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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

**Reference: Australia's relationship with Papua New Guinea and Pacific island
nations**

TUESDAY, 18 FEBRUARY 2003

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Tuesday, 18 February 2003

Members: Senator Cook (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Johnston, Marshall and Ridgeway

Participating members: Senators Abetz, Bartlett, Boswell, Brandis, Carr, Chapman, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Knowles, Lightfoot, Mackay, Mason, McGauran, Murphy, Nettle, Payne, Tchen, Tierney and Watson

Senators in attendance: Senators Cook and Marshall

Terms of reference for the inquiry:

To inquire into and report on:

Australia's relationship with Papua New Guinea and the island states of the south-west Pacific (known as Oceania or the South Pacific), with particular reference to:

- (a) the current state of political relations between regional states and Australia and New Zealand;
- (b) economic relations, including trade, tourism and investment;
- (c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- (d) the implications for Australia of political, economic and security developments in the region.

WITNESSES

DORNEY, Mr Sean Christopher (Private capacity) 154
HUNT, Dr Colin Anthony Gerald (Private capacity)..... 178
PITTS, Ms Maxine Patricia (Private capacity)..... 166
STOCKER, Dr Geoffrey Charles (Private capacity)..... 178

Committee met at 9.03 a.m.

CHAIR—I declare open this meeting of the Senate Foreign Affairs Defence and Trade References Committee. Today is the third of the committee's public hearings into Australia's relationship with Papua New Guinea and a number of Pacific Island countries. The terms of reference set by the Senate are available from secretariat staff. Copies of submissions from today's witnesses that have been published by the committee are also available. Today's hearing is open to the public. This could change if the committee decides to take any evidence in private.

Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege. It is important for witnesses to be aware that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. If at any stage a witness wishes to give part of their evidence in camera, they should make that request to me as chair and the committee will consider that request. Should a witness expect to present evidence to the committee that reflects adversely on a person, the witness should give consideration to that evidence being given in camera. The committee is obliged to draw to the attention of a person any evidence which, in the committee's view, reflects adversely on that person, and to offer that person an opportunity to respond. Witnesses will be invited to make a brief opening statement to the committee before the committee embarks on its questions.

DORNEY, Mr Sean Christopher (Private capacity)

CHAIR—Welcome, Mr Dorney. Do you wish to make a brief opening statement, as the standing orders enable you to do?

Mr Dorney—Yes. I do not have anything in writing. I did not make a formal presentation to the Senate committee, but I was invited to come along here. I think that is partly because of the fact that I have had a bit of an association with Papua New Guinea and the South Pacific. For 17 years I was the ABC correspondent based in Port Moresby. My current job is covering all the island nations of the Pacific, except Papua New Guinea, for Radio Australia and the ABC. So in the last year or two I have spent quite a bit of time out in the Pacific, especially in our most troubled little neighbour, the Solomon Islands.

I want to say two or three things. One is that I think there is a deplorable lack of knowledge in Australia about Papua New Guinea and the Pacific islands. If it is within the ambit of the Senate committee, some recommendation that education departments around Australia should devote a bit more effort to educating young people about where we actually live in the world would be a positive thing.

Graeme Dobell, a colleague of mine, has just delivered a very interesting address—I checked with the committee staff, and they do have a copy of it—in which he has a good look at this whole relationship of Australia to the South Pacific and he makes some very interesting recommendations. One is that we should look at a Pacific worker scheme. One of the problems we have with a lot of these countries in the Pacific is that we are seen to have a huge great wall preventing Pacific islanders, especially from Melanesia, from coming into Australia. When I was travelling with Alexander Downer on his pre-Christmas visit, I was prompted by a Vanuatu journalist to pose to Mr Downer the question as to whether the subject of ni-Vanuatu people getting work attachments in Australia had been raised. It had been, and Mr Downer surprised me by saying that he was quite amenable to the idea of some sort of guest worker scheme. If Australia moved that way, it would do a lot to help our relations with a lot of these island countries, especially in Melanesia.

Another thing that Dobell suggested in his address was that we have been left behind a little by the European Union, which has managed to convince the island countries to set up a free trade area. It is something that our officials opposed almost all along the line. What Dobell has suggested—and it is what we should be looking at—is a sort of mini European Union in the Pacific headed up by Australia.

CHAIR—A European Union and—

Mr Dorney—The European Union encouraged the nations of the South Pacific, if they were to get aid from the EU, to set up a Pacific Islands free trade area. It is something that Australia was not too keen on, discouraged actively for a few years but eventually agreed on. There are two agreements now that have been set up. One is the Pacific Islands free trade agreement; the other one is an overarching relationship that links those 14 island countries to Australia and New Zealand, called PACTRA. I am saying that we stood against it for quite a while until finally agreeing with it, and it was something that the European Union encouraged. There are

not a lot of advantages in the current free trade agreement for the island countries, but they have been forced into it. What he argues here is that perhaps we should be thinking a little more broadly and going into an economic relationship that even adopts a single currency for the Pacific.

There is a constant problem with the aid program, especially in relation to Papua New Guinea, where you hear allegations all the time that too much money comes back into Australia. Sir Michael Somare said this last week here in Brisbane, when he addressed a Papua New Guinea business update. It is a refrain that I kept hearing the entire time I was in Papua New Guinea. It is a real problem that so much of the Australian program depends upon hiring consultants, not all of whom have a great understanding of where they are working. I am open for questions.

CHAIR—I will ask a couple of fairly basic questions first of all. I have not done the sums, but in your keynote address to the JEA conference, Journalism Education Futures, in December 2000 I think you set out the relevant information. How long have you been covering PNG and the Pacific for the ABC?

Mr Dorney—I first went to PNG in 1974, the year before independence, but that was on secondment to the National Broadcasting Commission, which we had just established. I came back after three years. I went back in 1979 as the ABC correspondent. I was there for five years, was deported in 1984, went off to the Northern Territory for a while and then went back to PNG in 1987.

CHAIR—You were decorated, I think.

Mr Dorney—Yes. In 1991 Rabbie Namiliu gave me an MBE, but at the presentation ceremony at Government House they got all the papers mixed up and I was given an OBE, which I then had to give back in the end in exchange for an MBE. It was very Melanesian.

CHAIR—I have lost track of imperial honours. I do not know whether an OBE outranks an MBE. Does it?

Mr Dorney—Yes. The OBE is the next one up. I had a photo taken with the OBE on before I handed it back.

CHAIR—That is roughly 30 years you have been reporting—off and on, but mostly on—the events in this area. Is there some sort of snapshot you can give us of what it was like 30 years ago compared to now? I ask you this question because, having read a lot of the submissions from people who have put their views before us—some academic, some working in aid agencies, some working in non-government organisations, and so forth—the impression you could gain is that now the whole region, apart from perhaps one or two places, is economically devastated and the standard of living is going south. That may be true currently, but over the 30 years that you have reported events in this area, has the standard of living, the quality of life, the degree of responsible government been improving—albeit not as fast as one would like? Or has it been stationary or gone backwards? What reflections can you offer us on that subject?

Mr Dorney—You have to compartmentalise everything because everywhere is not the same. I will start with Papua New Guinea. Things at the moment in Papua New Guinea are definitely

not on the up and up. But I think there is a bit of nostalgia about Australia's view of how wonderful things were at independence. We had introduced an education system but we did not take education really seriously in Papua New Guinea until the sixties and we did not set up a university there until the end of the sixties. When Papua New Guinea got to independence, although those in education were probably getting a good education, it was not as broad as it is now. Papua New Guinea has extended its education system far beyond what we left behind.

I think that sometimes we get this feeling that we did such a wonderful job and they have gone and bugged it up. The reality is that Australia started in Papua New Guinea after the Second World War from a zero base and it did not do a lot. I do not think anyone would profess that things in Papua New Guinea now are better than they were at the time of independence. Certainly, the urban crime situation is a lot worse. I can remember when I was first up there in 1974 one of the Australians complaining to me about the state of crime then and saying how much better it had been when all these natives had to have certificates to be allowed out after dark.

CHAIR—In their own country.

Mr Dorney—Yes. There was the sign on Ella Beach, I think, till fairly late that said 'No natives or dogs allowed'.

CHAIR—We should not be too superior about this, because in my home state of Western Australia in the 1950s Australian Aborigines had to have passes to move around Perth if they were from the country.

Mr Dorney—It is hard to answer the question in detail, but there have been enormous setbacks in lots of areas in PNG.

CHAIR—I am not looking for a detailed answer. If I were, I would have probably given you notice of it so you could have thought about it. What we lack—or at least what I lack—is some sort of context and proportion of the problem we are looking at now compared with performance in the past. Let me just give you an insight into what I might want to do in this report, subject to the will of the rest of the committee, of course. Using recognised developing country benchmarks, I want to try and benchmark the economic and social progress of some of the island countries and PNG and ask the Senate to keep coming back to this subject—if you like, to do a regular audit of progress so that we can hold Australian policy against some sort of framework to see whether our policies are making a difference or not. In that way, the Senate could offer, hopefully, informed commentary to the government and to the parliament about where the weaknesses might be and we could have a more informed debate.

That approach appeals to me as a sensible one. Some of my colleagues might have a different view. I do not know, but we will find out when we come to discuss it as a committee. For the sake of this discussion this morning, you have said that, generally, with respect to PNG, crime is worse now than it was before and that many Australians may be labouring under the wrong impression that we were benevolent and benign—maybe patronising colonialists, but colonialists who nonetheless had a good influence and were there for the better—and now, having left it to the locals, things have gone to wrack and ruin. How would you characterise the standard of living now compared to when you first started to report? Has it gone up or down?

Are there more unemployed? Are there more difficulties being faced in the economy, do you think, or what?

Mr Dorney—When looking at these countries in Melanesia, you have to understand that most of the people still live in the village and most of the people still rely for their food on subsistence agriculture. That is a terrific bed of security, actually—the fact that economic collapse as we see it does not lead to the poverty that we would envisage here. One of the things that we did right in Papua New Guinea was not dispossess them of the land. So there is this ability to go back to the village and live in the village.

I will give you an example from my wife's village on Manus. Things there have not been on a single trajectory. When Stephen Pokawin was Premier of Manus—I think he is now chief of staff of Somare's office, having lost his seat in the elections—there was a definite turnaround in things like education and health services. We get back to the village as often as we can, which is about every four or five years, and there was a distinct improvement in the health services that were provided in the village about four or five years ago when Pokawin was Premier there. The aid centre was well stocked; my wife's uncle could always get an injection when he needed one for some condition that he had. So it is not a total downward trend. There are instances where things have been turned around, at least for a while, in some places. There is talk of disaster, gloom and everything collapsing, but you have to understand that there is this informal, or unregistered, economy that keeps rolling along and feeding people. But, at that upper level where there is trade, commerce and whatever as we understand it, I think things are much more gloomy than they were.

CHAIR—Regarding the Manus Island example, when things improved under the premiership of this person you have mentioned, one of the questions you have to ask yourself when looking at a subsistence economy from a classical economic point of view is this: where is the tax base from which you can gather taxes and provide centralised services like health and education? Was the improvement in health and education services on Manus due to a change in revenue or due to a different organisational structure being adopted?

Mr Dorney—It is a really complex subject, but I think one of the things that led to general improvements there was the quality of the man at the top. A Westminster democracy is not an easy transplant into PNG. What Pokawin did in Manus, for a while, was do away with having a government and an opposition. He got the entire province to elect the premier separately; then all the members who represented particular districts were put into committees and the chairman of each committee was made a minister in the government. You had a very cooperative parliamentary system where everyone was part of the government. That made significant advances in the way Manus was run for a while. It was not a system that anyone anywhere else was able to adopt. That is one of the difficulties you have in PNG. Everywhere is so different from everywhere else. I do not think such a system would have been possible in, for instance, Enga in the highlands. But, in the particular instance of Manus, the smallest province of PNG, that was a very innovative and interesting way to get around this problem of revolving governments that afflicts Melanesia. However, I do not know how much we can recommend changing the internal politics of other places.

CHAIR—No. It is a sovereign country; that is the point. From what you are saying, I suppose that a step towards being more efficient in the delivery of what you might call 21st century services, like health and education, that underpin further development was to create a

sense of pulling together and unity, building on tribal associations or community aspirations as a whole rather than a parliamentary system that created a classic government and opposition. Was there any additional funding? Was it a matter of simply reorganising the services so that they were more efficient? Was there less graft in the system? How were they able to deliver more effective services at the end of this?

Mr Dorney—I think less graft. Having people who actually knew what their aims were was, I think, quite a bit of a breakthrough. The Manus government, prior to Pokawin taking over, was one of the worst run in the country; I think something like two or three premiers ended up in jail. A hell of a lot depends on the individuals.

Sorry to divert for a second, but on that aid issue, I was discussing this with my wife last night. She is passionate about these things. She thinks that all of Australian aid should go into health and education, and nothing else. I said to her, 'The problem with that, as I see it, is that the more money you push into health and education, the less the Papua New Guinea government feels responsible for those areas.' She said, 'They are not responsible now. There is not enough money being provided by the national government.' I thought I would mention that because it flicked across my brain as we were talking.

In terms of getting Papua New Guinea out of its current cycle of inability to govern itself, I think there are certain things that need to happen. Makere Morauta started the process to try and bring a bit more discipline to the way the national parliament operates. There is a huge argument in favour of electoral reform. The common rolls need to be sorted out for a start. There has to be some way of making sure that people who vote are actually registered and people who vote only vote once. I was up there for the elections last year and the situation in most of those provinces in the highlands was just a joke.

Senator MARSHALL—Can I ask you about that? A number of students came and made submissions to us and basically warned us against applying Western democratic values to the village system—which was something you touched on earlier—on the basis that the villages would in fact meet through their own traditional democratic processes and determine who was going to get the votes. Sometimes that would be mixed. A person would then go and vote on behalf of the whole village, but they would vote the way the village had determined. If there were 20 people who wanted to vote for one candidate and three who wanted to vote for the other, the votes would in fact be cast that way. They were arguing quite strongly that that should not be seen by us as a form of electoral corruption and that this was just a natural, traditional and efficient way of voting for the village, because there are a lot of people in the villages who would be unable, in their view, to cast votes properly anyway. Is that the level of problem you are talking about—just the way we view that—or is it a much deeper problem?

Mr Dorney—There is no doubt that that is the way that things do operate in areas. But what I am talking about is not everyone deciding whether they will vote one way or another but ballot boxes being taken at gunpoint, hundreds and hundreds of ballot papers being filled out on behalf of 30 or 50 people, and those ballot papers all being stuffed into the ballot box and then taken back at gunpoint so no-one will hijack them. That is what was happening in the Southern Highlands. I do not think there is much that is traditional in that.

Senator MARSHALL—No. People were not suggesting that that was going on, actually. They were suggesting we were overstating the level of corruption because of some current

affairs programs that were actually building that up and showing the village traditional system of voting, and that was giving the whole thing a bad name. But you are saying that there definitely is serious electoral corruption.

Mr Dorney—Yes. One of the possible answers to that is what they are going to do anyway from the next elections on or from the next by-elections on. That is some sort of optional preferential system, which takes away this winner takes all problem that you have in Papua New Guinea. People will actually be able to go around and say, ‘I know you have traditional obligations to vote for your man but put me second,’ whereas at the moment you do everything to try and stop them voting because you know they are not going to vote for you.

Reform is gradually coming in that area, and it is going to be very interesting to see how the optional provincial system is received. In fact, they had that when we were there. The PNG parliament itself did away with it, saying that it was too complex. But that has proved to be one of the most disastrous decisions that they made at the time of independence.

Senator MARSHALL—It has also been put to us that the institutions are on the verge of collapse in PNG. I would think that the introduction of those sorts of reforms would need some strong institutional backing and some strong public sector control. Are the institutions capable of introducing those reforms and driving them home to success?

Mr Dorney—For instance, the electoral commission—just to talk about one institution—needs a lot of support and it needs somebody good to head it. The electoral commissioner, who is now facing a corruption inquiry, was there for 10 years or so. Anyone could have seen after the 1997 elections what a mess that was, and he was left in place. The 2002 elections were incredibly worse, even though we put a bit of effort into it. I think the Australian Electoral Commission put some people in there. In contrast to that, the elections that took place in December 2001 in the Solomons, where we sent up a couple of electoral officials, were remarkably good. I do not think the situation in Fiji, for instance, was one of widespread irregularities, despite Mahendra Chaudry’s claims. Relative to PNG, those two elections and the elections I went to in Vanuatu last year were all conducted very well.

Senator MARSHALL—Back on PNG, I am interested in the state of its institutions. A number of submissions say that all of our aid should be linked to good governance and that, if good governance cannot be demonstrated to our standard, aid should be withheld. If the institutions are not in a position and are not strong enough to actually apply that good governance, does the aid need to go into the institutions to bolster them first before we do that? It comes to the point that your wife was making: without the aid, some of the most basic necessities that apply to the every day lives of the citizens of PNG, such as health and education, may not be delivered. So simply applying aid to good governance, which then cannot be demonstrated and therefore aid disappears, will have a devastating effect on the ordinary citizens of PNG. Have you got anything to say about that? I just saw it as a very simplistic way of trying to force them to do something that they are not capable of doing, if the institutions are not capable of doing it.

Mr Dorney—We have been trying to institutionally strengthen the institution of the police force for quite a few years, and I still think there are question marks over how well we have done there. The whole aid issue and how we handle it is very difficult. I think we waste a lot of our aid. There was a comment I referred to in my book, which I think was made by Maev

O'Collins, that AusAID do not know the difference between accounting and accountability. I think the emphasis on a lot of our aid is that no money is misspent. And although we do set benchmarks about achievements and everything like that, the real emphasis is on making sure no money is misspent and no money is going into anybody's pocket, whereas the results do not show that the money has been spent well.

Senator MARSHALL—I would like to ask some more things, but I am happy to—

CHAIR—In order to make the best use of the time, there are a number of questions here that we want to cover for the background of the report. We could move through them pretty quickly; they are all fairly straightforward questions. Firstly, in a snapshot, can you tell us how Australia is perceived in PNG and then in the Pacific Islands? What is the perception on the ground?

Mr Dorney—That we are all migrants and very recent arrivals—that we have moved into Australia, taken it over from the Aborigines and now are pontificating to everyone about how they should behave. That is a very common view.

CHAIR—So we are sort of schoolmarmish?

Mr Dorney—Yes, I think there is a view that, 'You people have come from the other side of the world, you've taken somebody else's land and now you're setting yourselves up and preaching to everyone about good governance.' I think there is a very deep suspicion of Australia in the Pacific.

CHAIR—Does that go as far as resentment or is it just suspicion?

Mr Dorney—There are levels of resentment but—and this may sound exactly the opposite of what I have just said—you generally get a terrific welcome in the Pacific as an Australian. What I am talking about is this deep, underlying thing. The question is: how do they see us? I think they quite like us but they think we are Johnny-come-latelys as far as this part of the world is concerned and that it is a bit rich for us to be lecturing to them.

Senator MARSHALL—Is that attitude towards us getting worse or has it been a constant?

Mr Dorney—That is a good question. It is there. I think you would probably find that the harder things become, the angrier people are and the more likely they are to tell you to your face that they do not like you. So it could be well be coming to the surface a little more than it was.

CHAIR—There is a view in Australia that, since we are the major economic power in Oceania, if things go crook in this region of the world we are the ones who have to bear the economic responsibility for improving it. The Americans are occupied elsewhere, the Europeans have other interests and the Asians are building their own economy, so Australia has this region. Is that a view of Australia within the region—that we have a responsibility to the region?

Mr Dorney—I think so. I think there is certainly a belief there. A lot of these things are mixed and contrary to each other. You cannot say that there is one standard reaction to anything but, yes, Australia is seen as the economic giant and is looked to for lots of things. The elites in most of these countries come to Australia all the time. They send their kids to school here. The

Gold Coast is owned, to an interesting degree, by politicians and ex-politicians from some of the Pacific countries. I would think that we are seen to have a major role to play, although at the same time there is resentment tied up with that as well.

CHAIR—Could you say whether there is any distinction in the perceptions of Australia between Australia's political strategy for the area and our development assistance objectives?

Mr Dorney—I think our development assistance is very confused.

CHAIR—Would that be one of the major issues we ought to focus on—bringing some order out of what you have described as a confused set of objectives in development assistance?

Mr Dorney—One of the difficulties I have is that, along with a lot of people, I can see a lot of problems; I cannot see a lot of answers. I am sorry, could you just ask the question again?

CHAIR—It is a question of whether the political strategy adopted by the Australian government in terms of the Pacific, issues like the Pacific solution, our attendance at the Pacific island forum and maybe our attitude to the Kyoto protocol are seen as a 'job lot' with the development assistance we provide—'That's Australia; that's typical'—or do people actually have a more sophisticated nuanced view of Australia, separate those things out and see us in compartments, if you like?

Mr Dorney—I think there is a reasonably sophisticated view. I do not think that, because of Kyoto, we are seen not to care about anything else. There are nuances right through that. I do not think that we are seen as a job lot. This is almost beside the point, but not quite. When I was in Fiji just after the coups, the Fijians there were all barracking for Australia against New Zealand in the Bledisloe Cup matches.

CHAIR—That is something to do with rugby, isn't it?

Mr Dorney—It is, yes. One of the things that could well help our rugby ambitions is to allow more—

CHAIR—Both Senator Marshall and I are from AFL states, but go on.

Mr Dorney—Right. On another point, they are reasonably good at soccer in the Solomons—I think they just got beaten by Australia in the under-17s by a very narrow margin. The fellow who is running the Solomon Islands soccer training at the moment is an ex-Scot who lives much of his time here on the Sunshine Coast. He says that there are a whole range of young soccer players over there who are prevented from pursuing their careers in Australia, because we have a certain minimum level that people have to be paid before they can come here as sportsmen. He believes a nice little aid project for Australia would be to top up payments for small clubs in, say, the Brisbane competition to allow them to take on Solomon Islanders. That would be something that would be very beneficial for the Solomons. There are things like that that we could look at.

CHAIR—Can you give us a word on how the Pacific solution is seen from within the region?

Mr Dorney—It was seen as extraordinarily arrogant in most places. Nauru agreed to it for economic reasons—there is no doubt about that and equally Papua New Guinea. I went up to Manus just after the first asylum seekers arrived there and did a television story on it. People were saying to me, ‘Six months? They are going to stay here for six months? That’s what you guys said about these Irian Jayans you moved up here in 1960!’

It is my view that Australian foreign policy really took the back seat in this whole issue. What was in Australia’s regional interests was very much submerged by what was in the short-term political interest. There was a reaction in the Pacific that this was Australia being exceptionally arrogant in trying to dump on Pacific island countries a problem that Australia had. I think that is a fairly general view.

CHAIR—How is our stance on the Kyoto protocol seen?

Mr Dorney—The smaller countries in particular, like Kiribati, Tuvalu and some of the others who really feel a sense of danger from this, regard Australia’s stance as being far from sympathetic to the real interests of the region as they see them. The whole area of climate change is a very big problem for Australia. Just to go into one aspect of that, the National Tidal Facility in Adelaide runs an Australian aid funded program which monitors sea level around the Pacific. All the scientific data shows that sea level rise is not as bad as people are worried about. But there is a huge suspicion out there that, because that is funded by Australian aid, all the results are being doctored.

CHAIR—To justify our position on Kyoto?

Mr Dorney—Yes. I do not believe that for a moment myself, but that is the belief that you run into in the Pacific—that that whole scientific study cannot be believed, because it is just being funded for Australia’s political interests.

CHAIR—How was our attendance at, and attitude to, the Pacific Island Forum received?

Mr Dorney—The forum is seen by the governments of the Pacific as the one chance every year to sit down with the prime ministers of Australia and New Zealand. Each time the Australian Prime Minister does not turn up, it is seen as a slap in the face—that we are not interested and that this is really something somebody junior should be doing. In relation to Australian foreign affairs and political interests in the Pacific, although some of the smaller countries got to like Gordon Bilney when he was involved with them, my impression generally was that there was a feeling in the Pacific that Mr Evans had decided the Pacific was not important enough for him and therefore had delegated it to somebody junior. I think Mr Downer’s movement into the Pacific and his constant travel out there is appreciated, and there is a feeling in the Pacific that some greater notice is now being taken. But, when Mr Howard did not turn up to the forum meeting in Nauru, there was real disappointment and a real feeling that yet again Australia was regarding the Pacific as unimportant.

CHAIR—You have said in some of your more extended presentations on this that we do not take enough notice, that there is not enough education about the needs of the region and that it is not in the forefront of Australia’s mind. Is there any particular comment you would like to make on that subject for the record here?

Mr Dorney—It could change, and it should change considering the crisis that is going on around the Pacific at the moment. For a long time the Pacific seemed to drift completely off the Australian consciousness. Australia has had a very rich history in the Pacific but, if you went to school these days, you would never learn about it. I have said a million times, especially with regard to the attitudes of some people in the Australian media, that it is as though Australia is anchored somewhere up in the North Atlantic between Ireland and the United States. There has been a sort of belief that we are a Northern Hemisphere country and our interests are in the Northern Hemisphere rather than in the region. Our educational authorities should see that as a problem.

Senator MARSHALL—Coming to Brisbane this morning, the humidity reminded me that we are very clearly part of Asia. You talked a little in your opening remarks about how the guest worker program would help our relations. Would you expand on that?

Mr Dorney—First, let me separate Polynesia from Melanesia. Although they do not have direct access, Polynesians get into Australia via New Zealand, because New Zealand allows quite a number of Samoans, Tongans and others into New Zealand and a lot of them migrate across the Tasman into Australia. In relation to the countries of Melanesia, there is still a belief that it is almost impossible to get into Australia, as though there were a White Australia policy. Graeme Dobell argues in his paper that we should completely separate this worker scheme from any suggestion of migration. Remittances are a huge part of some of the smaller economies in the region. Remittances that go back to Tonga, Samoa and wherever are extraordinarily important to their economies. It was interesting to see when we were in Vanuatu that they also see remittances as being something that could really contribute to their economy too. There were one or two scams going around Vanuatu where people were hired or signed up for fruit picking employment in Australia. They were complete scams; people were paying money but nothing ever came through and no visas arrived. If we did allow Pacific islanders to come and work in Australia for set periods of time—and Dobell suggests that we call it a Pacific worker scheme rather than a guest worker scheme—it would do a lot to help their small economies and would not be a terrific burden for us.

Senator MARSHALL—So it would it be more of an economic benefit than a relationship building exercise?

Mr Dorney—Relationship building would be a major part of it. That would be a spin-off benefit.

Senator MARSHALL—You also talk about the free trade agreement not being beneficial to the South Pacific islands. Would you like to say a little more about that?

Mr Dorney—All their economies are so small that they earn, in our terms, a hugely disproportionate amount of their national revenue from customs and excise duties. As duties have to come down everywhere as part of the deal that the EU is doing with them, the revenue base for the countries is becoming very small. A lot of them are switching over to VATs or GSTs to try to make up for the customs duties that they are going to lose. It is interesting to look at this Pacific islands free trade agreement and compare it to the Melanesian Spearhead Group free trade agreement, which has been operating for the last two or three years, where Papua New Guinea, the Solomons, Vanuatu and Fiji have virtually no trade barriers between them. The industries of the Solomons and Vanuatu have really been hurt by that. It is much cheaper to

make noodles in Port Moresby or Lae and ship them to the Solomons than to make them in the Solomons. One celebrated case in the South Pacific is ice-cream making. The free trade agreement has done serious damage to the ice-cream making industry in Vanuatu. The smaller countries have really suffered to the benefit of the larger economies because, with a free trade area like that, the major companies that run these things find it easy to do it all in one spot and ship it through the Pacific. Now the Solomons and Vanuatu are both trying to withdraw to some degree from that Melanesian Spearhead Group free trade agreement.

CHAIR—Is the ice-cream any cheaper as a consequence?

Mr Dorney—Yes, it is.

Senator MARSHALL—Is it better quality?

Mr Dorney—I have not tasted it, but I am told that it is causing a lot of consternation in Port Vila.

CHAIR—The economic argument would be that money saved because of the cheaper prices is money that could be invested in some other activity. But, if there is no industrial base or another activity that can earn income, I do not know what happens.

Mr Dorney—Those economies are so small that one industry shutting down has a huge impact on employment. Unemployment statistics mean nothing in the Pacific, especially in PNG and Melanesia, because it is impossible to guess what the unemployment is. The employment level is really the only indicator because unemployment is enormous. By our standards, unemployment in Port Moresby must be 70 to 80 per cent.

CHAIR—One thing that Mr Dobell apparently mentioned in his presentation was putting the whole region on a single currency—either the New Zealand or Australian dollar. Is that something that is seen as an option within the region, or is it something that we are thinking about or should think about from our side of this argument?

Mr Dorney—I had not heard much about this being discussed until it was suggested by Laurie Chan, who was briefly the finance minister in the Solomons. Then Professor Ron Duncan wrote a paper on it, suggesting that there were real advantages to it. He lists a number of them: curtailing the ability of governments to indulge in profligate deficit financing; removing the temptations that cash strapped governments will just print money and fuel inflation; reduce currency risks facing investors; substantially reducing inflation and interest rates; save the cost of a central bank and move highly valuable staff to core government jobs in financial management. They are all really good arguments; but, yes, there is a problem in that sovereignty to many of these countries is bound up in having their own currency. I think Graeme refers to it as ‘tough love’.

CHAIR—But it is not something that, even if we thought it was a great idea—and I am not sure whether I do—we could come along and insist on or propose. It is a cooperative decision that they would need to make as well.

Mr Dorney—Yes. I think it is something that would have to come from the adoption of some sort of regional economic block—a Pacific economic block—so that you move towards the

Euro type decision. There would certainly be resistance in some countries. I think Fiji and Papua New Guinea would resist it mightily. I do not know whether there might not be that in the Solomons.

CHAIR—The Solomon economy is in total collapse.

Mr Dorney—The Solomons are just sad, they are constantly sad. Fred Soaki, who was murdered the other day; I was up there three weeks ago running some workshops for journalists and the National Peace Council and he took part in them all. I was very shocked to find out he had been killed.

CHAIR—Assassinated.

Mr Dorney—Yes. One of the things Australia should be doing—it is not in the ambit of this Senate inquiry—is giving the new police commissioner there, this British fellow, every possible support because sorting out the police is such a crucial part of the answer to helping the Solomon Islands. New Zealand have put police in there. We have got some police in advisory type roles, but they have inserted them into the police force in more effective positions than what the Australian fellows are doing.

CHAIR—So you are not talking about just moral support for the new police commissioner but some practical measures that Australia could take?

Mr Dorney—I definitely think we should look at practical measures, yes.

CHAIR—What would that be? Dispatching a contingent of Australian police to supplement their forces or engaged in some greater training of indigenous police, or what?

Mr Dorney—Consulting with the police commissioner as to what he thinks might be the best. We do have Australian Federal Police over there at the moment, but an Australian could not do the job. The British have a terrific advantage there in that regard. There is the colonial relationship; they were the colonial power. But Australia is seen as being a little too close and possibly domineering. A lot of my hopes for the Solomons are bound up in how well William Morrell goes as police commissioner.

CHAIR—Thank you, Mr Dorney. That was very useful to us.

Mr Dorney—I am sorry that I did not have answers.

CHAIR—Maybe that indicates that answers are hard to find, but that we have to find them. Thank you very much.

[10.05 a.m.]

PITTS, Ms Maxine Patricia (Private capacity)

CHAIR—Although this is a formal inquiry, I will keep it as informal as I possibly can. You have been kind enough to give us a submission which is quite a compelling one. Do you want to speak to it for a few minutes and summarise your position for the record before we ask questions on it?

Ms Pitts—Yes, I would like to. I appreciate the opportunity to have a say and to give evidence at this inquiry. The purpose of my submission is to alert the Australian government to gaps I saw, when I was working in Papua New Guinea, that seemed to be occurring in the delivery of aid.

The Australian aid focus to PNG in 2003 seems to have four key objectives: strengthen governments, improve social indicators, build prospects for sustainable economic growth and consolidate the Bougainville peace process. AusAID's description of sustainability is continued local action stimulated by a project; services and incentives generated as a result of increased local activity and project-initiated goods and services still delivered and maintained five years after project completion. With this description in mind it seems that a lot of aid projects in PNG have a long way to go.

The police institutional strengthening project continues to limp along. I think there is a skeleton advisory staff there now. It has been limping along for about a decade now. I think the bulk of the long-term advisers left in 1999. The correctional service development project was terminated—I believe prematurely—after only six years. The legal institutional strengthening project, which supports the Attorney-General's department, did not include national courts in its initial planning stages.

All three agencies to which aid is or has been delivered suffer from a major deficiency and this deficiency prohibits the sustainability of institutional strengthening initiatives. It is the incapacity of agencies to absorb new ideas and to sustain their implementation over a long period of time without long-term adviser support.

The agencies are incapacitated because they lack basic resources—for example, pens, paper, postage stamps, printer cartridges, typewriter ribbons, electricity, the ability to read and understand legislation written in English, the ability to interpret and apply such legislation so that it manifests in appropriate practice and procedure every day, and the ability and commitment of both politicians and senior officers to ensure appropriate activity occurs.

Since the exodus of the bulk of hands-on advisers from the police project in 1999, crime statistics have become flawed to the point of being useless. Figures have been fudged or are non-existent. My experience of the PNG correctional service—I was an adviser on the correctional service development project for two years and nine months—is that few statistics were received at headquarters for several years because there were insufficient funds for postage to send registers into the field and for field staff to send statistics back.

There were constant blackouts due to unpaid bills or no fuel for backup generators. Telephones were frequently disconnected for failure to pay bills; there was little or no money to buy petrol to take prisoners to court—staff usually chipped in and paid for the petrol; staff at all levels were disgruntled because they did not feel well cared for or recognised for good work done—and there was a lot of good work being done; and they were demoralised by the poor and corrupt management of their organisation. They continue to despair of overcrowded prisons—and I think there has been some publicity in the *Australian* recently on that—at Bomana prison outside Port Moresby, for example, half the prison population are still on remand and that has been occurring for many years.

My experience of the department of the attorney-general was that community correctional officers in provinces had to provide their own stationery to write presentence and parole reports and their own petrol for vehicles, if there was one available, so that they could go out and monitor their community correctional clients. The workloads were far beyond them. I believe from a recent review—that is, a July 2001 review—that the community corrections function is just about defunct.

My experience of the national courts was that prosecutors and solicitors, judges and magistrates, were not able to travel on certain court circuits due to insufficient funds; that provincial statistics were suspect; and that courts had terrible backlogs of cases, due to poor skill levels and a range of other things, causing prison overcrowding. None of this is surprising, as law and order spending as a percentage of total recurrent expenditure fell from 12 per cent in 1994 to between six and eight per cent in recent years.

My experience of all three agencies was that few effective audits of accounts occurred. Again, this is not surprising, as auditor-general spending as a percentage of recurrent expenditure was 0.24 per cent in 2001. This meant that only 19 audits were completed in that year and that 83 financial statements were not submitted. Such gross lack of monitoring through ineffective audits appears evident in recent statistics from the PNG ombudsman in that, of 61 leadership code breaches recorded since 1976, 20 were reported in the two years, 2001 and 2002.

I believe two things must occur very urgently in PNG for Australian aid to be effective and sustainable and for PNG to benefit from it. These things have been said many times before and have been mentioned again in this particular review which I have here. I think you probably have a copy of it. It is called the *Law and Justice Sector Review* prepared for the governments of Papua New Guinea and Australia on the PNG-Australia development cooperation program. The two things which I believe need to occur very urgently are: (1), that rule of law must be enforced before development initiatives can be sustained and (2), that the PNG government must be encouraged in the strongest possible terms by the Australian government to enforce the rule of law and to follow through with suspensions, prosecutions and punishment of politicians and others implicated in massive fraud—for example, as a result of the recent National Provident Fund inquiry.

I believe that implementation of these two elements will impact positively on the PNG community by building greater confidence in the government and the law as protectors of human rights, by strengthening the capacity of government agencies and by freeing up resource distribution channels presently blocked by corruption and mismanagement. This will result in a strong base upon which social indicators can improve and economic growth can be sustained.

CHAIR—I will begin with a simple question so that I can get what you were saying in proportion. Have things improved, are they worse or are they about the same as when you first started studying the issues of law and crime in Papua New Guinea?

Ms Pitts—The statistics are very unreliable in PNG, simply because they are not recorded properly, accurately or sufficiently. I downloaded some information from the *Post-Courier*, as no doubt your office has, and it seems to me that things are either the same or worse than they were when I left PNG in 2001. I cannot see that it has improved and I do not see that it can improve in the current circumstances.

CHAIR—So you are basically despondent about the trend direction?

Ms Pitts—Yes, very much so.

CHAIR—Just reading your submission, one of the things that comes out of it, and it comes out of later submissions in different ways too—and I just want to be careful that this is your conclusion—is that essentially there is a double standard. At the elite levels, law is an optional issue. You can evade it if you choose; you can corrupt the system if you want to—and people do; transparently they do, and this is a well known fact. That seems to be the conclusion. You keep nodding, so I guess I have summarised that correctly.

Ms Pitts—Yes.

CHAIR—But for people who are other than the elite, the law is something that is quite harsh; it may be swift but justice is very slow and the temptations in a subsistence economy—or in the formal part of that economy, in the lower areas of that economy—for people to resort to crime to supplement income are quite strong. Is that a fair summary?

Ms Pitts—Yes, it is, very fair.

CHAIR—The first thing is that these are self-governing countries; they are all sovereign entities. Is Australia in a position to actually deal with the first problem very much at all do you think?

Ms Pitts—My personal opinion from how I have seen aid delivered is that Australia's stance needs to toughen up quite significantly in relation to the delivery of aid and perhaps the conditions that are put on that delivery of aid. Perhaps my core argument in this submission, and also in the book that I wrote on it, is that, unless prosecutions occur when people in senior positions defraud the public purse, and unless those prosecutions are followed through with punishments, nothing else can be sustained, regardless of how many workshops or reviews there are—

CHAIR—To put it simply, there is a public attitude of contempt for law.

Ms Pitts—Yes, because the public is very disillusioned. A lot of people there just keep their heads down. They are trying to protect themselves, they are trying to protect their families, they are trying to get their kids through school and they are trying to hang onto whatever cash

income they can to do that. If they are bribed to do certain things, they will, because that is the only way they can get resources. They have no social security net.

CHAIR—From your presentation—I am not questioning it; it is consistent with a number of other views we have had, although yours has a more specialist emphasis in this area—it sounds as though the people that Australia would need to deal with in its aid program are part of the problem. They are the elites.

Ms Pitts—Yes.

CHAIR—Is there some cultural issue here or is there not?

Ms Pitts—I do not think so.

CHAIR—It is just a sense that corruption is fair enough.

Ms Pitts—Corruption is fair enough, because so many people in high positions have been getting away with it for so long there are very few monitoring systems in place. People know, for instance, if they are working in a government organisation, if they are the head of a government organisation, that there is some account that can be accessed and it is not going to be audited. In my experience, those accounts have been accessed and the money has been stripped from the public coffers, which means that people further down the line who want to do a good job and want to put something into the community are prevented from doing that.

CHAIR—Let me just ask you about this. Let me take the famous slogan ‘Tough on crime and tough on the causes of crime’. What do you see as the causes of crime in these countries? PNG is your area of study. How would you reply to that question?

Ms Pitts—A lot of desperate, demoralised people in the lower ranks.

CHAIR—Is that poverty or is that lack of opportunity? What is it?

Ms Pitts—It is a combination of things. It is lack of opportunity to get a good education, for a start. A lot of kids are still—and this was happening in the 1970s—thrown out of school at grade 6 because there are either no places in high schools or their parents cannot afford the school fees. It is still occurring and it is even worse now because the youth population is so much greater than it was then. At that level, there is an enormous amount of desperation. Kids want to be someone; they want to look good; they want to have knowledge about different things in the world. When that cannot happen, they get very frustrated and bored, and they get angry. There is a lot of energy there that is not being used in appropriate ways.

There are women who are desperate for education for their children, for food for their children and for health services for their children and their old people, and they cannot get them. They resort to prostitution and selling marijuana. There are men with wives who might be dying from pregnancy related illnesses but who cannot get them to clinics. They might get one of their friends to commit some highway robbery or do whatever they need to do in a criminal way to get the resources they need.

The politicians and people in senior positions and positions of trust have an opportunity to develop a business, and they do. They take the opportunity to do so. I am not saying that everyone does; there are some very honest and very wonderful people there. But there are some people who are really just not caring about the wider community or their own communities. They take advantage of their positions and they make a business of either being in politics or being in positions of trust—senior public servant positions and that sort of thing. Because they know they can get away with it, they will. They know that all sorts of commissions of inquiry happen and very few people are prosecuted. If nobody is prosecuted, they will get away with it. If they know they can bribe the police to lose the police brief, they will get away with it.

Most police are frustrated that they cannot provide information to prosecutors in some cases because, as I was saying, they have no pens or paper, the typewriter has gone bung and there is no typewriter ribbon. They cannot provide accurate briefs to prosecutors. Or the filing system is not working, so they cannot find the file anyway. Then the police prosecutors are frustrated that they cannot do a proper prosecution. And so it goes on. Yes, there are two parts to that.

CHAIR—And the waiting list for being heard, having your case brought on, must be huge if those figures on people in remand are indicative.

Ms Pitts—It is huge.

CHAIR—Do you have any idea how long the waiting list is?

Ms Pitts—I have no idea, but when I was doing my research there, I went into the national courts and found that it was very hard to get my hands on statistics, for a start, because, again, the statistics were not coming in from the provinces. But working in the prison system I could see the overcrowding in the jails. I used to do frequent trips around the country. The overcrowding and the appalling conditions in the jails, regardless of the aid program, brought home that, regardless of lack of statistics, you could see the numbers in the cells. They just were not moving into the courts and out the other end.

CHAIR—On page 3 of your submission, you state:

Some PNG academics and politicians believe advisers cause the problems and Australian funded projects often produce minimal medium and long-term results.

Could you state what these problems are and if this is, in your view, an accurate assessment of the development assistance delivery in PNG?

Ms Pitts—There are two ways I can answer this. In the case of an institutional strengthening project, the aid project pulls a lot of manpower away from the operations of the recipient agency. Because advisers need to work with counterparts, they need resources to work with. They need to be constantly calling meetings, visiting people or writing reports. There is lots and lots of report writing. The time that could be spent in operational activity for the particular organisations is drawn into the needs of the aid project to meet certain criteria within certain time frames. It is annoying to some people in the recipient agency that this has to occur. Even though they realise that a certain amount of funding is going into their organisation in certain ways, whether by way of equipment, infrastructure, training or whatever, it is an imposition. When I was working there, I felt I was back in the colonial era. As Mr Dorney was saying,

Australia tends to be seen as a domineering force. We tend to be seen as being too pushy, telling people what to do—drawing the power away from them and back to us again. Situations of annoyance, but also jealousy, can occur. To my mind, to work well with a group of people in a resources deficient situation where there is a lot of desperation in the government agencies, it takes at least two years to build up some kind of rapport and trust, to build a relationship, before any real aid delivery can occur, before you can even start the delivery process properly. That was the first part. Could you tell me what the second one was?

CHAIR—I was wanting an assessment of this point that you make in your submission that academics and politicians in PNG believe that the advisers are part of the problem.

Ms Pitts—That is why they think they are part of the problem.

CHAIR—Yes, and the results produced by Australian projects often are minimal results if you view it in either the medium or the longer term. From what you are saying there, my understanding is that we get in the way of these programs by constantly wanting reports, writing reports, interviewing people, calling them to meetings, taking them away from their core responsibilities.

Ms Pitts—Yes.

CHAIR—Is there a simpler way for us to supervise or—if that is not the right word—provide some accountability for the money we spend on programs without doing it that way? Is there some particular way in which our aid expenditure can be made accountable without having to get in the way of the delivery?

Ms Pitts—I think it is good for advisers to be there at this time, because the bureaucratic systems there really need to be upgraded. They are archaic; they are 1960s systems. Everything is overbureaucratised. There is too much paper and there are too many rules and regulations. It really needs to be sorted out. I believe that advisers need to be there as a guide to some people in government agencies. I am thinking of the criminal justice sector, because that is where my experience lies. But one of the major problems with the aid program is that the time frames are too short for aid delivery to be effective. As I said, it takes about two years to build up a good rapport, a good trust relationship and an understanding of where your coworkers are coming from and for them to appreciate where you are coming from as well. There is a cultural distance and a cultural difference there.

Australia could deliver the aid in a much more measured way and address the core needs of the organisation. In my experience, the core needs of the organisations in the criminal justice sector are, first of all, English literacy. To work in the criminal justice sector, you need to be able to read, understand, interpret and facilitate legislation. Unless you can do that, forget it. The Westminster system is very different from the traditional systems of law in PNG. However, both systems have their own set of ethics and both are respected. The time frame is a problem. We Australians need to have more patience with PNG but, at the same time, set some very strong conditions in place. Until the system of law which PNG has chosen to continue with is adhered to, nothing else is going to work.

Senator MARSHALL—This is the thing I am having difficulty reconciling in your submission, which I thought was an excellent submission, and thank you for doing it. It left me very depressed, with a sense of hopelessness, after reading it.

CHAIR—This inquiry is leaving us all like that in some respects.

Senator MARSHALL—But we are coming towards the end of it. You talk about what appears to be quite a simple solution to a very complex problem, which is really, in a nutshell, to deny further aid until the rule of law is applied. But you also talk about the need to be patient and, throughout the whole submission, the weakness in the institutions. The obvious question I need to ask you is this. From reading your submission, I do not think those things could be applied; therefore, if we follow the next logical step, aid will be denied. Will not that then directly affect the citizens of PNG in a very harsh way? Not all the aid dollars actually get to them but some of them do. That will then lead to further poverty, lack of access to basic services, which leads to poverty, which then leads to crime, which then makes the problems we are talking about even greater. I just ask you about the reconciliation between those two things.

Ms Pitts—I am saying advisers need to stay there for longer and the time frame needs to be longer, but, as each aid component is delivered, it needs to be made very clear to the people who are receiving that aid that there are certain conditions in place. For instance, if aid is being delivered to one of the criminal justice agencies, it must be made very clear that, unless prosecutions are followed through from commissions of inquiry, the next segment of aid will be delayed. It seems to me that PNG has received too much aid too quickly and that it is too easy to get. Yes, there are a lot of people suffering out there, and in the provinces there are lots of kids who do not eat for several days. However, they need to have their confidence built up and they need to have confidence in their own government. They need to have confidence in us as aid deliverers, and they need to understand where the boundaries are in receiving anything. It is too easy just to put your hand out and get something because you might be suffering a little.

With aid projects, there are various milestones that need to be addressed. Say that one milestone says that the rule of law is to be adhered to in certain ways and at the same time there is a commission of inquiry going on and then it is not followed through for some political reason. Then I believe aid in relation to the next components of that particular project should be stalled until that prosecution occurs, where appropriate. I suppose I am saying that yes, the advisers should stay there, though the time should be longer, but at the same time the boundaries need to be set very strongly. I think that is the only way that community confidence can be built up; otherwise, the same thing will just keep occurring.

CHAIR—It is a tough position. I empathise with what Senator Marshall is saying: if there are innocent victims of this course of action, where is the incentive? Say that we are targeting elite crime. Where is the incentive among the elites to grasp the aid nettle which might ultimately lead to them going to jail? Is that part of the problem? The very people we are trying to encourage to go down this route may be some of the people who will suffer from it if it is effective.

Ms Pitts—The elites probably will not suffer.

CHAIR—I made that remark on the basis that I thought earlier we had got some appreciation from you that elites are immune from the effects of crime. They can do things—they can be

corrupt—and get away with it. That breeds a sense of corruption in the society, where there is an approach of one law for them and another law for the rest of us. In withholding aid to fight crime, it seems to me—and I am asking you to correct this impression—that the people you are withholding it from are the elites who are running the government, in the hope that they will be more effective in enforcing the law. But if the law was more effectively enforced, many of them might be in jail. Is there a circular problem? Is that a problem?

Ms Pitts—It could be, depending upon which agency is receiving the aid. As an aid deliverer, Australia has to start somewhere in relation to that. Where some people might fall through the net, others will not. The message will be driven home to the community and, as a result, they will believe that, yes, the law does protect them. Right now, they do not believe the law protects them at all.

CHAIR—I want to go back to this question about advisers—how much of an advantage they are, how much a part of the problem they are and how much they get in the way of delivering efficient services. In another of its inquiries, this committee is looking into defence procurement—how we buy our defence equipment. One of the problems we have come up against in that inquiry is that, on a regular basis, almost every second year, someone on an efficiency drive in the defence department changes the system as a ‘reform’ in order to get ‘more efficient’. As a consequence, there is no way of comparing how things have evolved. Every time you inquire into this, you are inquiring into a new system of procurement that has just started, and you cannot see whether it is more effective than the other system. People who work in this area become jaded with continual change, and trying to measure efficiency is almost impossible. That is a view I have. On this view, perhaps a little less change and a bit more concentration on delivery would be a good thing. Is that a problem as well—constant change, trying to ratchet up so that people do not know what the new deal is or how it has changed from last week to this week and to the week after? Is that part of this problem with advisers getting in the way?

Ms Pitts—To my mind, it is a problem in that, when a project is designed, the expectations of the aid agency and the managing contractor may be a bit too high. They do not realise just how little resource deficient agencies can absorb. I feel that aid should be delivered at a much lower level—like making sure that there are files for filing systems; making sure that people can read and write properly; making sure the women in the organisation are looked after and acknowledged in relation to their skills and their contributions; and making sure that there is an understanding of legislation policy and practice first, before anything else occurs. The level of expectation is much too high, and I feel that is where it goes wrong. While the staff in the recipient agency think, ‘Oh, good, things are really going to change now; the advisers are going to really push us along here and do wonderful things,’ it just does not occur because there is no capacity there for it to occur. I think we need to get back to basics.

CHAIR—Getting back to basics, let me turn to this part of this problem about English proficiency—being able to read and understand the law. Are there sufficient people with that knowledge for the justice system to draw on or is there basically a problem in the education standard overall where, as much as you would desire to have those people within your justice system, they are not available in society at all? Is it as visceral as that? Does it go right back straight to the standard of education?

Ms Pitts—It could do. In primary schools, for instance, there are very few books, as you probably know. Regardless of the enormous amounts of aid that go into education, there are very few books in schools. Kids have to walk a long way to schools in the provinces to get there. There are all sorts of problems as to why they cannot get a decent education, even up to grade 6. However, in my experience, for those people who do get into the public service and work in criminal justice agencies, most of their education has been in Tok Pisin. They have learned English later on in their primary school years. But to absorb philosophies which the English language espouses requires understanding of the concept of what is being said on paper.

CHAIR—That is a comment on the nature of the education system, is it?

Ms Pitts—Yes.

CHAIR—The nature of the education system available does not lead readily to being able to conceptualise these ideas?

Ms Pitts—No, not at all.

CHAIR—I am trying to make this distinction: it is not just the availability of education; it is the type of education.

Ms Pitts—The type of education, yes. There is also the availability of teachers to deliver the education. Sometimes they are just not able to get to the schools, for whatever reason; but that is another story. People have got into the public service with a smattering of education and a smattering of English. People in PNG, as you probably know, articulate very well verbally but, when it comes to the written word and interpreting that, they sometimes do not do so well—though not all the time. I found that in-service training was a key to turning that thinking around—in-service training that happens all the time: not just a workshop here or a workshop there, but all the time. That means again coming back to advisers working very closely with managers over a much longer period so they can train the managers to train the staff and to change the organisation or culture and make it into a learning organisation. The results of that kind of training are just fantastic, as we found out in the PNG correctional service. But it needs to be constant, it needs to be going on all the time, and it needs to be kept at a simple level. The chunks need to be kept simple. There are many, many good workers and highly intelligent people in those organisations who are very frustrated for the lack of that kind of training—that kind of ‘care’, as they call it.

CHAIR—They are frustrated—one imagines, given your description—with the lack of resources they have to carry out their jobs.

Ms Pitts—Yes.

CHAIR—On pages 3 and 4 of your submission, you say that one of the problems that we come up against in our aid is that Australia ‘struggles to satisfy a triple mandate comprising foreign policy commercial benefits to Australia and the reduction of poverty’ and that AusAID’s ‘desire to fulfil all of these agendas at the same time often results in reduced development effectiveness’. Can you give us a bit more of a background, a few examples, of that type of conflict?

Ms Pitts—Speaking in simple terms, the foreign policy is to do with Australia's need to have PNG there as a buffer zone against any military attack. It has always been considered to be that for Australia. So there is the military aspect of it, the foreign policy aspect of it and the protection of Australia part of it. Then there are the commercial benefits. Because Australia is PNG's major trading partner, we have a business relationship with PNG to promote trade to PNG and to bring their trade in. However, sometimes I think we can be a little bit deceitful in saying, 'Oh, we're coming in to help you; we're coming in to reduce the poverty in your country,' while we have these other kinds of things in mind. I believe that some Papua New Guineans feel betrayed by that.

CHAIR—Are you saying that we are Indian givers: we provide benefits but we take more back?

Ms Pitts—Yes. As you probably know, we have what is called 'boomerang aid' where we have lots of highly paid advisers—who are being paid in Australian dollars—going in there, spending very little in PNG and bringing all their money home again. The trade situation is the same. We go in there and do a few aid projects with a view to reducing poverty, and people are so desperate that they are incredibly thankful when that occurs. When I was zooming around the provinces, people thought that I was an AusAID representative because I was on an AusAID funded project. So people would come from everywhere asking me how to get money for their coffee projects, their small business enterprises and all the rest of it. It was very sad.

I feel that if we are going to be committed to our aid delivery to PNG, we need to be very honest about it and we need to build up AusAID. We need to keep the AusAID administrators, the people who oversee aid—both in the Australian High Commission in Port Moresby and in Canberra—in their jobs for longer because most of them are in jobs for only two years. There are two-year turnarounds. They have no time to discover what is going on, to do anything about it and then to follow up. If aid administrators could be in their jobs for five-year contracts before they move on in their career path, I think the aid delivery would be much more effective. Building up AusAID in that respect would be very worthwhile. That was my meaning there. I am saying that Australia is running a bit thin. If it is going to reduce poverty, it needs to go in and do it properly.

CHAIR—Should Australia make that the central point of its efforts?

Ms Pitts—I do not know.

CHAIR—There is an argument that the central concern for Australia ought to be to improve governance. There is a counterargument which goes: if you lift the levels of the economy, you create the means for the economy to improve its delivery of all of its services—including the justice system but, crucially, also health and education.

Ms Pitts—It would certainly improve the trading situation between PNG and Australia because then PNG could produce more—and they have some wonderful things to produce there. Also, as the biggest country in the Pacific region, if Australia could build Papua New Guinea up sufficiently to lead the rest of the Pacific, that would do wonders for other countries in the Pacific and for us, as the dominant power in the Pacific. Yes, I see what you mean; perhaps you are right.

CHAIR—There is probably a policy argument on the basis that we cannot build it up; they have to build it up because it is their country. We can facilitate it if they choose to do that.

Ms Pitts—Yes.

CHAIR—On page 10 of your submission, you state that AusAID believes that, if it persists for long enough, governance will improve through structural reform, informed decision making and greater accountability. How effective do you think the linking of governance and development assistance is? Will that improve good governance in PNG?

Ms Pitts—It will improve good governance only if there are firmer boundaries set on that development assistance.

CHAIR—Correct me if I have it wrong, but your idea is to have a reward type approach so that if they achieve what this first block of money was designed to achieve they get the next block and then the next block. If they do not, they do not get the succeeding block.

Ms Pitts—It is stalled, yes. We need to look at aid delivery as a business as well. We need to look at the delivery of aid as a business transaction, not just as a handout. That would certainly make the recipients of aid more aware of the value of it and more aware of what they need to do to procure more. I am probably thinking along the lines of what the World Bank does. It says, 'If you want this loan, this is what we need you to do.' There are two arguments to that. However, I think it would help the PNG government to mature more as an organisation and to take more responsibility for itself, if they knew there were no constant handouts. There was something else I wanted to say but I have forgotten now.

CHAIR—I am sure it will come back. On page 10 you say that AusAID's current efforts in institutional strengthening are proving unsustainable. Could you explain a bit more about that?

Ms Pitts—They are proving unsustainable, for the reasons I said before: they are attempting to deliver more aid than agencies can cope with and they are trying to deliver it to underresourced organisations who simply do not have the capacity to absorb it. It is to do with the absorptive capacity of those organisations. Unless there is some political will, unless there are sufficient resources, and unless there is management and administrative commitment, then the aid that is delivered simply will not be as effective as it could be.

CHAIR—At paragraph E in your submission, 'aid effectiveness to combat crime in the weak state of PNG', you make this point and go on to talk about the need to resource the crime agencies to help fight crime.

Ms Pitts—Yes, and that is raising the skill level of managers and staff and, in some cases, providing money for running costs. That is what a lot of aid projects have to do anyway in order to meet the aid components: they need to meet running costs like postage stamps or computer cartridges; otherwise the aid components would not occur.

CHAIR—I cannot find it in a hurry, but somewhere else in your submission you say that we helped build—or built—a prison.

Ms Pitts—Yes.

CHAIR—But there are no resources to run the damn thing. So it is sitting there like a white elephant, is it?

Ms Pitts—Yes, like the many white elephants around PNG.

CHAIR—That is one example, and I think the name of the place and all the references we need to research it are documented. Are there any other examples that you can think of? Is that just one or is it one of several? What you seem to be saying is that it is one of several. Please offer us some other examples.

Ms Pitts—I can offer you another example, and that is in relation to prison vans that were donated by AusAID. I think it was in 1998 or early 1999. They were given to the prisons to transport prisoners to and from courts. The thinking was that, if there was another vehicle stationed at each of the prisons, the prisoners would be able to get to court more easily. However these vans were most inappropriate for the environment. They were too heavy, too expensive to run and airconditioned, which meant that the prison commanders had to find money to fill them up with gas, or whatever they ran on for the airconditioning. Some prison commanders got so frustrated they cut windows in the side so they could at least put people in there without killing them.

Proceedings suspended from 10.58 a.m. to 11.25 a.m.

HUNT, Dr Colin Anthony Gerald (Private capacity)

STOCKER, Dr Geoffrey Charles (Private capacity)

CHAIR—Welcome. The normal myth of the proceedings is to invite you to make a short submission, which might summarise what you have put before us in writing, and then we will go to questions.

Dr Stocker—I propose to give a slightly more personal view than that of our submission in order to explain some points, and Dr Hunt will follow me with a few other points. Thank you very much for the opportunity to air my views. My personal objective is to see the citizens of PNG and North Queensland develop even stronger personal and business relationships. For the benefit of the committee, Dr Hunt, Ms Pitts and I come from the Atherton Tableland in North Queensland. Brisbane is nearly twice as far away from us as Port Moresby. In the north we see many opportunities to build on current links; but we also have a realisation that problems in PNG could very rapidly become our problems. I, along with all the North Queenslanders I know, want good neighbours to the north. If things do not work out, we are in the front line. From my perspective, the basic problem in PNG is that of changing social systems to meet the needs of a modern city based, independent state—for example, the requirements listed by Friedman if countries are to put on his golden straightjacket. Past systems sustained people in 700 language groups, dwelling in villages, but do not supply the basic requirements needed for a modern state.

The changes which have historically occurred in many societies as they travel the route from bands of hunter gatherers to national entities have been documented by Diamond. However, it is only in recent times that efforts have been deliberately made by outsiders to use foreign aid to speed this journey. Too often effective aid is considered as little more than achieving technological catch-up. Unfortunately, the transfer of technology is the easy part; I personally do not know of one field of endeavour in PNG where the lack of technical skills within the indigenous community is currently a significant impediment to further development. The real stumbling blocks are, in my view, entrenched social attitudes which do not allow the development of good governance and a profitable and energetic commercial sector.

Before proceeding further, we must ask whether the people of PNG really want development Western style. I believe that many do; however, I will concede that some do not, because they are personally advantaged by the current situation, and many others simply do not understand the consequences of changes in this direction. Personally, I do not think that in the long run any of us have any choice. If we want a reasonable standard of living—and nearly everyone that I have asked does—then we will all be forced into the stream that is globalisation. The primary questions then concern whether foreign aid can either speed up the rate of social evolution or short-circuit the evolutionary process. The efforts of aid organisations to date would tend to suggest that aid can do both; however, my experience is that the answer to the first proposition—relating to the speeding up of change—is in the affirmative only under some circumstances, while that to the second is almost always negative.

In the early phases of the catch-up process, technical aid is useful as developing communities do not have to ‘reinvent the wheel’—as people say. However, assistance in this form appears to

provide fewer returns once the basics are understood. Growth stops until social change enables advances in technical competence to be put to widespread use. More technological inputs have limited value and generally serve only to advance an elite few. Worse still, they can sap initiative and, in the PNG context at least, reinforce cultural beliefs associated with cargo.

In view of the social changes needed for a country such as PNG to be able to wear Friedman's golden straitjacket, these are not easily achieved. Many donors, including the World Bank, have tried to insert these values in the top echelons of society and have failed. A better strategy would seem to be to create the demand for change from below. For instance, training senior teachers or police officers does not appear to have had much effect on literacy or law and order respectively. Helping develop a strong grassroots demand for these and similar services might. After all, this seems to have been the pathway for the evolution of other societies which have successfully made this transition.

Encouraging further development of commerce, especially that on a micro to small scale, would seem to be the best way of creating the demand for better governance. Taking a leaf from the evolution of other societies, I suggest the appropriate steps to this end might be to facilitate development of market towns, each with a good network of feeder roads. I believe this could lead to (a) more peaceful interaction between groups traditionally antagonistic, (b) an increase in basic skills associated with business, (c) a wider appreciation of the need for law and order, because roads need to become safe for commerce and corrupt practices need to be less often admired and more often seen as stealing; and (d) a greater demand for education to make the most of commercial opportunities. Providing landowners with real powers in the management of their own resources, especially forests, should also assist in the building of businesses at grassroots level. My colleague Dr Hunt will comment further on ways in which businesses can be advanced.

I believe that Australian aid in this region should primarily be assessed on how much influence it potentially has on the speed of social evolution towards the characteristics needed for national survival in an increasingly globalised world. Further development of commerce would appear to be a pivotal strategy. The active support of market towns and the return of resource management responsibilities to the traditional owners of those resources would be useful starting points in boosting the private sector and laying the foundations for social change and consequent governance reform.

Finally, over the past 30 years I have visited PNG almost annually. On two occasions I lived there for several consecutive years. I have seen aid projects come and go and I have been involved in several. On some occasions I have been an employee of aid agencies; on others I have been a PNG public servant responsible for their implementation. Overall I believe that most of our aid and that of other donors has been wasted. We have either failed to understand how to use aid effectively or failed to design programs so that they can deliver results. Our shortcomings as donors are now obvious to all. It would appear that drastic changes are needed in our aid philosophy if we are to provide aid which will help PNG develop as a modern economy and provide us northerners with neighbours we can proudly call our friends.

Dr Hunt—I have just completed almost four years at the National Research Institute in the economics division in Port Moresby. It is attached to the public service, but the NRI used to be an arm of the ANU years ago and it still is the foremost research body in Papua New Guinea. I

tried to undertake research there, I did consulting and I contributed regularly to the *Post-Courier* newspaper as a columnist.

My role in supporting the joint submission here will be, briefly, to provide three examples of how our thesis of small business can be supported. The first is what is happening with the roads—how they could be improved and their importance. The second is the issue of land tenure—how that is so important for agricultural development and some little-known advances in Western Highlands Province, where 2,000 growers have actually registered their land and got a certificate of title of it. The third is the forestry area, where I could outline what happens to the forestry resources of the landowners at the moment and how our idea of how landowners could actually manage their own resources could indeed stimulate small business, compared with the way that logging concessions are formed at the moment. Thank you.

CHAIR—Did I see something in one of your submissions about some problems with fishing as well?

Dr Hunt—Yes, that is in my individual submission.

CHAIR—And the regulation of coastal fishing zones and so forth?

Dr Hunt—Yes, and tuna fishing in the Pacific as well.

CHAIR—That is not one of your three examples that you want to talk about?

Dr Hunt—No, that is with our joint submission—

CHAIR—You are going to come back to this later, are you?

Dr Hunt—I have an individual submission after that, in which I address the Pacific.

CHAIR—Let us go to the joint submission first of all. Dr Stocker, in a nutshell, you said, ‘Our aid is wasted as it is now. There needs to be a change in our philosophy of aid.’ Can you describe for me what you think that change should be?

Dr Stocker—I think I expressed it this way in my submission:

... Australian aid to this region should be primarily assessed on how much influence it potentially has on the speed of social evolution towards the characteristics needed for national survival in an increasingly globalised world.

CHAIR—That is, if you like, the mission statement that should exist for our aid delivery. How do you contrast that with the mission statement now?

Dr Stocker—The mission statement, as I understand it, at the present time is not quite as basic as that. It is a little more ad hoc than that in that it tries to deal with a number of projects, many of which are at upper levels, rather than trying to get to the root cause of what I see as the problem—that is, fairly basic social attitudes which came about during the long period when PNG was basically a village society.

Senator MARSHALL—You talk about those social attitudes retarding good governance too. Can you explain that a little more?

Dr Stocker—One of the social attitudes that strikes me is that, for instance, at the village level, gift giving is a part of everyday life. At the village level it works well and is quite commendable, but I feel the problem is that people take these attitudes from the village to the national level; then gift giving becomes bribery and corruption but is still seen as acceptable.

CHAIR—In your oral presentation, you referred to Friedman's golden straitjacket. Can you just tell me what you meant by that?

Dr Stocker—I have them listed here. These are the sorts of properties that Friedman states a country needs to have.

CHAIR—Which Friedman is this?

Dr Stocker—This is T. L. Friedman, and they are outlined in *The Lexus and the olive tree*—

CHAIR—Oh, yes, that Friedman.

Dr Stocker—Would you like me to read the golden straitjacket rules?

CHAIR—Yes, please.

Dr Stocker—They are (1) making the private sector the primary engine of economic growth; (2) maintaining a low rate of inflation and price stability; (3) shrinking the size of its state bureaucracy; (4) maintaining as close to a balanced budget as possible, if not a surplus; (5) eliminating and lowering tariffs on imported goods; (6) removing restrictions on forest investment; (7) getting rid of quotas and domestic monopolies; (8) increasing exports; (9) privatising state-owned industries and utilities; (10) deregulating capital markets, making its currency convertible, opening its industries, stock and bond markets to direct foreign ownership and investment; (11) deregulating its economy to promote as much domestic competition as possible; (12) eliminating government corruption, subsidies and kickbacks as much as possible; (13) opening its banking and telecommunications system to private ownership and competition; (14) allowing citizens to choose from an array of competing pension options and foreign run pensions and mutual funds.

CHAIR—You are saying that these are the principles upon which you are proceeding.

Dr Stocker—I am not sure. These are general principles rather than particular principles. I do not think in every country it needs to be done exactly, but that is the general way that Friedman suggests, and I believe that countries must move to them if they are going to join the global economy.

CHAIR—These are principles that classically are Western liberal economic principles.

Dr Stocker—Yes.

CHAIR—You were emphasising the need to create demand for change from below. That comes back to the point you made about whether or not these communities want Western style growth. I think your comment was that some do and some do not, but that it is more or less inevitable in any case.

Dr Stocker—Yes.

CHAIR—And, sooner or later, the unspoken part of your comment is that those who do not want it will be co-opted by it in any case and will have no choice in the matter. Is that a fair assumption?

Dr Stocker—Yes.

CHAIR—One of the things that this brings forward in my mind is that we have had some evidence about the nature of the culture both in the Pacific and in Papua New Guinea specifically, and the desire for the maintenance of subsistence style living and a preference for that in some societies or in parts of societies. The big problem with that is that, if it coexists with a desire for Western level education and health, there is no industry base or income base at all on which you can erect a tax system to create the investment necessary to provide the education and health services. Therefore you are reliant on foreign aid to do so, and if you have no intention of ever developing that taxable base the question is whether that is a proper use of aid or not. Do you have any comment on what sort of time span we are talking about here or how avidly people might choose to adopt a subsistence style existence and reject Western style development? Are we talking about a millennium-long approach by which these changes are capable of being achieved?

Dr Stocker—I think it depends a lot on how things go. I often see people in the bush in PNG and I am not sure that there are many who want to maintain a subsistence style. I have seen some places well beyond the normal government influence and the people there were fairly sad. They were not in good condition from a health point of view, they were not in good condition from a nutritional point of view, and I do not think any of those people wanted to maintain that subsistence.

The big problem is that, like people everywhere, they want the best of both worlds. I am not sure that it is possible to have the best of both worlds. There are some terrific features about New Guinea culture—some features which I admire, especially in terms of looking after children and things like that—but it is my belief that unfortunately in Western style culture you have to adopt the good with the bad. It is very difficult to have an intermediate. If you have some of the features of your own culture which you badly want to hang on to they must more or less become a hobby rather than a way of life. This was the subject of many debates that I had with my students when I was at university. You often get the answer in PNG that this is the PNG way or the Melanesian way of doing things but when you look closely you find that it is perhaps an excuse to do things differently from the Western way—but it is not an effective way of doing things.

CHAIR—This is obviously a fertile field for debate. We are not engaging in a debate; we are trying to come to some hard conclusions. But you would not be surprised to know that we have had anthropological evidence from anthropologists who argue that this is a lifestyle choice or a lifestyle preference. It coexists with an aspiration for better educational opportunities, health

care and so forth, but in a subsistence society, classically, you cannot provide those because there is no taxable base, as I said, for doing so.

Dr Hunt—Perhaps I can make a comment. If you go to the highlands, which is a highly populated area in Papua New Guinea, you will see commerce thriving. You will see subsistence agriculture in those provinces but you will also see thousands and thousands of smallholders producing coffee, for example. They have been involved or engaged in the cash economy for a long time now. They might have their gardens and they might sell surplus, but they are the backbone of the coffee industry now, the estate plantation system having collapsed. They are well capable of engaging in the commercial arenas. I guess you could say the same for the smallholders in cocoa and oil palm. Given the opportunity, the resources and the markets, I suppose you might say that Papua New Guineans will move towards being engaged in the cash economy. Unfortunately, in many areas that are remote from markets—particularly agricultural markets—practically all they have is their timber and fishery resources and it may be difficult for them to engage other than in large-scale exploitation of their resources by outside forces.

CHAIR—This is not the line of questioning I set out to follow in relation to your submission, but let me just set aside what I was planning to do and ask you a couple of questions, because this comes down to one of the central concerns I have. Recently, the Papua New Guinea government has been under a fair bit of pressure to balance its budget or reduce its deficit. It has, as I recall, a deficit proportion to GDP that is quite large—I think it is about 12 per cent—yet it has huge demands for more expenditure on education. It has, as I understand it, an incipient and growing AIDS problem on the health front and it has low health delivery services around the country anyway. Whether it has AIDS or not, it has pressure for better health services—but AIDS makes it even more dramatic and needful.

Looking at the economy from an economic point of view, there is pressure to put infrastructure into the country, particularly roads through the highlands and to the ports, in order to connect the growers of food with the markets for food and in order to lay the basis for any sort of export industry, if there is one. There also is the need for policing and law and order to attract foreign investment, to provide some security for that investment and for the safety of the people involved in following through on it. There is the need for the enforcement of regulation upon fishing and forestry as well. When you look at the PNG budget, you can see it has a huge demand on it and pressure, at the same time, to pay off foreign debt and reduce the deficit. It just cannot be done; all of those goals just cannot be met. Looking at the golden straitjacket, what do you give preference to? Do you give preference to balancing your budget, paying off debt or delivering the services that lay the foundation for future economic growth that can then, hopefully, lead the economy into a more sustainable shape? This is the politician's dilemma and this is the one I empathise with. What do you do?

Dr Hunt—When Makere Morauta came to power and introduced his first supplementary budget and then major budget in 1999-2000, he was assisted in that by the friends of Papua New Guinea, dominated and led by the World Bank. Then we had the structural adjustment program and everything was pretty much on track. It was a budget that was balanced. It was a budget full of conditionalities in terms of spending. However, there were tremendous downsides in that the development budget was curtailed. One of the downsides of it was that we saw no investment in infrastructure like roads, which is basic. So you have a dilemma here. With your fiscal dilemmas that you are still in now—and even worse—if you abide by your straitjacket

here, which is great in theory and probably in practice, at the same time as you have urgent development needs, you are not meeting those.

CHAIR—That is right.

Dr Hunt—Because you are unable to do that and balance your budget unless you reconfigure your public service, which means a very big issue of laying off thousands of public servants and redeploying the recurrent expenditure in particular—the huge recurrent expenditure budget—into a development budget, concentrating on your well set out medium-term strategy. Part of the dilemma is the fact that you basically have a social welfare budget here supporting thousands of public servants, and there is the difficulty of changing this almost entrenched culture of supporting vast numbers of people through the public service. You can see the difficulties that Makere Morauta faced, for instance, in reducing the Defence Force. There were riots. There were riots by the Defence Force because they did not want to be cut. Yet it is very hard to see why you need very much of a Defence Force in Papua New Guinea, particularly when you have a huge opportunity cost in the funds that you are using in that area

So there are colossal dilemmas, and you put your finger right on it, and medium-term strategy has been laid out quite well by the government. In fact, when we were at NRI, we were in the process of advising them whether they were on track with their medium-term strategy. Ostensibly they were, in the appropriations in the budget. But when it comes to the actual budget, it is something entirely different. Roads are the primary example of huge appropriations of millions of dollars in the last few years, you will see. But the actual expenditure has been close to zero on maintenance on the national highways and failure to provide money—seeding money, or money to kick off the large ADB and now World Bank projects—to fix up all the feeder roads and the national highway, particularly the highlands highway.

CHAIR—Are you saying that the budget appropriations are there but that not one metre of asphalt gets laid because there is a bend in the pipe somewhere and the money goes elsewhere—into an inefficient public service that is a do-nothing public service? Is that what you are saying?

Dr Hunt—There are basically overruns. Let us start at the beginning. First of all, it is a matter of far too much optimism about income on the budget side. If you look at the last couple of budgets—

CHAIR—Every government under pressure for its deficit is very optimistic about its revenue raising.

Dr Hunt—If expenditure is bigger than income, then your deficit is bigger than it was, and the first thing to go is things like roads. You are not actually maintaining a huge public service with that amount. That is development expenditure. It is easy to cut that. You have to keep all your operating expenses up because a lot of people depend on that. So the first thing that is cut is roads—those development type expenditures. I suspect that there has been misappropriation; in fact, I would be fairly certain that there has been misappropriation in development budgets. But I think the main reason why there is such a difference between appropriation and actual is that, when you come to look in the coffers, there is far less in there than there should have been to make these expenditures. So you get a compounding of the situation, a worsening of your roads and a lessening ability to generate business and income at the grassroots level, combined

with greater and greater restrictions on spending—as we have seen: tightening, tightening, tightening of the screws over the last several years when development expenditure has been absolutely crucial to moving forward.

CHAIR—I still do not understand where the money goes if it is misappropriated. Irrespective of whether it is legally or illegally spent, if it remains in the country it contributes to aggregate demand in the economy, which is a positive for the economy, or it contributes to investment within the local economy—again, as long as it stays in the country. The worry I have about this problem is this. I do not know whether it is a justified worry, but I am just looking at these figures as someone coming to this problem fresh, and fully aware that a little knowledge can be dangerous, so I am not making any firm assumptions. It seems to me that, if you cut down the public sector or if you too rapidly reduce the budget deficit, there is not a mature private sector there that is able to pick up the slack in the demand that has been vacated by the public sector. Overall, aggregate demand would fall and the economy would start to spiral downwards. You would have to be very careful about the public-private settings. What sort of private sector do you have? Is it a private sector that is mature enough to be able to take on growth were the obstacles holding it back removed, or are we still a stage away from that?

Dr Hunt—I will tackle your first issue there of appropriation and describe what happens through an example. If you look at consumption as part of the gross domestic product, it has increased dramatically since independence. Your capital investment, however, has not kept pace with that at all.

CHAIR—Is that per capita consumption or consumption per capita?

Dr Hunt—It does not matter how you look at that. But if you were to look at it in real terms per capita, GDP is the same as it was at independence in 1975; it has not moved at all in real terms per capita.

Let us take the example of roads again while we are on that one. Provincial roads, road making and maintenance are funded by the central government. What has happened is that the politicians have kept the money in house by forming their own construction companies. Take the Eastern Highlands, for example. There used to be a number of private construction companies there; now there are no bona fide road construction companies. The ones that have been set up by politicians are really incapable of actually doing the roads. Not only is the money channelled probably into consumption rather than development; the development that you do get is totally inadequate. That is an example of how money supposedly goes into the development side but actually goes into the consumption side. That probably is an example which could be applied in many other areas of development money being ineffectual and actually ending up being consumed. I think with the slush funds of politicians there is probably a similar scenario.

CHAIR—It sounds as though, if you want to be a capitalist, you should be a politician first: tap the bend in the pipe, get your own private capital and then invest—maybe not even in the country; maybe with some home units on the Gold Coast so you have a secure supply. Is that a caricature, or is that effectively what we are talking about?

Dr Hunt—I suppose you need capitalists to invest, but do the capitalists, the big men, invest or do they consume? If you travel through the highlands, there are whole regions that are

inaccessible during the coffee season because the provinces have not built their roads. The ADB loan which was approved in 1999 for several millions to do all the feeder roads has not been triggered because counterpart money has not been available. Moreover, the national road, which takes all the coffee to Lae, is in a terrible state. Vast areas of the countryside that are productive are unable to deliver produce. There is a compounding effect, particularly in the roads area. If you look at the ADB figures where they do the benefit-cost studies, you will see that the rate of return on road investment is huge for many roads—well over 100 per cent for some of the major roads. Money is not being invested in the areas where you are getting the greatest effect. Even the limited money that is available is being frittered away, dispersed into consumption rather than investment.

CHAIR—How do you correct all of this? What steps would we take? This is the basis of your recommendations, Dr Stocker.

Dr Stocker—It certainly has to be a fairly gradual process. There can be a change in emphasis perhaps, but in the aid program there still are a lot of continuing things to do. To change too suddenly will certainly have catastrophic effects. In this particular book, Dr Hunt and I looked at the effects of privatising aspects of forest administration in Papua New Guinea. We have done some fairly rough calculations about what could be saved in terms of the forest authority if that sector were privatised and what would be the obstacles towards privatising that sector in terms of competence training. The sector has so many problems that fairly drastic changes may take a few years to get over, but sometime, somewhere, someone has to bite the bullet, and perhaps it has to go in that direction. I suspect the situation is similar with other government agencies and authorities.

CHAIR—That does raise a question about Australia and its role with a sovereign government. I can be criticised for not having as detailed a knowledge of PNG politics and economics as perhaps I should have, but my understanding is that one of the platforms on which Michael Somare got elected as Prime Minister was no further privatisations. We are here in a position at government level advocating to him that he has to bring his deficit under control—he has to rein that in—that he has to engage in some privatisations to help him do so, and that our contribution of aid is dependent upon achieving those goals. Do you have any comment to make about whether, in the face of an election result which says to a government, ‘Don’t do this,’ we say, ‘Do this; otherwise we will not support you economically’?

Dr Hunt—I have a couple of comments on that. Firstly, if you look at the benefits of privatisation in terms of the net assets you are able to sell, you need to be extremely careful in not overestimating the likely benefits, particularly when you are trying to sell state institutions that may be far more indebted than you think they are and their assets worth far less than you think they are.

CHAIR—That is a question of whether you will get the return you budget for.

Dr Hunt—The sale of the Papua New Guinea Banking Corporation did not bring in that much money. If you look at the next trams in the rank as far as sales go, one has to be rather circumspect about the financial benefits of the sale; at the same time, one has to be reminded of the tremendous misgivings among politicians about whether in regional areas the services will be maintained with privatisation—just as in Australia.

CHAIR—The community service obligations.

Dr Hunt—I would suggest that it should not be a major plank of Australia's policy there, given those two provisos. If you look at the Privatisation Commission, it has swallowed up huge resources and delivered rather little so far. You are going to be faced with this problem, particularly with a leader who does not even see it as a priority. It could become a huge stumbling block, and an expensive one, to follow this track slavishly. I would sound a great word of caution with respect to privatisation policy, on those grounds.

CHAIR—But your word of caution is based not on the principle of it but on the application of it, given the invisible debt or higher debt to the potentially privatised entity than first reported.

Dr Hunt—And the value of assets and who is willing to pay very much for these assets. Who wants to invest in PNG in these institutions, which are often loss making anyway. You have to bring them to a profitable situation. Can you do that?

CHAIR—And what regulations you impose on the new owners for community service obligations and things of that nature.

Dr Hunt—Yes.

Senator MARSHALL—I have no questions.

CHAIR—We could be here all day if I were let loose on this discussion, but it would be a discussion. It comes down to how you resolve these problems; you have put forward a very worthwhile suggestion. What timetable are we looking at here?

Dr Stocker—I guess my suggestion is a culmination of 30 years of frustration and seeing what has been going on. The sort of time scales I would envisage are probably tens of years rather than several years. I suggest that the move be gradual. I do not think that privatisation is a particularly good place to start. The encouragement of small business enterprise is probably the start. You build up an entrepreneurial group at what are commonly in PNG called grassroots levels of society; then you try and develop that group, not worrying too much about what is happening at the top in terms of privatisation but getting the underlying philosophies and ways of doing things well understood through the society.

CHAIR—You are talking about a strategic approach that is a long-term strategy. In order for it to be viable it requires—in Australia at least—a bipartisan agreement that, irrespective of the changes of government, this strategic line will be adhered to.

Dr Stocker—Yes.

CHAIR—And that strategic line is to create demand for change from below and to foster a change in social attitudes over time. It is to direct aid to strengthen the development elements of the economy—roads, education, health—and create efficient delivery and efficient administration of government services.

Dr Stocker—It will create a demand, which will go up through the system, for better governance so that the process can be accelerated.

CHAIR—There is a faith that over time these changes will therefore be self-reinforcing?

Dr Stocker—Yes. I would like to emphasise that in North Queensland our sensitivity to some of the things that have happened to PNG, in terms of policy, are quite different from that of the rest of Australia.

CHAIR—It comes down to this, doesn't it: if the PNG economy goes backwards, the economic refugees will come into North Queensland?

Dr Stocker—Yes.

CHAIR—They will be our problem, so we might as well fix the issue at source rather than deal with the effects of it later.

Dr Stocker—A few months ago the *Cairns Post* editorialised on PNG aid. It was rather scathing in a way but I think it is fairly typical of the attitude of a lot of North Queenslanders to what is going on. May I read it out?

CHAIR—Yes, please. Read it into *Hansard*.

Dr Stocker—The editorial states:

Recent claims by two former Papua New Guinea prime ministers that Australia and the World Bank had impoverished PNG beggar belief.

The cold, hard fact is that endemic corruption, incompetence, rampant nepotism, tribalism and sheer disrespect for the rule of law—which extends from the top down—constitute the causes of PNG's current social and economic disruption.

Unless PNG—a nation with rich resources and immense potential—is prepared to face the reality that the fault for its problems lies within itself, it will continue the steady roll downhill to anarchy and, finally, barbarism.

And if PNG is not prepared to face this reality and continues to blame Australia for its woes, perhaps we should consider better ways of spending the \$300 million of hard-earned taxpayers' money that we pour into our ungrateful neighbour each year

CHAIR—Is that an editorial?

Dr Stocker—Yes.

CHAIR—It is not a letter to the editor?

Dr Stocker—It is an editorial.

CHAIR—That is on the *Hansard* record now. Thank you very much, Dr Stocker.

Dr Stocker—It is an extreme view but it is not an uncommon view in northern Australia.

CHAIR—It may not be an uncommon view in other parts of Australia as well—not just in the north of Australia. The effect of a collapse of the economy or a loss of social order in Papua New Guinea will be that the global community will leave Australia to provide the economic and social support to improve things. Therefore the only issue for us is this: how do we avoid that and how do we help these economies develop a level of stability and growth that can provide the services and support for their communities? Otherwise we will be chasing our tail, picking up the fallout and never getting on top of the issue so that these places can be self-sustaining.

I am talking off the top of my head now, but I have a worry about whether microeconomies like those in some of the Pacific island states—and I do not put Papua New Guinea in this category—are sustainable at all. The problem for the Pacific island states seems to be that—unlike in the Caribbean, where there are a lot of microeconomies all within spitting distance of one another—the logistics of bringing them together is huge. It would not be an easy solution to form a sort of oceanic community and—if you could ever get to this point—develop an integrated comprehensive economy from which you could trade with the rest of the world. The logistics and costs of interisland activity are so high that you probably could not get to that position.

Dr Hunt—They are pretty well open economies too. If you look at trade as a proportion of gross domestic product, which is a measure of openness, they are pretty open, relative to developing countries elsewhere. So it is not a problem of a closed economy. They are basically highly dependent on exports to generate their income.

CHAIR—But they are exports of a narrow range of commodities.

Dr Hunt—It is a narrow range of commodities, and we are just seeing now that PNG wants to have an export led economy. Solomon Islands is going through that but it has a logging led economy because the fisheries have packed up, mining has packed up, the estates have packed up and oil palm has packed up. Everything has packed up. The only thing that can keep going is logging, because that takes place out in the islands away from Honiara and can be done by logging companies.

CHAIR—And they will eventually pack up.

Dr Hunt—They may pack up, but there is nothing to stop them working with impunity and without regulation out on the islands.

CHAIR—That is the point though, isn't it? Isn't logging going on above reforestation levels?

Dr Hunt—In the Solomon Islands there is probably only about five or six years left at the current rate. This is on the estimation of the AusAID forestry experts there and the forestry commissioner. Five or six years is all that is left in the Solomons.

CHAIR—What will happen after that?

Dr Hunt—After that the resource will be depleted and it is unlikely, given the mode of logging, that you will get a good recovery for a second cut within 30 or 40 years. Fisheries is an issue that I was hoping to touch on in terms of Australia's aid position.

CHAIR—Please give us a few words now because we are still waiting for these people.

Dr Hunt—Yes, I would like to say a few words. In terms of globalisation, more than half the world's tuna now comes from the western central Pacific. Most of Japan's and other countries' fresh tuna supplies—sashimi and so on—also originate in the western central Pacific. We have a situation where most of the fish and the income are generated by distant-water fishing nations. Counterbalancing that, with exclusive economic zones the Pacific Islands now have some sovereignty over their fish resources—more so than hitherto.

CHAIR—They have sovereignty only of a qualified sort. The exclusive economic zones are far from exclusive in this sense: there is a threshold provision that if you are not exporting the resources in the water column to the level of sustainability then other nations can exploit those resources to that level.

Dr Hunt—I should have perhaps used the word 'jurisdiction' rather than 'sovereignty'.

CHAIR—Yes.

Dr Hunt—But I think the fact of the matter is that we have very little in the way of management plans for our major resource, which is tuna. There is one in the development phase now. I was going to try and emphasise the importance of Australia's support to individual countries and to the regional bodies, which are basically the Secretariat of the Pacific Community and the Forum Fisheries Agency, in the development process of tuna planning—and, indeed, of other species, like shark, which could be endangered in some areas. The bigeye species is probably already in a bit of trouble because of the type of fishing that is going on, which is the use of fish-aggregating devices by many of the superseiners loose in the Pacific Ocean. The alarm bell has just started ringing on that.

In every other ocean the tuna resource is in some trouble, so we are getting the huge subsidised fleets of the European Union, for example, beginning to move into the Pacific. There are about 12 Spanish superseiners operating in Kiribati's waters. That started a couple of years ago. There is this tendency for huge, excess fishing of resources, which is subsidised, and fishing on now slightly depleted tuna resources, moving towards where the resource is still intact and where individual nations are willing to sign up and do bilateral deals. That is now occurring with European nations, who hitherto have been very minor in their exploitation of Pacific resources. It has been mainly Taiwanese, Korean, Japanese and American vessels and fleets.

I believe it is important that Australia engages in a major way, because it has both the scientific and management expertise to assist these regional organisations to come to grips with formulating a plan for tuna. But it also has a role in trying to encourage the individual nations to join in the plan rather than making sovereignty their big goal—signing up, doing deals with the Japanese and coming back and saying, 'We've done this marvellous deal.' It has a role in trying to encourage the cooperative approach on a cooperative resource plan.

I think Australia's big role here is that it should be extremely proactive, not necessarily in undermining the roles of the island states themselves but in encouraging them. So they can join in meetings of the South Pacific Commission and FFA; they can actually go to meetings, be represented and so on. But they should have a good position when they go—understanding their

own stock position and getting good fishing records going, which are rather deficient at the moment, so that we know what is actually happening in the EEZs. When we come to do the planning we should know what is going on, how much fish is being caught relative to the sustainable level of fishing of the different species and so on. Given that that is the number one resource in the Pacific, I think Australia has a very important role there, because that tuna resource could go on indefinitely supplying income.

CHAIR—If it is properly managed.

Dr Hunt—And if it could get the value-added going up all the time in that industry, it would be a good thing.

CHAIR—That same concept, applied to forestry, is true as well, isn't it?

Dr Hunt—Forestry is a different kettle of fish in that it is not a common property resource in that respect, although it is if you look at it in terms of planned ownership. Our thesis there has been that, if you take the countries of Melanesia, there is a different situation in each one in terms of forestry exploitation. It is difficult to be general.

In the Solomon Islands you have had collapse and definitely an unsustainable exploitation rate. It does not matter how much aid you put into strengthening the forestry department—and AusAID has had a presence there—if you have not got good governance or if you have no governance at the national level, your forestry authority cannot function and therefore—

CHAIR—I noted in your submission the recommendation that we practise a policy of not accepting timber from areas that are not properly policed. I noted as a firm recommendation to us—I am not sure of the exact words—that Australia not buy any of this timber.

Dr Hunt—A difficulty there is that most of the logs are now going to China and Asian markets, which will not discriminate. In Papua New Guinea, probably about 12 to 16 years of forest is left at the current rate of logging; that is not high, but it is the manner of logging that we suggest is the problem, in that you want to be able to come back for subsequent cuts. We believe that the method by which concessions are made available to logging companies—in other words signing up the landowners—is very flawed in that it completely undermines the local landowners. It does nothing to develop their business sense: all they do is receive money for their share of the logs from the logging company or from the government, which in recent times has been only 12 per cent of the logs—a pittance. They would not have to do very well to get more than 12 per cent of the value of the logs if they were in business on their own. That has also precluded conservation. It has precluded, for example, NGOs going in and doing deals with landowners whereby the landowners would receive an equal amount of money to 12 per cent and still have their logs.

CHAIR—For locking up their resources.

Dr Hunt—Yes: conserving. So we see a great many flaws in this method by which concessions are given out at the present time. Our thesis is rather radical, but we believe that, for the long-term future for Papua New Guinea, it is a much more viable one, particularly as it links up with small business development; it involves local people using their resources for their

own benefits rather than seeing them all exported and then getting a very small amount of money for it and suffering the environmental costs as a result.

CHAIR—Selling them at the lowest value added element of it.

Dr Hunt—Value adding is a difficult one, but when you look at the AusAID and the Papua New Guinea government's figures, they are always saying that value adding does not work. They always put in as a cost the government tax forgone on logs. If you process a log in Papua New Guinea, you lose a huge amount of tax. But the fact is that tax has been appropriating about 70 per cent of the value of the logs, and it has been an unsustainable level of tax. If you reduce the level of tax, then the opportunity cost of processing the timber is much less. Some of the argument that you might find against processing in country is a bit flawed in that respect, in that the opportunity costs are rather overstated.

CHAIR—Value adding in the timber industry goes up in leaps and bounds according to the degree of extra value added. I think from sawlogs to woodchips it is by about a factor of 10, from sawlogs to sawn timber it is about 20, and from sawlogs to furniture it is about 36.

Dr Hunt—We have got a situation where devaluation is assisting, because you are getting more and more kina per cubic metre sold. We also have a situation where log income is now far less important to the budget of PNG than it used to be. It used to be one of the major components of government income to fund the running of government—that export tax. Now it is relatively minor. It is not as if you cannot make some sort of adjustment which might give you a bit of a short-term lowering of log export income; mining and petroleum income is now far and away the greatest contributor, even though it is now declining, which is a worry.

CHAIR—It is a worry because it is a mineral rich country.

Dr Hunt—Yes.

CHAIR—I think there is something we can look at in this. Australia is a net importer of timber needs. One of the most sensitive political questions in Australia is forestry. The more we are unable to meet our own needs, the more we import from countries and therefore the more we contribute to deafforestation internationally. I have always thought there is a need for us to encourage proper forestry practices in those nations from which we source our timber or cellulose needs. That will not stop countries like China, which is a giant vacuum cleaner, just sucking up this resource everywhere, but at least it is a step in the right direction. On the fishing side of it, there is no reason why we as a committee could not consider—if we wanted to—making our recommendations on that subject known, for example, to the European parliament in order to stimulate a dialogue on international action to get an international fishing management regime in place to which the Pacific island nations might feel they could sign on.

Dr Hunt—Indeed.

CHAIR—That is another possible avenue. I have not discussed this with the rest of the committee, but it is another possible recommendation we could look at.

Dr Hunt—I think that does follow on. It is a global initiative—the United Nations initiative—to get these conventions in place. One of the conventions is driving the tuna

management plan. It is a global initiative there. It has come down from the top. On the other hand, we have these global forces undermining with these huge subsidies. Most of the same countries promoting the global management of fish are at the same time undermining through their huge subsidies. America also subsidises its Pacific fleet enormously, and that is why it is able to pay a good deal for the tuna it catches in the Pacific.

CHAIR—That is the basis of the WTO dolphin tuna case. In the WTO, the Europeans are the ones who are arguing most strongly for environmental constraints being placed on trade. But in any case, there have been discussions with the European parliament on the Patagonian tooth fish issue. The beneficial owners of some of those fishing boats were believed by our intelligence agencies to be Spanish and Scandinavian, and therefore within the ambit of the European Union. I think I am right on that; I had better qualify it since I am on the record. Their rules about exploiting natural fish stocks to extinction are quite strong, and the penalties they would impose within the Union on fishing boats owned by citizens or residents of member countries of the Union are quite strong as well. There may well be a basis for some dialogue between the parliaments on that issue. I do not know; it is just something that we are talking about at this point.

Dr Hunt—We have small countries like Kiribati and Tuvalu as prime examples here. Kiribati is a country of about 75,000 people; Tuvalu has about 9,000 people. Both have huge tuna resources; it is their biggest resource in both countries. Both atoll nations are very inclined to want to maximise their own income by doing deals.

CHAIR—Of course.

Dr Hunt—One can understand this from a sovereignty point of view and from the point of view of maximising their own income.

CHAIR—And their budgetary pressures.

Dr Hunt—Yes. Why would they want to be part of an overall plan which to them may reduce their ability to extract the maximum out of a Japanese fleet or a Taiwanese fleet by playing them off against each other—and now the Spanish fleet is coming along and perhaps paying even more.

CHAIR—The answer to that is that it is a question of intergenerational equity, isn't it?

Dr Hunt—But it is completely undermining what we need to do in terms of the Pacific management of the tuna, which requires most nations—which will have to include Kiribati and Tuvalu as being major areas full of resource—to be involved in this regional management. As a start, what we will have to do is have a core arrangement where Papua New Guinea, the Solomon Islands and, say, the Federated States of Micronesia and maybe a couple of others like Fiji and even Australia, will form a core group. We can begin that way and then try and bring the other nations into the management plan, rather than trying to do it all at once.

CHAIR—For the sake of not being misrepresented, put a coalition of the willing together and then add to it. Is there anything else that you would like to canvass with us?

Dr Hunt—I think the inshore fisheries is a matter I would like to bring up. Geoff, I do not know whether you have anything to say, but I would like to just bring up inshore fisheries and the situation there. It is really a governance issue. In my submission, you will see that only 40 per cent of coastal communities were actually visited by a member of their fisheries department in the last 10 years. We have globalisation impacting on inshore resources through ability to do fishing. There are outboard motors. Chinese traders coming in want to exploit beche-de-mer, green snail, trochus, et cetera. But it is not matched by the ability to manage those resources.

There is a movement to transfer far more power to local communities that in some areas has been quite successful. You may have heard of this already. Colonial governments tended to centralise administrations and weaken the peripheral administrations which had been in place already to manage things like fish stocks. I think the realisation now is that you cannot manage a fish stock in remote areas from Honiara or Port Moresby. You cannot send fisheries people out there to see that the right thing is being done. But you can reinforce the local community's jurisdiction. This can be done by agreements with provincial governments to say, 'Okay, you guys, you have 10 kilometres of coastline; we'll give you jurisdiction over that. They're your traditional fishing areas; you make the rules. You can keep out other people who come into that zone. That is your zone. You are in control of deals with Chinese over beche-de-mer sales, et cetera.' That reinforces the local community's ability to manage their own resource sustainably. It is a growing trend. I think it has even become an accepted way of doing things. But the practice has not kept pace with the theory in this area. I know that the ADB is in that area, but Australia should really look at what a difference it could make in that area in terms of bolstering the ability of fisheries departments to effect management of coastal resources, which are extremely important to local people.

CHAIR—Does the ADB do that anywhere else?

Dr Hunt—They tend to be quite strong in fishing.

CHAIR—But do they provide that type of support to other countries not mentioned in your submission?

Dr Hunt—They are in the Asian area, yes—in the Asia Pacific and in South-East Asia. Yes, they are doing that. But I think once again this ties up with Australia's role in the Secretariat for the Pacific Community, the SPC, which does a lot of work in coastal fisheries. There are linkages that are very strong through the SPC—doing extension and research work. The ADB tends to fund departmental strengthening exercises, whereas Australia, through SPC, has tended more to be in the role of providing advisers, providing local communities with estimates of their sustainable fishing resource and that sort of sequence.

CHAIR—I think the concept of decentralising the management of a depletable resource to the community that is dependent for their long-term existence on that resource is a good concept. That is what underpins the National Landcare Program, for example. However, it is dependent on one key policy element—that those communities have to be given the information that enables them to make sensible choices about what the level of sustainability is. The National Landcare Program is supported by state governments that provide information about the whole catchment. One particular farmer will not have a view on that, but in the general area as a community they will have a view on how you manage that catchment. The concept of decentralising the management of local fish stocks to local communities gives those people the

responsibility for making choices for themselves and for their families into the future. Inevitably, when people have that responsibility, they act responsibly in that way. But they have to have the resources. They have to know what levels of catch are permissible, what the regeneration rates of the fish stocks are and things of that nature.

Dr Hunt—I would like to comment on that.

CHAIR—I was going to ask you: where do they get that from under your plan?

Dr Hunt—What we had before was this. The central department of fisheries would in theory go out and work out the sustainability issues in these coastal fisheries. But it is an enormous job, because each coastal area is different and you have fish moving around.

CHAIR—Fish do not understand countries.

Dr Hunt—Basically it is a task that is really beyond—

CHAIR—It is global almost.

Dr Hunt—Yes. You cannot do this. But what has been found is that the local people, if they are in a genuine situation of making their own rules—and the more remote they are from towns, the more likely they are to be able to do this—do have quite a good concept themselves of what they can take and what they can leave. They develop their own rules by trial and error. If we wait for the scientific advice, we will be waiting forever. I think it is something that we have to renew our thinking on.

CHAIR—So you think bold decentralising is appropriate here?

Dr Hunt—Yes. Giving them jurisdiction is the first thing, and they will work it out; the sustainability issue will follow on from that.

CHAIR—You have just made a very valuable point.

Dr Hunt—Thank you. Can I ask Geoff whether he wishes to say anything? I hope I have not cut Geoff off.

CHAIR—We have some useful time. We might as well use it usefully.

Dr Stocker—I think much the same as Colin has said also applies to the forestry sector. The main thing that concerns me with the forestry sector and plans is that the situation is constantly changing. For instance, the price of south sea logs has not really gone up, and it is more likely to go down than up. South sea logs mainly end up in Japan as concrete form work. That is where 80 per cent of it ends up. Very little of it ends up—

CHAIR—As sawn timber, basically?

Dr Stocker—No, as ply.

CHAIR—Just as ply?

Dr Stocker—Ply and sawn, but it is used once and thrown away. New Zealand and Chile radiata pine is taking over that market. The economics of continued production from PNG forests is altering quite drastically. Future crops are going to have to be niche marketed for their furniture quality. You just will no longer be able to compete. You can grow wood in plantation in New Zealand for the cost of actually hauling a log out of the forest in PNG. Those are the sorts of relative values. I would see the great demand on PNG forests petering out in about 10 years; they are gradually declining at this rate now. Our objectives in terms of forest management are moving.

CHAIR—I am not so sure that I would agree with those conclusions, for this reason: if you look at Asia Pacific growth rates, there is some sort of comparability in the consumption of paper—cellulose—with economic growth as well. For example, you cannot have a daily newspaper in China, because there is not enough cellulose to provide for a 1.3 billion member readership. With the growth rates there are in China, it is very likely that the demand for timber will always outstrip supply—in the foreseeable future, at the very least. I do not see any demand, and I am not sure what the properties of the PNG timber might be from the point of view of paper manufacture.

Dr Stocker—PNG timbers are useable for paper but, because are you exporting 100 species, there are technological problems which you do not have when you are using—

CHAIR—A single source supply.

Dr Stocker—Yes, radiata pine from New Zealand, Chile or Australia. Yes, I think the long term is rather difficult to predict, but I certainly do not see the pressures on PNG timber supplies for a long time being what they were, say, 10 years ago, when I think the maximum volume out of PNG reached 3½ million cubic metres per annum.

Dr Hunt—It is down to two now. The price and demand has fallen right off since 1997.

Senator MARSHALL—But you were saying earlier that, on current trends, there is only 16 years supply of forest left.

Dr Hunt—Yes, which is about two million cubic metres at the moment.

CHAIR—But the lower the price falls, the more volume will be supplied in order to keep the income up, won't it?

Dr Stocker—It does not work that like that.

Dr Hunt—What has happened in PNG is that the concessions are running out but new concessions have not been opened up very readily. Basically, the World Bank has had structural adjustment restraints on that. The formulation of the concessions has been flawed. If that had gone ahead as planned, then there probably would have been a lot more logging. A lot of companies are failing—or have failed—to be profitable in the lower price regime. It is only the bigger ones that—

CHAIR—I see.

Dr Hunt—So that is counterbalancing the fact that you need to have more log throughput.

Dr Stocker—The cost of logging is really a very significant factor in harvesting those trees compared to harvesting plantation pines.

CHAIR—Is it a cherry picking operation rather than a clear felling operation?

Dr Stocker—The rainforest is a selective operation, whereas the radiata pines are a clear felling operation. Most of your costs are on volume per hectare, and in a plantation you are probably looking at a volume per hectare of 10 times or more that of a natural forest. Harvestable volumes of 20 cubic metres per hectare would be fairly high for a lot of PNG forests, whereas 200 cubic metres per hectare would not be unusual for a pine plantation.

Dr Hunt—And we have massive ones in Australia now.

Dr Stocker—And in Chile and New Zealand.

Senator MARSHALL—But, as we know, it only takes a couple of good bushfires to fix that.

CHAIR—Yes. Ask anyone who lives in Canberra about the radiata pine plantation around Mount Stromlo.

Dr Stocker—Those in Chile are probably fairly susceptible; those in New Zealand probably are not quite as susceptible as ours.

Dr Hunt—But AusAID has pulled back on its assistance in the forestry area and in the environment area.

CHAIR—What is the justification for that?

Dr Hunt—In the environment area, there was an institutional strengthening program for the Department of Environment and Conservation. However, you would be aware that that department is at the bottom of the political pecking order. It has been reduced to being a small runt at the moment. It is not even a department; it is only an office. That is even after that strengthening. With forestry, I think AusAID may have come to the conclusion—justifiably, I think—that there was not much point in trying to implement better management in the face of massive corruption, ineptitude and very poor performance in that area. Why invest more—

Senator MARSHALL—It does not seem to have stopped us anywhere else, according to all the reports so far.

Dr Hunt—Yes; but it seems now to have reorientated towards more of a training role in forestry. I think it is justifiable. Look at the problem the World Bank forestry management project has had in getting off the ground; it has been in the pipeline for six years. At this very moment, they are trying to negotiate with a government that does not want its plan. The government wants an export led recovery. Why would it want restrictions on its log exports and

more restraints? So you have a forestry department that is antagonistic to the World Bank project. Under those circumstances—and I was there three weeks ago—I cannot see that you are going to get an effective project. If the government itself is not fully behind the World Bank project, it will not work. I think AusAID probably picked that up a while ago.

CHAIR—They thought it was a dead duck, so they were not going to throw any money at it. Thank you, gentlemen—unless you have anything further to add.

Dr Stocker—Thank you for this generous opportunity.

CHAIR—You can thank the next witness for not making themselves available. Thank you very much.

Committee adjourned at 12.52 p.m.