

SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE

INQUIRY INTO PAPUA NEW GUINEA AND THE
ISLAND STATES OF THE SOUTH-WEST PACIFIC

SUBMISSION

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FOREIGN
AFFAIRS AND
TRADE

South Pacific, Africa and Middle East
Division

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Mr Brenton Holmes
Committee Secretary
Foreign Affairs Defence and Trade References Committee
Parliament House
CANBERRA ACT 2600



Dear Mr Holmes

Thank you for the invitation to provide a submission on Australia's relations with Papua New Guinea and the other Pacific Island States and Territories.

Please find attached the department's submission addressing the Committee's terms of reference that apply to our functions.

Should the Committee have any further inquiries on this matter, please contact Mr Graham Fletcher, Assistant Secretary, Pacific Islands Branch or Mr John Oliver, Assistant Secretary, Papua New Guinea and New Zealand Branch.

Yours sincerely

James Wise
First Assistant Secretary

Departmental Submission

to the

Senate Foreign Affairs, Defence and Trade

References Committee

Inquiry Into

Australia's Relations with Papua New

Guinea



TERMS OF REFERENCE

To inquire into and report on Australia's relations with Papua New Guinea and other Pacific Island countries, with reference to:

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

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Executive Summary

Australia has a longstanding and enduring commitment to partnership with the Pacific island states. Our key objectives are to promote political stability, sustainable economic development, and regional cooperation. Australia's bilateral relationships are the mainstay of our involvement with the Pacific. At the same time, Australia's participation in (and contribution to) the Pacific's intergovernmental organisations is an important complement to our bilateral activity.

Economic reform is a priority for Australia and the region. Forum ministerial meetings seek to promote an economic and governance environment which attracts investment, supports trade and is conducive to sustainable growth. All Pacific island countries have accepted the need for economic reform but the development and implementation of appropriate policies remains a significant challenge. Electoral pressure on governments and lack of political will are also obstacles to reform.

Australia is the region's largest economy and principal trading partner. The fourteen island country members of the Pacific Islands Forum are all small economies. Their total combined GDP amounts to around \$17 billion. Of this 83 per cent is accounted for by Papua New Guinea and Fiji. Economic growth across most of the Pacific countries has been weak or declined in recent years and this is expected to continue. Domestic instability has had a direct impact, affecting tourism and foreign investment.

The implications for Australia of future developments: On the whole the Pacific island countries will continue to face significant development challenges in coming decades. Socio-economic indicators remain weak. Prudent economic policies with few immediate results cannot eliminate the constraints of distance, small scale and limited capacity. Rapid population growth will place even greater strains on limited resources. Problems such as the breakdown of traditional authority, youth unemployment, inadequate delivery of government services (including policing), urban drift and unmet community expectations will create political pressures. Inherited political and social structures will struggle to manage these kinds of pressures, as has already been seen in a number of cases. The outlook for Melanesia in particular is of concern to Australia.

For Australia this means: the Pacific will continue to need high levels of aid; further occurrences of political instability can be expected; Pacific island countries will remain vulnerable to transnational crime; and the low level of interest in the Pacific on the part of the international community will leave Australia (in cooperation with New Zealand) to take the lead.

To help meet these challenges, the Australian Government has supported responsible governance and prudent economic management in the Pacific. There are limits, however, to what outsiders can achieve. Our ability to assist or influence poor governments is inevitably constrained. Australia will do all it can to help, but ultimately it is the Pacific island countries which are responsible for their futures.

The Current State of Political Relations Between Regional States and Territories and Australia

Australia is bound to the Pacific islands through geography, history and a range of shared interests. Australia has a longstanding and enduring commitment to partnership with the Pacific island states. Our key objectives are to promote political stability, sustainable economic development, and regional cooperation. We also seek to promote good governance within these countries and develop effective cooperation against transnational crime. Progress towards these objectives will protect Australia's national interests and benefit the region as a whole.

Australia is the region's largest economy, principal trading partner and a leading aid donor. Australia's bilateral relationships are the mainstay of our involvement with the Pacific. These relationships are broad-based and multi-faceted. At the same time, Australia's participation in the Pacific's intergovernmental organisations is an important counterpoint to the bilateral sphere. We are a member of, and a major contributor to, the main intergovernmental organisations. These organisations provide valuable opportunities for closer engagement and dialogue with the region at the ministerial and officials' levels, assisting the advancement of Australia's interests and the pursuit of common objectives.

Australia is very conscious of the diversity within the Pacific and the large disparity in size between ourselves and the island countries and between the island countries themselves. We do not seek to apply a one-size-fits-all approach. We are also careful to exercise the influence we possess in a manner which is responsible and which respects the sovereignty and particular circumstances of the island countries.

The Department of Foreign Affairs and Trade has the lead role within Government in developing and coordinating Australia's ties with the Pacific. Other departments and agencies, however, play a very significant part in the day-to-day interaction between Australia and the Pacific, principally: AusAID, Austrade, Defence, Prime Minister and Cabinet, Immigration and Multicultural and Indigenous Affairs, Treasury, the Australian Federal Police and Attorney-General's.

The submission does not address New Zealand's relations with the Pacific. The New Zealand Government published a review of Pacific policy in September 2001. New Zealand is an important partner for Australia in the Pacific. Both countries cooperate closely to promote shared goals.

Major Bilateral Relationships:

Papua New Guinea

Papua New Guinea (PNG) is the largest and most important of Australia's partners in the South Pacific. Some 6000-7000 Australians live and work there. Two-way trade was worth \$2.5 billion in 2000-01 and investment stands at some \$3.5 billion. With a population of just over five million, PNG is Australia's largest aid recipient, receiving over \$300 million annually. Since PNG gained independence in 1975, Australia has built a strong and wideranging relationship with PNG based on strategic, economic and development interests. The principles underpinning Australia's relationship with PNG are encapsulated in the *Joint Declaration of Principles Guiding Relations Between Papua New Guinea and Australia*. The Declaration was signed by then Prime Ministers Wingti and Hawke in 1987, and modified in 1992. (See Attachment A for text). The annual PNG-Australia Ministerial Forum is the principal consultative forum held under the aegis of the Joint Declaration of Principles. The next Forum is due to be held later this year.

The *Torres Strait Treaty* provides the framework for the protection of the ways of life of the traditional inhabitants and the management of the traditional and commercial usage of the Torres Strait islands and waters. Other important agreements underpinning relations with Papua New Guinea include the PNG-Australia Trade and Commercial Relations Agreement (PATCRA II), the Agreement for the Promotion and Protection of Investment (APPI), the Double Taxation Agreement, the Treaty on Development Co-operation and the Agreed Statement on Security Co-operation.

Along with other island states of Melanesia, PNG is experiencing major challenges as it seeks to cope with development and the demands of a rapidly changing society. With the population set to double by 2030, the economy faces enormous challenges as key mining and petroleum production facilities, which have underpinned growth, reach the end of their operational lives and as basic services and infrastructure age progressively. PNG will need to look increasingly to external donors to service development and investment needs. The success of these efforts will be closely linked to sustained progress in the areas of law and order, governance and ongoing reform.

Current Relations

The current strength of bilateral relations owes much to the strong commitment of the current Prime Minister, Sir Mekere Morauta, to the relationship with Australia and to his recognition of the need for wide-ranging political and economic reforms. Under Prime Minister Morauta, the PNG government has implemented reforms called for by the World Bank and International Monetary Fund (and Australia). These included extensive reforms to the public service (payroll changes, more transparent and independent senior appointments and other measures funded by an Asian Development Bank loan) and the introduction of structures to improve economic and budgetary management (reviewing investment rules and debt management procedures, and new superannuation and insurance legislation). The PNG government has also made solid progress in stabilising macro-economic fundamentals, with reductions in inflation and interest rates and increases in international reserves, retiring debt and

rebuilding international donor confidence. As part of its debt reduction strategy a number of government business enterprises have been prepared for privatisation, including Telikom, Elcom, Air Niugini and Motor Vehicle Insurance Limited. The PNG Banking Corporation has been sold.

Australia has played an important role supporting the PNG Government's reform program. Since July 1999 when the Morauta government took office, Australia has provided substantial financial and technical assistance, including bilateral loans of \$193 million linked to IMF programs, to help implement reform.

Australia has also welcomed action by the PNG Government to undertake substantial reform of the PNG Defence Force. In October 2000, PNG invited the Commonwealth to make recommendations for the reform of the PNGDF. Australia subsequently agreed to support efforts to implement the recommendations of the report of the Commonwealth Eminent Persons Group to create a smaller, more affordable and more effective defence force. We have contributed some \$20 million to help fund a major redundancy program. Retrenchments have started.

At other levels there is extensive bilateral cooperation. For example, Australian and PNG electoral commission officials worked closely together in the difficult and sensitive task of updating the PNG Common Electoral Roll in advance of the June election. We have contributed substantial resources to building up the capacity of PNG's central government agencies. We have established a framework for closer cooperation in the area of border management between our respective security and immigration authorities to address emerging problems of people smuggling, illegal movement of people and trans-national crime. This includes closer cooperation between Australian and PNG authorities in the Torres Strait. The PNG government has agreed to the establishment of an asylum seeker processing centre on Manus Island. Elsewhere, PNG Ministers and officials cooperate with their Australian counterparts as observers on a number of Australian Ministerial Councils including the Environment Protection and Heritage Council, the Tourism Ministers' Council, the Natural Resource Management Council and the Ministerial Councils on Energy and Minerals.

Australia provides military assistance to PNG under the Defence Co-operation Program. Assistance includes guidance on managing PNG Defence Force personnel and facilities. Further details should be contained in the Department of Defence's submission.

General elections were conducted in PNG between 15 June and 6 July this year and a new government will be formed in July. As a result of changes introduced by the Morauta government in December 2001 to promote stability in the political process, the party with the largest group of endorsed MPs will have the first opportunity to try to form a government. In keeping with Papua New Guinea's political history, it is likely that the incoming government will be based on a coalition of parties and independents. Whatever government is elected, PNG faces a difficult future. Australia will remain PNG's principal aid, trade and defence partner. We will continue to encourage reform and will support efforts to build a stable, prosperous and democratic neighbour.

The Bougainville Peace Process

Australia has been actively engaged in seeking a peaceful resolution to the conflict on Bougainville, one of the region's longest running and most bloody disputes. We have led the regional, four-nation Peace Monitoring Group (PMG) since its deployment in April 1998. The PMG followed the New Zealand led Truce Monitoring Group (TMG) which deployed in November 1997. The PMG currently numbers 75 personnel of whom 35 are from the Australian Defence Force and 14 from Australian government civilian agencies. To date, over 2,000 ADF personnel and over 250 Australian civilians have served with the PMG (and the earlier TMG). The United Nations Observer Mission on Bougainville (UNOMB) oversees the Bougainville Peace Process.

Through the PMG and our High Commission in Port Moresby, Australia has facilitated negotiations, instilled confidence and provided vital logistics support and encouragement for the peace process. Australia has also helped the parties find creative solutions to settlement efforts, weapons disposal and Bougainville's political future. In January 2001 the parties agreed to explore an Australian proposal to hold a deferred referendum on the final political status of Bougainville. In February 2001 Australia hosted the largest gathering of Bougainville ex-combatants to discuss weapons disposal. These interventions helped pave the way for the historic signing of the Bougainville Peace Agreement in Arawa on 30 August 2001.

Following the signing of the Peace Agreement, the PMG's principal focus has been to support weapons disposal, which is the next step in the peace process. More than 1300 weapons were contained in the first half of 2002; a very considerable achievement.

In March 2002, based in part on the demonstrated commitment of ex-combatants to weapons disposal, the PNG Parliament passed amendments to the PNG constitution necessary for the establishment of an autonomous Bougainville government. These amendments, however, will not take effect until the UNOMB has declared there has been further and 'substantial' containerisation of weapons sufficient for free and fair elections to be held on Bougainville. Australia has provided the weapons containers and technical disarmament experts and the PMG will continue to provide practical and logistical support to disarmament. The PMG can be expected to remain on Bougainville in its current composition until this process is complete. Its role will then be reviewed.

In support of the peace process Australia also provides substantial development assistance to Bougainville. In 1997 Australia committed \$100 million over five years to help further settlement efforts, promote reconciliation and undertake reconstruction of health, education and infrastructure services on Bougainville. Continued Australian and international assistance will be essential for Bougainville's long-term development and for the restoration of effective government institutions and services. The reintegration of former combatants into society is a high priority and in May 2002 Australia established a \$5 million Bougainville Ex-Combatants Trust Account to fund grassroots development initiatives in communities which have disarmed.

A future Bougainville Administration will remain highly dependent on financial transfers from the national government and donors. The Bougainville Peace Agreement highlights the importance of development assistance to the restoration and development of Bougainville. Australia's assistance to Bougainville will continue to be governed by the Treaty on Development Cooperation between the Governments of Australia and Papua New Guinea, which is covered in more detail in the separate AusAID submission.

Fiji

Australia's political relationship with Fiji is extensive, encompassing significant trade, investment, development assistance and defence links.

The relationship was downgraded by Australia following the coup of May 2000. Australia introduced bilateral sanctions (affecting high-level political contacts, trade talks, non-humanitarian aid, defence links and sporting visits) to express concern at the overthrow of democracy and the rule of law. These measures were designed to send a clear political message, yet at the same time avoid adding to the economic burden on the people of Fiji (the coup itself had an impact on business and investor confidence and had brought about a drop in tourist arrivals). Australia's response to the coup was influential in shaping other international reactions.

Australia worked hard to encourage an early return to democracy in Fiji through bilateral representations and support for efforts by the Commonwealth. We delayed implementing a new market access scheme for Fiji's garment exports until a timetable was set for elections. We urged the authorities to respect court rulings that upheld the validity of the 1997 Constitution and encouraged them to bring forward the date for elections. We provided significant technical and financial assistance to the elections held in August-September 2001 and participated in the UN and Commonwealth election observer missions. Once the newly elected government had been sworn in, and the new Prime Minister had given a commitment to abide by the outcome of a legal challenge on the constitutionality of the formation of Cabinet, Australia led the international community in normalising bilateral ties, in October 2001. Australia was subsequently instrumental in the Commonwealth's decision in December 2001 to lift its suspension of Fiji.

We have resumed normal bilateral activities, including in development assistance and defence links.

Australia continues to follow developments in Fiji closely and to encourage all players to pursue their political objectives within the framework of the Constitution and respect for the rule of law.

Recent high-level visits to Fiji were by the Minister for Foreign Affairs, Mr Alexander Downer, in December 2001 and by the Minister for Trade, Mr Mark Vaile, in March 2002. These visits, coming soon after the lifting of sanctions, affirmed Australia's commitment to a productive bilateral relationship and provided the opportunity for discussions on matters of common interest.

Solomon Islands

The escalation of ethnic tension and violence in Solomon Islands which culminated in the overthrow of the government in June 2000, and its aftermath, has been the central focus of Australia's relations with Solomon Islands over recent years.

During 1999 and 2000 Australia (and New Zealand) sponsored a number of initiatives to assist in stemming the conflict. A ceasefire was finally negotiated in August 2000, leading to peace talks and signature of the Townsville Peace Agreement (TPA) in October 2000. In support of this agreement, an International Peace Monitoring Team (IPMT) (led and largely funded by Australia, with support from New Zealand) was deployed to supervise the surrender of weapons and support implementation of the agreement. The TPA succeeded in bringing about an end to communal violence, but its objectives in relation to disarmament were only partly achieved. Many weapons remained in the hands of ex-militants, which contributed to a deterioration in law and order.

Throughout the conflict and its aftermath Australia has emphasised that the way forward for Solomon Islands lies in the hands of the people of that country. Solutions cannot be imposed from outside, but need to be developed within the country. Government and donors and the international community can support initiatives and continue to advocate for law and order improvements and economic reforms. As an unarmed observer presence, however, the IPMT has done as much as it could do. Following the destruction of the 2,000 or so weapons collected by the IPMT during its deployment, it was withdrawn at the end of June 2002.

Australia has also been extensively involved in attempting to assist the Solomon Islands Government tackle the serious consequences of the ethnic violence, namely, the breakdown of law and order, a severe economic downturn, and the disruption to basic community services including health and education. Australia's aid to Solomon Islands has doubled in recent years in response to the crisis facing the country.

Australia was instrumental in ensuring that elections were held on schedule in December 2001. Australia provided financial backing (approximately \$6 million) and contributed a team of election observers. In view of the serious difficulties faced by the government, Australia continues to provide substantial advisory and technical assistance to Solomon Islands. But increased support hinges on effective action by the new government to address concerns about law and order, governance and economic management. Australia has successfully encouraged other donors to adopt a coordinated approach along these lines. A meeting between the international donor community and the Solomon Islands Government was held on 19 June 2002, at which the government outlined its plans for recovery.

Mr Downer has visited Solomon Islands four times since early 2000, spearheading Australia's efforts to encourage a return to peace and stability and the commencement of national recovery. His most recent visit was in January 2002 (accompanied by Mr Phil Goff, New Zealand's Minister of Foreign Affairs and Trade). In June 2001, the then Deputy Prime Minister of Solomon Islands (now Prime Minister), Sir Allan Kemakeza, visited Canberra.

Vanuatu

Australia has a close relationship with Vanuatu. Australia is the largest aid donor, has a large resident population and has a broad range of linkages at the government and community level. Australia is Vanuatu's predominant source of imports, investment and tourists. Australia's development assistance program provides strong support to the Asian Development Bank-sponsored Comprehensive Reform Program (CRP), commenced in 1997, which is designed to strengthen institutions and governance and promote economic and social development. A new focus of assistance agreed in 2002 is a police strengthening program. There is also an active defence cooperation program and extensive law enforcement cooperation. Like other Melanesian countries, Vanuatu is facing challenges stemming from large population growth, constrained economic prospects and community tensions.

Mr Downer visited Vanuatu in December 2000 and December 2001. Prime Minister Edward Natapei visited Canberra in February 2002.

New Caledonia

Australia's links with New Caledonia have broadened substantially since the Matignon Accords of 1988 (between France and political groups in New Caledonia) eased several years of political tension and sometimes violent unrest. The bilateral relationship has broadened, particularly in trade and investment, following the signing of the Noumea Accord in 1998 whereby the French State conferred more autonomy on New Caledonia. Australia has welcomed the increased involvement of New Caledonia in regional affairs and supported its becoming an observer at the Pacific Islands Forum. New Caledonia has served as a base for increased cooperation in the Pacific between France and Australia, including through defence links and joint responses to natural disasters in the region.

The Minister for Trade, Mr Vaile, visited New Caledonia in March 2002 to sign a Trade and Economic Relations Arrangement. This Arrangement provides a framework for official discussions on trade issues, including market access, and is the first such bilateral instrument entered into by New Caledonia since acquiring responsibility for trade from France in 1999.

Samoa

Australia has close ties with Samoa, the largest state in Polynesia and the first Pacific island country to attain independence. Australia maintains an active development assistance program which supports the Samoan Government's economic and structural reform initiatives. Samoa has emerged as the leader of reform in the region. In 2001 its GDP grew at 10 per cent. Samoa has demonstrated what can be achieved with firm political commitment within the context of modest resources and strong cultural traditions.

Exchanges of high-level visits contribute to the substance of the relationship. The Minister for Foreign Affairs, Mr Alexander Downer, and the then Minister for the

Environment, Senator Robert Hill, visited Samoa during 2000. The Deputy Prime Minister, Mr John Anderson, visited Samoa in early June 2002 to represent Australia at the 40th anniversary celebration of Samoa's independence. The Samoan Prime Minister, Mr Tuilaepa Sailele, visited Canberra in November 2000 as a Guest of Government.

Nauru

Australia's close association with Nauru dates from the period before independence in 1968, when Nauru was administered by Australia. Many Nauruans visit Australia for education, medical treatment and tourism.

A significant new element was introduced into the bilateral relationship in September 2001 when Nauru agreed to host an offshore processing centre for asylum seekers seeking to enter Australia. Two facilities were established in Nauru in the latter part of 2001. A second agreement in December 2001 increased the possible number of individuals in these facilities to 1200.

This arrangement has been of benefit to both sides. The establishment of the processing centres has resulted in substantial infrastructure development and an increased flow of technical assistance to Nauru.

Recent high-level visitors to Nauru have been the then Minister for Defence, Mr Peter Reith, to attend the Pacific Islands Forum in August 2001 and again in September to discuss asylum seekers, the Minister for Foreign Affairs, Mr Alexander Downer, in December 2001, and the Minister for Immigration and Multicultural and Indigenous Affairs, Mr Phillip Ruddock, in February 2002.

Tonga

Australia has long-standing and friendly relations with Tonga, including economic and social links, an extensive development assistance program and a defence cooperation program. HM King 'Taufua'ahau 'Tupou IV was educated in Australia. The current Prime Minister, HRH Prince 'Ulukalala Lavaka Ata (who also studied in Australia), visited Australia as a Guest of Government in June 1999, soon after taking up his initial portfolio of Minister for Foreign Affairs and Defence.

Kiribati

Political relations with Kiribati are based on cooperation in regional forums, development assistance and defence cooperation. Australian aid to Kiribati has increased incrementally over recent years. The Prime Minister, Mr John Howard, visited Kiribati in 2000 for the Pacific Islands Forum Leaders' Meeting.

Federated States of Micronesia (FSM), Republic of the **Marshall Islands (RMI)**, and **Palau**

Australia has friendly if modest bilateral relations with the countries of northern Micronesia which achieved independence in the 1980s and 90s. Australia has welcomed the successful integration of this group of states into the institutions and practice of regional cooperation. All three have now taken their turn at hosting Pacific Islands Forum Leaders' meetings and these occasions have afforded opportunities for high level interchange with Australian ministers. Australia's development assistance program and support for maritime surveillance through the Department of Defence's Pacific Patrol Boat program constitute major elements of these bilateral relationships.

French Polynesia

Australia's relations with French Polynesia improved after France ended its nuclear testing program in 1996. Trade interests are the centre of bilateral relations.



Other Pacific Island Countries and Territories

Australia maintains cooperative ties with other Pacific Island states and territories through our network of diplomatic posts and their non-resident accreditations.

Australia's Pacific Diplomatic Network:

	POSTDFAT	AusAID	Austrade	AFP	Defence	DIMIA
Apia						
• Samoa	4			1		
Honiara						
• Solomon Islands	6		2	1		2
Noumea						
• New Caledonia						
• French Polynesia*						
• Wallis and Futuna						
Nuku'alofa						
• Tonga	3			1		
Pohnpei						
• Federated States of Micronesia						
• Republic of Marshall Islands						
• Palau						
• Guam						
• Commonwealth of the Northern Marianas						
Port Moresby*						
• Papua New Guinea		22	17	2	2	9
Port Vila						
• Vanuatu	5	1			2	1
Suva						
• Fiji	3			1	2	24
• Nauru						
• Tuvalu						
Tarawa						
• Kiribati		2	1			
Wellington						
• New Zealand			9			
• Cook Islands						
• Niue						
• Tokelau						
TOTAL		66	26	3		7
17	6					

Note: Figures for the above staffing profile do not include numbers of Australian officials seconded to or on exchange with foreign government or regional organisations. Figures also do not include those posted to PNG with the PMG or Defence personnel deployed to the region in support of the Pacific Patrol Boat Program. * Australia has an Honorary Consul in Lae in PNG and Papeete in French Polynesia.

Pacific Island Diplomatic Missions in Australia:

Country	Diplomatic Missions
Cook Islands	Honorary Consulate in Sydney
Fiji	High Commission in Canberra; Honorary Consulates in Brisbane, Melbourne and Perth
Kiribati	Honorary Consulate-General in Sydney
Nauru	Consulate-General in Melbourne
Papua New Guinea	High Commission in Canberra; Consulate-General in Sydney and Brisbane
Samoa	High Commission in Canberra; Honorary Consulates in Sydney and Brisbane
Solomon Islands	High Commission in Canberra; Honorary Consulate in Sydney and Melbourne
Tonga	Honorary Consulate-General in Sydney
Tuvalu	Honorary Consulate-General in Sydney
Vanuatu	Honorary Consulate in Sydney

The Regional Political Framework:

Australia is a founding member and major donor to the principal regional organisations in the Pacific. This reflects our view that regionally-based structures provide an effective means of promoting shared solutions to common problems. About a quarter of Australia's development assistance to Pacific Island countries (leaving aside Papua New Guinea) is provided on a regional basis. The regional organisations are an important resource providing a pool of expertise not available in individual countries. Australia has been active in strengthening the performance, transparency and accountability of these organisations.

The Pacific Islands Forum (formerly named the South Pacific Forum) is the region's peak inter-governmental body. It was formed in 1971 by Australia, Cook Islands, Fiji, Nauru, New Zealand, Tonga and Samoa. These have since been joined by the Federated States of Micronesia, Kiribati, Marshall Islands, Niue, Palau, Papua New Guinea, Solomon Islands, Tuvalu and Vanuatu. New Caledonia is an observer.

The annual summit of Forum Leaders discusses political and other issues of concern to the region. Current issues include responses to globalisation, the environment (particularly climate change), trade and economic issues, regional security (including terrorism, transnational crime, law enforcement cooperation and people smuggling), shipments of nuclear material and regional transport links. The 2002 Forum Leaders' Meeting will be held in August in Fiji.

The Leaders' Meeting is supplemented from time to time by a number of separate ministerial meetings, including meetings of foreign affairs, economic, trade, education and transport ministers and the Forum Presiding Officers' Conference. These meetings enable more detailed discussion of sectoral issues. In addition, officials level meetings such as the Forum Regional Security Committee provide avenues through which Australia can engage on issues of importance to us and to the island countries.

Other organisations under the Forum umbrella are:

The South Pacific Regional Environment Program (SPREP), based in Apia, was established in 1995 to provide assistance to protect and improve the region's environment and to ensure sustainable development.

The **Forum Fisheries Agency** (FFA), based in Honiara, was established in 1979 to enable members to manage and conserve the region's rich fisheries resources. Australia and New Zealand are the major donors. The FFA implements regional fisheries programs and coordinates regional approaches to multilateral fisheries treaties.

The **South Pacific Applied Geoscience Commission** (SOPAC), based in Suva, was established in 1972 to provide geoscience services to its members to assist sustainable development.

A separate organisation is the (Secretariat of the) Pacific Community (SPC), formerly named the South Pacific Commission, founded in 1947 by the then colonial

powers to promote development in the Pacific. It is based in Noumea, with an office in Suva. It remains the major vehicle for delivery on a regional basis of technical assistance, drawing on funding from donors within and outside the region. Australia is the SPC's largest donor. The SPC has an important technical advisory role in agriculture, marine resources, health, socio-economic programs, statistics, community education and gender equity issues.

The SPC's membership comprises the Pacific's independent states, territories and former colonial powers: American Samoa, Australia, Cook Islands, Federated States of Micronesia, Fiji, France, French Polynesia, Guam, Kiribati, Marshall Islands, Nauru, New Caledonia, New Zealand, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Island, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, United Kingdom, United States, Vanuatu and Wallis and Futuna.

Economic Relations: Trade, Tourism and Investment

The fourteen island country members of the Pacific Islands Forum are all small economies. Their total combined GDP amounts to around \$17 billion. Of this 83 per cent is accounted for by Papua New Guinea and Fiji. Economic growth across most of the Pacific countries has been weak or declined in recent years and this is expected to continue. Export earnings for Papua New Guinea, Fiji, Solomon Islands and Vanuatu have declined. Domestic instability has had a direct impact affecting tourism. Investment levels have declined to the levels of the early 90s, reflecting poor investor confidence in the region.

Economic reform is a key objective for Australia and the region. The Forum Economic Ministers' Meeting (FEMM) and Forum Trade Ministers' Meeting (FTMM) seek to promote an economic and governance environment which attracts investment, supports trade and is conducive to sustainable growth. The inaugural FEMM Action Plan in 1997 committed Forum members to enhanced public accountability, private sector development and more open investment policies. The dialogue on economic relations has deepened over the intervening years and a significantly wider range of issues has now been actioned. The underlying themes however, remain unchanged.

All Pacific island countries have accepted the need for economic reform and improved governance, but the development and implementation of appropriate policies remains a significant challenge. Economic reform poses particular challenges for communities with poorly resourced governments and small private sectors. Electoral pressure on governments - especially with unstable governing coalitions - is only part of the problem. An equally important obstacle to reform is the lack of local capacity to implement the necessary measures.

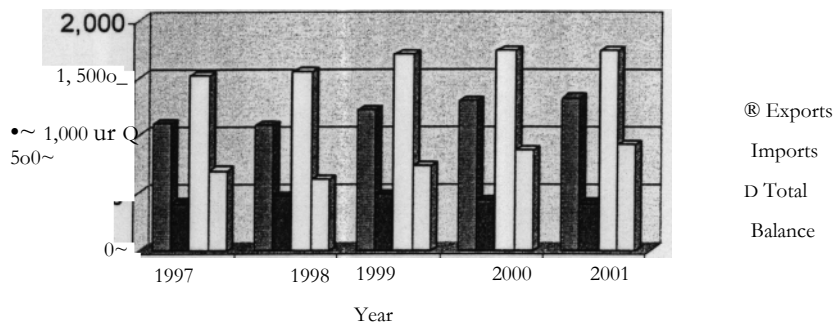
Some countries have made good progress in pursuing economic reform, fiscal responsibility and trade liberalisation - especially Samoa and the Cook Islands - with beneficial results.

Australia, as the chief trading partner of most Pacific Island countries, enjoys a sizeable share of imports into the region (more than 30 per cent overall). A range of Australian businesses have long-established commercial connections in the Pacific. These markets are also served by many small and medium-sized business enterprises.

Trade Relations:

Australia's trade in goods with PNG and the other Pacific island countries generated more than \$2.3 billion of export revenue in 2001. This represents slightly less than 2 per cent of the total value of Australian exports. Trade in services with Forum Island countries contributed a further \$1 billion. PNG dominates our export markets in the Pacific region as our twenty-third largest export market. Fiji, New Caledonia and French Polynesia are other significant Australian export markets in the region.

Australia's Trade with the Pacific Islands
(Not incl. PNG)



Papua New Guinea: Australia's trade relationship with PNG totalled \$2.3 billion in 2000-01 (Australian exports \$1.03 billion, PNG exports \$1.24 billion). The five-year trend since 1995-96 shows a 15 per cent reduction in Australian exports and a 30 per cent growth in imports from Papua New Guinea.

Australia's principal exports are refined petroleum and oils, industrial machinery, transport equipment, processed foods, civil engineering and specialized equipment, and computers and computer parts. Imports from Papua New Guinea are dominated by crude petroleum. Nonmonetary gold and agricultural products, particularly coffee, are other notable

imports.

Australia's Trade with Papua New Guinea

PNG has a very open service sector. In 2000-01, Australia exported \$380 million worth of services to Papua New Guinea, which represents 1.2 per cent of Australia's total service exports.



Fiji: Two-way trade in goods in 2001 amounted to \$832 million (Australian exports \$592 million; Fiji exports \$240 million). Two-way trade in services was valued at \$452 million in 2000, with Australia's imports of services from Fiji valued at \$355 million. Australia is Fiji's major market for manufactured goods, mainly garments. Australia's share of Fiji's market is around 45 per cent.

Solomon Islands: The Solomon Islands economy contracted by 14 per cent in 2000 and a further 25 per cent in 2001. Per capita GDP halved in the last five years to approximately AUD\$120 in 2001, lower than what it was at independence in 1978. The economic decline is largely due to the ethnic conflict which led to the closure of key productive industries and caused extensive damage to infrastructure.

Australia's exports to Solomon Islands in 2001 were worth \$61 million, compared with almost \$100 million in 1999 before the crisis. Identified exports were largely comprised of petroleum, tobacco and cigarettes. Australia's imports from Solomon Islands over the same period totalled \$2.5 million.

New Caledonia: New Caledonia is an affluent market and a high-cost economy. New Caledonia has a quarter of world nickel reserves. With major mining developments now coming on line New Caledonia's economic prospects are promising. Nickel accounted for 88.7 per cent of exports in 2001.

Australian merchandise exports totalled \$230 million in 2001, with 16.3 per cent market share (second to France). Australia's identified exports to New Caledonia are dominated by petroleum, coal, mining equipment and agri-business products. Imports to Australia totalled \$56 million and consisted largely of iron and nickel ores.

French Polynesia: Australian merchandise exports to French Polynesia in 2001 totalled \$222 million (of which 73 per cent were petroleum and other energy products). Australia's market share was around 7 per cent; preferential arrangements for EU products and distance and transport costs are limiting factors on growth. In 2001, Australia imported just less than \$3 million of goods from French Polynesia (almost exclusively black pearls).

Samoa: Australian merchandise exports to Samoa were valued at \$58.1 million in 2000, almost half of which was refined petroleum. Imports from Samoa in 2000 totalled \$76.2 million. These were nearly all electrical parts for motor vehicles produced at the Yazaki plant in Apia.

Vanuatu: Vanuatu's economy has weakened in recent years with per capita GDP declining from \$3,000 in 1996 to \$2,500 in 2000. Australia is Vanuatu's largest trading partner with Australian merchandise exports of \$51 million in 2001 against imports of \$3.3 million. Principal exports are food and beverages, raw materials, refined petroleum, machinery and equipment. Australia holds 43 per cent of market share in Vanuatu.

Kiribati: The Kiribati economy is small and has few resources besides fisheries, which lie in its significant exclusive economic zone. Australia is the major supplier

of food, beverages, pharmaceuticals and services to Kiribati. Australian merchandise exports to Kiribati in 2001 totalled \$33.8 million, with market share at more than 40 per cent. Australian imports from Kiribati over the same period were negligible.

Nauru: Nauru is a single resource economy. Income from phosphate mining created significant revenues in the past, making Nauru one of the wealthiest countries in the Pacific. However, its ability to generate income from this source has seriously diminished over recent years. With dwindling resource supplies, dilapidated infrastructure and a downturn in phosphate prices, combined with poor fiscal and investment portfolio management, Nauru faces a difficult future.

Australia is the key trade partner for Nauru. As a result of the economic downturn in Nauru, Australian exports to Nauru, including building materials, petroleum, food and beverages, have fallen to \$25 million in 2001 (from \$31 million in 1995). Nauru's exports to Australia, mostly phosphate, were valued at \$4.3 million for the same period. Nauru is a significant property investor in Australia, particularly in Victoria.

Tonga: Australia's merchandise exports to Tonga were worth \$15.9 million in 2001. In addition, approximately \$9 million of petroleum products were exported via Fiji. Australia's main exports, in addition to petroleum products, were food and telecommunications equipment. Imports from Tonga in 2001 were valued at \$720,000, comprising mainly vegetables, fruits, nuts and spices.

Palau: With a per capita GDP of \$10 000 Palau enjoys one of the highest standards of living in Pacific island countries. Its main industry is tourism. Australian exports in 2001 were valued at slightly more than \$1 million and consisted of aircraft parts, food and beverages and refined petroleum. Imports were negligible.

Federated States of Micronesia (FSM): Australia is the second largest source of imports to the FSM, after the United States. Exports from Australia were valued at \$18.5 million and consisted mainly of foodstuffs and petroleum. Imports were negligible.

Marshall Islands: Australia's exports to the Marshall Islands in 2001 were valued at nearly \$8 million in 2001. Identified elements were largely plastic items, crude minerals, food stuffs and construction materials.

The Regional Economic and Trade Relations Framework:

The regional trade framework is underpinned by a series of agreements and arrangements. These have been extended with the signing in 2001 of the Pacific Agreement on Closer Economic Relations and the Pacific Island Countries' Trade Agreement (a free trade agreement between the 14 Forum island countries).

South Pacific Regional Trade and Economic Cooperation Agreement

Under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) Australia grants duty free access to goods from developing country members of the Forum which meet SPARTECA rules of origin. SPARTECA was signed by most Forum members at the Forum's Eleventh Meeting in Kiribati on 14 July, 1980. It entered into force generally on 1 January 1981, and for Australia on 30 June 1982.

The Agreement includes provisions for general economic, commercial and technical co-operation, safeguard provisions relating to dumped and subsidised goods and suspension of obligations, and provisions for general exceptions and revenue duties. The Agreement also provides for special treatment and assistance to be extended to the smaller island countries.

Pacific Agreement on Closer Economic Relations (PACER)

The Pacific Agreement on Closer Economic Relations (PACER) was negotiated in the Pacific Islands Forum during 2000 - 2001

The objective of the PACER is to establish a framework for the gradual trade and economic integration of the Forum members in a way that fully supports their sustainable development and contributes to their gradual and progressive integration into the international economy. It also provides for the establishment of other elements of a single regional market (for example services and investment), but does not specify the timing of these negotiations which will arise only as and when the Parties are ready. It obliges Australia to maintain all existing arrangements with any Forum island country relating to market access. This maintains our current obligations under SPARTECA. The Agreement stipulates that Australia (and New Zealand) will provide financial and technical assistance for a program of work to be agreed between the Parties in the future, in areas such as trade facilitation and promotion, capacity building, and structural adjustment.

The PACER provides Australia with the opportunity to pursue greater gains from trade if and when a free trade agreement is negotiated between Forum Island Countries and another developed country or a country with a per capita GDP higher than the lowest of a developed Forum member.

Australia ratified the PACER at FEMM on 3 July 2002. To date six countries have now ratified the Agreement. Seven ratifications are necessary for its entry into force. It is expected to enter into force generally at the time of the next Pacific Islands Forum in August 2002.

SPARTECA (TCF Provisions) Scheme

In addition to SPARTECA, Australia provides further concessional market access to imports of textiles, clothing and footwear (TCF) (other than any good that contains woollen fibre) through the SPARTECA (TCF Provisions) Scheme. Under the Scheme, a TCF export that has over 70% Forum content earns points which can be used to "top up" the Forum content of a TCF export to Australia that has at least 35% Forum content so that it meets the 50% Forum content requirement for duty-free entry. The Scheme was introduced in March 2001, and is aimed primarily at benefiting Fiji, the only Forum Island country with a substantial TCF industry. The Scheme will terminate on 31 December 2004, coinciding with the scheduled lifting of Australia's TCF tariff pause on 1 January 2005. The Scheme is administered by the Department of Industry, Tourism and Resources.

Papua New Guinea-Australia Trade and Commercial Relations Agreement

The formal framework for bilateral trade and investment with Papua New Guinea is provided by the Papua New Guinea-Australia Trade and Commercial Relations Agreement (PATCRA). The Agreement was reviewed in 1990 and resulted in the signing of PATCRA II. PATCRA/PATCRA II ensures that all PNG exports enter Australia free of all duties and charges, with the exception of goods subject to excise in Australia. Papua New Guinea grants no preference to Australian goods.

Australia-Fiji Trade and Economic Relations Agreement

The bilateral Australia Fiji Trade and Economic Relations Agreement (AFTERA), signed on 11 March 1999, supplements other regional trade agreements. AFTERA aims to strengthen and diversify the trade, investment and economic relationships between Australia and Fiji.

Australia-New Caledonia Trade and Economic Relations Arrangement

A Trade and Economic Relations Arrangement was signed between Australia and New Caledonia in March 2002. The Arrangement provides a framework for discussion of trade issues, including market access.

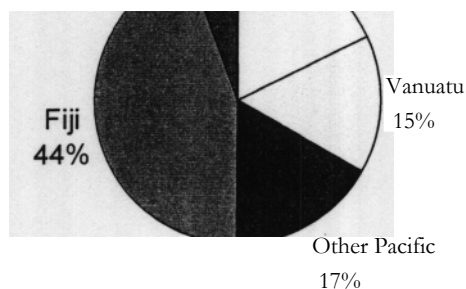
Tourism:

Tourism is an important industry for a number of Pacific Island countries. Currently, however, Fiji is the only significant tourist destination in the Pacific. PNG, Vanuatu and the French Territories serve as secondary tourist destinations. Limited infrastructure, including air services and distance from major source countries hamper the development of this industry.

Figures cited below include business travellers and family visits. .

Australian Short Term Departures to Pacific Island Countries (1999/00)

New Calendonia	PNG
6%	15%



Fiji: Tourism is Fiji's main foreign exchange earner and an important sector for the economy, contributing around 20 per cent of GDP. In 2000, Fiji's gross earnings from tourism were estimated at \$346 million, compared with earnings of \$455 million for 1999. There was a big decline in visitor arrivals after the coup in May 2000, with annual arrivals of 294,000 in 2000 down 28 per cent on the record of 410,000 set in 1999. Tourism has picked up since the restoration of democracy, with 384,000 arrivals in 2001, and increased numbers thus far in 2002. Australia has historically been the biggest source of tourists for Fiji, followed by New Zealand, the United States and Japan.

Australia - South Pacific Tourism Figures 1996-2000:

	1995-96	1996-97	1997-98	1999-99	1999 -00
Australia to Fiji _	73,400	74,800	88,400	104,200	107,200
Fiji to Australia	20,400	20,000	20,800	24,000	27,000
Australia to New Caledonia	12,100	14,100	13,700	12,600	14,100
New Caledonia to Australia	22,100	22,500	23,400	23,900	24,300
Australia to the rest of the Pacific	25,700	27,600	31,000	31,600	40,600
Rest of the Pacific to Australia	26,600	28,900	31,000	40,100	35,700
Australia to PNG	37,000	39,300	41,200	38,700	43,700
PNG to Australia	41,000	44,300	43,500	48,200	48,200

Source: ABS data on DFAT STARS databases, 1996-2000

Investment:

Australia is a major investor in the South Pacific. Australia has encouraged Pacific island countries, including through Forum Economic Ministers' Meetings, to increase their attractiveness to investors. Realistically, however, even with better government policies, attracting investment in the present global environment will not be easy. Factors inhibiting investment include distance from markets, the smallness of many economies, political instability, and lack of certainty regarding land title.

The trend over recent years has seen total Australian investment in Pacific Island countries decline from record highs in the mid to late 90s.

In June 2000 Australian investment in **Papua New Guinea** included \$2.99 billion in Foreign Direct Investment (FDI). A steady but consistent growth in Australian investment in Papua New Guinea has been recorded over the last five years. Substantial new investment, however, will be required to bring about the long-term and sustainable development of PNG's natural resources. Despite a decrease in Papua New Guinea's FDI in Australia, in June 2000 total investments in Australia stood at \$167 million.

The Papua New Guinea-Queensland gas pipeline project will see a noticeable increase in the bilateral investment figures. The US\$3 billion project involves consolidation of gas from sites located in Papua New Guinea, processing the gas in Papua New Guinea and transportation of the gas via a 2900 kilometre pipeline across the Torres Strait to markets in Queensland and south east Australia. This project will have a considerable impact on both economies, including the creation of hundreds of jobs in Papua New Guinea. A Heads of Agreement was signed earlier this year, and construction is expected to commence in the second half of 2002.

Australian investment in **Fiji** is both considerable and spread across the economy, including in tourism, banking, manufacturing, insurance, education, consultancy services and mining.

The 2000 coup caused a number of investment decisions to be delayed, particularly in the tourism industry. There are now signs that investment levels may be returning to more predictable pre-coup levels. Fiji is seeking to attract further foreign investment through various incentives announced in the 2002 Budget.

Instability in the **Solomon Islands** has directly contributed to the withdrawal of a number of foreign investors. This has seriously impacted on the economy, causing exports to decline more than 40 per cent over the last two years.

Australian investment in Samoa is principally in the financial sector with other investments in Samoa's national brewery and in fishing.

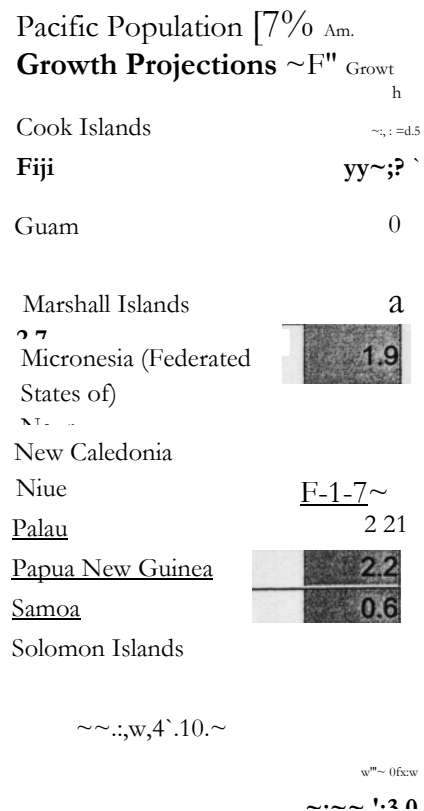
In smaller economies disinvestment by Australian companies over recent years has been noticeable. The reason for this disinvestment has not necessarily been instability but the general difficulty in maintaining profit growth.

The Implications for Australia of Political, Economic and Security Developments in the Region

There are some exceptions, but on the whole the Pacific island countries will face significant development challenges in coming decades. Most have not achieved steady economic growth, and are unlikely to achieve it in the medium term. Socioeconomic indicators remain weak. Rapid population growth will place even greater strains on limited resources, including the environment. Prudent economic policies with few immediate results do not appeal to electorates. Even sound policies cannot eliminate the constraints of distance, small scale and limited capacity. In addition, problems such as the breakdown of traditional authority, youth unemployment, inadequate delivery of government services (including policing), urban drift and unmet community expectations will create political pressures. Inherited political and social structures will struggle to manage these kinds of pressures, as has already been seen in a number of cases.

The outlook for Melanesia in particular is of concern to Australia. To take population alone, Solomon Islands (3.4 per cent) and Vanuatu (3.0 per cent) have the highest growth rates in the Pacific. Papua New Guinea has a lower rate of 2.3 per cent which, if maintained, will still lead to a doubling of the population within 30 years. (Countries with manageable population growth rates - largely in Polynesia and American Micronesia - often benefit from emigration which in turns yields a flow of remittances.)

While the overall picture is not promising, there are several encouraging aspects. On the whole, legal systems function, governments change through elections, and basic human rights are respected. A number of countries have experienced the benefits of stable governments and responsible policies.



Implications for Australia

lack of resources and weak economic performance will require continued high levels of aid (the Pacific currently accounts for about a third of Australia's aid budget);

further occurrences of political instability can be expected, which will also impact on the safety of resident Australians and trade and investment interests;

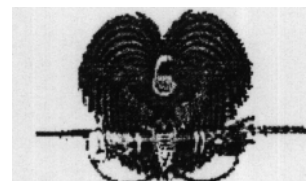
Pacific island countries will remain vulnerable to transnational crime and carpet-baggers; and

the low level of interest in the Pacific on the part of the international community will mean that Australia (in cooperation with New Zealand) is left to take the lead. To help meet these challenges, the Australian Government, bilaterally and through the region's multilateral structures, has supported responsible governance and prudent economic management in the Pacific. This approach includes representations and advocacy at the political level and a wide range of consultative and support measures through a variety of government agencies. These include: AusAID; the Australian Customs Service; the Australian Federal Police; the Australian Security Intelligence Organisation; the Departments of Agriculture, Fisheries and Forestry; the AttorneyGeneral; Defence; Foreign Affairs and Trade; Immigration and Multicultural and Indigenous Affairs; Industry, Tourism and Resources; Prime Minister and Cabinet; and Treasury. In addition, the Commonwealth and State Parliaments are involved in a number of activities which support democratic institutions in the Pacific. Equally, the private sector, including business, universities and many NGOs also contribute to Australia's close ties with the region.

Australia has an enduring commitment to positive engagement with the countries of the Pacific. At the same time, however, we recognise that there are limits to what outsiders can achieve. Australia is not a neo-colonial power and the island countries are sovereign states. We can do a lot to support good governments, but our ability to assist or influence poor governments is inevitably constrained. Australia will do all it can to help, but ultimately it is the Pacific island countries which are responsible for their futures.



Joint Declaration of
Principles Guiding
Relations Between
Australia and Papua
New Guinea



*1987, as amended by exchange of
letters 1992*

Australia and Papua New Guinea are immediate neighbours, with close traditional and historic ties between their peoples which both countries are determined to maintain and strengthen.

Australia and Papua New Guinea have many common interests which both Governments seek to advance with full regard for one another's distinct national characteristics.

Both Governments respect and seek to build on existing bilateral, regional and other mutually beneficial arrangements in accordance with their shared commitment to independent and constructive neighbourly co-operation and to co-operation between developing and developed countries.

Both Governments uphold the United Nations Charter.

Both Governments are strongly committed to regional co-operation in the South Pacific and to co-operation with other neighbours.

Both Governments are committed to promoting a stable regional environment in which the aspirations of the peoples of the region for security, peace, equity and development can best be realised.

BASIC PRINCIPLES

- (1) The Governments and peoples of Papua New Guinea and Australia reaffirm their commitment to the maintenance and strengthening of close and friendly relations between their two countries.
- (2) The various elements which make up the over-all relationship between the two countries should be viewed together, and each of the elements should be conducted with due regard for the relationship as a whole.
- (3) Relations between Papua New Guinea and Australia will be conducted in accordance with the principles of mutual respect for one another's independence, sovereignty and equality.

(4) Both Governments are committed to peaceful settlement of international disputes and to non-interference in the internal affairs of other countries.

(5) Both Governments seek to avoid, reduce, contain and, where possible, to remove the causes of, international tensions.

(6) Citizens of either country will be accorded fair and just treatment in the other in accordance with law.

(7) The maintenance and strengthening of close and friendly relations between the two countries is an integral part of both Governments' independent foreign policies.

(8) Co-operation and exchanges between the two countries will be mutually beneficial and based on full participation by both countries, with due regard to the capacity, resources and development needs of both countries, and on mutual respect.

(9) Development co-operation will comprise a wide-ranging combination of agreed measures designed to contribute to development and self-reliance, including capacity building, in Papua New Guinea.

CO-OPERATION

(10) Promotion of Understanding

Both Governments will seek to promote knowledge and understanding of the other country.

(11) Diplomatic Co-operation and Consular Representation

The two Governments will seek to co-operate in pursuing shared national, regional and global interests through diplomacy and will assist one another in consular representation as far as practicable.

(12) Security Co-operation

The two Governments reaffirm their commitments made in the Agreed Statement on Security Co-operation between Australia and Papua New Guinea, signed in Canberra on 2 September 1991.

(13) Defence

(a) Recognising that each Government has primary responsibility for its own security, the two Governments undertake to continue to maintain and develop their respective defence capabilities.

(b) Conscious of their unique historical links and shared strategic interests, the two Governments will continue to engage in defence cooperation through consultation and in such areas as agreed exchanges, consultancies, combined projects, military training and combined exercises as would be decided by them from time to time.

(c) The two Governments reaffirm the existing agreement and arrangements between the two countries covering the status of Service personnel from either country present in the other, the provision of supply support and consultations on politically sensitive situations in which Australian loan personnel might be involved.

(d) The two Governments will consult, at the request of either, about matters affecting their common security interests. In the event of external armed attack threatening the national sovereignty of either country, such consultation would be conducted for the purpose of each Government deciding what measures should be taken, jointly or separately, in relation to that attack.

(14) Trade, Investment and Private Sector Co-operation

(a) Both Governments desire to strengthen trade, investment and private sector co-operation between the two countries.

(b) The two Governments recognise their commitments under the agreement covering trade and commercial relations between Papua New Guinea and Australia.

(c) Trade between the two countries will be on at least most-favoured nation terms and as free of both tariff and other restrictive regulations of commerce as may be consistent with both countries' domestic requirements and international commitments.

(d) The two Governments will consult on ways in which Australian investment can contribute to the development of Papua New Guinea. The two Governments will accord to Papua New Guinea and Australian companies and individuals resident in either country investment treatment no less favourable than that accorded to those of any third country.

(e) The two Governments will encourage co-operation between the private sectors of their two countries in trade, investment and related areas.

(9) The two Governments recognise their commitments under the Agreement between the Government of Australia and the Government of the Independent State of Papua New Guinea for the Promotion and Protection of Investments.

(15) Financial, Transport and Other Services

The two Governments will, in accordance with the laws and policies of both countries and having regard to Papua New Guinea's development needs, co-operate to encourage the efficient supply of financial, transport and other services between the two countries.

(16) Development Assistance

Development assistance will be provided as part of an agreed program of co-operation which contributes to development and self-reliance in Papua New Guinea, allows for forward planning and implementation in accordance with policies and priorities set by the Papua New Guinea Government, and takes due account of both Governments' policies on development co-operation.

(17) Communication and Travel

The two Governments will seek to promote and facilitate communications and travel, including tourism, between the two countries, with due regard for one another's national interests and policies.

(18) Border Administration

The two Governments will reinforce their co-operation under the Torres Strait Treaty in the administration and development of their common border area, with due regard for the rights and interests of the traditional inhabitants and conservation of the natural environment.

(19) Legal Co-operation

The two Governments will co-operate, in accordance with their international legal obligations and respective laws, in the area of law enforcement and seek to increase co-operation in other areas of the law, including taxation law, business law and family law.

(20) Crime, Terrorism and Smuggling

The two Governments will co-operate, in accordance with their respective laws and international obligations, to prevent, detect and prosecute crime, terrorism and smuggling, including, especially, illegal drug trafficking.

(21) Exchanges

(a) The two Governments will promote educational, scientific, cultural, sporting and other exchanges between individuals, groups and public office-holders with common interests.

(b) The two Governments will facilitate exchanges which contribute to the development of human resources, research capacity and technology in the public and private sectors.

(22) Consultations

(a) The two Governments will establish a Ministerial forum to meet regularly, under arrangements co-ordinated by the two Ministers responsible for foreign affairs, alternately in either country.

(b) The two Governments will endeavour to consult promptly and at an appropriately high level of representation at the request of either.

(c) The two Governments will hold such other consultations as may be agreed.

GENERAL PROVISIONS

(23) Resolution of Disputes

Disputes between the two Governments will be settled peacefully through consultation, negotiation, or such other means as may be agreed and are consistent with the United Nations Charter.

(24) Other Arrangements

(a) Commitments made under existing arrangements between the two countries will be respected, and developed in accordance with this Joint Declaration,

(b) The two Governments will endeavour to interpret and implement agreements and arrangements between them in the spirit of the principles and commitments contained in this Joint Declaration, without prejudice to commitments entered into under existing agreements between Papua New Guinea and Australia.

(c) The two Governments may give effect to this Joint Declaration in such further agreements and arrangements as may be agreed.

¹~° (25) Review

The two Governments will review the operation of this Joint Declaration at the request of either party.

Signed at Canberra the ninth day of December 1987.

(signed)

R. J. L. HAWKE
Prime Minister of Australia

(signed)

PAIRS WINGTI
Prime Minister of Papua New Guinea



Note: An exchange of letters between the Prime Ministers of Australia and Papua New Guinea dated 1 June 1993 and 1 November 1993 respectively resulted in the changes to the Joint Declaration which are illustrated in *italicised print*.