

Address to the Lowy Institute for International Policy, Sydney - Resetting the Relationship: The future of Australian engagement with Papua New Guinea

Wednesday, 27 July 2011

Your Excellencies, distinguished guests, ladies and gentlemen.

I am delighted that High Commissioner Charles Lepani is here this evening. He is a good friend of Australia and works tirelessly to improve awareness and understanding of PNG amongst Australians, as well as build the people to people connections that are important to a healthy bilateral relationship.

Papua New Guinea is an enormously complex nation.

It is regarded as the most linguistically diverse country on earth with more than 800 languages spoken by its 6.5 million citizens, with over 80 per cent of its population existing on subsistence farming.

Development in Papua New Guinea is in part hostage to its geography.

Many of its local communities are some of the most remote and inaccessible in the world.

As a country, it is less urbanised than all others, except Burundi.

The reality of this was brought home during my recent trip to Papua New Guinea, during which I had the opportunity to visit the first LNG project in the country currently under construction in the Southern Highlands.

The partners in this \$15 billion project include Exxon Mobil as operator, Oil Search, Santos and the PNG Government.

We flew into Moro, and were required to take helicopters to reach the deepest parts of the Highlands region – the usual mode of transport for people, equipment and supplies connected with the LNG project.

It is a land of unbelievable beauty with impressive mountains and cliff faces rising up out of dense lush rainforest.

Wild rivers wind their way through deep, rugged gorges.

The sheer logistics of constructing massive LNG facilities in this remote and seemingly untouched location must be a nightmare.

Yet, I had asked an Exxon representative how the project would rate in terms of difficulties, compared with other similar projects in developing countries around the world, with a score of 1 being easy and a score of 10 being extremely difficult.

Interestingly he gave this project a very positive score of two from the location and logistical perspective, but a score of nine for the social and cultural challenges.

In other words, the mammoth task of constructing conditioning plants, production facilities, airstrips, roads, accommodation camps for thousands of workers, as well as a 750 km pipeline across the mountains and a 400 km seabed pipeline to Port Moresby, was relatively manageable compared with the task of managing the demands, fears, grievances and expectations of the landowners and local villagers.

It must also be noted that it is a land where geography and limited state capacity have combined to ensure that government services and infrastructure are noticeable mainly for their absence.

This pretty well sums up the two sides to the Papua New Guinea story.

On the one hand, Papua New Guinea is at an important juncture in its development.

It is on the verge of a mining and resource boom that should generate massive foreign exchange inflows with the potential to radically alter the course of its economic and social development.

With the number of large mineral resource projects soon to come online, there is a sense of optimism and expectation that a new beginning for the country is just around the corner.

If current forecasts are realised, the mining and resource projects, planned and underway, will more than double the size of the PNG economy within a decade.

While there has been over 20 years of mineral exploration in the country, the PNG LNG project alone is expected to double the country's gross domestic product and triple its exports.

It is the largest private sector investment ever undertaken in Papua New Guinea and is expected to produce over nine trillion cubic feet of gas over the course of its life.

The first deliveries of LNG are scheduled to take place in 2014. Supply contracts have already been signed with key buyers in Japan, Korea and China.

According to an economic impact study by ACIL Tasman, the project:

"has the potential to transform the economy of Papua New Guinea, boosting GDP and export earnings, providing a major increase in government revenue, royalty payments to landowners, creating employment opportunities during construction and operation, and providing a catalyst to further gas-based industry development."

The sheer size of this project can be gauged by the fact that PNG's gross domestic product will rise in real terms from 8.65 billion Kina in 2006 to an average of 18.2 billion Kina.

With the economy predicted to grow by over 8 per cent, there is a lot to be excited about over PNG's economic performance.

The current period of economic growth – the longest since Independence – has had a beneficial effect on the country's poverty levels, which are estimated to have declined by more than 8 per cent between 2003 and 2008.

That is one side of the PNG story.

On the other hand, enormous social development challenges still exist.

Currently ranked 137th out of 169 countries on the United Nations Human Development Index, Papua New Guinea faces significant challenges, with high poverty rates, poor life expectancy and high infant and maternal mortality.

The population is increasing at 2.7 per cent per year.

Unemployment is high and civil unrest is growing.

According to the World Bank, gross national income in PNG in 2007 – when measured for purchasing power parity – was \$1,870.

This placed it second last in a list of select East Asia and Pacific economies, only slightly in front of Cambodia.

It ranked the lowest in terms of life expectancy at birth and access to an improved water source.

According to the Asian Development Bank, only one in ten Papuan New Guineans have access to electricity.

In 2010, the average time spent attending school in PNG was 4.3 years.

According to AusAID, *“PNG is unlikely to achieve any of the Millennium Development Goals by 2015”*.

Outside the urban centres where government capacity is more pronounced, it is in the remote and regional areas that the effects of poverty are felt most heavily.

Extending government services and infrastructure beyond urban centres must be one of the biggest challenges facing PNG if poverty is to be reduced and living standards improved.

This is particularly important if improvements are to be achieved in child and maternal health, because according to figures published by the World Health Organization, 86 per cent of births occurred in rural areas in 2006.

While progress has been achieved in combating the spread of HIV/AIDS, much more work still needs to be done.

The prevalence rate in PNG currently stands around 1 per cent.

However, such was the initial concern at its growing prevalence that parallels were drawn with countries in sub-Saharan Africa, where the disease is rife.

Papua New Guinea also faces the difficult task of strengthening its institutions and levels of good governance.

While the PNG LNG project will bring huge benefits for Papua New Guinea, it also presents a unique set of challenges that will test the institutional capacity of the government.

The dangers of “Dutch disease” are well known to countries with a dominant energy and mineral resource sector.

Papua New Guinea’s reliance on export earnings from its energy and mineral resources leaves it vulnerable to a potential downturn in the global economy or international commodity prices.

The 2009 PNG Budget papers for example, foreshadowed a 25 per cent decline in domestic tax revenues brought about by the Global Financial Crisis.

Promoting growth in other sectors of the economy is therefore crucial. This means reinvesting earnings of its mining boom back into the economy, in the form of increased recurrent and development expenditure.

With revenues flooding in, there is also the concern that political will for further reform in other areas will falter.

As Aaron Batten has written for the East Asia Forum, *“those provinces which have recorded the largest earnings from resource extraction have been plagued by the weakest governance, the poorest levels of service delivery and in many cases violence.”*

Strong fiscal management will be required to control the effects of the booming resource sector, as further upward pressure is placed on already high inflation levels.

Inflation has the negative effect of driving up the cost of essential household staples, making it harder for individuals and families to escape the poverty trap.

A rising currency also damages the competitiveness of local exports, such as in the cash-crop sector, making it more difficult for growers to participate in, and benefit from, the global economy.

Reducing this pressure through the creation of sovereign wealth funds is a positive step.

As the past has shown us however, these funds must be properly managed.

Given the expected sharp rise in the country's income, with the potential to increase imports, decrease exports and affect the non-resource sector, it was apparent from my discussions with PNG officials that they are anxious to avoid the symptoms of “Dutch disease”.

It is encouraging that the PNG Government has set up a joint Treasury-Bank of PNG working group to consider options for the establishment of a sovereign wealth fund to manage the expected large revenues generated by the LNG project.

The lessons from the 1990s mineral boom are harsh.

The increased export earnings at that time caused the exchange rate to appreciate.

The large incomes earned by the workers, the landowners and the government led to a consumption boom and inflation spike.

Mismanagement, waste, corruption, excessive spending and a collapse in commodity prices all combined to deny PNG the long term benefits that should have been derived from that boom.

Sectors of the economy including agriculture are still recovering from the negative effects.

There is a current debate as to whether the sovereign wealth funds will be established onshore or offshore but I understand that the Government has decided there will be three integrated and coordinated funds – a stabilisation fund, an infrastructure fund and a future generations (savings) fund.

An ever present challenge is the Wantok system, which acts as a social security safety net where people are obliged to support their relatives and tribal groups.

I met Dame Carol Kidu the Queensland born wife of the late PNG Chief Justice Sir Buri Kidu, a delightful woman and deeply committed to PNG.

She married and moved to PNG in the late 1960s.

After Sir Buri's death, Dame Carol was elected to parliament in 1997 and is currently the only female member of the PNG parliament.

We discussed the challenge of a work-life balance for busy MPs but she put it all in perspective as she explained that she supports many of her late husband's relatives, and as a matter of routine, arrives home from a busy day in her electorate to cook an evening dinner for 20 or more.

The Wantok system is ingrained in PNG society but there is a need to build understanding that it cannot be used as an excuse for corruption or abuse of power.

Next year's election will be a test for the PNG. With the ill health of Sir Michael Somare, there is an increased level of uncertainty surrounding the outcome.

While the Coalition is aware of the many challenges facing PNG, we are confident that they can be overcome.

From my perspective, our relationship with Papua and New Guinea must be one of our highest foreign policy priorities.

Australia and Papua New Guinea do enjoy a special relationship.

Bound together by the closeness of our shores and united by history, the destinies of our two countries are tightly connected.

As Papua New Guinea prepares to enter this unique period in its history, the Coalition believes that Australia must stand firmly alongside the PNG Government and its people in their efforts to fulfil the country's immense potential and lay claim to its rightful status as a natural leader in the Pacific Ocean region.

I believe that we should look to PNG to place a greater investment in its own development and uphold standards of good governance and accountability.

On the international stage, I believe that Australia should work more closely with the PNG Government as stakeholders in the region to promote stability and foster greater levels of prosperity.

During my visit I met with the recently appointed Foreign Minister Ano Pala – which turned out to be his first diplomatic meeting with an overseas representative.

He has a long-standing love of Australia and even trained with Hawthorn AFL Club as a 17-year-old.

He rightly describes Australia and PNG as permanent partners.

It must be a partnership founded on mutual respect and shared benefits.

A Coalition government will strive to reset the relationship based on an economic and strategic partnership rather than aid donor and recipient.

It is time to leave behind notions from past eras in our relationship.

Like all relationships, we have experienced our share of highs and lows.

The point is not whether we have our differences, but how we manage them that matters.

At these times, we must avoid any tendency to revert to old labels and stereotypes which undermines our ability to further strengthen our ties.

There must be a firm focus on self sufficiency rather than aid dependency.

In the same way that PNG is entering a unique period in its development, we are approaching a turning point in our bilateral relationship.

Australia's development assistance to Papua New Guinea, estimated to be \$482 million in 2011-12, has declined as percentage of PNG's GDP over the years.

With the revenue from resource projects set to boost its economy even further, Australian aid will play a comparatively lesser role in PNG's development.

The Coalition supports the current focus of Australia's development assistance on the crucial areas of health and education.

We believe that as the PNG Government takes on a larger role in the delivery of services and conditions improve, Australian assistance should progressively be directed towards areas that will help facilitate economic growth.

The former Howard Government recognised this crucial connection between economic growth and poverty reduction.

Training the workforce is a major priority and Australia is playing a part, with support for the education system more broadly, but more particularly with the establishment in mid 2007 of the Australia-Pacific Technical College.

An initiative of the Howard Government, the Technical College, with locations in Port Moresby as well as other Pacific Islands, offers students the opportunity to gain Australian standard skills and qualifications, including in the automotive, manufacturing, construction and electrical trades,

I met with a number of the students during my visit, and they were very keen to be among the many thousands who will be employed on PNG resource projects.

In 2007, the Howard Government established the Enterprise Challenge Fund for the Pacific and South East Asia to provide grants to small businesses that had viable commercial projects with demonstrable benefits to the community.

The Enterprise Challenge Fund aimed to stimulate growth and employment opportunities, and ensure that the most disadvantaged members of society had an opportunity to participate in the economy.

I visited a small business in Port Moresby which used a grant from the Enterprise Challenge Fund to purchase processing equipment from India, and you can now buy various products at gourmet stores in Sydney, including coffee beans, vanilla pods, and cinnamon sticks, among other things.

It was building up a successful export business and the benefits from the grant have flowed on to the hundreds of growers and their families that the small business directly supports.

The Asian Development Bank and the International Finance Corporation are also working in this space to promote growth and expand access to financial services.

Resource projects are providing opportunities for small and medium businesses to increase their production and distribution.

Providing access to capital is ultimately a job for the private sector, however our aid program can fill a gap as the business sector matures.

Further, I believe Australia should redouble its efforts to negotiate the Pacific Agreement for Closer Economy Relations, otherwise known as PACER Plus.

This agreement presents a significant opportunity for Australia and Pacific Island countries to cement a closer economic relationship that will promote economic growth, open up markets, provide employment and raise standards of living.

The Institute for International Trade states that PACER Plus could also address barriers to economic integration, promote public and private sector investment and build capacity in trade-related areas.

While trade liberalisation is never easy, the results are worth it.

This also applies to the telecommunications sector in PNG.

In its submission to a Senate Committee inquiry on the Economic Challenges facing Papua New Guinea and the island states of the southwest pacific, the Department of Foreign Affairs and Trade stated that the liberalisation of the mobile phone market had *“expanded coverage and reduced consumer prices significantly, providing a boost to small business”*.

Creating an environment that is capable of sustaining long-term economic growth is vital to Papua New Guinea with its young population and high birth rate.

Moving our relationship from a development to an economic focus will require action by the PNG Government to strengthen business conditions in the country.

In areas where Australian help is still needed to provide service delivery, we must find better ways to do it.

We should better recognise the work that the private sector plays in overseas development.

The role of public private partnerships features strongly in the US development program.

According to USAID, the successful implementation of activities often requires expertise in marketing, recruiting, training, logistics, manufacturing, and policy and advocacy, *“Because these are core competencies in business many companies have personnel who excel in these areas”*.

The energy and mineral resource companies in PNG are already active participants in the development area.

These companies have provided new infrastructure, roads and bridges, that otherwise would not exist.

Oil Search for example is reaching out to local villages, providing them with services such as school, as well as basic medical facilities and clinics raising awareness of HIV/AIDS.

If the United Nations Millennium Development Goals are to be realised in PNG, these companies will continue to play an important role.

Their networks are not only more efficient than the government, they reach further into the country where living conditions are at their lowest.

The success of their outreach programs has been acknowledged by the international aid community.

In 2010 for example, Oil Search was nominated by the Global Fund to Fight AIDS, Tuberculosis and Malaria, as a Principal Recipient for its program in PNG.

Other avenues outside government channels, such as churches, local community groups and non-government organisations, must also be leveraged.

Churches already provide health care and education services in PNG.

The Coalition has in the past been highly critical of the Australian Government's reliance on technical assistance.

According to a review by the Australian National Audit Office in 2009, Australia spent nearly double the proportion of its development assistance on consultants compared to the OECD average.

Evidence before the 2010 Review of the PNG-Australia Development Cooperation Treaty, suggested *"that the capacity building through advisers model is not working."*

This assistance has dismayed many people in PNG with reports of excessive salaries for consultants being seen as 'boomerang aid'. I note that while the Australian government has taken steps to reduce the number of consultants there is a need for skills and expertise in governance and administration to be institutionalised.

From my meetings in PNG, it was clear that there is support for the continuation of the Strongim Gavman Program, which has been credited with achieving reform and improved levels of governance in key areas such as treasury and finance.

This initiative grew out of the Enhanced Cooperation Program initiated by the former Howard Government.

This process should be strengthened further, with Australian funds used to support placement opportunities for select Papua New Guineans in all levels of government in Australia.

Increased opportunity for twinning would improve the transfer of knowledge and skills that are needed in areas such as basic service delivery, research and policy formation, and public service management.

With an improving economy, PNG will have an opportunity to better equip its defence forces. Australia must be alert to ensuring that it remains the defence partner of choice.

As each year passes, Australia loses part of a generation of people with a deep knowledge and connection to PNG from its pre-independence days.

Australia and PNG must work to build a new generation of networks that will carry our relationship forward.

This includes building relationships with current and future leaders in government, in business and the community.

This must be driven from the highest levels of the Australian Government.

Another possible area of closer collaboration is sport.

Like Australia, sport cuts across cultural, social and geographic barriers.

Rugby League in particular has achieved an almost religious status.

Time and time again I was struck by the influence of Queensland's rugby league stars – from young boys throughout the Southern Highlands wearing maroon jerseys to the extensive coverage in local newspapers – it was overwhelming.

When I mentioned to some local journalists at a dinner in Port Moresby hosted by our High Commissioner that perhaps we should reinstate the International Schoolboy Rugby League competition, I opened up a fierce debate about how soon PNG could have a team in the NRL.

I met with the manager of a huge construction company who related how his 2000 workers refused to go back to work on the day of a visit to the site by Mal Meninga, such was their determination to see and hopefully touch their idol.

I was told by astute observers of PNG culture that the rugby league State of Origin Series in particular has the power to unite the nation like no other issue.

A deeply tribal country with its 800 languages, where family and tribe loyalty comes first and last, it seems the people of PNG are at one in their love of rugby league.

It was reported to me that when PNG trialled a preferential voting system, voting slips bearing the faces of Queensland icons, Mal Meninga, Wally Lewis and Darren Lockyer, were used as the mock candidates, rather than local politicians, to be sure of a strong voter turnout for the test run.

Some people were reportedly deeply disappointed to find that they had not in fact voted in Meninga as national leader.

I think that we should harness that immense goodwill and develop a sport and diplomacy initiative within the Department of Foreign Affairs and Trade.

Opening up new opportunities for dialogue and increasing the level of trust between our two nations will be important as we deal with issues that are likely to emerge in the coming years.

One such issue will be the referendum on Bougainville's future to be held at a time between 2015 and 2020.

The Coalition strongly supports ongoing dialogue between the PNG Government and the Autonomous Region of Bougainville and stands ready to assist in anyway possible to ensure that goodwill is maintained.

As permanent partners and close friends, Australia must be committed to helping the people of PNG along the road to a more sustainable and prosperous future.

With its economy expected to grow sharply in the coming years, PNG is well positioned to take hold of its destiny.

This will require strong leadership and an unrelenting determination on the part the PNG government to succeed.

The Coalition is confident that PNG has the potential to make this transformation.

Under the Coalition policy of appointing a Minister for International Development Assistance, I expect that PNG will be the primary focus for that Ministry as we use development assistance and access to our markets to expand opportunities for growth and employment.

Ultimately, it will be our actions not our words, that will demonstrate beyond doubt that Papua New Guinea is one of Australia's top foreign policy priorities.

I thank the Lowy Institute for the opportunity to speak this evening about resetting our relationship with Papua New Guinea so that the people of our two countries believe that we are equal partners in a joint destiny.