



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE

(FOREIGN AFFAIRS SUBCOMMITTEE)

Reference: Australian government loan to Papua New Guinea

FRIDAY, 9 MARCH 2001

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Foreign Affairs Subcommittee

Friday, 9 March 2001

Members: Senator Ferguson (*Chair*), Senators Bourne, Calvert, Chapman, Cook, Gibbs, Harradine, Hutchins, Sandy Macdonald, O'Brien, Payne and Schacht and Fran Bailey, Mr Baird, Mr Brereton, Mrs Crosio, Mr Laurie Ferguson, Mr Hawker, Mr Hollis, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Dr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Subcommittee members: Mr Jull (*Chair*), Senator Gibbs (*Deputy Chair*) Senators Bourne, Calvert, Chapman, Ferguson, Hutchins and Schacht and Mr Brereton, Mrs Crosio, Mr Laurie Ferguson, Mr Hawker, Mr Hollis, Mr Lieberman, Dr Martin, Mr Nugent, Mr Price, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Senators and members in attendance: Senators Bourne, Gibbs and Hutchins and Mr Hollis, Mr Jull and Mr Snowdon

Terms of reference for the inquiry:

Section 8F of the International Monetary Agreements Act 1947, as amended, requires the Committee to inquire into and report on the National Interest Statement (NIS) within two months of its tabling in the Parliament. The NIS was tabled on 6 February 2001.

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Subcommittee met at 1.00 p.m.

CHAIR—On behalf of the Foreign Affairs Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade, I declare open this public hearing. Under the provisions on the International Monetary Agreements Act 1947 as amended in 1998 the committee is required to examine and report to the parliament on the national interest statement relating to the second Australian government loan to Papua New Guinea. The national interest statement was tabled on 6 February this year and the committee intends to table its report by 2 April.

This afternoon we will take evidence from several Commonwealth agencies, the Australia Papua New Guinea Business Council and the Australian National University. Witnesses from these organisations provided evidence to the committee's previous inquiry into the national interest statement for the first Australian government loan to Papua New Guinea. The committee's report on the previous national interest statement was tabled in the parliament on 30 October last year.

[1.02 p.m.]

DILLON, Mr Michael, Assistant Director General, Papua New Guinea Branch, AusAID

HUNT, Mr Bruce Geoffrey, Director, Papua New Guinea Section, Department of Foreign Affairs and Trade

OLIVER, Mr John Graham Weldon, Assistant Secretary, New Zealand and Papua New Guinea Branch, Department of Foreign Affairs and Trade

LEGG, Mr Christopher, General Manager, Asia-Pacific Division, Department of the Treasury

SEWELL, Mr Mark Francis, Specialist Adviser, Asia-Pacific Division, Department of the Treasury

CHAIR—On behalf of the subcommittee, I welcome representatives from the Department of Foreign Affairs and Trade, AusAID and the Department of the Treasury. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the committee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the houses themselves. We have received the DFAT submission.

Resolved (on motion by **Mr Snowdon**, seconded by **Senator Gibbs**):

That the submission from the Department of Foreign Affairs and Trade be received as evidence and be authorised for publication as submission No 4.

CHAIR—I now invite you to make a short opening statement before we proceed to questions.

Mr Oliver—Beyond noting that there have been a number of developments in Papua New Guinea since last we met, which you and your colleagues may wish to question us on, I do not think I really have very much to add to the statement which was submitted earlier on jointly by the Treasury and ourselves and also the responses we provided to a number of questions from the committee earlier this week. I think the sorts of points which we would want to make about developments since last we met may be best dealt with in questioning from the committee. Much of what I would say is set out in the responses we gave earlier this week.

CHAIR—How do you read the business and investment climate in Papua New Guinea at the moment?

Mr Oliver—As you would be aware, there have been some uncertainties recently, which have been set out in both the Treasury documents and our own, about the relationship between Papua New Guinea and the international financial institutions. We are taking the view that these issues are now behind us very largely. The differences, such as they were, are in the process of being resolved. We think that is a very good development. Beyond that, I think we can say that the process of economic reform in Papua New Guinea is proceeding very satisfactorily. The

Australian PNG Ministerial Forum, which took place here in Canberra last week, was reassured by the statements from the PNG government that they were fully committed to the process of reform, they were fully committed to a full engagement with the international financial institutions and, generally speaking, they were on track to proceed with their reforms.

All of that leads us to believe that the PNG government really is very keen to see its reforms go ahead. In that context I think it is quite clear that they would want to see the most favourable business and investment climate being achieved as is possible. Our view is that this process is going reasonably well and the investment and business climate is quite satisfactory. There are a number of concerns which are usually raised in this context—namely, the law and order situation and the situation of provincial governments in PNG—but our general view is that the business community is greatly encouraged by the reform process and wishes to see it continued. By and large, we judge that the business climate is as favourable as it can be in present circumstances in PNG.

CHAIR—I understand that the situation of corruption was raised at the recent ministerial forum, from both the official point of view and from that of the business community. Could you tell us what the Papua New Guinea response was to that?

Mr Oliver—I think it is fair to say that the PNG government is very much aware of the impact that allegations and perceptions of corruption have on the business and investment climate. I think Prime Minister Morauta and his senior ministers are very keen to ensure that those perceptions are reduced over time and that action is taken by the government to address corruption. I think it is also fair to say that the removal of corruption from the system of government in PNG is a very long-term process; it will not happen overnight. Action is being taken in some instances to address corruption and to take wrongdoers to court. I think we were quite encouraged by the degree to which the PNG government is working with the World Bank and the IMF to do what it can to address corruption. We just have to be as patient as we can. It does have an impact on the business community and on investment. It is still around; it will take time to remove, but the government has a commitment to deal with it, and I think we would expect them to do the best they can.

CHAIR—Do things like delays in the Bougainville peace settlement have any real effect on the budget situation and any loss of confidence in what might be happening in the reform process?

Mr Oliver—I think the answer is yes and no. Bougainville, as a major platform in the PNG government's program, has been around for a while. Bougainville does consume resources. It is a factor for instability in government and it is a factor for instability on Bougainville itself, but I do not think that the slowness of the peace process is upsetting the reform program. Success on Bougainville would be wonderful to see, and I think there has been a lot of progress, but I do not see it impacting directly in the day-to-day management of the government's reform program. Quite clearly, if you get a breakthrough on Bougainville there will be pressure for the government to provide additional resources for the development of Bougainville. Doubtless the government would look to Australia to do what we can to assist in the development of a Bougainville which has, at last, a settlement. Yes, it does consume resources, but I do not think that they directly impact on the success or otherwise of the reform program.

CHAIR—Are we involved in the support or the payment of the PNG government's consultants in terms of the peace process? I think there is a Dr Wolfers from Wollongong University who is involved.

Mr Oliver—Let me give a very short answer and then my colleague Michael Dillon, whose agency is lucky enough to meet the cost of all this, may like to add something. Yes, there are advisers to both the PNG government and to the Bougainvillean parties who are paid for by the Australian government. That has been the case for a number of years and we would expect it to continue for at least the next 12 months, so long as advisers on both sides are needed. Mr Dillon may like to elaborate on who they are, where they come from and what they cost.

Mr Dillon—Prof. Wolfers is an adviser to the PNG government. We also have another adviser, Tim Curtin, working on financial aspects on the PNG government side. On the Bougainvillean side there is a range of factions. There is a number of legal advisers who are working or have worked for the Bougainvillean side: Tony Regan, who appeared before the committee last time, Yash Ghai, a professor of constitutional law from Hong Kong, and Ian Prentice, a lawyer from Brisbane, supports the BRA. They are the main advisers.

CHAIR—And we pay for all of those?

Mr Dillon—We pay for them. All our advisers are agreed to by PNG under the treaty. In a sense there is a necessity to be evenhanded and we support both sides. Our assessment is that the advisers have played a key role in progressing the peace process over the last few years.

CHAIR—We seem to be continually reading articles about the pipeline project. I understand there has been some approach by the PNG government for Australia to help with the financing of that. Is it correct that we have rejected that?

Mr Oliver—My colleagues may be able to help me out if I get this wrong, but yes, the PNG Queensland pipeline is a very important project for the PNG government. The government's view is that we support the project and we would like to see it go ahead. That said, it is the government's view that it should proceed on its commercial merits. There is a request from the PNG government for financial support. That is yet to be considered by ministers. I would not want to pre-empt the outcome of that consideration. Yes, there is a request and an answer will be provided once ministers make a decision.

Mr SNOWDON—For what purpose was the financial support sought?

Mr Oliver—Essentially, it is to enable the Papua New Guinea government to purchase an equity in the PNG infrastructure side of the project to address landholder issues, government revenue issues, provincial government revenue issues and generally to enable the PNG government to have a stake in the project which it cannot afford through normal circumstances. So it has sought Australian government assistance.

Mr SNOWDON—I am ignorant of the details of the commercial arrangements. What are the commercial arrangements between Chevron and the PNG government in relation to the exploitation of the resource?

Mr Oliver—I am not privy to the detail of Chevron's negotiations and arrangements with the PNG government. I think the PNG government would like to have some financial equity in its part of the infrastructure. It feels that the owners of the land in the area where the gas resources are to be found need to have some financial stake in the project itself and that can come only if the PNG government purchases such a stake through an equity arrangement with the developers. The amount of money which it would like to have by way of a stake is about 30 per cent of the PNG infrastructure side of the project. That would enable them to ensure over a period of time a revenue stream to the government, to landholders and to provincial governments. The details of the arrangements between Chevron, Exxon and all the rest of them and the PNG government I am not privy to.

Mr SNOWDON—Could you expand on the infrastructure that you referred to. Is there an undertaking as part of the deal by the PNG government to provide infrastructure?

Mr Oliver—To build the pipeline, there has to be a pipeline built on the Australian side across the Torres Strait, and on the PNG side you would have the pipelines, the gear which goes to contain and manage gas as it comes down the pipeline. Someone has to build that. The proponents are prepared to meet some costs of that, but they are not prepared to meet all the costs. Therefore, the PNG government has to pick up—because it requires an equity in the exercise—the costs of constructing part of the PNG infrastructure. The idea of concessional finance is that if you have a certain rate of return on the project and you can borrow money at a lesser rate, the difference between any concessional money you can borrow and the rate of return on the project amounts to your income—in this case it is Papua New Guinea's income—and you can then distribute that as you wish to the land-holders or the tax coffers. That is my understanding of the mechanics of the thing, but I have to say I am not a great expert on this.

Mr Legg—I guess the expertise lies with our industry department colleagues. The Department of Industry, Science and Resources has been carrying the leadership of this issue. The facts as Mr Oliver set out are broadly right. The first thing I would add is that, on my understanding of the way the private sector sponsors have been keen to set up the arrangement—I forget the technical details—essentially, each party has to raise their own funds independently. Papua New Guinea does not have the ability to draw on the financial strength of Chevron and Exxon to help put together its own contribution.

Mr SNOWDON—They cannot have a free carried interest.

Mr Legg—No. The second point I would make is that the need for concessional financing to make this work is driven to some extent by the fact that the agreed rate of return on the PNG part of the infrastructure is very low. That is also part of the current equation which ensures private sector proponents a rate of return which is acceptable to them. There would be other ways in which you could structure all that, but that is the arrangement that Papua New Guinea feels they have to go forward on.

Mr SNOWDON—If there is a cost to be borne by the public for infrastructure in the New Guinea side of the deal, is there a cost being borne in Australia by Australian governments—the Queensland government or the Commonwealth government—for the Australian side of the deal?

Mr Legg—I do not know the answer to that question. The infrastructure that PNG is investing in is infrastructure which in other countries would often be privately invested. It is not necessarily or inherently a public good.

Mr SNOWDON—But there may be a public benefit derived out of the partnership.

Mr Legg—That is a judgment for the PNG authorities.

CHAIR—Just a few days ago, I think it was in the *Australian*, there was an article about the deteriorating economy of the Solomons. Do you have any concern or, to your knowledge, does PNG have any concern about what effect that may have on Bougainville, on their own security arrangements or indeed on their economic wellbeing?

Mr Oliver—I think the PNG government is, broadly speaking, concerned about developments on the Solomons. Clearly, instability in the Solomons has the potential to create a wider global impression that there is instability in a certain region of the South Pacific. Instability in the Solomons could impact on the Bougainville situation because there are many links between people on Bougainville. They have families and clan links with the Solomons and in the past there have been link-ups between Bougainvilleans and the Solomons. There is a potential for there to be a greater measure of instability in Bougainville because of the Solomons but, at the moment, that is not resulting in any direct impact on the peace process. We get the sense that the Bougainvilleans are very keen to avoid being drawn into a conflict in the Solomons and are keen to avoid instability in the Solomons spilling over into and slowing down the process on Bougainville. The talks in Townsville revealed a considerable measure of Bougainvillean and national PNG government will to really get on and try to resolve the issues of weapons disposal and autonomy. The Solomons were very much to one side. They did not want it to interfere with their own process, which we found very encouraging.

Senator BOURNE—Law and order is obviously one of the major business confidence issues in PNG. Are we providing much in the way of aid that would impact on that? I am not saying that it is our responsibility to solve it—obviously it is not—but I am interested to hear what we are doing in the way of aid to PNG that would address law and order issues.

Mr Oliver—We are doing a good deal to try to address the law and order situation with the PNG government, principally through the aid program.

Mr Dillon—We have a longstanding involvement in the justice sector in PNG. The largest project in Australia's entire aid program is our police project to PNG. That is now in a third phase. It is worth \$86 million over five years. It is basically an institutional strengthening activity. We are also involved in assisting the correctional services area with a range of other, smaller legal institutions, including the Ombudsman's Commission and the Attorney-General's Department, through an access-to-laws type project. In sum, we have an extensive justice program within the aid program. It is working quite hard to do what it can to improve the law and justice situation in PNG.

Senator BOURNE—And that is ongoing? Does it look like it will wind down dramatically in the near future?

Mr Dillon—No, our expectation is that the program will continue into the future.

Senator BOURNE—I think there were a few IMF progress reports coming up. We talked about one at the last hearing and a couple more were expected. Do you know what has happened with those?

Mr Legg—I presume you are referring to the IMF reviews under the stand-by agreement.

Senator BOURNE—Yes.

Mr Legg—There was one completed in October which, of course, was the trigger for the release of the first tranche of the \$30 million loan. There is to be a second and third review under the program. It looks now as if they are to be rolled together in the sense that they will be considered at the same time by the board of executive directors of the fund. A fund mission is currently in Papua New Guinea discussing these issues. There are World Bank representatives also there, which we are very encouraged by. The issues involved are quite complex and difficult ones in the sense that they go to the difficult issues of structural adjustment. But the only indications we have are that at the moment all parties are trying to work through those in good faith. So we are hopeful that the mission will be successful and that in due course we will be in a position to release the second and third tranches.

Senator BOURNE—Do you have any idea of when they are looking forward to the second and third tranches being released?

Mr Legg—I am sure Papua New Guinea would be looking forward to it as soon as possible. There are problems of scheduling board dates and it takes a certain amount of time once a mission is finalised and goes back to Washington and does the paperwork. I could not imagine a board date before April.

Senator BOURNE—That is not bad, though.

Mr Legg—No, that is right. The program is due to end in May. One of the things that may be being discussed is whether or not the program should be extended by a month or two months to give a bit more time to deal with some of these issues. Part of that may involve additional funding from the fund.

Mr Dillon—Can I correct the figure I gave? The \$86 million referred to phase 2 of our project, but phase 3 is around \$55 million.

Senator BOURNE—Okay. Is the \$86 million over three years?

Mr Dillon—It would have been over five years, I think. Phase 2 is finished and phase 3 is not.

Senator GIBBS—In all, is this loan for \$US115 million? Is that what we are giving them? Is that the whole thing? We seem to be giving them a lot of money here.

Mr Legg—We have given them two loans. There was a \$US80 million loan, which was the subject of the first national interest statement and your report.

Senator GIBBS—That was last year.

Mr Legg—We have since negotiated and agreed a loan of \$30 million, which is to be released in three tranches, each tranche tied—

Senator GIBBS—So we are loaning them \$80 million plus the \$30 million?

Mr Legg—That is right. Each tranche is to be released in line with a successful completion of an IMF review, which basically says that PNG has done what is required of it up to that point. The \$115 million figure could actually be the size of the IMF loan, which I think is about \$US115 million. The World Bank is providing \$90 million and there are other players providing large amounts of money.

Senator GIBBS—So are we paying for this in Australian dollars or US dollars?

Mr Legg—The IMF requested from us a certain amount of US dollars. What we do on each occasion is, once the trigger occurs—the IMF review—we then take the exchange rate as of that particular day and convert the US dollar amount into an Australian dollar amount. We lend them Australian dollars and they owe us Australian dollars, so we do not take any exchange rate risk. They get the US dollar equivalent in Australian dollars, which they can then go and turn into US dollars. They have a liability and we have an asset in Australian dollars because we fund in Australian dollars. We borrow Australian dollars to fund it.

Senator GIBBS—So we are paying this in Australian dollars and then they have to cop the exchange rate, which is pretty bad?

Mr Legg—The amount of Australian dollars we give them, on that day, gives them exactly the \$US10 million. So if they do the transaction that day, that is not a problem. But they do have the risk of paying it back to us, so they have to carry that exchange rate risk. But it depends on whether or not the Australian dollar goes up or down against the US dollar as to whether or not they win or lose. That is not a judgment I am able to make.

Mr SNOWDON—So they might be losers in the future--if we were paying today, I should say.

Mr Legg—If the Australian dollar were to fall between when we lent them money and when they paid it back, they would win.

Mr SNOWDON—That is right, but we hope it is going to go the other way.

Senator GIBBS—So with all this money do we see balance sheets and exactly what they have used it for?

Mr Legg—What we see is the same material that is provided to the IMF. They have reporting requirements to the IMF under the IMF program. We have, as part of the agreement agreed that they should provide us with the same material. The major protection in terms of the effectiveness of our exposure is essentially the effectiveness of the reform program. The major protection for us, therefore, is the influence and leverage that the IMF has to ensure that occurs. Having said that, their track record on repaying sovereign debt is very good.

Senator GIBBS—Okay. So when all this money is finally paid over, is that it—or will they ask us for more?

Mr Legg—In the first instance they will start to pay it back in terms of the agreement. Whether they ask for more will depend very much on their ongoing balance of payments situation. Under the act, we can only provide these loans where we are in support of an IMF program, where the IMF has asked us to help fill an identified funding gap and where there are other participants who are also helping to fill that funding gap. So all of those criteria would have to be met before we could consider providing further assistance.

Mr SNOWDON—How do the respective donors work out which sectors are going to be investing?

Mr Legg—These loans are not sectoral. Our loans are separate from the aid program. Our loans are to bolster their reserves, providing confidence for international investors, and just give them breathing space of a temporary nature on their external finances.

Mr SNOWDON—So we are still contemplating whether or not we will react positively to their request for assistance of \$750 million?

Mr Oliver—I guess that would be an entirely separate exercise. The PNG Queensland gas pipeline is not seen as part of the PNG government's economic reform.

Mr SNOWDON—I was impressed by your response on the issue of corruption, but I was conscious that the language that you used differed markedly from that being used by the World Bank. They say that they are 'strongly concerned'—whatever 'strongly concerned' means—about corruption. What is the level of our concern about corruption?

Mr Oliver—I may have been a bit diffident in my language, but we would share that very serious concern. I think it is not saying anything that the government either here or in Papua New Guinea would not expect me to say when I say that corruption is endemic, is deep-seated, is a real concern and needs to be addressed. I am probably expressing it rather gently when I say that we would like to see something done about it, to the extent that it is a real impediment to investment and foreign donors over a long period of time. It slows down PNG's economic development and it slows down the reform program. It has an international dimension, so, yes, it is a serious issue. Prime Minister Morauta is in absolutely no doubt at all about its impact on the international community and his need to address it. Changing a quite deep and ingrained culture of corruption is a real task for him and we wish him well in that, but he knows and we know that this is going to take an awfully long time. It is very serious.

CHAIR—The PNG parliament is in recess until July. Do things like that worry the institutions?

Mr Oliver—I think the answer is that if there were a better way of doing it, we would like to see it. But, for the stability of the government—the desire for it not to have to be constantly looking back over its shoulder and putting out fires day in, day out and for it not to be fighting off no-confidence motions—it seems to us to be a good thing. It appears to be well understood by the government of PNG that this is a mechanism; it is not one which the Prime Minister chooses to adopt very lightly. He has a real objective to get reform through. He saw the best way of doing that was by adjourning parliament before Christmas, which he did. Having got his 2001 budget through and an important piece of political legislation, the political integrity bill, he now has a clear run through until July, and, all being well, he should therefore secure himself, free of no-confidence motions, until the elections in 2002. From an Australian point of view—and, I suppose, a fairly selfish one—we are pleased that there is that element of stability. I think reform has a better chance to work in those circumstances, and the international community says, ‘We can see that the PNG Prime Minister is keen to get stability and this is one way of doing it, which is legal and constitutional.’ All things considered, it is a good thing, but it would be nice if it did not have to happen that way, but it probably does. That is a rather obscure way around, I am afraid, but I think it is the right one.

Mr SNOWDON—Are any aspects of our aid program targeted towards refugees from Irian Jaya?

Mr Dillon—Not at the moment. We have a humanitarian allocation within the aid program. When the border crossing issues arose some months back, we basically went onto a high alert status, and we have been monitoring the situation closely. The United Nations High Commissioner for Refugees is engaged; we have had discussions with the UNHCR representative here in Canberra. We are monitoring it closely. If the situation worsened, we would then consider what we could do on its merits.

Mr SNOWDON—Would you have to do that within your existing aid allocation?

Mr Dillon—No, it would come from our humanitarian allocation, which is over and above the \$300 million.

CHAIR—Moving on to the government’s response to our last report on this issue, I was just wondering if you could clear something up for us, particularly paragraph 8 of the report, which said:

... the Government does not agree with the Committee’s recommendation that *IMAA* be further amended to ensure that Parliamentary scrutiny of loans proposed under its provisions takes place before such loans are executed.

It then went on to say:

It considers that this could considerably weaken Australia’s capacity to provide rapid and effective assistance to countries facing financial crises.

I wonder why that is. It continues:

As noted above, the 1998 amendments to *IMAA* were conceived in the context of the Asian financial crisis, which called for speedy assistance by the international community to countries facing the effects of financial contagion.

Can you explain to us why and how that is?

Mr Legg—I guess the thinking is that, whilst these particular loans have allowed us a little time to do the negotiations and to disburse the funds, were we to face a Thailand, a Korea or an Indonesia again, as was the case in 1997, and were, as is hoped, the international community, led by the IMF or whichever body is in place at the time, to move much quicker, we might need to move within a matter of days. We might need to be able to disburse funds under this act within a matter of 24 or 48 hours. The thought that the process might be cut as short as five or six weeks, which I think was the suggestion, would still not allow us to be able to respond in that situation. That was the sort of extreme situation which informed those who drafted and proposed the amendments to the act in the first place. The two loans we have had have had a little bit more time than envisaged, but the amendments were really designed with that sort of extreme emergency in mind.

CHAIR—There being no other questions, may I thank you for your attendance here today. If there are any matters on which we might need additional information, the secretary will certainly be in contact with you. We will send you a copy of the transcript of your evidence and you can make any necessary corrections. As Hansard may wish to check some of the details concerning your evidence, would you remain for just a short time after giving your evidence so that the reporters can speak to you if necessary. Once again, thank you very much indeed.

MACKAY, Mr Christopher Ian, Executive Director, Australia Papua New Guinea Business Council

CHAIR—On behalf of the subcommittee, I welcome the Australian Papua New Guinea Business Council, represented by Mr Chris Mackay. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will consider your request. Although the committee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and, therefore, have the same standing as proceedings of the House itself. I invite you to make a short opening statement, if you wish, and then we can proceed to questions.

Mr Mackay—Given the proximity to the last hearing, on this occasion I do not really have any need to add to what I have put forward. So we can launch right into the question period if you like.

CHAIR—How do you read the business climate at the moment in Papua New Guinea? What potential is there for investment at the moment?

Mr Mackay—I have said in here that, in our view, investor confidence, instead of being increased, will at least be held at where it currently is. We follow on to make the points that, until there is actual implementation and until there is delivery of some of the items that comprise the structural adjustment package, we will not see an increase. I link that to the other issue which we raised at the ministerial forum—you mentioned it earlier in the other session—which is that corruption is a major factor in determining what future confidence will be with respect to any investments.

CHAIR—My understanding is that you made quite a big issue of this at your appearance at the ministerial forum. What sort of reaction did you get from the PNG delegation?

Mr Mackay—They thanked us for bringing it forward in the way that we had and making it very clear that it was the issue most paramount in our minds at that time. They felt that it had to be raised. I draw the committee's attention to a speech that the Prime Minister of PNG made last Friday in opening the Institute of Directors in Papua New Guinea. It almost entirely comprised a statement about what he intended to do about corruption. Given that his very close advisers Professor Wolfers and Mark Davis were in attendance at that ministerial forum, that speech and the ministerial forum I think would be very closely linked. Also, Mr Philemon and Mr Avei undertook to convey those sentiments back to the Prime Minister, in particular, and also to the whole of government.

CHAIR—Bearing in mind your statement of a few seconds ago about the consolidation of the situation up there, Papua New Guinea is now entering what would appear to be a fairly major effort, at last, to privatise a number of its institutions—not the least being Air New Guinea. Are you confident they are going to get those floats off the ground?

Mr Mackay—It is a matter for debate. As I understand it, the expressions of interest for Air New Guinea have closed. There have been something like seven received. As I understand it—from talking to people around the area, not directly inside either Air New Guinea or Australia's

rom talking to people around the area, not directly inside either Air New Guinea or Australia's own airline, Qantas, for instance—the issues surrounding the actual receipt of expressions of interest are more related to on rights than they are to the intrinsic value of the airline. That is an international issue where it comes to airline politics, I suppose you would call it.

The intrinsic value of any asset is entirely dependent upon the state of its capital infrastructure and its revenue streams. With respect to state owned enterprises, in particular in Papua New Guinea, the revenue streams have been pretty well directed by the political process. If we refer to state owned enterprises as an instrument of social policy, then it is inherent that, through the budgetary process, the health of the organisation is equal to the social policy aspect. If you do not maintain their actual revenue streams—their cash flow position—then you end up in the situation that they have ended up in. That is my reading of the last 20-odd years of watching these things happen—whilst there is an express social policy and a cross-subsidisation process while a country devoid of a great deal of infrastructure has been building that infrastructure, just as Australia and every other country has done so, the cross-subsidisation process, as allocations through the national budgetary process, just simply has not taken place.

CHAIR—Is the council happy that due process has been undertaken properly, transparently and effectively?

Mr Mackay—It is apparent that is happening—to our knowledge. We do not have any other knowledge.

Senator BOURNE—What is your view of the PNG Prime Minister's parliamentary reforms that he is still trying to get through? He has got some of them through, but he is still trying with others. What are the views of your organisation on what he has done and what the chances are of him finishing that off?

Mr Mackay—We do not actually have a resolution on our books.

Senator BOURNE—That sounds quite reasonable.

Mr Mackay—With respect to that, we do not see our competence extending quite that far. The reality is that as stable a process as can be achieved is achieved. That would be, from a pragmatic position, helpful, as long as it is not conducted in a manner such that one would eventually conclude that there were extremes involved. So far there is no evidence towards any extremes. The situation that abides in most democratic countries is to be preferred—I think that would be the right position to take.

Senator BOURNE—Corruption is a problem, accountability, transparency—all of those things. I suppose you would be looking at those things being enhanced, if possible.

Mr Mackay—I did not say that.

Senator BOURNE—Fair enough.

Mr Mackay—Corruption is a big issue. I do not think it depends upon the political process for corruption to exist. It is a separate issue altogether.

Senator BOURNE—Overall, you seem to have the view that things are improving.

Mr Mackay—They are not continuing to decline.

Senator BOURNE—Okay, that is good. That is a step forward.

CHAIR—Is that true, too, in terms of the law and order issues? You often make statements regarding the perceived danger to Australian personnel who might be involved in Papua New Guinea. Has there been reform of law and order? Are you feeling at all safer these days?

Mr Mackay—I would like to answer that question this way: the reason we made a very strong statement at the ministerial forum about corruption is that we saw corruption as being one of the major determinants influencing the current law and order and position. We felt we were moving back more towards the cause. There are other causes, of course, including urban drift and the lack of investment in Papua New Guinea. There are some interrelationships between all of them. As it applies also to the position of Australian expatriates living in Papua New Guinea, we have a heightened concern whenever there is a spike in the law and order situation and there appears to be very little will on the part of the Papua New Guinea government to deal with it in the shorter term. For the record, I would also like to add that one of our major concerns is the wellbeing of local employees in the sense of their ability to move backwards and forwards to work and the absence of hold-up situations where employees at the desk are faced with personal danger, and that includes the traumatic experience of having that happen to you. At this stage we are not differentiating between the type of employee.

Mr HOLLIS—Is this drift to Moresby continuing? Is anything happening to try to arrest that? That is young people coming into the city, isn't it?

Mr Mackay—It is not only young people, it is a cross-section. Yes, it is continuing. I do not expect that it will discontinue. From my understanding of these issues, the reality is that access to any employment, good education and health services is in cities. That is where they seem to be.

Mr HOLLIS—Do these people avail themselves of the education when they come?

Mr Mackay—As much as they can. My observation over the years I have been involved in these matters—not just in Papua New Guinea but in other countries also—is that it is a very early part of the process of development that people identify access to education as being a key determinant to their future socioeconomic status.

Mr HOLLIS—I am no expert on the country, but it always seems to me to be such a tragedy. I have seen few countries that have the tourist potential that PNG has. It seems to have everything you want there, but I would not recommend that tourists go there and I would not go there as a tourist. I would go there on a parliamentary, well-escorted trip. It seems such a natural, fascinating place for tourism and it is such a tragedy that it cannot avail itself of that possibility. That is more a statement than a question.

Mr Mackay—I would like to answer your statement because I would like to plug the role of investment and the private sector in relation to all these issues, and it has a strong linkage with

the amount of aid support Australia is able to provide to Papua New Guinea. Since 1975 the attention of the government in Papua New Guinea has been very much about governing Papua New Guinea rather than about providing for the development of a private sector in Papua New Guinea. That includes in tourism, but there are many social issues there. I first went to live in Papua New Guinea in 1981 and, at that time, there was an attitude held by Papua New Guineans that they did not wish to have boatloads of tourists coming to Papua New Guinea to look at them. In terms of the development of a tourist industry, there certainly has been the development of certain resorts where scuba diving might be regarded as the prime activity. Madang is a good example. Jais Aben is a wonderful resort with a good marine research facility there as well. In West New Britain there are others. There is also some tremendous diving just of Solomon Islands, if you would care to join me to look at the barges off the beaches of Guadalcanal.

Seriously, the attention of the PNG government must turn to providing for an environment for private sector development where ordinary Papua New Guineans have the opportunity to participate in economic activities, be they domestically directed or whether they be able to be linked to global markets. That is the answer. Everything else is a bandaid.

CHAIR—Despite any progress that may have been made, the reality is there are not too many new Australian companies lining up to go and invest in PNG?

Mr Mackay—They would if circumstances were different and they will when circumstances change, but at the present moment there is not an investment climate that one would wish, that one could really get through the due diligence process at a level that one would conclude to be a medium to large enterprise. There are some smaller enterprise activities which can be undertaken and which are being undertaken.

CHAIR—Any further questions? There being no further questions, I thank you once again, Mr Mackay, for your attendance today. If there are any matters on which we might need to follow up the secretary will be in contact with you.

Proceedings suspended from 1.56 p.m. to 2.17 p.m.

DUNCAN, Professor Ronald Charles, Director, Asia Pacific School of Economics and Management

LEVANTIS, Dr Theodore, Postdoctoral Fellow, Australian National University

MAY, Dr Ronald James, Senior Fellow, Research School of Pacific and Asian Studies

STANDISH, Dr William Austin, Lecturer in Political Science, Australian National University

CHAIR—Welcome. On behalf of the subcommittee, I welcome the panel from the Australian National University. The subcommittee prefers that all evidence be given in public, but should you any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request.

Dr May—We have arranged for Professor Ron Duncan to provide an opening paper. He is an economist and has worked with the World Bank, and we think he is the man to talk about the particular issue of the national interest in relation to the loan. But Bill Standish and I are happy to be here for general discussions. We are both political scientists so questions on issues of politics or matters related we would be happy to fend.

CHAIR—I understand that Professor Duncan will be coming a little later, and I sincerely hope will be able to draw him into the debate then. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the House itself. I invite you to make a short opening statement if you wish, or would you rather proceed straight to questions?

Dr May—We will proceed straight to questions.

CHAIR—Thank you very much for being here today and thank you, too, for the material you have provided. We will formally move that it be accepted at the end of this hearing today. I am interested in this article from the Papua New Guinea *Post Courier* of 2-4 March 2001 in which it is claimed that, while the constitution of Papua New Guinea has been met in terms of the minimum of 63 days of sittings being required under the constitution, it could be regarded that the spirit of the law has been broken and that this seven-month delay in the parliamentary sittings is probably morally, if not legally, incorrect. One of the questions we asked a little earlier was whether or not the non-sitting of the parliament has reflected badly on international operations. Would you comment on how the international community would see the parliamentary sittings as they are at the moment?

Dr Standish—My personal feeling is that basically there is a great deal of support for anything that would bring stability even in the short term. Since that adjournment in December last year, Prime Minister Morauta has removed several ministers and is basically very concerned about the possibility of a vote of no confidence which would completely sabotage the reform program. Until about 15 July this year there is a window in which there could be a vote

of no confidence, and Prime Minister Morauta is quite open and frank about this. He is saying, 'We do not want parliament to sit during this time.' They have their 63 days sitting already and there is an additional legal ruling from the highest court on this issue that it is constitutional.

The people who are most vocal against it are people like the former Prime Minister Somare who was sacked shortly after that adjournment. I understand that the belief was that—and this was reported in the media—he was planning a move towards a vote of no confidence. Personally I doubt that such a vote of no confidence would get through at this time but Prime Minister Morauta has in the last year sacked, I think, three deputy prime ministers and roughly half of his cabinet at different times, so musical chairs is well under way. The sign is that he feels that the situation is very unstable even if there is no obvious successor to him in the wings.

My personal reading is that the opposition leader would not have any credibility on this issue in particular, because he did a similar six-months adjournment but without having the 63 sitting days in the bank, as it were. Over a period of several months, parliament accepted that that would be happening, and I doubt whether it will be challenged. In short, the business community and the international community would support this and would not complain about this. It is only discontented members of parliament who are going to make a fuss about it at this time.

CHAIR—You have recently been in PNG, I understand, and had some weeks there. Could you give us a brief rundown on how you see the situation there at the moment both in terms of the financial situation and what is happening to the community generally?

Dr Standish—Within government circles, and I think within business circles, among the people I met there is a feeling that the situation is stabilising, that governance is improving, that fiscal management is improving and that the budget is going to be balanced. The cost of services within the provinces is enormous—basic health services, schools, and so on. Last year primary schools throughout the country did not receive their allocation of chalk, exercise books, basic materials and supplies. Despite parliamentary questions every month over a 12-month period they did not get out. So the government's capacity to deliver services—medicines or whatever—is extremely low. Road maintenance is being helped with AusAID. People are saying, 'Maintenance means AusAID,' because no-one else is doing it. This certainly damages the economy in terms of getting major crops out, like coffee. People are doing it hard. Inflation has been very high particularly in towns and they are doing it very hard. They are suffering.

There are a couple of other dimensions, perhaps three of them, that concern me in particular. When I was there there was an army riot against the police just the week after independence. Those problems within the defence force are of considerable concern. There was great tension in Port Moresby in late September last year.

The police are, in themselves, a major problem. They are developing the habit of acting—and sometimes that might be shooting—before asking questions. So if a blue Holden is stolen they will chase, and perhaps even shoot at, a blue Holden, even though the number plate might be quite different from the one that has been stolen, for instance. It is getting to the stage where the police will stop people on the road and demand money, and that has included officials attached to foreign embassies. I have been in a bus where police in a rural area have stopped the bus I

was in and taken a bribe and we were able to continue. This depth of corruption is a concern. It may seem petty at a level, but it is symptomatic of a concern that is there.

The third problem, apart from the police, is the overall public order issue, which has continued for some time. Particularly in rural areas and in areas where there are valuable assets such as potential gas fields or big mining operations, but even with something like the Goroka University, which is a teacher training institution. Local landowners feel they are getting nothing from government and they are essentially managing to blockade such institutions and forcing them to shut down and demanding compensation going back to the land deals and compensation they received maybe 50 or 60 years ago in the colonial period.

So there is developing in many parts of the country a movement of landowners, as they are called, who are posing a fundamental challenge not just to the economy—private enterprise and so on—but to the state. This might be to do with a school on traditional land that maybe was paid for at some stage, but probably was not, in the colonial period. The fact that it is delivering a service to those people is not taken into account. People are saying, ‘This is our land.’ It might be a telecommunications tower somewhere, or it might be some other public facility, a road, which people sometimes close off. This sort of antagonism towards the state is being expressed in this way. It affects business. It affects the government’s capacity to do almost anything.

Those three broad areas—improved management, perhaps for rundown government services; problems with the security forces, police and army; and the state lacking the legitimacy to maintain the regime over matters like land—I see as very profound concerns for the ongoing stability of the PNG state and its capacity to service its own people and their quality of life.

CHAIR—And I understand that in fact government charges have gone through the roof and that is causing some strains in terms of family life and life in the villages when it comes to paying for things like education and basic health.

Dr Standish—Indeed. I happen to have a letter in my wallet which is virtually a demand for payment of school fees when I have already paid a considerable amount of school fees for that family. Families that previously had to pay at the most 300 kina a year to get a child through high school are now having to pay 900 kina, and they just do not have the money. Similar problems are occurring with a tripling of fees for primary school kids in the towns and so on. It is also going up into tertiary education. A lot of people are dropping out of the system, and this must create further social tension down the track if you have got unemployed and disappointed youth who feel rejected by the system, by the state as a whole.

I have known people who have not gone near a public hospital for fear of paying money. Their local health centre has been unable to help treat them, and they have actually had rather minor conditions and infections that have developed into very serious injuries—in fact, life-threatening conditions—then involving major surgery. The health services are expensive. They are on a user pays basis. It is not very high—it might be 40 kina for surgery and hospital admission—but if people’s income is only 100 kina a year that is a lot of money at one time. So with lack of decent services people are very critical of government as a whole.

CHAIR—Welcome, Professor Duncan. I advise you that, although the committee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and

therefore have the same standing as proceedings of the House itself. I understand you have a statement that you would like to make to the committee.

Prof. Duncan—The PNG government under Prime Minister Morauta has made substantial efforts to improve government, particularly in the form of reducing scope for corrupt practices in government run activities. The government's present efforts to privatise many of these activities should help in this endeavour by reducing the scope for discretionary practices by politicians and appointed officials. For this effort, the PNG government has earned the Australian people's support in the form of the \$US30 million loan. However, we have to recognise the tremendous difficulties that stand in the way of a significant improvement in economic performance in Papua New Guinea.

An argument made for the loans by the IMF, the World Bank, Australia, Japan and the European Union is that this support will show private investors and bankers the confidence that the international community has in Papua New Guinea and, thereby, PNG's credit worthiness will improve. This view misinterprets reality. The reality is that these loans are necessary because private bankers will not lend and savers and exporters are unwilling to hold kina as they do not have confidence in the PNG government. Investors will not invest, as they see Papua New Guinea as an unfriendly environment for investment. Government performance in the investment environment will have to improve considerably in order for domestic and overseas savers and investors to have the confidence to place their money in Papua New Guinea.

With respect to improving the stability of government in Papua New Guinea and thereby improving policy stability, it was disappointing that the PNG government was not able to pass its political integrity bill, an action that appeared likely to help reduce the high degree of political and policy instability and improve the investment environment. Besides reducing policy instability, improvement in the investment climate requires a significant improvement in the law and order situation and in the security of contracts. The security of contracts, which underlies all market activity, requires a substantial reduction in contract disputes and compensation claims and, behind this, government backup for secure access to land and impartial enforcement of contracts. Without substantial improvements in these areas, the present privatisation process will realise much less in terms of revenue from sales than otherwise would be the case and will lead to little improvement in the provision of services.

The withdrawal of the visa for the World Bank's program coordinator was a disappointment and it is likely to be a setback in the government's relationship with the World Bank. The person in this position is placed in a difficult situation, as we saw with representatives of the World Bank and the IMF in countries in East Asia that suffered during the financial crisis. If they comment publicly on the country's performance, they may be criticised for talking down the economy. If they do not say anything publicly, they may be criticised for not keeping the public aware that things are going wrong. My preference is for the public to be as fully informed as possible.

Senator HUTCHINS—You talked about the security of contracts in your opening statement. Could you expand on what you mean is the difficulty there?

Prof. Duncan—All market transactions of any kind basically boil down to a contract between parties. For people to have confidence in such a system and to have substantial private

market activity, all contracts have to be enforced impartially. As Bill Standish was saying, if the government does not stand behind the contract, or the government does not stand behind someone's tenure to land, whatever form of tenure that may be, then security of contract does not exist. What we have seen is this explosion in compensation claims which have not been settled in an orderly impartial way. They have been settled by individual politicians paying people money to settle things. That has just led to an expansion in expectations of the sort of return you can get out from disputing a contract. It has now become an endemic problem. It does not matter how long ago the contract was made and how long things have been stable; any excuse is used to create a dispute and claim compensation.

We recently did a study up there for the Institute of National Affairs, looking at how to develop a better climate to tone down the whole expectation about the sorts of compensation one can get out of disputing a contract. We recommended that a judicial tribunal be set up to set standards. The only way that will work, of course, is for the government and the individuals in government to back that up so that people are not settling disputes on the side with bags of money. For anything to work up there you have to have government backing which does not often exist.

Senator HUTCHINS—And that is not happening now?

Prof. Duncan—No.

Senator HUTCHINS—Even under this new Prime Minister?

Prof. Duncan—No, that is not something that has really been tackled yet. As Dr Standish was saying, you are still getting all these claims about access to land and that applies whether it is a private individual wanting to get access or Telikom wanting to put a satellite dish in. There is a high likelihood that it would be subject to compensation claims and if not, subject to damage.

Senator HUTCHINS—So is it the expatriate community that are the subject of these claims or are they between the communities?

Prof. Duncan—No, anybody who makes a success of anything basically creates an expectation that more money can be got out of it. In economic terms, a contract is a terrible problem. You may create a contract now, but you cannot be confident that in a year or two year's time that contract is going to still be in place and be enforced.

Senator HUTCHINS—What role does the judiciary play? Is it intimidated in this area?

Prof. Duncan—The judiciary is one of the strong points of the PNG environment. It does appear to be largely impartial but if things are not allowed to get to the judiciary to be settled, then it cannot play the role that it should play.

Dr May—The problem is probably most severe in relation to public infrastructure. Compensation claims are frequently hitting schools, hospitals, roads and other things such as repeater stations. Often if compensation is not paid, these facilities get sabotaged which puts additional burdens on the budget. There was a discussion some time ago of introducing

legislation to prevent compensation claims, but it was clearly unworkable and I think eventually recognised as such.

Dr Standish—If I could comment on the Senator's last question, in the Goroka University case recently—I do not know the full details—there was a court award of some million or two million kina of compensation to the landowners. The government's response was, 'This is outrageous; we should not pay this.' Prime Minister Morauta himself made a statement on that some time late last year. About a month ago, there was a temporary shutdown of the university by landowners. Not just the university around Goroka but the water supply and the sewerage system were all being threatened by landowner groups.

It is the kind of issue which is readily stirred up by prospective political candidates who believe they can gain political capital, if not finance, by stirring people up with often very parochial concerns, not a concern for the wider national interest or anything else.

Mr SNOWDON—What is the nature of the land law?

Dr Standish—Essentially 97 per cent of the land is under what is called customary tenure and is owned by traditional groups, and individuals usually have rights to use the land within those groups.. Three per cent of the land has been alienated—paid for by government; signed and sealed. A lot of that goes back to German times and is related to plantations, many of which have since been returned to the customary landowners. So essentially you do have state title and, in a city like Port Moresby, it is rather like the ACT with leasehold. But Ron Duncan has had more to do with the land compensation study and may be able to add a bit more on that.

Prof. Duncan—There are always problems in moving from customary ownership to, in a sense, modernising a state. One can make an argument that, until a society actually moves away from customary ownership, there really cannot be much in the way of modern development. That is the sort of struggle that goes on as part of this movement. As the implicit value of land increases, as an economy links with the rest of the world through trade or new technology or whatever—anything that creates more value in the land—you have individuals who want to get control of that. It does not necessarily have to be freehold; it may be leasehold. It is fine as long as it is secure leasehold—just like in the ACT where we feel secure that we can build a house and pass it on to our heirs. In a sense, I see these disputes as a positive, in that there is this movement. But whenever someone puts up a hotel and it is successful or someone wants to put up something like a satellite dish and it looks like that is creating money for money, there is likely to be a claim to share in that.

Mr SNOWDON—From what you are saying, it appears to me that there is no process for securing negotiated arrangements or title before construction.

Prof. Duncan—They are pretty haphazard.

Mr SNOWDON—So, if you had a statute law which provided the capacity for the landowners to have a negotiated position prior to construction, it might end up like, say, the Northern Territory Land Rights Act.

Prof. Duncan—That is the sort of thing that I have recommended up there. Rather than the sort of land reform program these people sometimes try to implement, I think in these circumstances it would be appropriate to set up some sort of instrumentality whereby, if a customary group wanted to let their land out on a long-term basis, they could have it surveyed and any disputes could be settled and they could then help with developing leasehold in a quiet incremental way. I think that is the way forward.

Dr Standish—There are such provisions. I am aware of a few cases on a very small scale. There are ways in which traditional groups can form themselves into a slightly more formal corporate entity and have their control of that land recognised, but it is a complex process. They can even borrow against that land in some very small cases, but it is usually very limited. Late in the colonial period there was a ban on the alienation of land because it was felt that people's future chances and future livelihoods would be affected if there were areas of land pressure. The constant complaints are that it is not possible to register land, that land is not a tradeable commodity, that a bank would not give a mortgage on a piece of land because the security of tenure would not be good enough and that, therefore, there is no capital available for the creation of further business.

Mr SNOWDON—Is there a statute which provides the capacity for people to do permissive leases or permissive occupancy for extended periods?

Dr Standish—It is called the customary land groups or some such thing. Legislation came in in the 1970s on a small scale. It is limited to people within their own clan territory or whatever. It is not available for entrepreneurs from another part of the country or overseas, for instance.

Mr SNOWDON—Let us say that Telstra wants to put a tower on a block of land. Is there a way in which they can go and negotiate an arrangement for a lease for that tower at that time?

Dr Standish—Often mountaintops are where they put towers. They are often at a point where clan territories from several clans meet and they are not strongly claimed by anybody. They say, 'My grandfather used to hunt possums up there.' People from all directions can claim it as their land. That is what happened with the Mount Kare gold mine and that led to dispute between groups. There is nobody living on the land because it is too cold. What Telstra seems to be doing now is trying to get into informal arrangements with landowner groups, giving them a contract to provide security for those facilities, but even that is not always working. You have a security firm whose job it is to look after a repeater station near Mount Hagen, for instance. One of those was vandalised and the solar panel stolen last week. The security firm was not doing their job very well, unfortunately, but they are trying. That is the sort of continuation of the pattern that I first noticed in the colonial period of some of the bigger business firms. They are giving in to pressure and in effect blackmail from local people. In fact it is a form of protection racket. It is indicative of the lack of acceptance of that security of contract and the lack of acceptance of the rule of law and the political authority of the state to try to guarantee this.

Mr SNOWDON—I believe that, as Mike said, it is extracting economic rent.

Dr Standish—Indeed. That is very strong around mining. The bigger the operation the more important that becomes.

Senator HUTCHINS—How does the difficulty with contracts work? Say there is a difficulty with Telstra putting that tower up and it could take some time to go through the courts. I think you mentioned earlier about politicians making it a political issue to get elected, or are they actually resolving the disputes for maybe a commission or something like that? Is that what you are suggesting?

Dr Standish—Both, yes.

Senator HUTCHINS—Does that mean that because politicians are involved it is difficult for even the law to be changed or enforced? Is that likely to be the position for some time?

Prof. Duncan—Certainly if they are benefiting in that way, they are less likely to want to see a rigorous structure.

Mr SNOWDON—Is there a titles registration system of any type? Are all these communal titles registered anywhere?

Dr Standish—No. In the late colonial period, a former British African land administrator came and recommended that there be a process of land titles registration. That was thrown out by the then House of Assembly, with support from various bishops and other community leaders. The feeling was that a growth of a market in land would lead to people being rendered landless and to a breakdown of traditional social structures, which have many positive benefits in keeping the country together.

The World Bank did fund a small pilot survey about the issue of land registration in Enga province, in the west of the Highlands, in 1995 and this was seized upon by some of the World Bank's more virulent critics as being an attempt to take over land. There were student envoys and activists who went all around the country and stirred up demonstrations against the World Bank and the privatisation of land, saying people were coming to steal the land. A number of people were killed, accidentally, in Simbu province, in situations arising from these demonstrations. There was mass public concern. It was an utter distortion of what the World Bank and everyone else were doing. The thought of land registration in that instance was about enabling people to get benefit from the land if there were to be something big coming through their area, so that there was some knowledge of who had rights rather than having a lot of additional people coming as gatecrashers to the party, as it were.

Mr SNOWDON—Was there any discussion about land being inalienable? For example, 60 per cent of the Northern Territory is alienable. That does not stop people leasing land but the traditional title is retained.

Prof. Duncan—Each time I go up to PNG I usually talk about this issue, that some form of secure individual tenure is needed otherwise you are never going to have a capital market and nothing is going to happen. The last time I went up, when I talked in Port Moresby and Mount Hagen, was the first time I got positive responses about that from the audience. They were more talking generally about how to do it rather than that it was a bad thing. There seemed to be generally a much more positive attitude.

Dr May—Two quick points on that. One is that in the seventies there was legislation to individualise title. It was not very popular. A number of titles were individualised in at least Eastern Highlands and East New Britain. From what I know, though, all those individual titles in the Eastern Highlands went back to clan titles as the Big Man either died or lost interest in the business, so the individual title just faded out again. Two provinces—East Sepik and East New Britain—have actually moved to institute provincial registration of land titles for communal groups.

Mr SNOWDON—Like a trust?

Dr May—Yes. They have had AusAID and World Bank assistance in that. The problem has been that it is just so difficult identifying who the traditional landowners are and where the traditional boundaries are that certainly in East Sepik, where I do a fair bit of work, the whole scheme has just folded completely. Also, even if we had good legislation for this, the problem is that, where the ability of the state to enforce legislation is weak, what often happens is that with big resource projects, for example, agreements are negotiated with landowners, land use is negotiated and compensation is negotiated, but within at least the space of a generation another group of people will challenge that.

The Bougainville copper agreement was instituted and then renegotiated largely to accommodate the demands of landowners. Somewhere down the track, another group of people might say, ‘Maybe you negotiated this with our fathers, mothers and uncles, but it does not apply to us. What are we getting out of it?’ and you could get the whole dispute coming up again. Until you have a state that has the clout to bring through legislation that has popular acceptance, it is a very difficult problem to address.

CHAIR—Professor Duncan’s introductory remarks were pretty tough, I thought. In terms of the reform process, it would not appear to me that you have a great deal of confidence in how it might proceed. You are not going to clean the place up in six to 12 months, are you? What sort of time frame would we be looking at before you could see these basic institutions stabilise and a greater acceptance of PNG by the world financial institutions and indeed by the world as a whole?

Prof. Duncan—Several decades, I would think.

Dr May—The Organic Law on the Integrity of Political Parties and Candidates did get through, with a hiccup—it got rejected at the third reading, went back and has been passed. While I do not disagree with the general tenor of what Professor Duncan is saying, we are not going to see a steady, even process towards the establishment of a legitimate state. We may even see it going the other way. The point we tried to make at the last hearings was that, with the Morauta government, I think we have a better prospect of getting a government to attack some of the basic issues than we have seen for a long time. What some of us argued last time was that the case for extending assistance at this time is that this might be the best chance we have. The Organic Law on the Integrity of Political Parties and Candidates, did eventually get through and the fact that the government is at least trying to establish institutions to deal with problems of corruption suggest that we are more likely to see progress under the Morauta government in the areas we feel strongly about than we are likely to under any alternative government in sight. That is partly the justification for the level of support that we are providing now.

Prof. Duncan—That is assuming that the Morauta government remains in place.

Senator HUTCHINS—I assume they have multimember constituencies. Is that an obstacle?

Prof. Duncan—Exploring the electorate system is something worth looking at.

Dr May—The Organic Law on the Integrity of Political Parties and Candidates was designed to strengthen the political party system, partly to give greater accountability, partly to make sure that when candidates stood one could identify where they were coming from, to cut down on the pork-barrelling that went on after the elections and during the life of the parliament. It combined with a proposal to shift from first past the post in single member constituencies to preferential voting, also single member constituencies, and to cut down the number of candidates standing. This government again has a fairly firm agenda of political reform to address those problems. Some of us are less than convinced that the measures that are being brought in will in fact do that. For example, I am not at all convinced that shifting from first past the post to a preferential system will necessarily reduce the number of candidates. In fact, I can see some reasons why it might increase the number of candidates. Certainly the government at the moment is looking at political reform. As Professor Duncan says, the Morauta government is there, but now it may be that we are looking at a pretty short period. There are moves to try to address electoral reform, to try to strengthen the party system, to try to address corruption. How effective those measures will be remains to be seen.

Senator HUTCHINS—What role does the army play in politics in the country at the moment?

Dr May—That is a big question. As you would know, the army at the moment has been going through a lot of crises. There has been a parliamentary task force on the army and the Commonwealth Eminent Persons Group has just reported. There are several problems, I think. One is that the parliamentary task force itself concluded that the defence force lacked the capacity to respond to a major event of external aggression or natural disaster in less than, I think the figure they gave was 30 days, which is a pretty substantial delay. There is a problem of the capacity of the army which partly is a problem of government in general, that funds are inadequate even to do the things it is being asked to do, particularly while it is involved in Bougainville reconstruction.

Secondly, there is a problem that the money it has had probably has not been used very wisely. There are, for example, a large number of defence force personnel who have been made redundant but who have not yet been paid off and they are still sitting in Murray Barracks, and it is pretty clear that some of these people have been involved in rascal activity, hence the Australian government's willingness to come in and fund redundancy payments and repatriation of these people.

Thirdly, there is a major problem of discipline within the military, and that is linked to problems of factionalism. In part these date back to the Sandline affair, but in part also the Sandline affair reflected the factionalism that was going on. So the army at the moment is clearly not very effective. It has not been very effective on Bougainville. There are problems of differences between the military and the civilian government from time to time. There are

problems of discipline. As you probably know, the present proposal is to cut the defence force by about half and make it a more mobile, highly trained, responsive unit.

Certainly there are a lot of very good people at senior levels in the military, but the military, like most of the rest of government, has been highly politicised. I cannot remember the number of defence ministers we have had since the change of government in 1997. I think it is about six or seven. We have had a slightly smaller number of defence force commanders. In that atmosphere, the defence force capacity is really pretty limited.

One of the worries I would have is that, if the defence force is more than halved over a short period, then, unless the redundancy and repatriation program is done effectively, we could have a lot of people roaming Port Moresby, possibly with access to weapons, which is not a very good prospect.

Senator HUTCHINS—By repatriation, do you mean sending them back to their villages?

Dr May—Back to their villages, yes. In other words, get them out of Port Moresby and away from the barracks.

Dr Standish—There was a statement by a number of senior members of parliament late last year, that they did not think a coup was anything that would happen, that there was any danger of that. There is quiet confidence in parliament that they did not think there would be pressure placed directly by the military on parliament. When I was there last September, after a soldier who had been involved in a hold-up had died in police custody, that is when the troops walked to the police station carrying the body of their dead comrade that they had extracted from the hospital morgue. They dumped it on the counter of the police station and demanded compensation. A police vehicle was burnt. There was a closing off of the central Boroko commercial area at that time. Parliament sat a day late and for the rest of that week there were probably 100 or 200 police encamped under the shade of the rain trees up on Parliament Hill. There was in fact considerable nervousness in parliament. Public access to parliament was severely constricted at that time. So there is a little edginess in top circles.

Researchers say that there is nothing more dangerous than a divided military. In PNG the feeling seems to be that perhaps there might be some political benefits from having a military that is divided. Similarly, the argument is often held about whether the police and the army should be combined or whether in fact that might create worse problems. During the Sandline affair the police were, to a very large extent, a neutral group that basically provided sufficient support to the government for a compromise to be worked out, and the army did not commit a coup. They applied a lot of pressure on the Chan government but there was no coup. The fact that there was a countervailing disciplined group, or any disciplined group, of the police force, was very useful at that time.

CHAIR—I thank you all very much indeed for your attendance here today.

Resolved (on motion by **Senator Bourne**, seconded by **Senator Gibbs**):

That the subcommittee authorises publication of the evidence given before it at the public hearing this day.

Resolved (on motion by **Senator Bourne**, seconded by **Senator Gibbs**):

That the information supplied as exhibit No. 1 from the Australian National University comprising extracts from the PNG *Post-Courier* and other documentation be accepted.

Subcommittee adjourned at 3.06 p.m.