
13	Australian Centre for International Agricultural Research
14	Australian Customs Service
15	Solidarity Conservation Front
16	Queensland Premier's Department

- 17 Department of Transport and Communications
- 18 Australia-Papua New Guinea Business Council
- 19 Mr Bill Armstrong
Overseas Service Bureau
- 20 Australian International Development Assistance Bureau (AIDAB)
Plus Supplementary Submission
- 21 Department of the Arts, Sport, the Environment, Tourism
and Territories
- 22 Department of Foreign Affairs and Trade
- 23 National Centre for Development Studies
Australian National University
- 24 Department of Employment, Education and Training
- 25 Department of Immigration, Local Government and Ethnic Affairs
- 26 Department of Industry, Technology and Commerce
- 27 *Australian Trade Commission (AUSTRADE)*
- 28 Department of Primary Industries and Energy
- 29 Senator the Hon Peter Baume
Senator for New South Wales
- 30 Centre for International Research Co-operation
CSIRO Australia
- 31 Australian Council for Overseas Aid
- 32 Mr C M Owens
(Supplementary)
- 33 Dr R W Anderson
Rainbow Alliance
- 34 Australian International Development Assistance Bureau (AIDAB)
(Supplementary)
- 35 National Centre for Development Studies
(Supplementary)
- 36 *International Peace Club*
- 37 Mr Ross Allen
- 38 Mr Stan Whitty

- 39 Great Barrier Reef Marine Park Authority
- 40 Captain M P Carlon
- 41 Professor M O'Collins MBE
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Research School of Pacific Studies
Australian National University
- 42 Professor R Jackson
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James Cook University of North Queensland
- 43 Mr Stan Cory
- 44 Brunswick Valley Probus Club
- 45 Mr Fred Eiserman
- 46 Professor F G Jarrett
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University of Adelaide
- 47 Ove Arup and Partners
- 48 Mr J Huon de Navrancourt, JP
- 49 Dr Graham Hassall
Law School
University of Melbourne
- 50 Mr Rohit Sharan Dass
Overseas Students Officer
Tasmanian State Institute of Technology
- 51 Council for the National Interest
- 52 Captain Paul Gilmour-Walsh
- 53 Asia Pacific Action Group (APAG)
- 54 Pastor R Coombe
Seventh Day Adventist Church
South Pacific Division
- 55 Mr R D Buchanan, MBE
TALAIR Pty Ltd
- 56 Amnesty International Australia
- 57 Mrs Ellie Gaffney
President
Mura Kosker Sorority

- 58 Mr Don S Carruthers
Director and Group Executive
CRA Limited
- 59 Mr W Neill
President
Goroka Chamber of Commerce
- 60 Mr Getano Lui (Jnr)
Chairman
Island Co-ordinating Council
- 61 Mr Andrew Newmarch
World Vision Australia
- 62 Mr John Ingram
Batchelor College
- 63 Professor P M Summers
Head of School
Graduate School of Tropical Veterinary Science and Agriculture
James Cook University of North Queensland
- 64 Mr J W Gwilliam
- 65 Dr G Kemelfield
- 66 Mr D H McLellan
General Manager Pacific
Burns Philp and Company Ltd
- 67 Professor Donald Denoon
Professor of Pacific Islands History
Research School of Pacific Studies
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- 68 Mr David Wills
Partner in Charge
Coopers and Lybrand
- 69 Australian West Papua Association (AWPA)
- 70 Paulian Association
- 71 BHP/UTAH
- 72 Gabriel Lafitte
- 73 Placer Pacific Ltd
- 74 Australia-Papua New Guinea Friendship Association

- 75 D S Mansell
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- 76 D F Stewart
Deputy Co-ordinator
Development Technologies Unit
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- 77 T E Barnett
- 78 PNG Trust
- 79 The Papua New Guinea University of Technology
- 80 John Piper
Visiting Fellow
Department of International Relations
- 81 Professor Ross Garnaut and Dr Andrew Elek
- 82 Ms Lissa Clare Evans
Community Aid Abroad
- 83 Dr Paul Anthony McGavin
- 84 BP Australia Limited
- 85 Eastern Highlands Provincial Government
Robert T Atiyafa
Premier
- 86 Mr Anthony Ketley
Director
National Library of Australia

LIST OF PUBLIC HEARINGS AND WITNESSES

CANBERRA

MONDAY, 20 NOVEMBER 1989

Mr Brian William Brogan	National Centre for Development Studies, Australian National University
Mr Rodney Cole	National Centre for Development Studies, Australian National University
Mr Michael Arnold Commins	Pacific & PNG Branch, AIDAB
Mr Ross William Cottrill	Department of Defence
Mr Graeme Stuart Dorrance	National Centre for Development Studies, Australian National University
Mr Mark Fleeton	Papua New Guinea Branch, AIDAB
Professor Helen Hughes	National Centre for Development Studies, Australian National University
Mr Rodney Graham Irwin	Pacific & PNG Branch, AIDAB
Mr Stephen John Merchant	Department of Defence
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Mr Gordon John Munro	PNG Branch, AIDAB
Major-General John Murray Sanderson	Department of Defence
Mr Charles Edward Timothy Terrell	Country Programs Division, AIDAB
Dr Ethan Weisman	National Centre for Development Studies, Australian National University
Mr Barry John Wyborn	Department of Foreign Affairs and Trade

CAIRNS

MONDAY, 27 AUGUST 1990

Mr Denis Harold Ash	Ash Bros Pty Ltd
Mr Stanley George Cory	(Private) Edgehill, Qld
Mr William Samuel Cummings	Cairns Chamber of Commerce
Mr James Murray Hall	Tong Sing Pty Ltd
Mr Frans Bernard Hamer	Cairns Chamber of Commerce
Mr Gregory John Mann	(Seaport) Cairns Port Authority
Mr Robert Edward Prosser	Coopers and Lybrand
Mr Ronald Francis Tong	Tong Sing Pty Ltd

THURSDAY ISLAND

TUESDAY, 28 AUGUST 1990

Mrs Ellie Gaffney	Mura Kosker Sorority
Dr Peter John Holt	State Health Department Hospital
Mrs Daisy Kabay	Mura Kosker Sorority

Mr Getano Lui
Mr Joseh Mosby
Mrs Salu Sebasio
Mr Terry Waia

Island Co-ordinating Council
Island Co-ordinating Council
Mura Kosker Sorority
Island Co-ordinating Council

TOWNSVILLE
FRIDAY, 30 AUGUST 1990

Dr Gwenneth Jean Steele Craik
Prof Richard Thomas Jackson

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James Cook University, Qld

CANBERRA
MONDAY, 10 SEPTEMBER 1990

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Prof Maev O'Collins

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MELBOURNE
WEDNESDAY, 26 SEPTEMBER 1990

Mr Rowan Sidney Callick
Mr Donald Sinclair Carruthers
Mr Rohit Sharan Dass

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Mr Nicholas James Maclellan
Dr Donald Mansell
Mr Michael James O'Connor
Mr Christopher Grant Rees
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Asia-Pacific Action Group
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BRISBANE
TUESDAY, 2 OCTOBER 1990

Mr Raymond Ross Allen
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Mr Colin Leslie Bunker

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and Trade Development

SYDNEY
WEDNESDAY, 3 OCTOBER 1990

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Mr Eric Sidoti
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Mr Rodney Graham Irwin
Mr Graeme John Kemelfield
Mr Stephen Merchant
Therese Minitong
Mr Gordon John Munro
Dr Georg Heinrich Ludwig Rothschild

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Mr Michael Joseph Thawley
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**CANBERRA
TUESDAY, 23 OCTOBER 1990**

Mr Robin Aston Barnes
Mr Elton Thomas Brash

Mr Graham Robert Dempster

Mr Allan Kenneth Haines

Ms Marilyn Iris Hopkins

Mr Robert William Garfield (Hank)
Jenkins

Mr Daryl Harvey King

Ms Penelope Anne Lee
Mr David Hugh McLellan
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Australian Council for Overseas Aid
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International Development Program of
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**CANBERRA
MONDAY, 5 NOVEMBER 1990**

Mr Clyde Ian Barclay
Dr Tony Beck

Dr David Ian Bevege
Dr John Rustum Branford

Mr Michael Arnold Commins
Mr Kevin Doyle

Mr Robert Kenneth Flynn

Ms Joanna Hewitt

Mr Peter Maxwell Heyward

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Department of Foreign Affairs and Trade
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Mr John Francis Landos	Quarantine Imports and Export Division, Department of Primary Industries and Energy
Mr Christopher Ian Mackay	Australia-Papua New Guinea Business Council
Mr Matthew Ernest Keith Neuhaus	Department of Foreign Affairs and Trade
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Mr Thomas Davis Preston	Australia-Papua New Guinea Business Council
Mr Richard Campbell Smith	Pacific, Africa, Middles East and South Asia Division, Department of Foreign Affairs and Trade
Mr Charles Edward Timothy Terrell	Country Programs, AIDAB
Mr Michael Joseph Thawley	New Zealand and Papua New Guinea Branch, Department of Foreign Affairs and Trade
Mr Richard Arthur Woolcott	Department of Foreign Affairs and Trade

**CANBERRA
MONDAY, 12 NOVEMBER 1990**

Mr Gabriel John Lafitte	Bougainville Information Service
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**CANBERRA
WEDNESDAY, 21 NOVEMBER 1990**

Mr Trevor Griffiths Anderson	Intelligence Liasion, Investigation Subprogram, Australian Customs Services
Mr Laurence Kenneth Bugden	Department of Immigration, Local Government and Ethnic Affairs
Mr Phillip Gregory Burns	Coastwatch, Australian Customs Service
Mr Rodney Vaughan Cole	National Centre for Development Studies
Mr Keith Geoffrey Daniel	Intelligence Assessment, Australian Customs Service

Mr Keith Macdonald Dash	Commonwealth Scientific and Industrial Research Organisation
Mr Graeme Dorrance	National Centre for Development Studies
Mr Ross Gough	Department of Transport and Communication
Mr Trevor Griffiths	Determination of Refugee Status Branch, Department of Immigration, Local Government and Ethnic Affairs
Mr John Thomas Housenloge	Barrier Control, Australian Customs Service
Mr Peter Hughes	Migrant Entry and Citizenship Branch, Department of Immigration, Local Government and Ethnic Affairs
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Mr Philip John Hunt	World Vision of Australia
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Mr John Harland Jeffery	Secretariat, Australian Customs Service
Mr Ron Lunt	Civil Aviation Authority
Mr Donald John Mathewson	Pacific Development Group, World Vision of Australia
Mr John McAlpine	Division of Tropical Crops and Pastures, Commonwealth Scientific and Industrial Research Organisation
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Mr Kipling Uiari	OK Tedi Mining Ltd PNG
Mr Peter Vidler	Shipping Relations, Maritime Policy Division, Department of Transport and Communications

Dr William George Vogt	Division of Entomology, Commonwealth Scientific and Industrial Research Organisation
Mr James Mortimer Weber	Domestic Aviation Division, Department of Transport and Communications
Dr Ethan Weisman	Economist, Islands/ Australia Program, National Centre for Development Studies, Australian National University
Mr Barry Edward Welsby	Refugees and Humanitarian Section, Department of Immigration, Local Government and Ethnic Affairs

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Mr Ronald Allan Hiatt	Placer Niugini Pty Ltd (PNG)
Mr William Hundy	Placer Pacific Limited
Professor Francis George Jarrett	(Private) Stonyfell, SA
Mr Charles William Ross	Environmental Manager, Placer (PNG) Pty Ltd

CANBERRA
WEDNESDAY, 20 FEBRUARY 1991

Mr Tos Barnett	(Private) Shelley, Perth WA
Mr Anthony James Regan	Boroko, Papua New Guinea

CANBERRA
MONDAY, 8 APRIL 1991

Mr Kevin Clarke	Department of Employment, Education and Training
Dr Andrew Elek	Research School of Pacific Studies
Mr Malcolm Hope Farrow	Department of Industry, Technology and Commerce
Dr David Frederick Fisher	Finance Insurance and Projects
Mr Peter Flanagan	Trade Commissioner, Port Moresby
Professor Ross Garnaut	Research School of Pacific Studies, Australian National University
Mr Geoffrey William Kelly	Oceania and South East Asia, AUSTRALDE
Dr Vincent Martin	Department of Employment, Education and Training
Ms Angela Mays	Bilateral Section, Asia-Pacific Branch, Department of Employment, Education and Training

Mr Robert John Montgomery
Mr John Muir

Mr John William Spinks

Mr Terence Lloyd Williams

Lending Operations AUSTRADE — EFIC
International Division, Department of
Employment, Education and Training
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MONDAY, 13 MAY 1991

Ms Lissa Clare Evans
Dr Paul Anthony McGavin

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CANBERRA
MONDAY, 21 OCTOBER 1991

Dr Richard George Brabin-Smith
Mr Laurence Engel

Mr Bruce Geoffrey Hunt
Mr Rodney Graham Irwin

Mr James Alexander Nockels
Air Commodore Brendan
Donald O'Loghlin
Mr Richard Campbell Smith
Mr Michael Joseph Thawley
Ms Clair Diana Young

Department of Defence
Australian International Development
Assistance Bureau
Department of Foreign Affairs and Trade
Australian International Development
Assistance Bureau
Department of Defence

Department of Defence
Department of Foreign Affairs and Trade
Department of Foreign Affairs and Trade
Department of Defence

LIST OF EXHIBITS

1. *JIR — The Journal of Industrial Relations* article enclosed titled 'Employment and Wages Policy in Papua New Guinea' by Dr J Lodewijks.
2. Paper on *Papua New Guinea: Economic Projections and Policy Concerns* by Dr J Lodewijks, 28 April 1989.
3. Country monograph entitled *The Industrial Relations System of Papua New Guinea*, Kundu Pacific, Port Moresby, 1987 by M J Daly.
4. Paper on *Papua New Guinea Today — April 28 1989 — The Economy of Papua New Guinea: An Overview* by R Callick presented by Dr J Connell.
5. *Papua New Guinea: At the Political Crossroads?* Working Paper No. 177 by D Hegarty from Strategic and Defence Studies Centre, Research School of Pacific Studies, Australian National University, April 1989.
6. '*Trainingism*' revisited in *Papua New Guinea* by Dr M M Turner, ANU in 'Public Administration and Development', Vol. 9, 17-28 (1989) (with Submission No. 2).
7. *Efficiency and Effectiveness in Public Service Training: The Case of the Administrative College of Papua New Guinea* by Dr M M Turner, Administrative College of Papua New Guinea in 'Administration for Development' No. 25, July 1985 (with Submission No. 2).
8. *Cairns Business Directory*, Australia 1989 presented by Cairns Chamber of Commerce (with Submission No. 10).
9. *Cairns Business Directory* March 1988 (with Submission No. 10).
10. *Opportunity Cairns — Cairns Chamber of Commerce Annual Report 1988/89* (with Submission No. 10).
11. Paper on *Papua New Guinea: Democracy, Development and the Future* by Dr J Connell, University of Sydney.
12. Article titled *The Import Trade of Papua New Guinea since Independence* by O Weysenfeld, November 1988.
13. *Sharpening the Spearhead: Subregionalism in Melanesia* (published in the American Journal 'Pacific Studies' Vol. 12, No. 2 — March 1989. Presented by Dr N MacQueen, University of Papua New Guinea.

14. Diplomacy on the Asia-Pacific Interface: Developments in Papua New Guinea's Relations with Indonesia and Australia (to be published in the American Journal 'Asian Survey'). Presented by Dr N MacQueen, University of Papua New Guinea.
15. *National Identity and the International System: The Search for a Foreign Policy* (to be published in an edited collection on Modern Papua New Guinea Society). Presented by Dr N MacQueen, University of Papua New Guinea.
16. *Melanesia, Australia and South Pacific Security* (to be published July 1989 in the University of Queensland journal 'Social Alternatives') Presented by Dr N MacQueen, University of Papua New Guinea.
17. *A Policy Perspective on Coconut Processing in the South Pacific Islands* in 'Cord — Coconut Research and Development', Vol. IV, No. 23, July 1988. Presented by Dr D M Etherington (with Submission No. 8).
18. *Coconut Processing: Some Major Issues*, 10 December 1988. Presented by Dr D M Etherington (with Submission No. 8).
19. *Fresh Coconut Processing for the South Pacific: Fashion and Design*. Presented by Dr D M Etherington (with Submission No. 8).
20. CSIRO submission to the Senate Inquiry into Australia's Relations with Papua New Guinea, February 1985.
21. *Poisoning Papua New Guinea's Golden Rivers* by R P Lamb. Presented by the Solidarity Conservation Front (with Submission No. 15).
22. *Papua New Guinea: Economic Situation and Outlook*, February 1989. International Development Issues No. 5, by the Australian International Development Assistance Bureau (with Submission No. 20).
23. *PNG Program Profile — Australian Aid to Papua New Guinea*, 19 July 1989 by the Australian International Development Assistance Bureau (with Submission No. 20).
24. *Growth, Structural Change and Economic Policy in Papua New Guinea — Implications for Agriculture*, Pacific Policy Paper No. 5 by G Jarrett and K Anderson presented by the National Centre for Development Studies, Australian National University (with Submission No. 23).
25. *Human Resources Development in the Pacific*, Pacific Policy Papers No. 3 by CD Throsby presented by the National Centre for Development Studies, Australian National University (with Submission No. 23).
26. *The Papua New Guinea Economy* by G Dorrance, presented by the National Centre for Development Studies, Australian National University (with Submission No. 23).
27. *Paper on Policy Evaluation of Investment in Education: A Papua New Guinea Study* by P A McGavin and Y Cao, 8 August 1989.

28. *The Future: Questions for Policy and Research* by B J Allen and H C Brookfield. Article from 'Mountain Research and Development', Vol. 9, No. 3, August 1989.
29. *Some Observations on Expenditure and Consumption Patterns in Rural Papua New Guinea* by B J Allen and R M Bourke. Article in 'Pacific Economic Bulletin', Vol. 3, No. 1, June 1988.
30. *Dynamics of Fallow Successions and Introduction of Robusta Coffee in Shifting Cultivation Areas in the Lowlands of Papua New Guinea*, by B J Allen. Article in 'Agroforestry Systems 3', 1985.
31. *One Hundred Years of Colonialism: Three Agricultural Themes* by B J Allen. Paper written for Symposium at Port Moresby to celebrate the 1985 'Ten Years of Independence'.
32. *Land Degradation in Papua New Guinea* by H C Brookfield and B J Allen. Article in 'Ileia Newsletter' Vol. 4, No. 1, March 1988.
33. *A Review of Smallholder Data Sources in PNG Relevant to the Export Tree Crops Sector* by B J Allen. Article in IASER. Special Publication 12, 1986.
34. *Taxation in Papua New Guinea: Backwards to the Future?* by Richard M Bird (Islands/Australia Working Paper No. 87/15, NCDs). Presented by National Centre for Development Studies.
35. *Report of the Australian Parliamentary Delegation to Singapore, Malaysia and Papua New Guinea 1988*. Presented by Mr Robert Tickner, MP.
36. *Final Report — Hagen-Baiyer-Ruti Road Papua New Guinea Feasibility Study*, June 1989. Presented by Australian International Development Assistance Bureau.
37. *Executive Summary — Hagen-Baiyer-Ruti Road Papua New Guinea Feasibility Study*, November 1989. Presented by Australian International Development Assistance Bureau.
38. *Guidelines for Document Preparation for Project Aid for Papua New Guinea*, July 1988, Pacific Regional Team, Centre for Pacific Development and Training. Presented by Australian International Development Assistance Bureau.
39. Paper from Department of Transport and Civil Aviation: *Provincial Rural Transport Study (1982)*. Presented by Australian International Development Assistance Bureau.
40. *Memorandum of Understanding between the Government of Australia and the Government of Papua New Guinea Relating to the Papua New Guinea/Australia Small Grants Scheme*. Presented by Australian International Development Assistance Bureau.
41. List of Projects — Small Grants Scheme, PNG, 12 May 1989. Presented by Australian International Development Assistance Bureau.

42. *Public Investment Programmes 1990-1994 Vol 4 presented by the Hon Paul Pora, MBE, MP, Minister for Finance and Planning on the occasion of the 1990 Budget, Papua New Guinea.* Presented by Australian International Development Assistance Bureau.
43. *Australians' Attitudes to Overseas Aid — Report from the National Social Science Survey*, by Jonathan Kelley, Institute of Advanced Studies, Australian National University. Presented by Australian International Development Assistance Bureau.
44. *Treaty on Development Co-operation between the Government of Australia and the Government of Papua New Guinea and Exchange of Letters* (Canberra, 24 May 1989). (1989 No. 24). Presented by Foreign Affairs and Trade.
45. *Paper on Global Political Economy at the End of the Eighties: The Context for Papua New Guinea and Australia*, 9 August 1988. Presented by Mr John Langmore, MP.
46. *Papua New Guinea: Economic Situation and Outlook*, (Canberra 1990) AIDAB: International Development Issues No. 11, Professor Frank Jarrett, Centre for International Economic Studies, University of Adelaide, in consultation with Dr Kym Anderson (CIES) and Professor D T Nguyen (Griffith University). Presented by AIDAB.
47. *A Short History of the Bougainville Ceasefire Initiative* by Graeme Kemelfield.
48. *Growth, Structural Change and Economic Policy in Papua New Guinea — Implications for Agriculture* by Frank G Jarrett and Kym Anderson. Presented by Dr R B Dun, Director General AIDAB.
49. *Papua New Guinea: A Broken-Backed State?* by Mr Chris Ashton.
50. *Future City Cairns Australia — Cairns Chamber of Commerce Annual Report 1989/90* presented by the Cairns Chamber of Commerce (with Supplementary Submission to No. 10).
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ABBREVIATIONS

ABC	Australian Broadcasting Corporation
ACC	Australian Council of Churches
ACFOA	Australian Council for Overseas Aid
ACIAR	Australian Centre for International Agricultural Research
ACPAC	AIDAB Centre for Pacific Development and Training
ACTU	Australian Council of Trade Unions
ADB	Asian Development Bank
ADF	Australian Defence Force
AIDAB	Australian International Development Assistance Bureau (from 1987)
ANAO	Australian National Audit Office
ANZ	Australian and New Zealand Bank
APEC	Asian Pacific Economic Council
APPI	Agreement for the Promotion and Protection of Investment
ASEAN	Association of South East Asian Nations
AUSTRADE	Australian Trade Commission
BCL	Bougainville Copper Ltd
BRA	Bougainville Revolutionary Army
CAA	Community Aid Abroad
CPA	Commonwealth Parliamentary Association
CRA	Conzinc Riotinto Australia
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DASETT	Department of the Arts, Sport, the Environment, Tourism and Territories
DCP	Defence Co-operation Program
DEC	Department of Environment and Conservation (Papua New Guinea)
DEET	Department of Employment, Education and Training
DFAT	Department of Foreign Affairs and Trade (from 1987)
DILGEA	Department of Immigration, Local Government and Ethnic Affairs
DITAC	Department of Industry, Technology and Commerce (Australia)
DOPIE	Department of Primary Industries and Energy (Australia)
DOTAC	Department of Transport and Communication (Australia)
EEC	European Economic Community
EFIC	Export Finance Insurance Corporation
EMSS	Equity and Merit Scholarship Scheme
EST	Eastern Standard Time
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
ICC	Island Co-ordinating Council
IMF	International Monetary Fund
IPA	Investment Promotion and Protection Agreement

JCFADT	<i>Joint Committee on Foreign Affairs, Defence and Trade</i>
JDP	<i>Joint Declaration of Principles</i>
MNC	<i>Ministerial Nomination Committee</i>
MP	<i>Member of Parliament</i>
MSG	<i>Melanesian Spearhead Group</i>
NBC	<i>National Broadcasting Commission (of Papua New Guinea)</i>
NCDS	<i>National Centre for Development Studies</i>
NGO	<i>Non-Government Organisation</i>
NIO	<i>National Intelligence Organisation (PNG)</i>
NPO	<i>National Population Council</i>
ODA	<i>Official Development Assistance</i>
OKML	<i>Ok Tedi Mining Limited</i>
OPM	<i>Organisasi Papua Merdeka (Free Papua Movement)</i>
PATCRA	<i>Papua New Guinea-Australia Trade and Commercial Relations Agreement</i>
PNG	<i>Papua New Guinea</i>
PNGDF	<i>Papua New Guinea Defence Force</i>
PNGTUC	<i>Papua New Guinea Trade Union Congress</i>
SPARTECA	<i>South Pacific Regional Trade and Economic Co-operation Agreement</i>
SPC	<i>South Pacific Commission</i>
SPF	<i>South Pacific Forum</i>
SPNFZ	<i>South Pacific Nuclear Free Zone</i>
SPTCS	<i>South Pacific Trade Commissioner Service</i>
THP	<i>Tropical Health Program</i>
UNDP	<i>United Nations Development Program</i>
UNESCO	<i>United Nations Educational, Scientific and Cultural Organisation</i>
UNFPA	<i>United Nations Fund for Population Activities</i>
UNHCR	<i>United Nations High Commissioner for Refugees</i>
USSR	<i>Union of Soviet Socialist Republics</i>
WHO	<i>World Health Organization</i>
YMCA	<i>Young Men's Christian Association</i>
YWCA	<i>Young Women's Christian Association</i>

AUSTRALIAN INTEREST PROFILE: PNG

FORMAL RELATIONSHIP

Diplomatic relations established in September 1975.

Australian High Commission established in September 1975.

PNG Mission in Australia — Consulate General established in Sydney September 1975.

PNG High Commission established in Canberra February 1977.

BILATERAL OFFICIAL INSTITUTIONS

- Ministerial Forum (regular, unspecified frequency)
- High-level Defence Talks (annual)
- Defence Co-operation Talks (irregular)
- PATCRA Talks (annual)
- Torres Strait Treaty Joint Advisory Committee Meeting (at request of either party)
- Torres Strait Treaty Border Liaison Meeting (every quarter)
- Torres Strait Treaty Fisheries Management Committee (annual)

FORMAL TREATIES AND ARRANGEMENTS

Existing

- Development Co-operation Agreement (1989)
- Double Tax Agreement Between Australia and PNG (1989)
- Joint Declaration of Principles (JDP) (1987)
- PATCRA (1977)
- *Agreements between the Governments of PNG and the Government of Australia relating to Air Services (1980)*

- Agreement between PNG and Australia regarding the Status of Forces of a State in the Territory and other States (1977)
- Arrangement between PNG and Australia regarding Supply Support (1977)
- Joint Statement by Prime Ministers Somare and Fraser on the Defence Treaty between PNG and Australia (1977)
- Consultations regarding the use of Australian loan personnel in politically-sensitive situations (1977)
- Memorandum of Understanding between Australia and PNG regarding the deployment of the Australian technical and support unit in PNG
- Memorandum of Understanding between Australian and PNG of the Australian Army 12CE Works
- Agreement between PNG and Australia regarding the performance of the consular services for PNG citizens on behalf of the PNG Government (1975)

Under Negotiation

- PATCRA Review
- Cultural Agreement

Foreshadowed

- Investment Protection Agreement

MEETING WITH PAPUA NEW GUINEAN WOMEN

PRESENT:

Ms Margaret Nakikus, senior public servant
Dame Josephine Abaijah, Chairperson, NCD Interim Government
Mrs Kanawi, Secretary of the Law Reform Commission
Professor Maev O'Collins, AIDAB Consultant
Ms Jean Kekedo, Secretary, Department of Civil Aviation
Inspector Miriam Yawa, Police Headquarters
Inspector Cathy Dob, Bomana Police College
Dr Naomi Martin, Commission for Higher Education
Ms Sabina Paraha, Acting Director, National YWCA of PNG
Mr Terence Kuaru, Director, Family Planning Association
Ms Satae Nuendorf, Tertiary Students Program Officer, AIDAB,
Australian High Commission
Mrs Maria Kopkop, President, PNG National Council of Women
Ms Helen Kila, Publicity Officer, PNG National Council of Women
Ms Dulcie Kekedo, PNG National Council of Women
Mrs Louise Aitsi, Papuan Council of Women
Ms Fiu Williams, Office of International Development Assistance
Ms Jane Kesno, Policy Division, PNG National Council of Women
Mrs Jocelyn Abrahms, Women's Unit, National Broadcasting Commission

AUSTRALIAN DELEGATION

Senator Chris Schacht, Leader
Hon Michael MacKellar, MP, Deputy Leader
Senator Noel Crichton-Browne
Senator Jo Vallentine
Mr Laurie Ferguson, MP
Mr Collin Hollis, MP
Mr John Langmore, MP
Mr Michael Lee, MP
Hon John Moore, MP
Rt Hon Ian Sinclair, MP

Ms Judy Middlebrook, Secretary

STATISTICAL PROFILE OF THE PNG ECONOMY

GDP (1988)	— 3,089 million Kina
POPULATION (1987)	— 3.6 million (estimated)
GDP per capita (1987)	— 794.3 Kina
CPI (1988)	— 5.4 per cent
POPULATION GROWTH RATE (1987)	— 2.4 per cent (estimated)
MERCHANDISE EXPORTS (1988)	— 1,273 million Kina
MERCHANDISE IMPORTS (1988)	— 1,038 million Kina
BALANCE OF TRADE (1988)	— 235 million Kina
BALANCE ON CURRENT ACCOUNT (1988)	— 134 million Kina
BALANCE ON CAPITAL ACCOUNT (1988)	— 95 million Kina
BALANCE OF PAYMENTS (1988)	— 51 million Kina
Average Australian Dollar/Kina exchange rates \$1.00 =	
1987	0.6365 Kina
1988	0.6797 Kina
July 1989	0.6697 Kina

Sources:

AIDAB, Papua New Guinea — Economic Situation and Outlook, 1989
 Bank of PNG Quarterly Economic Reports
 Statistical Yearbook for Asia and the Pacific, 1986-87
 International Financial Statistics, June 1989
 PNG National Statistics Office, Abstract of Statistics, 1988

PAPUA NEW GUINEA: POLITICAL PARTIES

Pangu Party — led by Prime Minister Namaliu and the largest party the Government coalition with 28 MPs and 12 Ministers.

People's Action Party (PAP) — renamed the Papuan Action Party, led by Akoka Doi who replaced Ted Diro on his resignation from Parliament after being found guilty of 79 corruption charges largely relating to the Forest Commission of Inquiry.

Melanesian Alliance (MA) — led by Bougainvillean Father John Momis, the MA, with 7 MPs and 3 cabinet positions, has never before enjoyed as much power. It seeks to articulate a distinctly 'Melanesian' concept of PNG society, which is somewhat idealistic.

National Party — led by Mr Michael Mel, the National Party's strength is in the Highlands, but it is divided and on the decline. Mr Mel remains in Opposition, while Mr Paul Pora serves as Finance and Planning Minister. The assassinated Minister for Communications, Mr Malipu Balakau was National Party member for Enga Regional.

League for National Advancement (LNA) — the LNA accounts for seven members, three of whom are now Ministers: Mr Ben Sabu (Minister for Defence and the new parliamentary leader, formerly National Party), Mr Theodore Tuya (Minister for Administrative Services and formerly Melanesian United Front) and Mr Karl Stack (Minister for Forests). Mr Tony Saiguru, former MP and widely regarded as one of the most shrewd and intelligent observers of PNG politics, is President of the LNA.

Peoples' Democratic Movement (PDM) — led by former Prime Minister Paias Wingti, the PDM numbered 21 when he was in power, but supporters have been falling away this year; it is not clear how many remain.

Peoples' Progress Party (PPP) — led by Sir Julius Chan, the PPP with four members is one of the smaller and older parties.

Melanesian United Front (MUF) — set up by Mr Utula Samana shortly after he entered national politics, the MUF now has six MPs and brings together diverse interests and views, including the Marxist, Mr Ramoi, and the conservative former Defence Minister, Mr Polasui. Mr Samana promotes himself as potential alternative Prime Minister who would introduce radical innovations, such as the declaration of the Peoples' Republic of Papua New Guinea.

AUSTRALIA'S CURRENT AID PROGRAM TO PNG

(Source: AIDAB, Submission, pp. S785-89)

1. The extent of Australia's development co-operation program with PNG since Independence in 1975 reflects the political, strategic and economic significance of the bilateral relationship, as well as the humanitarian concerns of the Australian community. Since Independence Australia's total aid to PNG has amounted to \$4.0 billion, \$3.7 billion of which has been in the form of budget support.
2. Australia's objectives for development co-operation with PNG are:
 - (a) to promote self-sustaining economic growth with equity, so that the benefits of development are spread widely among Papua New Guineans and promote social cohesion;
 - (b) to reduce progressively the overall level of Australian aid in order to lessen PNG's dependence on Australian aid flows, and to increase its fiscal self-reliance by encouraging a greater diversity of sources and forms of aid;
 - (c) to 'normalise' the aid relationship through a gradual shift from budget support to particular programs and projects, in accordance with PNG's policies and priorities, and Australia's policies on development co-operation;
 - (d) to maintain broad support within the Australian community for assistance to PNG; and
 - (e) to demonstrate that Australia, a relatively prosperous member of the international community, is committed to fulfilling its responsibilities as a good international citizen and, in particular, a good neighbour to PNG.
3. PNG's current economic crisis calls for a change of emphasis in the above objectives. Specifically we need:
 - (a) to encourage the process of structural adjustment in PNG by co-ordinating the consideration of additional Australian aid with the efforts of the World Bank, the IMF and the Asian Development Bank to promote structural reform:
 - this has meant that the process of increasing PNG's fiscal self-reliance has been put aside for the time being (Table A1). However, a substantial lessening of dependence on Australia vis-a-vis other donors has still been achieved;

- (b) to demonstrate, at this difficult time in particular, that Australia is a good neighbour to PNG but not an open ended source of assistance;
- (c) to the extent possible, to develop quick disbursing aid mechanisms which will support both short-term stabilisation efforts and longer term structural adjustment measures;
- (d) to increase our efforts to promote self-sustaining economic growth with equity and to overcome key development bottlenecks especially in the field of law and order; and
- (e) without detracting from developmental effectiveness, to maximise the political/foreign policy and commercial benefits of any intervention.

Table A1: Australian Budget and Balance of Payments Support as a per cent of the PNG Budget

PNG Financial Year	Australian Budget Support (Km)	Australian Balance of Payments Support (Km)	PNG Budget (Km)	Australian Budget and Balance of Payments Support (per cent of PNG Budget)
1976	109	-	415	26
1977	169	-	433	39
1978	172	-	494	35
1979	175	-	538	33
1980	175	-	635	27
1981	184	-	689	27
1982	186	-	707	26
1983	213	-	785	27
1984	230	-	823	28
1985	214	-	864	25
1986	203	-	920	22
1987	181	-	972	19
1988	182	-	1067	17
1989	184	-	1190	15
1990	205	11	1176	18

Source: AIDAB Statistics Section, 1989 and 1990 PNG Budget Papers Vol. 2.

Note: Table A1 is an updated version of Table 5 found on p. 11 of the published version of *Australia's Development Co-operation Program with PNG - Submission to the JCFDT Inquiry into Australia's Relations with PNG*.

4. After recent decisions on additional aid to PNG, commitments and undertakings on aid levels for the five-year period 1989/90 to 1993/94 are found in Table A2.

Table A2: Annual Aid Disbursements to PNG, 1988/89 to 1993/94

Australian Financial Year	Budget Support	Balance of Payments Support	Project Aid	Total	Change in Real Terms
	\$m	\$m	\$m	\$m	per cent
1988/89	275	-	15	290	
1989/90	275	15	23	313	+1
1990/91	275	-	30	305	8
1991/92	275	-	30	305	-5
1992/93	275	-	30	305	-5
1993/94	260	-	35	295	8

Note: Table A2 is an updated version of Table 3 found on p. 6 of the published version of *Australia's Development Co-operation Program with PNG - Submission to the JCFADT Inquiry into Australia's Relations with PNG*.

5. This assistance is additional to the Defence Co-operation Program budgeted at \$39 million for 1989/90 and estimated at \$54 million in 1990/91, dependent on budget decisions.
6. Maintenance of budget support at current levels until 1992/93 will support PNG's efforts towards fiscal reform, particularly in maintaining essential public services while reallocating public resources where possible from consumption to investment, as well as PNG's balance of payments.
7. Major constraints to development in PNG include —
 - (a) institutional weaknesses and a shortage of skilled domestic labour which hamper public administration and, in particular, the capacity to plan and implement development programs;
 - (b) a political system which carries the possibility of changes of Government at short notice and which therefore makes the implementation of economic and development policies more difficult;
 - (c) social and administrative fragmentation resulting from extraordinary cultural and ethnic diversity;
 - (d) a rapidly growing population;
 - (e) a severe lack of unifying infrastructure, compounded by rugged, mountainous terrain and the wide geographic dispersion of the population; and
 - (f) the complex system of customary land ownership.

8. All of these constraints limit PNG's capacity to effectively absorb external assistance.
9. Since the commencement of Australia's project aid program in 1986, Australia's assistance at PNG's request has focused on:
 - (a) human resource development;
 - (b) institution-strengthening; and
 - (c) land administration and management.
10. The results are already showing through: for example, our tax and customs projects have yielded substantial increases in Government revenues; our land management activities have established the pre-conditions for a major World Bank institution-strengthening project which we are also co-financing; our rural development project in the highlands has had a significant positive impact on smallholder incomes, nutrition and education services; and our coffee project has curbed the spread of coffee rust.
11. Major activities in 1990/91 include assistance with:
 - (a) strengthening the Royal Papua New Guinea Constabulary (\$9m);
 - (b) academic and other training of over 400 Papua New Guineans (\$8m);
 - (c) upgrading the operational capacity of the PNG Department of Civil Aviation (\$3m);
 - (d) coffee research and development (\$2m); and
 - (e) improving the operational and institutional capacity of the Customs Bureau and Taxation Office (\$4m).
12. After some initial difficulties while PNG became familiar with project aid processes and benefits, a pipeline of project activities has been established and has now developed considerable momentum. This has required prioritisation of activities in consultation with the PNG Government at programing discussions in September 1989 and March 1990. Existing commitments are such that there is little short term scope within currently approved funding levels for the inclusion of new projects and activities.
13. The Australian Government has provided a total of \$23m in response to PNG's current economic difficulties and in support of its structural adjustment program — \$8m in project aid over 1989/90 and 1990/91 and \$15m in balance of payments support in 1989/90. The latter is to take the form of cofinancing the World Bank Structural Adjustment Loan (SAL). Australian grant funds are to be tied to imports of Australian goods and

services. The kina resources generated by these transactions are to be used to meet the local costs of mutually agreed projects in PNG's Public Investment Program.

14. Australia's co-financing of the SAL links Australian support to appropriate economic reforms in PNG, and will enhance dialogue with the PNG Government on economic policy and development strategy. This process will help ensure for the first time that Australia's budget support is used more effectively and will provide a mechanism for more visible accountability. The strong support which the structural adjustment program has attracted from the wider donor community has also diversified PNG's sources of aid. At the 1990 Consultative Group Meeting Australia accounted for about 35 per cent of PNG's estimated external financing needs compared with 50 per cent in 1989.

PNG-AUSTRALIA DEVELOPMENT CO-OPERATION (Source: ADAEI)

PROJECT ACTIVITY	TOTAL COSTINGS '000	9091	9192 REVISED 11/791	9293	9394	PROJECT STATUS/COMMENT
AGRICULTURE						
1. COCOA QUALITY IMPROVEMENT PROJECT	3775	213	892	765	0	PROJECT LIKELY TO START IN JUNE 1991.
2. ASSISTANCE TO COFFEE RESEARCH INSTITUTE	3200	1234	756	0	0	PROJECT EXTENSION FOR \$4316/971 REQUESTED BY OIDA (ALLOC. NOT INCLUDED IN FUNDING NEGOTIATIONS).
3. ASSISTANCE TO COFFEE DEVELOPMENT AGENCY	4400	1333	1120	0	0	INCLUDES TRAINING CENTRE AT CRL.
INSTITUTION BUILDING						
4. RPNG DEVELOPMENT PROJECT	23297	7910	9000	4000	0	16 NEW ADVISERS TO COMMENCE MAY/JUNE THESE FIGS ASSUME PROJECT END 12/92.
5. RPNG EQUIPMENT PROJECT	20600	107	0	0	0	
6. RPNG HOUSING	6600	127	2000	1668	0	
7. CUSTOMS CAPACITY PROJECT	4221	1014	1000	249	0	EXPENDITURE LIKELY TO EXCEED CURRENT PROJECT COST LIMITATION BY \$20,000 (SEE ANNUAL PLAN).
8. TAXATION ASSISTANCE PROJECT	10942	2883	2100	1354	611	AUDIT TRG APPROVED.
9. UNDP FINANCIAL MANAGEMENT PROJECT	2832	0	0	0	0	REVIEW REPORT UNDER CONSIDERATION.
10. DTG FINANCIAL MANAGEMENT PROJECT	202	126	130	0	0	ONE FURTHER COURSE IN 1991-92.
11. CIVIL AVIATION ASSISTANCE PROJECT	15963	2692	2750	4077	?	394 POSSIBLY \$1.0M - DEFERRED FROM 90/91.

PROJECT ACTIVITY	TOTAL COSTINGS '000	90/91	91/92 REVISED 11/791	92/93	93/94	PROJECT STATUS/COMMENT
12. IMMIGRATION FEASIBILITY STUDY	150	69	0	0	0	
13. IMMIGRATION DIVISION DEVELOPMENT PROJECT	4779	0	0	1145	2650	DRAFT DESIGN DOCUMENT UNDER CONSIDERATION IN PNG PROPOSED START MID-92.
14. CIS ASSISTANCE STUDY	126	39	0	0	0	
15. CIS DEVELOPMENT PROJECT	27000	0	473	2265	2000	\$0.85M DEFERRED FROM 1991/92.
16. SUPPORT TO OIDA		0	50	0	0	NOT ON ADB.
LAND & FORESTRY DEVELOPMENT						
17. ACLAMP	7809	3	400	2500	5700	AWAITING CONFIRMATION OF STAFFING APPOINTMENTS IN NMB. MANAGING AGENTS TO BE TENDERED IN LATE 1991. 1991 EXP. IS SOFT MOU NOT YET SIGNED.
18. PNGRIS PROJECT	2303	0	600	1000	0	
19. TFAP PROJECTS	3200	1588	0	1320	0	
HEALTH SECTOR						
20. HOSPITAL MANAGEMENT PROJECT	6201	20	200	1755	266	IMPLEMENTATION COULD START IN LATE 91/92 AWAITING PNG GO AHEAD.
21. UNICEF IMMUNISATION PROJECT	500	0	0	0	0	FURTHER SUPPORT NO ANTICIPATED SUBJECT ALSO TO PNG REQUEST.
22. MEDICAL OFFICERS TRAINING PROJECT	2713	225	400	630	557	REVIEW REPORT BEING CONSIDERED BY PNG GOVERNMENT.

PROJECT ACTIVITY	TOTAL COSTINGS '000	9091	9192 REVISED 11/791	9293	9394	PROJECT STATUS/COMMENT
RURAL DEVELOPMENT						
23. SOUTH SIMBU RURAL DEVELOPMENT PROJECT (IFAD)	3300	900	0	0	0	FUNDING COMPLETED.
24. NORTH SIMBU RURAL DEVELOPMENT PROJECT	686	75	0	500	500	AIDAB TO PARTICIPATE IN APPRAISAL OF DESIGN STUDY.
25. KANDRIAN GLOUCESTER FEASIBILITY STUDY	10217	77	400	4088	2244	INTERIM PROGRAM OF SUPPORT COMMENCED IN EARLY 1991. TENDER PROCESS FOR STAGE 1 IMPLEMENTATION TO COMMENCE IN MID-91.
27. WEWAK-ANGORAN FEASIBILITY STUDY	762	1	0	0	0	
INFRASTRUCTURE						
28. LAB FLOOD MITIGATION STUDY	475	22	0	0	0	
29. LAB FLOOD MITIGATION DEVELOPMENT PROJECT	115	80	35	0	0	AIDAB FUNDING DESIGN OF BRIDGES BY SMEC.
30. RABAU, VOLCANO MONITORING PROJECT	500	156	200	50	0	
MISCELLANEOUS ACTIVITIES						
31. PROGRAM ADMINISTRATIVE SUPPORT UNIT	560	375	200	250	250	
32. PNG ECONOMIC REVIEW - PHASE 2 - PHASE 3	32	8 43	30	40		1991 REVIEW COMPLETED.
33. SMALL GRANTS SCHEME	965	211	250	500	500	

PROJECT ACTIVITY	TOTAL COSTINGS '000	90/91	91/92 REVISED 11/7/91	92/93	93/94	PROJECT STATUS/COMMENT
34. PNG COLLOQUIUM	200	111	150	200	0	NEXT COLLOQ PROPOSED SEPT 91. PNG TO CONSIDER FUNDING OIDA TO PROVIDE ACQUITTAL OF PREVIOUS EXPENDITURE.
35. CONSULTANTS TRUST FUND	750	300	0	0	0	
36. SIP MISSION	20	20	0	0	0	
37. DEPARTMENT OF MINERALS & ENERGY PROJECT		4	0	0	0	DRAFT REPORT OF TEAM PASSED TO OIDA 291. FUNDING OF OIL SPILL MODELLING PACKAGE.
38. NATIONAL BROADCASTING PROJECT	680	357	357	0	0	PNG BASED PROJECT MANAGER APPROVED. 1991 BUDGET PROJECT ENHANCEMENTS.
39. NGO EMERGENCY RELIEF ASSISTANCE TO BOUGAINVILLE		332	0	0	0	
EDUCATION SECTOR						
40. COMMUNITY TEACHERS COLLEGE LECTURENS DEVELOPMENT PROJECT	2600	449	640	680	501	
41. COMMUNITY COLLEGE LECTURENS COURSE		1	0	0	0	
42. LAW LECTURER-JNI OF PNG	68	68	0	0	0	
43. SECONDARY STUDENTS	5307	3598	6300	7650	8625	NEW INTAKE 1992. 150 (COULD BE UNDER-ESTIMATED IN 91/92).
44. TRAINING AWARDS	2550	4046	4200	4700	0	NEW AWARDS FOR 1992 REDUCED TO 40.
45. STUDENT SUBSIDY	700	500	200	100	0	
46. OSEAS STUDENT CHARGE (PRIVATE)	925	209	100	30	0	
47. OSEAS STUDENT CHARGE (SPONSORED)	942	114	100	35	0	
TOTAL		31812	35033	41552	25298	

**REVIEW OF FUTURE LEVEL AND FORM OF AUSTRALIAN
DEVELOPMENT ASSISTANCE TO PAPUA NEW GUINEA****DRAFT TERMS OF REFERENCE FOR WORKING GROUP****1. BACKGROUND**

- 1.1 The Treaty on Development Co-operation between Australia and Papua New Guinea provides that the level of budget support shall be the subject of a review between the two Governments at three yearly intervals from the date of coming into operation of the Treaty in order to permit a continuous mid-term planning cycle in Papua New Guinea. Levels of jointly programmed aid are also to be reviewed every three years. The first such review is to take place in September 1992.
- 1.2 During Mr Hawke's visit to PNG in September 1990, the two Prime Ministers agreed that officials should commence preparatory work well before the scheduled 1992 review. During Mr Hawke's visit Prime Minister Namaliu stated that his Government wished to phase out budget support by the end of the century. It was subsequently confirmed, at the PNG-Australia Ministerial Forum in February 1991, that officials should meet to commence development and consideration of options for the future level and form of Australian aid.
- 1.3 At High Level Aid Officials talks on 3 June 1991 it was agreed that a Joint Working Group should be formed with appropriate Terms of Reference to be agreed between the two Governments. It was further agreed that it would be desirable for the Working Group to meet if possible, before Prime Minister Namaliu's visit to Australia planned for September 1991. It was also agreed that the Australian officials would prepare an issues paper for consideration at the first meeting of the Working Group.

2. OBJECTIVES

- 2.1 The Working Group will have the following objectives:
 - 2.1.1 to agree on a process of consultation which will meet the needs of both Governments in the lead-up to the September 1992 review and decisions on future aid levels;
 - 2.1.2 to develop options for the level and form of Australian development assistance to Papua New Guinea, specifically for the period 1994/95 to 1996/97 but in the context of possible scenarios for the remainder

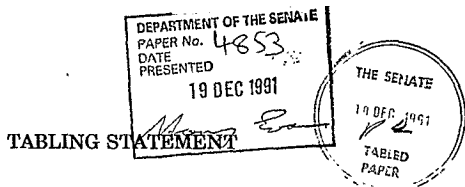
of the decade. (As significant expenditures are involved these options will require Australian Cabinet consideration prior to the September 1992 review.);

- 2.1.3 to identify information needs for full consideration of the various options and to obtain and assess that information.
- 3. COMPOSITION OF WORKING GROUP
 - 3.1 The Papua New Guinea Government representatives on the Working Group will be:
 - 3.1.1 (co-Chair)
 - 3.1.2
 - 3.1.3
 - 3.1.4
 - 3.1.5
 - 3.2 The Australian Government representatives on the Working Group will be:
 - 3.2.1 Director, Papua New Guinea Section, AIDAB (co-Chair)
 - 3.2.2 Director, Pacific Economic Policy Section, AIDAB
 - 3.2.3 Counsellor (Development Assistance), Australian High Commission, Port Moresby
 - 3.2.4 Director, Papua New Guinea Section, Department of Foreign Affairs and Trade
 - 3.2.5 Senior Advisor, International Division, Department of the Prime Minister and Cabinet
- 4. INPUTS
 - 4.1 The Working Group will meet regularly in the lead up to the September 1992 review. It is likely that at least three meetings of the Working Group will be necessary over this period subject to the Working Group's consideration of 2.1.1 above.
- 5. OUTPUTS
 - 5.1 The Working Group shall prepare an agreed record of each of its meetings.
 - 5.2 The Papuan New Guinean and Australian members of the Working Group may each prepare separately whatever reports they consider appropriate for their respective Governments.

PAPUA NEW GUINEA'S EIGHT AIMS

The National Planning Office was created after Independence. One of its changes was to effect the national goals laid down in the Constitution. These were expanded into the Eight Aims.

- A rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups and in the proportion of personal and property income that goes to Papua New Guineans.
- More equal distribution of economic benefits, including movement toward equalisation of incomes among people and toward equalisation of services among different areas of the country.
- Decentralisation of economic activity, planning and government spending with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area bodies.
- An emphasis on small scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of business activity.
- A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
- An increasing capacity for meeting government spending needs from locally raised revenue.
- A rapid increase in the equal and active participation of women in all forms of economic and social activity.
- Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.



REPORT ON AUSTRALIA'S RELATIONS WITH PAPUA NEW GUINEA

I am pleased to present to the Senate the report of the Joint Committee on Foreign Affairs Defence and Trade on Australia's relations with Papua New Guinea. This is the second report in a series that the Foreign Affairs Sub-Committee is making on Australia's relations with its immediate region. In 1989 the Sub-Committee reported on Australia's Relations with the South Pacific and next year the Sub-Committee expects to complete an inquiry into Australia's relations with Indonesia.

This is by far the most comprehensive and wide ranging inquiry into Australia's relations with Papua New Guinea ever undertaken by an Australian parliamentary committee. The recommendations, if adopted, would have the effect of greatly transforming our nation's relations with Papua New Guinea, leading to a substantial broadening and strengthening of those relations.

Inquiries such as these into the basis of a whole relationship are of necessity wide ranging and complex and this inquiry into Australia's relations with Papua New Guinea has been a long one, interrupted by the election of May 1990. The terms of reference covered economic issues, including trade, investment and aid; political, strategic, social and cultural issues. Experts and interested parties from all these areas spoke to the Committee in over 18 public hearings conducted all over Australia. The report takes into consideration the often divergent views

of its many witnesses and tries to set them into an historical context.

The Committee's report is based on the following overall historical assessment:

Australia's relationship with Papua New Guinea is governed by the fact that we obtained it as a colony in a burst of strategic nervousness just as we ourselves were seeking decolonisation. We were therefore diffident colonisers who governed with casual practicality and who departed with alacrity and too little care. The strategic concern, which motivated the acquisition of the colony in 1883, remains a constant factor in the relationship, coming as it does from our geographic proximity. A lingering sense of responsibility, bred of our rapid departure, governs our commitment to aid. Over the last fifteen years we have developed many formal ties and arrangements. Officially the relationship is given top priority and it has worked smoothly, albeit with questions arising now about the processes involved in aid and defence co-operation. Australia's major concerns are about the effectiveness of our aid in supporting Papua New Guinea's nationbuilding, a process that has slowed, and the instability of Papua New Guinea, evident in the secessionist movement on Bougainville or the political, social and economic disruptions of crime and corruption. Unofficially, at an institutional and personal level, the relationship has been weakened by time. Here, there is scope for strengthening it, for rehumanising it.

Certain issues consumed much of the Committee's attention. These were Australia's position and role as a major aid supplier to Papua New Guinea and the Defence Cooperation Program and the strategic

considerations which prompt this program. Furthermore, the problems on Bougainville were of grave concern to the Committee. The Committee believes that these are central issues to the relationship and that they are issues that need to be addressed. In the case of Bougainville, there is a need for urgent resolution.

Given the current delicate stage of Papua New Guinea's economic and social development, the Committee believes that it would be wrong to withdraw too hastily from our aid obligations in support of PNG. These are obligations that extend from the days of colonial administration and particularly from the failure of successive Australian Governments to prepare Papua New Guinea sufficiently for independence. Low standards of education and health remain as a legacy to that neglect and one that continues to retard Papua New Guinea's development.

The Committee therefore believes that Papua New Guinea is in a crucial stage of its development and that the next ten to fifteen years will be vital in seeing the benefits of the rich resources of the country successfully applied to infrastructure and other developments. For this reason the Committee believes that aid must be maintained at nominal levels for the next five years. Furthermore, there should be no automatic formula for the reduction of aid by the year 2005 and only significantly higher than expected returns from resources should alter such an arrangement. Furthermore, no such changes should occur without adequate consultation with PNG or planning time.

The Committee received a large number of recommendations urging changes to the Development Cooperation Program. The Government has already initiated some changes but the Committee believes that the current proposals should be modified. The key recommendations on aid

are as follows:

The Committee recommends that budget support should be replaced by program aid, supported where necessary by project aid.

The move from budget support to program and project aid should be undertaken as a matter of urgency, commencing in 1993 or as soon as possible thereafter. During the transition there should be a mix of budget support and program and project aid, with the former being phased out by the end of 1998.

Given that negotiating projects and programs involves great administrative complexity and absorbs large amounts of scarce, high level managerial capacity, the Committee recognises that there may be delays in the implementation of this recommendation. If that occurs, the total level of aid should be maintained through continuing budget support.

The choice of program areas (designated programs) should be based on sound long term economic and social policies and be determined after close consultation between Australia and Papua New Guinea.

It is important to explain what we mean by this system of program aid. If aid is to be maintained, it should also be targeted more efficiently to areas of need. Present negotiations seem set to convert the existing budget support into project aid. The Committee does not believe that it is realistic to maintain nominal aid levels and at the same time convert this successfully into projects. Projects have a long lead time, are administratively complex and require high level managerial capacity. The Committee instead supports a system of program aid. Program aid is defined as the funding of a sector such as the education sector with a view to meeting predetermined objectives in a given period of time. It is a form of aid that would have definite goals; that would be monitored each year; that would involve Non-government Organisations; that

might encompass projects within the target area; and that would involve long term funding commitment additional to and not a substitute for normal Papua New Guinea funding of the sector in question. The Committee believes that this last factor is most important if there are to be improvements in Papua New Guinea's infrastructure. The process of consultation between the Papua New Guinea and Australian Governments will also be a vital factor in the success of this system, particularly in ensuring that the targets are met and that the process remains within the power of the PNG Government.

Much media attention is given to security issues in Papua New Guinea. The evidence put before the inquiry certainly confirmed that the problem is serious. It is a twofold issue. There is lawlessness and violence in the towns and villages which creates fear and inhibits development and there is the movement on Bougainville for secession, perhaps the most destabilising and intractable problem Papua New Guinea faces. Both these problems have focused attention on the weaknesses within the defence and police forces - the need for better training, more discipline, an understanding of the need to protect human rights in dealing with civil disorder or disputes. These questions have prompted a review of expenditure on defence generally. The Committee understands the decision of the Papua New Guinea Government to rationalise its expenditure on security through joint training, joint logistics and more cooperative arrangements for the use of personnel. There is the difficulty a small nation has in finding adequate funding for the training and equipment of two separate forces. However, there are dangers in the merging of the two functions of domestic policing and external defence and the Committee believes that these dangers need to be addressed by the Defence Cooperation

Program. There is scope within the training offered by Australia for some stress on humanitarian law and civic duties.

Bougainville, in particular, has revealed the problems Papua New Guinea faces in the future - problems of maintaining national integrity, problems of the recognition and satisfaction of the nationalist aspirations of groups within the country, problems of investment and resource development, problems of land ownership and compensation. The isolation of Bougainville has gone on too long. Too little is known about the real cost in terms of human suffering and loss of life over the last two years. Too little effort seems to have been made to find a solution, to get talks started and to stop the blockade. The Committee believes the Australian Government could and must do more despite the reservations expressed by various witnesses who saw Australian involvement precluded by its defence arrangements and commercial interests.

The report also argues strongly that the time has come to pay closer attention to the cultural and social aspects of the relationship which have become sadly neglected.

It is paradoxical that a neighbour so geographically close to Australia, whose historical connections with Australia have been so vital, should be so little known by the majority of Australians. There is scope for a vast improvement in the cultural, educational and sporting exchanges between the two countries and for the development and 'normalisation' of the relationship beyond one tinged by the dependency of aid. In this report the Committee recommends a strengthening of the people to people arrangements and believes that this will have a beneficial effect

on both countries. Since World War 11 Australia has discovered the worth of cultural enrichment from the immigration program. Our relationship with Papua New Guinea offers us the opportunity to share in the development of a diverse and dynamic people.

In conclusion, this report recognises the many strengths that exist in the relationship between Australia and Papua New Guinea - a formal relationship government to government that rests on regular consultation and review. However, there is scope for an expansion of the informal connections, the educational, cultural and social exchanges. We are urging a wholesale transformation of the aid relationship and many other things. In all there are 56 recommendations.

I am extremely gratified by the fact that, with the exception of one minor dissent, this report has been unanimously adopted by both the Foreign Affairs Sub-Committee and the full committee of the Joint Committee on Foreign Affairs, Defence and Trade, representing all parties. I would strongly urge the Government to move towards implementing the key recommendations as soon as possible. The report contains a large amount of important information about the situation in Papua New Guinea and Australia's responses to it. The efforts of the Secretariat, especially Margaret Swieringa and Judy Middlebrook have been magnificent and I wish to thank them, our consultants, Rowan Callick and Matthew Neuhaus, very much. Finally, let me thank my colleagues on the Foreign Affairs Committee for the many hours they put into this report and for their cooperation in reaching agreement on the critical issues concerning our relationship with our closest neighbour.