



**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE INQUIRY INTO AUSTRALIA'S
RELATIONSHIP WITH PAPUA NEW GUINEA
AND OTHER PACIFIC ISLAND COUNTRIES**

SUBMISSION by AID/WATCH

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No. of Pages: 8
Attachments: No

AID/WATCH

'Monitoring Aid and Trade Programs and Policies / Promoting Social and Environmental Justice'



AUSTRALIA'S AID AND TRADE IN THE PACIFIC

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About AID/WATCH

AID/WATCH is a community-based, not for profit, activist group that campaigns on Australian involvement in overseas aid and trade projects, programs and policies. As we 'Monitor the Development Dollar', we work to ensure that aid money reaches the right people, communities and their environments.

AID/WATCH works in conjunction with support partner groups and communities in low-income countries, predominantly in the Asia-Pacific, where people are adversely affected by Australian development activities. This may occur through bilateral aid programs, multilateral development banks to which Australia contributes such as the World Bank, the International Monetary Fund and Asian Development Bank, and Australian corporations including the government-owned Export Finance and Insurance Corporation.

The flow of aid money can be positive particularly in programs of emergency relief and health. However, aid development projects can often have significantly detrimental impacts that are felt by communities overseas. When this occurs, it is in the donor country that the decisions are made that lead to them. So while AID/WATCH supports communities overseas, we also aim to inform the Australian community of how their aid dollar is being spent and what impact it is having. AID/WATCH believes that increased awareness of the reality of international aid will lead to aid programs that truly benefit the local population.

To support people and communities in low-income countries to determine their own development futures; to ensure that aid money reaches the right people, communities and their environments, and that aid projects are implemented with stringent environmental, ethical, social and cultural guidelines.

Background - Australia's Aid Program

Australia's Official Development Assistance (ODA) is estimated to be \$1.815 billion for 2002-2003. This leaves Australia at the bottom end of the OECD donor table, with a Gross National Income ratio of 0.25%. This is a shamefully small contribution to the 1.3 billion people in the world who live in severe poverty. Moreover, Australia's aid dollar is not going very far. Indeed, it invariably lines our own pockets, and increases dependency on the privilege Australia has come to take for granted.

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Australia is failing to engage in a holistic approach to poverty reduction, and continues to employ measures such as tying aid to Australian goods and services to support vested commercial and foreign affairs interests. The 'Simons report' released in 1997, clearly stated that tying aid undermines its effectiveness by focusing on inputs rather than outcomes¹. Despite this report and ongoing public pressure, the Federal government of Australia uses the Aid budget as a vehicle to:

- Showcase Australian expertise and goods to potential overseas markets
- Build preferences for Australian goods and services
- Assist firms to internationalise
- Sell Australian goods and services

Placing Australia's vested interest ahead of poverty reduction is a blatant misuse of public funds. While the Simons Report does not go far enough in recommending necessary reform to Australia's aid programs, its substantive recommendations have fallen into a political black hole.

Australian companies receive government subsidies and assistance in obtaining contracts for development projects in PNG and the Pacific. Invariably, this results in a focus on profitability, and a lack of accountability and transparency.

Australian aid to PNG has been estimated to be \$351.4 million for the 2002-2003 period. This is equivalent to 1/3 of Australia's bilateral and 1/5th of its total aid program. This figure represents a majority of PNG's net annual budget as stated by AusAID:

¹ PNG relies heavily on Australian aid. It makes up around 80% of PNG's net annual budget and is equal to almost one-sixth of total PNG government spending. ²

This financial dependence places Australia in a very important and politically influential position. However, this influence is often misdirected to support Australia's political and economic interests in the region. One way the aid program is used for such purposes is through the commercial tying of aid. Australia's aid program to PNG is entirely tied to specific aid projects rather than being general budget support. While strong environmental, cultural and

¹ AusAID (1997) *One Clear Objective: Poverty Reduction through Sustainable Development. Report of the Committee of Review*. p. 184

² AusAID, *Development Cooperation program 2000 - 2003*

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social standards and targets are essential, these are often secondary to domestic interests and political ideology.

Tied Aid in the Pacific and PNG

Community groups and NGOs identify four key problems with tying aid:

1. Tying places commercial interests at the forefront of the aid program

Corporations based in Australia are the real winners of tied aid. This has the result of discouraging local commercial and civil society participation in development projects, and increasing reliance on Australia's technologies and equipment.

2. Tying increases exclusion of local people and thereby undermines the right to self determination

Article 1 of the International Covenant on Economic, Social and Cultural Rights in the International Bill of Human Rights states that:

'All people have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development.'

Australia's practice of tying aid is a form of external control over others economic, social and cultural development and is therefore counter to the right to self determination.

3. Tying often results in inappropriate aid

Tying aid is about promoting goods and services from the donor – which undermines the ethical obligation of overseas development assistance. It invariably results in inappropriate aid that does not address the real needs of people in the Pacific and PNG.

4. Tying is economically inefficient

Tied aid is estimated to cost on average between 20-25% more than if the goods or services were procured through international competition or local sources.

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The Senate Committee is encouraged to thoroughly review the practice of commercialising Australia's foreign aid. In particular, it should address:

- The social, environmental and economic impacts of tying aid on recipient nations and communities
- Using the above findings, to assess the effectiveness of the Australian aid program in its aims of poverty reduction and sustainable development

Basic Needs - A long way to go

Key causes of political and social instability are health, education and access to adequate water and sanitation. The Australian aid program must direct a greater proportion of funds to these key areas in order to address causes of disease and poverty.

In 2000, Australia spent ³: 4.22% of its bilateral aid on basic education; 5.66% of its bilateral aid on basic health; and 3.19% of its bilateral aid on water and sanitation. This amounts to 13% of the total bilateral aid budget, which is tokenistic given the enormity of health, education and water requirements in PNG and the Pacific.

Good Governance?

Australia's Good Governance Programs are clearly targeted at economic reforms such as structural adjustment and "technical assistance" from Australian consultancies. AusAID funding for governance programs has doubled in recent years and has focussed on economic management and promotion of the private sector ⁴. Of the 11 possible targets AusAID offers in its good governance program, '*promoting respect for human rights and strengthening democratic processes, civil representation and participation*' rates number 10 in the list. This is a clear example of the fact that Australia's focus for "good governance" is misdirected, and clearly not in the interests of local people in PNG or the Pacific.

Export Credit Agencies

Export Credit Agencies (ECAs) are government owned corporations that aim to promote exports through loans and guarantees. While the majority of the

³ The Reality of Aid (2002) Australia at a Glance Box 14. p. 158

⁴ AusAID (2000) Australia and Papua New Guinea. Development Cooperation Program 2000-2003. p.11.

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projects funded by ECAs remain uncontroversial, a number of projects have had disastrous environmental and social consequences.

The Australian ECA, the Export Finance and Insurance Corporation (EFIC) has had a long history in PNG and the Pacific. Many of the projects that EFIC has supported have had dramatic effects on both the environment and local communities.

It is imperative that the Australian Government takes very seriously the role of Australian companies in PNG and the Pacific. It is only through the monitoring and screening of environmentally unsustainable projects, ensuring that local communities are consulted and human and labour rights are respected that ECAs will reduce their negative impact and move towards becoming tax payer funded engines of sustainability and appropriate development.

Some EFIC projects in the region include the Lihir Mine and the OK Tedi Mine in PNG.

Lihir Mine

This mine is owned by CRA/Rio Tinto Australia. Situated on the Lihir Island off the north-east coast of PNG, it is one of the world's richest gold mines. The impacts of this mine are so extreme that OPIC refused to provide political risk insurance for the project. The facility was given by EFIC.

The project has been opposed by environmentalists internationally for its practice of dumping cyanide tailings directly into the ocean. According to the Mineral Policy Institute, "During its life the mine will dump 98 million tonnes of cyanide contaminated tailings and 330 million tones of waste rock into the ocean in an area described by ecological studies as one of the richest areas of marine biodiversity on earth."

OK Tedi Mine

BHP (-Billiton) itself has stated that it "should never have become involved in the Ok Tedi mine". This EFIC supported mine has rendered an entire river system "biologically dead", destroyed the resources that communities in the region rely on for their livelihood and denied local landowners the ability to control their land.

There should have never been public money supporting such a risky project that internationally is almost unanimously regarded as a disaster of unfathomable proportions.

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The Senate Committee is encouraged to thoroughly review other EFIC projects with significant environmental and social consequences in the region including:

- EFIC loaned \$8m to the Indonesian Government to buy weapons systems from Australia
- EFIC guaranteed commercial bank finance for the Bougainville Copper Mine. The environmental and human rights violations connected with this mine have been argued to be some of the major causes of the war in Bougainville.

Conclusion

Placing the profits of Australian private companies ahead of poverty reduction is a misuse of public funds and counter to the needs of people in the Pacific and PNG.

Australia must replace the neo-colonialist focus of the aid program, with poverty reduction and self-determination as priorities in the delivery of aid programs and policies. At present, the "Australian Identity" of the aid program is prioritised at the expense of communities living in poverty. The following are key recommendations regarding Australia's relationship to PNG and the Pacific.

Ratifying the Kyoto protocol and increasing renewables targets (domestically and through aid and trade programs) is paramount to good relations with island states in the Pacific. Australia's dependence and exploitation of fossil fuels is deplorable, and will detrimentally effect our closest neighbours within the decade. It is Australia's ethical duty to support PNG and the Pacific, as our closest neighbours, and countries whose people have undergone immense oppression and exploitation.

We offer the following recommendations regarding Australia's future role in aid and trade with Pacific nations and PNG.

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Recommendations:

In the areas of aid and debt we recommend that Australia must:

1. Increase the level of funding in Australia's official overseas assistance package to **at least 0.7 % of GNI** (in line with international targets).
2. Increase funding for **community driven projects** in PNG and the Pacific. Affected communities must be involved in all project design and implementation
3. Make Australia's aid more effective by addressing people's **real needs**.
4. Increase funding for **basic education and health** needs in the region.
5. To increase **funding for water and sanitation** programs that enhance democratic participation in the governance of water.
6. Cease placing Australia's **commercial and political interests** at the forefront of the aid program.
7. **Untie 100% of bilateral aid**, while promoting aid procurement policies that strengthen and take advantage of local skills in PNG and Pacific countries.
8. Ensure that the sole purpose of aid delivery is **poverty reduction** through socially and environmentally sustainable programs.
9. Present communities in PNG and the Pacific with **real choices** about aid projects
10. Give **guarantees** in case of aid project failures to ensure the provision of services
11. Place **ecological sustainable development (ESD)** at the forefront of all aid projects
12. The **right to self-determination** must be upheld at all stages of the project design and implementation.

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13. Cease using Australia's aid to fund the "**Pacific Solution**" program, and abandon the refugee dumping "solution" to the crisis.
14. Focus the Australian aid projects on cost-effective, appropriate and innovative solutions that will not increase dependence on foreign expertise, funds, or technical advantage. **Local skills** be utilised and developed to reduce the reliance on donors
15. Increase **democratic involvement** in aid programs. Rather than "commercial in confidence" being prioritised in private sector agreements, contracts must be made public and genuinely open to participation by community and civil society groups.
16. Respect **customary land tenure**, and support this through the aid program
17. Support **renewable energy sources and solutions** in the region through the aid program.
18. Respect and support **indigenous languages** in PNG and the Pacific
19. Actively promote **gender equality** in aid programs
20. **Drop 100% of the Debt** owed to Australia by PNG and nations in the Pacific.

In the areas of EFIC supported facilities in PNG and the Pacific we recommend that EFIC must:

21. Increase **transparency, public access** to information and consultation with civil society and affected people. This must occur in the assessment of ongoing and future investments, and projects supported EFIC.
22. Instate binding **common environmental and social guidelines** and standards no lower and less rigorous than existing international procedures and standards for public international finance such as those of the World Bank Group and OECD Development Assistance Committee.

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23. Conduct **long term monitoring** of projects in the Pacific to ensure that the company has not contravened the existing environmental guidelines, human and labour rights in accordance with Australian and international law.

24. Conduct full, transparent accounting for **climate change impacts** and move to increase investments in sustainable renewable energy.

25. Adopt **explicit human rights** criteria guiding the operations of EFIC. This should be done in consultation with affected people and civil society, and based on existing regional and international human rights conventions.

26. The adoption of **binding criteria and guidelines** to end the potential for EFIC abetting corruption.

27. **Cease financing non-productive investments.** The massive ECA support for military purchases and white elephant projects, such as nuclear power plants, that would be rejected by OECD bilateral aid agencies and multilateral development agencies such as the World Bank must end.

28. **Cancel EFIC debt** for the poorest countries, much of which has been incurred for economically unproductive purposes.

Furthermore, Australia must:

29. **Ratify the Kyoto Protocol** and increase renewables targets to AT LEAST 10% (currently set at the internationally low rate of 2%)

30. Cease using **Multilateral Development Institutions** (such as the World Bank, ADB and IMF) to further Australia's vested political and economic interests.

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