

SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE
INQUIRY INTO PAPUA NEW GUINEA AND THE
ISLAND STATES OF THE SOUTH-WEST PACIFIC
SUBMISSION

Submission No:

15

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No. of Pages: 22

Attachments: No

2. REGIONAL OVERVIEW

Since the earliest days of Australian settlement, there have been close linkages between Australia and the Pacific Island countries. The earliest Australian commercial linkages were sandalwood and beche de mer gatherers in the 19th century.

The economies of the Pacific islands region have attracted significant Australian investment over more than 120 years. It is difficult to put an accurate figure on the level of Australian investment in the region. In Papua New Guinea it is estimated to be between AUD4 and 5 billion and in Fiji up to AUD2 billion. In other countries it is much smaller in dollar terms, but is of major significance in the economies of countries in Melanesia and in the central Pacific. Suffice to say Australian investment in the region is substantial, and is the largest source of foreign investment in the sovereign Melanesian countries, and a significant investor in a number of others.

The Pacific Forum Island countries plus New Caledonia now account for about AUD3.7 billion in bilateral trade, including AUD2.1 billion in Australian exports (approximately 10% of all exports). Across the region, Australia has a favourable balance of trade of about half a billion dollars.

Importantly, Australia holds significant market share in these economies. In some economies that share exceeds 60%, with the least share being about 17%, but growing, in New Caledonia. These market shares are long standing, but should not be taken for granted as they are constantly under threat from other, especially Asian, source countries.

Papua New Guinea is Australia's largest business partner in the region, and ranks in the top 20 globally. In 2001, bilateral trade in merchandise amounted to AUD2.276 billion. Figures on trade in services are not available to us, but Australia's exports of legal and financial services alone to Papua New Guinea are considerable. The contraction of the Papua New Guinea economy in recent years has seen the value of bilateral trade decline by about 5% since 1996. This decline has been wholly reflected in reduced exports from Australia. Imports into Australia from Papua New Guinea, which are dominated by crude petroleum and gold, have continued to increase.

Fiji is the next most significant business partner in the region for Australia. Largely as a result of the well publicised and disruptive events of May 2000, the level of bilateral trade has declined by AUD140 million in the last two years, principally through a decline of AUD 123 million in Fiji's textile, clothing and footwear exports to Australia. But Fiji's economy is resilient, and there has been a quicker than expected recovery from the events of May 2000. Fiji ranks in the top 35 of Australia's global trading partners.

The **French Territory of New Caledonia** is an important and emerging business partner for Australia. Bilateral trade in merchandise is AUD287 million, placing New Caledonia in the top 50 of Australia's global trading partners. Non-petroleum exports from Australia to New Caledonia have increased by about 90% since 1992. Based around nickel mining, the New Caledonia economy is becoming more accessible to Australian companies as a result of changes in the last decade to reduce the EU preferential

arrangements. Recently announced new projects in the nickel sector in New Caledonia hold the promise of further opportunities for Australian business. Other important markets in the region are **Samoa**, the only country in the region other than Papua New Guinea with which Australia has a negative trading account, **Solomon Islands and Vanuatu**. All these countries take more than AUD50 million annually in Australian exports.

It is relevant to make the observation that a number of these sovereign states in the Pacific Islands have populations and national budgets less than small Australian regional centres e.g. Grafton in NSW.

3. AUSTRALIAN POLITICAL LEADERSHIP

As the pre-eminent political and economic power in the region, Australia has a particular responsibility to show positive leadership to the countries of the region. But because of the politics of disproportion between Australia and the countries of the region this leadership must be exercised sensitively lest Australia be seen as overpowering and bullying.

It is our view that with the single exception of the Minister for Foreign Affairs, Mr Downer, the current government and successive parliaments have failed to provide this leadership.

The Pacific Islands Forum is the annual meeting of Heads of Government of the Pacific Islands countries, and is the principal annual opportunity for the Australian government to show its commitment to the region through attendance at the highest level of government. It should be indelibly marked in the diary of every Australian Prime Minister.

The Prime Minister, Mr Howard, has attended three of the six Pacific Island Forum meetings since his government was first elected in 1996. Although we do not have access to the full details of Australian attendance at all Pacific Islands Forums, we believe that no other Australian Prime Minister in the last 25 years has attended just 50% of possible meetings. We believe that in the 13 years prior to the election of Mr Howard the Australian Prime Ministers of the day had missed just one or two Forums.

We would also make the point that it is a very long time since an Australian Prime Minister made a bilateral visit to any Pacific Island country, with the exception of Papua New Guinea. Any Prime Ministerial visits have been associated with a regional or multilateral meeting, and provide much less scope for the development of political relationships and understanding of issues in the country concerned, and for the development of a meaningful relationship with political leaders.

The Foreign Minister, Mr Downer, has taken a strong interest in Pacific Islands affairs since his appointment in 1996. He has travelled more widely in the region than most if not all of his predecessors. He has ensured that Council representatives have ready access to him, and he has included business representatives in bilateral forums such as the

Australia Papua New Guinea Ministerial Forum and the Australia Fiji Ministerial Talks. His interest in the region was evident before the problems which occurred in Fiji and the Solomon Islands in 2000, and have continued. He has invested considerable time in issues relating to Australia's relations with Papua New Guinea, especially Bougainville.

We record here our gratitude and thanks to Mr Downer and his Department's officials in Canberra and at diplomatic missions and consular posts in the region for their willingness to work closely with the Councils in protecting and advancing the interests of Australian business in the region.

The Trade Minister, Mr Vaile, recently made his first visit to Fiji and New Caledonia. He was, we believe, the first Australian Trade Minister since 1993 to make a bilateral visit to any country in the region other than Papua New Guinea and the first Australian Trade Minister to visit New Caledonia. We hope this will be the start of ongoing ministerial interest in the region.

We wish to acknowledge Austrade's South Pacific Office located in Canberra and Austrade staff in the region for their untiring support of the Councils' activities in advancing Australia's business interests in the region. There have been recent indications that restructuring within Austrade has diluted the focus of this Office on the South Pacific, and the Councils would like to see this rectified. Also, we do have some concerns that at the more senior levels of Austrade the Pacific Island markets do not receive much attention. The Councils would welcome a visit to the region by the Managing Director.

The Forum Economic Ministers Meeting (FEMM) is held each year and is the main driver of the economic reform and management program in the region. Its membership is the senior economic minister of each Forum country. The FEMM, which first met in 1995 as the Forum Finance Ministers Meeting, receives its mandate from, and reports to, the annual Pacific Islands Forum. Notwithstanding the importance of the FEMM to Australia's interests in the region, we understand the Australian Treasurer has not attended a FEMM since its meeting held in Cairns in 1997. (Australian representation at the FEMM has generally been by another Minister or Assistant Minister). We hope the Treasurer's planned attendance at the FEMM in Port Vila in July 2002 will represent an ongoing commitment to his participation in the process.

The involvement of other Australian government ministers in the Pacific Island countries is virtually non-existent. Ministers will from time to time visit Pacific Island countries to attend regional or multilateral meetings, or to pursue specific narrow policy interests such as the establishment of offshore processing centres for boat people seeking to enter Australia or to try to hose down global warming issues, but the number of genuine bilateral visits is very small indeed.

Members of parliament do from time to time visit Pacific Islands countries, usually under the auspices of one of the parliamentary visits programs. These are useful visits, usually focussed on meetings with members of parliament in the receiving country. A regular program of visits to the region by Presiding Officers and other parliamentarians, targetted

at supporting the development of strong parliamentary institutions, would be a useful adjunct to an effective and regular program of Ministerial visits. Such parliamentary visits need not necessarily be limited to those which take place within the framework of the Commonwealth Parliamentary Association and the like..

It is our view that there needs to be a complete review of the approach used for Australian ministerial and parliamentary visits to Pacific Islands countries. We believe there is a systemic barrier to the development of closer relations by ministers and members of parliament with their Pacific islands counterparts which needs to be addressed.

As we understand it, for a minister or parliamentarian to visit any Pacific Island country requires the same approval process as for travel to the farthest corners of the globe, and such a visit counts against a minister's or member's quota of overseas visits. This makes it almost certain that the only time a minister or parliamentarian will visit the region is when it can be tied in with a trip to the Americas or Europe. In reality this just does not happen.

Yet the same minister or any other parliamentarian is able to hop on a plane and travel to the farthest corners of Australia, and perhaps even to its dependent territories beyond, without any approval process at all and probably at greater cost. We understand such flexible arrangements may at some time have applied, and may still apply, to travel to New Zealand, and perhaps also to Papua New Guinea. It may be instructive, if such concessions do exist, to identify how often Ministers and Members of Parliament have utilised them to visit New Zealand and Papua New Guinea.

The importance of ministers and members of parliament being able to travel widely and freely within Australia is not the issue here, but rather trying to find a means of facilitating closer relations between ministers and senior parliamentarians in Australia and the Pacific Islands countries for the advancement of Australian policy interests.

It is our opinion that one means of achieving this would be to ease the current systemic restrictions which limit the flexibility of ministers and members of parliament to travel to the region. Short visits to the region should be made possible without impinging on their overseas visits quota and without the need to go through a laborious approval process which might take longer than the trip itself. Perhaps, for example, a special quota of ministerial visits to the region could be established, co-ordinated and managed by the Office of the Foreign Minister. Special arrangements could be made to enable members of parliament to undertake short visits for relationship building with counterparts.

The Council believes that in the long term, relations with these countries will be considerably improved, and the opportunities increased for Australia to show the necessary level of leadership, through greater bilateral ministerial and parliamentarian contact.

We would note that successive New Zealand governments have consistently worked harder than Australian governments at a political level in developing strong relationships

with Pacific Islands governments and in supporting New Zealand business interests there. New Zealand government ministers visit the region more frequently than their Australian counterparts, often accompanied by a delegation of members of parliament or of business people (for example, we understand the New Zealand Prime Minister and Trade Minister are visiting Samoa in June accompanied by a business and political delegation of 70 travelling on a New Zealand Air Force aircraft). While the different dynamics of the domestic polity in New Zealand with constituencies containing many voters of Pacific islander origin may influence the New Zealand approach, the Pacific is no less an important region for Australia even if the domestic dynamics are different.

The acquisition by the Royal Australian Air Force of new aircraft for its VIP squadron opens up the possibility of mounting similar Ministerial led business missions to the region using dedicated aircraft, thus overcoming the obstacle of poor air services between most Pacific Island countries.

The Australian government runs the risk that its aid and other efforts will be diluted if the approach to visits to these countries is not changed. If Australia does not demonstrate enough interest, nearby neighbours competing for the same dollar will.

4. PRIVATE SECTOR DEVELOPMENT

It is axiomatic that the best means of economic growth and self sufficiency in the Pacific Island countries is for the development of a strong private sector. It is acknowledged that in some of the smaller Pacific Island countries it is more likely that the public sector will continue to dominate, but it needs to be subject to effective accountability and supported by an appropriately sized private sector.

It is our view that more work needs to be done through the aid program for the support of private sector investment.

We acknowledge the good work undertaken by AusAID in delivering programs aimed at health, education and governance which seems to be the main focus of their work. But it is of limited value to have a healthy and well educated community if parallel private sector development has not taken place.

The conclusion of the PICTA and PACER agreements will create both challenges and opportunities for Australian business in the region. The full implications and possibilities under these treaties are yet to be fully understood.

With the conclusion of these Treaties it is possible that the valuable role of South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) might be overlooked. SPARTECA has been largely seen as simply providing special access to the Australian (and New Zealand) markets for manufactures from the Pacific Island countries. The value of this concessional access has been substantially diluted by Australian tariff reductions in recent years, and when the tariff reductions resume in 2005 will be of even less value. But SPARTECA provides for more than just tariff concessions, and can remain an important element of Australia's support for private sector development in the Pacific Island countries.

Article VIII of SPARTECA provides for Australia (and New Zealand) to include in their aid programs assistance with export development and trade promotion, industrial development and the development of agriculture, forestry and fisheries.

Until the mid-1990s, Australia provided under this Article a specific funding program aimed at assisting export development and trade promotion in individual countries. This program of bilateral assistance was unilaterally terminated in about 1996 by the Howard Government. As far as we are aware, there is now no specific program aimed at meeting Australia's commitments under Article VIII. It appears that the government now appears to regard its Article VIII commitments as being wholly met through funding provided to the Forum Secretariat for its trade promotion offices.

It is our-view that the Article VIII funding provided in the bilateral aid program played a valuable part in supporting individual countries work in promoting trade and export development, including foreign investment.

We would suggest that programs such as this should be restored to provide important private sector growth support.

We also believe it would be appropriate to study whether there is scope for the aid program to include a component for providing venture capital to assist with the start-up of small to medium business enterprises. It is often the case that private sector growth is hampered by a lack of capital, and frequently the financial institutions are unwilling to act as venture capitalists.

5. DEVELOPMENT ASSISTANCE PROGRAMS

There is a strong view within the Councils that the delivery of technical assistance programs could be much enhanced by:

- greater consultation with business in programs which have an effect on economic production and the operation of the business sector.
- more careful selection of aid program managers to ensure there is an understanding of the national environment and a strong personal commitment to the development of the particular country - it is the perception of business that some aid program managers are not so committed, but see their work as just another job in the continuum of their career.
- ensuring that programs are designed in bite sized chunks which are digestible within the relevant administrative environment.
- expanding the contract selection criteria to enable greater participation of indigenous companies in the program, and to design aid delivery contracts to require external aid contractors to engage in serious and effective skills transfer to local companies to enhance their capacity to compete for future work.
- ensuring that aid program review mechanisms produce an honest appraisal of their effectiveness, and not one which seeks to justify that the resources input has been effective (the "met or exceeded objectives" syndrome should be avoided).

One option may be to explore opportunities to provide greater outsourcing of project selection and contracting.

It is critical that education and training programs be designed to be relevant and effective. Too much focus on the policy framework at the expense of basic skills and trade training will fail to deliver the desired skills improvements in the community.

There is a sense in the business community that control of development assistance delivered education and training programs is too narrowly focussed. Since business is the major consumer of skills developed through education and training programs, we would like to develop a closer working relationship with education and training providers.

It would also be appropriate, in our view, for some of the aid program to be directed at assisting Pacific Islands governments to improve the understanding within their countries of the importance of the accumulation of capital to the development of the private sectors which will drive their economies. Outside the business communities in these countries there is little understanding of these principles. It is often not even properly understood by the political leadership. In some circumstances cultural issues impede the accumulation of capital and the development of private business.

The FEMM process has been in operation since 1994 (if one takes the Forum Finance Ministers Meetings as part of the process). It has done invaluable work in promoting, guiding and assisting economic reform and the promotion of a private sector environment in the Pacific Island economies. But there may be a sense that the process is becoming a bit routine and tired, and that perhaps it is time to review the FEMM to see where it has got to, and to determine in what direction and through what mechanism the process of economic reform should proceed in the future.

The process of promoting and guiding economic reform and private sector development at the political level only addresses one part of the problem. In all the Pacific Island economies there is limited, or in some cases no, understanding of the regional and global economic environment in which these countries must survive, and of private sector development and the role of wealth creation in building an economy. To sustain the reforms being promoted amongst political leaders who owe their positions to the votes of economically-illiterate constituents it will be necessary to provide support in educating the wider community that these reforms are essential to their countries futures.

We are aware of the successes brought o the region by the AESOP and Australian Youth Ambassadors programs. We encourage the development of this program and the continued targetted placement of specialist assistance of this type.

6. ADDRESSING THE BRAIN DRAIN

A major difficulty facing the countries of the region is the brain drain caused by emigration of many of the best and the brightest to Australia and New Zealand (and to other countries).

This flight of intellectual capital is a significant impediment to the long term economic, political and social development of these economies. Australia is a willing partner in this flight, and it is our view that steps need to be taken to staunch the flow.

Under the aid program, Australia provides funding for educational scholarships for citizens of Pacific Island countries to study in Australia. These scholarships are highly sought after by Pacific Island students.

The scholarships are intended to support the economic development of the country of the recipient. But anecdotal evidence suggests that in many cases, scholarship holders see the scholarship as a means of positioning themselves to qualify for migration to Australia.

So, soon after graduation and return to their home country, many graduates move to apply for migration. If they are successful, they deprive the recipient country of the full benefit of the scholarship award.

Although there is a short period after a scholar's course ends in which they are precluded from the grant of a migrant visa, it is the view of the Councils that this period needs to be significantly extended to ensure that the benefit of the scholarship flows back to the recipient country before the individual is able to depart.

We do not have enough statistical data to be able to make hard assertions about the rate at which scholars depart their home country for Australia after graduation, but we believe the anecdotal evidence is sufficient to warrant further investigation.

Another element in the brain drain is that the limited availability of venture capital often impedes those with ideas and energy from developing them into worthwhile enterprises which would add to economic growth and create employment for others. So a more liberal approach to "picking winners" as mentioned elsewhere in this submission, might also help to impede the brain drain.

7. NON-TARIFF BARRIERS TO TRADE

There are a number of difficulties with non-tariff barriers to trade in each direction between Australia and the Pacific Islands countries.

Papua New Guinea and other Pacific Island countries are amongst the highest consumers of imported tin fish products per head of population. Many Pacific Islanders' diet revolves around imported fish such as mackerel, sardines and tuna. Tuna appears to be the growth area and will continue to grow as mackerel and sardine species diminish due to the problems of fish sustainability. Tuna in the Pacific is showing great sustainability, and a number of tuna processing plants have been established in Pacific Island countries. At present it is very difficult to import tuna or any other fish species into Australia, and to then obtain a re export permit to export the same product to any other Pacific Island country. AQIS regulations are unnecessarily restrictive, and it is proving very difficult to obtain export permits, not to mention the time involved in inspections plus the cost of inspections to have the re export permit granted.

The same applies for processed tuna products exported from Australia which has been processed in Australia. Stock has to be isolated at point of manufacture, separately bonded, then inspected by AQIS inspectors before a permit is granted to export. These processes involved in the importing and exporting of canned fish products of Australia and the Pacific island countries is costly and difficult for business, and limits both Australian export potential to the Pacific Island countries and the development of further fish processing and export industries in those countries. We believe that these procedures could be reviewed and simplified without jeopardising Australian quarantine requirements.

We understand there are limitations on the import of meat products into Australia from some Pacific Island countries because abattoir facilities do not meet Australian quarantine standards. Australia could assist the development of viable primary industries in these countries by providing support through the aid program for bringing up to standard facilities in Pacific Island countries which restrict their ability to meet Australian quarantine and health standards.

Similarly, there are problems with the export of some Australian food products to certain Pacific Island countries for quarantine reasons. An example of this is the restriction on the import into Fiji of Australian chicken products because of claimed Newcastle disease.

We believe some of these non-tariff barriers to trade in both directions could be overcome through the development of closer relations between AQIS and Pacific island countries quarantine and health authorities.

8. AVIATION

Australia and Australian business already plays a leading role in the aviation industries in the Pacific islands. This role manifests itself through ownership of parts of the region's airlines, provision of maintenance and other services to the region's airlines and in other ways.

There has never been a better time, or a greater need, for the Australian private and public sectors to take a co-ordinated approach to address problems in the aviation industry in the Pacific Islands.

On the one hand, it can be easily understood why a country would want to own and operate its own airline. On the other hand, it needs to be accepted and realised that the existing individual airline ownership regime is simply not working.

Australian private sector business interests and Australian government aid and foreign policy interests, and Pacific Island countries interests, can best be achieved by the operation of an efficient, cost effective and (paramountly) safe and secure regional airline service.

As the industry currently stands:

- There have been a number of safety issues during the last twelve months in a number of the airlines which are of concern.
- Precious funds, which could best be utilised in other economic areas, are being diverted by Pacific Island country governments to support inefficient national airlines.
- The cost of travelling to more than one jurisdiction from Australia, or between jurisdictions in the region, is prohibitive in terms of actual financial cost and time.

CASE STUDY ONE

An Australian businessman wishing to travel Australia/New Caledonia/Fiji/Australia is charged more than to travel from Australia/New Caledonia/Australia and then separately Australia/Fiji/Australia.

CASE STUDY TWO

An Australian business Lan visiting New Caledonia and proceeding on to Fiji wishes to delay by a couple of days his onward travel to Fiji because he needs to spend a small amount of extra time in the New Caledonia market. Airline schedules dictate that he has two options. The first is to defer his onward travel for a full week. The second is to return to Australia and buy a new return ticket from there to Fiji. Neither of these options made good business sense, but they are all that were available.

CASE STUDY THREE

The flight of an Australian visitor scheduled to travel from Tarawa to Apia via Nadi is delayed. He thus misses his once weekly connection from Nadi to Apia, and to avoid wasting six days waiting in Nadi for an onward flight is forced at a much higher cost to fly Tarawa/Brisbane/Auckland/Apia.

- Code-share and other arrangements between the airlines can, at best, be described as rudimentary
- There is no coordinated regional approach being taken to aircraft types, maintenance programs and the like.

Australia's role in the region dictates that it should be leading discussions and interaction in relation to these issues. The Business Councils have already expressed to DFAT and other agencies a commitment to assist wherever possible.

9. LABOUR MARKET ISSUES

From time to time approaches are made by Pacific Island governments seeking approval from the Australian government for a "guest worker" scheme to enable their citizens to work on short term employment contracts in Australia. The usual response is that Australia has a non-discriminatory immigration policy and does not have any guest worker schemes.

We believe this issue should be revisited with some imagination by the government.

Remittances from overseas workers in Pacific Island countries and dependencies such as Kiribati, Tuvalu, Niue and Tokelau form an important part of the economy of these and some other smaller states of the Pacific Islands. Many of these countries have virtually no natural resources, are suffering population and environmental pressures, and have

little prospect of developing viable economies. Even medium sized (by Pacific standards) countries such as Samoa and Tonga have significant remittances from overseas citizens. Nauru has not so far got into the business of labour export, but given its worsening economic state could develop an interest in the practice.

New Zealand has in place schemes which allow small numbers of citizens from Pacific Islands countries to work short term in New Zealand.

We believe such a scheme implemented by Australia would be a useful adjunct to the aid program. We expect such a scheme would most commonly be utilised by people seeking labouring and seasonal work. If implemented on a modest scale, including for carefully selected countries only, it would have little impact on the labour market in Australia, but would generate enormous goodwill in the countries concerned and would assist to generate additional funds flowing through their economies. In some work fields (e.g. unskilled seasonal labouring such as fruitpicking), such labour might even fill a gap in the Australian labour market. Importantly, it would ameliorate the widely held perception that Australia is unwilling to assist Pacific Island countries in small ways which would be very helpful to them.

10. LAW AND ORDER

Poor or declining law and order is an impediment to the growth of the private sector in many Melanesian countries. The Solomon Islands is a particularly good example, where the collapse of the rule of law has led to the withdrawal of investment and the virtual collapse of the economy. Reinvestment is unlikely to occur until the law and order situation is dealt with. There is a role for the aid program in assisting to strengthen the law and justice sector. And there is a role for the Australian political leadership in working with Pacific Islands political leadership to strengthen the resolve and desire to ensure that the technocrats can fix the law and order problems. Of course it is acknowledged that if the economic indicators are improved the law and order problem will diminish. But at the same time law and order is so crucial to the prospective foreign investor that it must be dealt with satisfactorily as a base line issue.

It is the view of the Councils that there needs to be a more proactive role in the region for Australian law and order enforcement agencies. This might be facilitated by funding initiatives outside the normal aid program. The practical outcome would be, in carefully selected circumstances and of course with the agreement of the receiving state, to actually put Australian police officers on the ground to work alongside national police officers at the working level. In some circumstances all the human resource and organizational development training in the world will be a waste of time unless attention is paid to the work of the cop on the beat.

11. MEDIA ISSUES

There is a small cadre of Australian journalists (about five in number) who have a sound knowledge of the Pacific islands region. Beyond these, the reporting in Australia of issues in the region tends to be of a sensationalist nature and largely uninformed.

The Councils' view is that the Australian public needs to have more balanced sources of information than the sensationalist tabloid style reporting which mostly serves as coverage of the Pacific islands. Coverage of the coup in Fiji is a good example of this. Media coverage in Australia had an unsuspecting public believing that Fiji was in turmoil for its length and breadth. In reality, though, the turmoil was limited to small areas of the capital, Suva, and some rural districts. The tourist areas were, in the main, calm and peaceful. Repeated use over many weeks of file footage of demonstrators and a burning building added to the deception.

There may be a role for government in this through selected targeted briefings of senior journalists, editors and publishers to try to engender a recognition that the Pacific Island countries do represent a significant Australian economic relationship for Australia, and reporting needs to be better balanced and responsible.

12. COUNTRY SPECIFIC ISSUE

PAPUA NEW GUINEA

Papua New Guinea is facing a major economic turndown over the next decade unless steps are taken to improve the environment for foreign investment.

Most of the current resource projects are now entering the last decade of their economic life. The PNG Chamber of Mines has forecast that by 2011 resource production from existing operations will have reduced to a mere fraction of current production as deposits near the end of their economic life.

The PNG Institute of National Affairs predicts that population growth will exceed GDP growth over the next 5 years.

Although it is known there are considerable reserves of minerals and metals to be exploited, exploration investment has come to a virtual standstill.

The one major project currently continuing forwards is the development of the Hides gas field and the projected gas pipeline across the Torres Strait to Australia. In the absence of any other bankable projects in the pipeline, this project is of critical importance to the Papua New Guinea economy to provide a base to ameliorate the effects of the winding down over the next decade of other resource projects.

Although there have been positive signs over the last few months that some of the obstacles have been removed, there is still much to be done to enable the project to proceed. There are a range of strategic interests at play which create challenges in bringing it to production. For a start, there are three governments involved: Papua New Guinea, Australia and Queensland.

We would submit that it is of such critical importance to the Papua New Guinean economy, and thus to Australia's own broader strategic national interests, that no obstacle at the Australian end, including by state governments, should remain unmoved in order to get this project over the line. To achieve this might require some innovative thinking and

the setting aside of Australian sectoral or regional interests, and a willingness by Australian stakeholders to think outside the square.

Of major importance to Papua New Guinea's development is the need to support the development of a small landholder agricultural sector. The major impediment here is the appalling state of the road and other transport infrastructure in Papua New Guinea. Without good rural roads leading into a good national road system, small agricultural producers are unable to get produce to the market. So there is no incentive for small producers to develop crops. We note there is provision in the 2002-03 aid budget for support for essential infrastructure development. Without knowing the details of the proposed support, we regard infrastructure development as a high priority.

It is important that infrastructure development programs are linked to effective counterpart funding, and that this funding is actually made available at the right time to ensure projects do not stall. Perhaps one option of ensuring counterpart funding is budgetted and is available when needed is for it to be placed in a Trust Fund at the time of project commitment.

It is also crucial that the capacity of government to respond to donor requests must be enhanced. For just one donor funded project to be lost through lack of counterpart funding or through inability of government agencies to respond to donor requirements is to deprive the people of Papua New Guinea of one step on their way to full economic development.

An option for improving responses to donor requests may be further outsourcing of selected administrative elements of project selection.

The Australia Papua New Guinea Business Council has developed a business plan which commits it to working with the Australian and Papua New Guinean governments in areas which we consider to be crucial to the revitalisation of Papua New Guinea as a foreign investment destination and for its economic growth. There areas are:

- Major Projects
- Investment conditions
- Education and Vocational Training
- Infrastructure maintenance and development
- Institutional strengthening
- Governance
- Structure of Australian Aid

The Australia Papua New Guinea Business Council is grateful for the recognition **by the Australian and Papua** New Guinean Governments that business has a key role in the bilateral relationship, and has acted on this recognition by including the Council in the annual Australia Papua New Guinea Ministerial Forum. The opportunity for participation in this forum is highly appreciated by the Council, and we look forward to continued participation in the future.

FIJI

In May 2000 the outlook for the Fiji economy appeared bleak indeed. The government was being held hostage, trade bans had been imposed by Australian and New Zealand trade unions, tourism arrivals had dropped overnight to a trickle, partly as a result of travel advices issued by the Australian government and others, and the Reserve Bank of Fiji was predicting a contraction of 15% in the economy. As the Fiji economy looked to be submerging it threatened to take with it significant Australian business interests.

In June 2002, the outlook presents somewhat differently. Fiji has not collapsed into anarchy. The principal coup perpetrator has been jailed for life. The contraction in the economy in 2000 was contained to 8%. The Reserve Bank of Fiji forecasts growth of 4.4% in 2002, higher than the 3.5% earlier forecast. Visitor arrivals in January 2002 set a new monthly record as the industry continues to recover at a faster rate than expected. Business activity has continued to recover, contrary to the popular perception in Australia caused by media coverage concentrating on political and constitutional issues. The attached media statement released by the Australia Fiji Business Council in February 2002 sets out some of the positive business activity in the last 18 months. Foreign Reserves are at a satisfactory level, and international credit ratings agencies have recently upgraded Fiji's status. Fiji's prospects as seen by the Australia Fiji Business Council are cautiously optimistic.

The Australia Fiji Business Council did not agree with the so-called smart sanctions put in place by the Australian Government at the time of the coup. But it is acknowledged that there were political imperatives which made some kind of response necessary and that the smart sanctions themselves were cleverly designed to minimise the economic impact on the ordinary people of Fiji who had been powerless to prevent the coup and who stood to lose most from it. We also acknowledge that they helped create an international climate which convinced Fiji that its interests lay in a return to democracy as soon as possible.

More damaging was the travel advice which advised against all travel to Fiji. This was not seen by the Australian government as a trade sanction, but its effect was the same as one. It was a significant factor in the decline in tourist arrivals in Fiji, led to economic hardship in Fiji, and damaged Australian business interests.

The Australia Fiji Business Council made representations to the Government about the sweeping nature of the advice recommending against all travel to Fiji at a time when the turmoil was restricted to a limited geographical area well away from most tourist areas. We appreciated the opportunity for discussions on our different points of view with the Minister, Mr Downer, during this period.

Fiji's economic contraction in the aftermath of the coup would have been less if the travel advice had been particularised to those areas where the trouble was actually occurring.

The Australian government is to be commended for the timely decision it made after the Fiji elections in September 2001 to remove sanctions and restore full relations, and for the successful efforts made by Mr Downer to have Fiji readmitted to the Commonwealth.

The Australia Fiji Business Council is grateful for the recognition by the Australian and Fiji Governments that business has a key role in the bilateral relationship, and has acted on this recognition by including the Council in the annual Australia Fiji Ministerial Talks. The opportunity for participation in this forum is highly appreciated by the Council, and we look forward to continued participation in the future.

NEW CALEDONIA

Australian business has a natural relationship with New Caledonia, but for many Australian businesses a combination of language and institutional barriers have tended to intimidate them from approaching the market.

The Australia Pacific Islands Business Council was delighted that the President of the Council was in March invited to accompany the Australian Trade Minister, Mr Vaile, on the first visit to New Caledonia by an Australian Trade Minister

The Council believes that the signing by Mr Vaile of the Trade and Economic Relations Arrangement with the New Caledonian Government marks a watershed in the bilateral business relationship. In a follow-up visit to New Caledonia in April, the Council found continuing interest there in utilising Australia as a source of supply for goods and services.

The Council will be giving particular focus to the development of strategic relationships in New Caledonia which will enable it to support the interests of Australian companies looking to do business there.

SOLOMON ISLANDS

The deteriorating situation in the Solomon Islands several years ago was the issue which gave impetus to the formation of the Australia Pacific Islands Business Council. The judgement to form the Council as a means of providing a focus for Australian business with interests in the Solomon Islands has been vindicated by events there over the last two years.

The challenges which face Australian business in the Solomon Islands are probably the most intractable in the region. Similarly, the challenges which the Australian government faces are of the same order.

The Council is grateful for the open dialogue it has been able to have with the Minister, Mr Downer, and his staff in Canberra and Honiara on issues relating to the Solomon Islands.

There is, in general, a congruity between the view of business and the view of government that the most critical issue in the Solomon Islands is to return the country to a solid regime of law and order and good governance. Once these problems are substantially addressed then issues of economic management and the rebuilding of infrastructure and investment might be able to resume.

Australian business would like to see a more pro-active approach to dealing with the law and order problem. We do not believe solutions to this problem will be found through traditional aid delivery mechanisms. The support provided to police through training programs will be much more likely to succeed within the cultural environment in the Solomon Islands if some direct support is provided to **police** constables on the street. Such support will help build confidence within the force and within the community.

13. CONCLUSION

The three Business Councils involved in this submission strongly support the broad thrust of the Australian government's approach to Pacific Islands policy. There are, however, some important areas which require attention or improved dialogue. These include:

- The need for greater regional political leadership through deeper and wider ministerial and parliamentary engagement at a bilateral level, and by Prime Ministerial and senior ministerial involvement in key regional fora.
- Using Ministerial resources as a more effective marketing tool for Australian business.
- Better focus in the aid program on private sector development alongside existing health, educational and governance programs
- Reinstating specific bilateral programs to meet Australia's obligation under SPARTECA to support trade and industrial development.
- Greater involvement of the business community in designing aspects of the aid program, especially in the education sector.
- A more imaginative and innovative approach to helping governments deal with law and order issues which threaten business investment.
- Plugging the brain drain.
- Removal of non-tariff barriers to trade by Pacific Island countries, including by appropriately directing the aid program to assist countries meet Australian import regulations (e.g. quarantine) and by the development of closer relations between AQIS and the relevant quarantine and health authorities in the region.

- A co-ordinated Australian private and public sector approach to encouraging the implementation of sound business strategies in aviation across the region.
- Instituting limited labour market access to Australia for selected Pacific island countries.

END OF SUBMISSION



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Australia - Fiji Business Council

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FIJI: AN IMPORTANT AUSTRALIAN BUSINESS PARTNER

It is important to correct some impressions about the Fiji economy which have been conveyed in recent Australian media reporting of Fiji.

Contrary to comments that neither foreigners nor locals are investing in Fiji, the Council notes that since October 2000 there have been a number of significant investments by Australian and Fiji-based investors which reflect a greater confidence in the long term economy of Fiji than this reporting acknowledges. Examples include:

- Five new listings on the South Pacific Stock Exchange. Although small, the SPSE is an important and growing element in the Fiji economy. All five listings have been successful, and are currently trading higher than the listing price. In the most recent listing, a broadcasting company, the IPO offering of 750,000 shares at \$1 was oversubscribed, and when the company started trading on the SPSE its opening price was around 15% higher. It continues to trade at around that price. A major investor in the company is an Australian with existing broadcasting interests in Australia and long term tourism interests in Fiji. The SPSE recently forecast a further five new listings in 2002, including the long awaited Amalgamated Telecom Holdings.
- One of the successful listings was the health insurance company Fijicare, the largest healthcare insurer in Fiji. The major shareholder in Fijicare is Australian Family Assurance, a wholly Australian owned company.
- The totally refurbished Outrigger Reef Fiji, a \$40 million investment, opened on the Coral Coast.
- Brierly Investments bought out the remaining interests of Tabua Investments, the development company for Denarau Island near Nadi, and therefore now owns 100% of the company.
- The ANZ Banking Group purchased the interests of the Bank of Hawaii in Fiji, and is investing in a back office processing centre in Fiji.
- Emperor Mines Limited, an ASX listed company, has recently announced a \$5 million investment which will enable it to expand its 70-year production operation at Vatukoula, and Burdekin Pacific is working towards reopening its Mt Kase mine in Vanua Levu.
- Nestle recently completed a \$10 million expansion of its food processing facility in Fiji.

- Tourist arrivals into Fiji, decimated in May 2000, are steadily climbing back towards pre-coup levels.
- The Reserve Bank of Fiji has managed Fiji's monetary situation with great care and skill since May 2000. Fiji's exchange rate is stable and its foreign exchange reserves are sound.
- The Fiji government has created world's best financial incentives to attract audio visual and IT industries to set up in Fiji to take advantage of the Southern Cross Cable, and to enable international sportsmen and women tax free residential status in Fiji. Fiji is the only country in the Asia Pacific region to offer this status to international sports men and women, thus creating the opportunity for sportsmen and women from the Asia Pacific region to be domiciled within the region.
- The Fiji Trade Commission in Sydney and the Austrade office in Suva report a steady stream of enquiries about business and trading opportunities in Fiji.

The Council acknowledges there are long term structural problems with aspects of the Fiji economy which need to be addressed, notably in the sugar and textile production industries, and that there remain a number of important political and legal issues to be settled.

It also recognises that the perception amongst the investor community with limited experience in Fiji that it is not a stable investment destination is to some extent fuelled by unbalanced media reporting.

It is clear that many companies and individuals with a long history of investment in Fiji still regard it as a worthwhile place in which to invest for the long run.

27 February 2002.