

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: 49

Submittor: Department of Defence

Contact: Mr Tony Corcoran  
Director Statutory Reporting and  
Accountability

Address: R1-2-A040  
Russell Offices  
CAMPBELL ACT 2612;

Tel: 6265 6277

Fax: 6265 62461720

Email:

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25 July 2002

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



Dear Mr Holmes

Attached is Defence's submission to the committee's inquiry into Australia's relationship with Papua New Guinea and other Pacific island countries. The submission has been approved by the Minister for Defence.

Defence looks forward to assisting the committee further with its inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony Corcoran', written in a cursive style.

Tony Corcoran Director Statutory Reporting and  
Accountability

DEPARTMENT OF DEFENCE SUBMISSION

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# DEFENCE

SENATE FOREIGN AFFAIRS, DEFENCE ANTI TRADE  
REFERENCES COMMITTEE INQUIRY INTO

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DEPARTMENT OF DEFENCE SUBMISSION

SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES  
COMMITTEE

INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH PAPUA  
NEW GUINEA AND OTHER PACIFIC ISLAND COUNTRIES

<i>Executive Summary</i>	3
<i>Introduction</i>	4
<i>Defence Policy Context</i>	4
<b>C. Australia's development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program</b>	<b>5</b>
<i>The Defence Cooperation Program</i>	5
<i>The Pacific Patrol Boat Program</i>	6
<i>The Life Extension Program</i>	7
<i>Defence Cooperation with Papua New Guinea</i>	8
<i>Defence Assistance to Papua New Guinea Defence Force Reform</i>	9
<i>Defence Cooperation with other Pacific Island Countries</i>	10
<i>Defence Cooperation with the Solomon Islands</i>	11
<i>Defence Cooperation with Fiji</i>	11
<i>Defence Cooperation with Vanuatu</i>	12
<i>Defence Cooperation with Polynesia and Micronesia</i>	12
<b>D. The implications for Australia of political, economic and security developments in the region</b>	<b>13</b>
<i>The South Pacific Environment</i>	13
<i>Implications for Australia</i>	14

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## **DEFENCE**

### **DEPARTMENT OF DEFENCE SUBMISSION**

#### **INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH PAPUA NEW GUINEA AND OTHER PACIFIC ISLAND COUNTRIES**

##### *Executive Summary*

The Department of Defence seeks to maintain Australia's position as the key strategic partner in the South Pacific region.

Australia conducts a broad defence engagement strategy in the South Pacific. The Defence Cooperation program is the means through which Defence provides assistance to security forces in the region.

The aim of the Defence Cooperation program is to support Australia's defence relationships throughout the region by contributing to the maintenance of regional security and, where appropriate, assisting with the development of the security selfreliance of South Pacific countries.

The core of our defence engagement with the region is through the Pacific Patrol Boat program, which provides most South Pacific nations with the capability to patrol and protect their valuable exclusive economic zones.

Defence Cooperation activities also provide assistance to regional security forces in the areas of strategic planning, training, infrastructure and command and control.

Defence will continue to target assistance carefully under the Defence Cooperation program to assist those South Pacific countries in which declining law and order is of concern and could see them become more vulnerable to transnational crime such as smuggling in arms, drugs or people. This would have security implications for Australia.

Although the Government has endeavoured to foster stability and peaceful change within our immediate neighbourhood, the region faces large economic and social challenges which pose a potential threat to the stability of the South Pacific

## ***Introduction***

1. In preparing this submission, Defence has only addressed those aspects of the inquiry's Terms of Reference deemed relevant; part (c) on Australia's development cooperation in the South Pacific region and part (d) on the implications of regional political, economic and security developments for Australia. Australia's political and economic relations in the South Pacific will be more suitably addressed in submissions of other Federal government departments.
2. In discussing the Department's development cooperation relationships with the various countries in the South Pacific, this submission will focus on the Defence Cooperation program. The program is only a part of Defence's overall international engagement program. Other elements of Defence engagement in the South Pacific not covered by this submission include aircraft and ship visits and operational support to the peace processes in the Solomon Islands and Bougainville. Whilst these activities are classified as defence operations rather than developmental cooperation, they nonetheless contribute to the formation of strong security relationships within the South Pacific.

### *Defence Policy Context*

3. The geographic proximity of the South Pacific to Australia underpins our enduring interest in fostering stability and the peaceful development of the region. As outlined in *Defence 2000: Our Future Defence Force*, our most important strategic objective, after ensuring the defence of Australia, is to foster the security of our immediate neighbourhood. This means that Australia will continue to help promote the stability, integrity and cohesion of the South Pacific region.
4. Australia's leading role in the South Pacific is derived from our position as the region's largest economy, main investment partner, leading aid donor, and major defence and security partner. The Melanesian Arc commands our northern and north-eastern approaches with our close neighbours - Papua New Guinea (PNG), Solomon Islands, Vanuatu and Fiji - comprising some 85 percent of the population and 95 percent of the land area in the overall Pacific Islands region. Australia would be concerned about major external or internal challenges that threaten the stability and cohesion of any of these immediate neighbours.
5. The proximity and size of Papua New Guinea, together with our political and economic links, accords it a prominent place in our strategic thinking. Since Papua New Guinean independence in 1975, Australia has worked towards developing and maintaining a substantial defence relationship with PNG. As outlined in the *Defence 2000: Our Future Defence Force*, Australia is committed to remaining Papua New Guinea's primary defence partner and to maintaining a mutually beneficial defence relationship.

C. AUSTRALIA'S DEVELOPMENT COOPERATION RELATIONSHIPS WITH THE VARIOUS STATES OF THE REGION, INCLUDING THE FUTURE DIRECTION OF THE OVERALL DEVELOPMENT COOPERATION PROGRAM

*The Defence Cooperation Program*

6. Australia interacts with and provides assistance to security forces in the South Pacific through the Defence Cooperation program. The primary aim of the program is to support Australia's defence relationships. Activities conducted through the program include training, study visits, personnel exchanges and combined exercises with elements of the various regional security forces. The Pacific Patrol Boat Project is part of the program.
7. The program is managed by the Strategic and International Policy Division in the Department of Defence. In order to meet Defence's objectives for Australia's defence relationships with the South Pacific, long-term engagement is required with practical responses in the shorter-term to dealing with threats arising from particular events. The table below indicates the recent allocations of Defence Cooperation funding:

Cooperation	Actual Spent 1999-2000	Actual Spent 2000-2001	Estimated Spend 2001-	Estimate 2002'
New Guinea	\$7.99 million	\$15.37 million (includes \$7 million in 'special assistance' for PNGDF utility bill payments)	\$ 27.79 million (includes \$20 million in assistance for PNGDF reform)	\$9.73 million
<b>Rest of South Pacific</b>	\$21.11 million	\$16.82 million (reduction due to DC sanctions against Fiji and Solomon Islands)	\$ 17.98 million (includes 6 months of DC re-engagement with Fiji)	\$ 18.14 million 200Papua

(1) Estimate as of 27 June 2002

8. The Defence Cooperation program has been under way for many years. In 1972, Fiji was included in the then predominantly ASEAN focused program. Since then, relationships have been developed with Vanuatu, Tonga, Solomon Islands, Samoa, Kiribati, Tuvalu and PNG (after its independence in 1975). More recently the Republic of the Marshall Islands, the Cook Islands and the Federated States of Micronesia have been included. Palau was incorporated into the Defence Cooperation program when it was provided with a Pacific Patrol Boat in 1995.
9. Defence works closely with our allies to ensure that we are not duplicating effort in defence assistance to the South Pacific region. New Zealand's equivalent of the Defence Cooperation Program is the Mutual Assistance Program. The objectives for this program in the South Pacific are similar to those of the Defence Cooperation program, however there is less emphasis on Melanesia and marine resource

management that accompanies Australia's large investment in the Pacific Patrol Boat Project. Defence assistance from the United States focuses on providing training and engineering support to the South Pacific. France also retains influence in the region although the focus is narrower than both Australia's and New Zealand's programs.

### ***The Pacific Patrol Boat Program***

10. The Pacific Patrol Boat program is the largest and most complex Defence Cooperation project. It dates back to 1979 when a group of Australian and New Zealand defence experts visited the South Pacific region at the request of some of the Pacific Island countries. The request was due to the declaration of 200-nautical-mile exclusive economic zones at the third UN Conference on the Law of the Sea. This greatly expanded the Pacific Island Countries' formally recognised sovereign rights and economic interests. However, with no effective means of enforcing sovereignty in these zones, several of these countries sought Australian assistance. The study visit in 1979 highlighted the provision of a purpose-built 'Pacific' Patrol Boat designed for maritime surveillance as an effective means of asserting and protecting these rights and interests.
11. In 1983 when the then Minister for Defence announced the development of the **project, it** was expected that only five or six vessels would be involved. However, when the contracts were signed in 1985, the project had grown to 10 vessels. By early 1993, the project had expanded, with 15 vessels delivered to eight countries at a cost of \$91.5 million. Later in 1993, the building contracts were amended to provide five more vessels to three other Pacific Island countries. The revised total project cost for the 20 vessels was then \$138 million. In 1996 and 1997, two more patrol boats were added to the Project, bringing the total cost for 22 vessels in 12 nations to \$155 million in 1997. It is estimated that the total cost of the project over the initial 15year life of all the boats will be \$425 million. This includes the costs of Australianprovided training, advisers, and technical and logistic support.
12. An advisory team of one Royal Australian Navy officer and one or two senior sailors **with** marine engineering and/or electrical qualifications are posted as advisers to countries provided with vessels. They assist with the development of sustainable national maritime surveillance policies and capabilities, assist with training and maintenance, and provide advice on surveillance operations.
13. A follow-on support agency contract with Tenix provides procurement services for spare parts, and technical assistance to recipient nations. The agency's headquarters is located in Brisbane and an additional follow-on support facility is located in Fiji and serves as a hub for the surrounding nations operating Pacific Patrol Boats. The Australian Defence Force (ADF) and the Australian Maritime College in Launceston provide training for crews. Technical and seaman officers and sailors undertake standard ADF courses, along with tailored courses at the maritime college.
14. A key element of the success of the project to date has been the partnership aspects of the project. Australia provided the boats as well as significant infrastructure, adviser, logistics and maintenance support and. for some nations, a subsidy to assist with the



significant cost of fuel for the vessels. However, the individual island nations have been responsible for day-to-day operations and maintenance. As the project has evolved, the vessels have increasingly been given additional complementary roles. These include search and rescue, disaster relief, sovereignty visits to isolated islands and support for national institutions, particularly in support of health authorities or during national elections.

15. More recently, Pacific nations have developed more of a regional outlook on cooperative security arrangements. These include patrol boats patrolling into each other's exclusive economic zones, but having the legislative and procedural processes in place to board, search and detain suspect vessels in each other's jurisdictions. This helps to ensure that, as security becomes an increasing concern for all nations, the limited resources available to these small nations is used as efficiently and effectively as possible.

***The Life Extension Program***

16. With the first Pacific Patrol Boat due to reach the end of its planned 15-year life in 2002, the Australian Government agreed in August 2000 to double the life of each of the 22 boats. This would enable them to operate for a total of 30 years each. This Life Extension Program will commence in January 2003, starting with the PNG Vessel Tarangau. The program will involve a major refurbishment of each vessel, including repairing or replacing sections of the hull, installing new internal and external fittings, updating electronic systems, and providing complete engine overhauls where needed.
17. Australia will continue to provide training for the crews, as well as in-country advisers and access to comprehensive maintenance and logistics support facilities. As nations develop their law enforcement regimes and the benefits of being able to police their exclusive economic zones are reflected in better financial returns on their natural resources, it is anticipated that nations will become more self-reliant. This will be a gradual process and it is anticipated that Australia may continue to subsidise the operating costs of some nations' vessels for their total life.
18. The cost of the Life Extension Program is expected to be in the order of \$350 million. This consists of \$75 million in capital costs and \$275 million in ongoing maintenance, training and operational costs.

## ***Defence Cooperation with Papua New Guinea***

19. Since independence in 1975, Australia has continued to be PNG's most important strategic partner and its largest source of defence assistance. The broad political framework for the defence relationship is the Joint Declaration of Principles, signed by the Australian and PNG Prime Ministers in 1987 and revised in 1992. This document refers to the two countries' shared strategic interests and requires both to consult about matters affecting their common security interests, including in the event of external armed attack.
20. An active and relatively large Defence Cooperation program supports Australia's defence relationship with PNG. It is funded by an annual budget of approximately \$10 million. This represents PNG's largest source of defence assistance. The Defence Cooperation program funds 23 ADF and civilian advisers posted to various establishments in the Papua New Guinea Defence Force (PNGDF) to support the relationship with PNG. Defence Cooperation activities undertaken by ADF and Defence civilian advisers include providing assistance in the areas of infantry, communications, engineering and financial management, and a wide range of training courses. Without the Defence Cooperation program, the PNGDF would have few training or exercise opportunities. In this regard, by reducing troop inactivity and providing a means for channelling assistance to improve PNGDF service conditions, the program assists in maintaining stability within the PNGDF.
21. Further ADF engagement with the PNGDF is facilitated by a Defence Cooperation funded combined exercise program, which includes exercises such as Exercise Puk Puk, a new engineering exercise in support of the PNGDF Engineering Battalion stationed at Lae. This is on top of two regular exercises with the Land Element and one with the Maritime Element. As with other Pacific countries, maintenance and training support is also provided to PNG's four Pacific Patrol Boats as well as advice in planning for PNG's maritime operations and annual naval exercise. There has been recent success in the PNGDF Maritime Element, with the ADF providing support to PNG patrols in the 'Dog Leg' area of the Torres Strait, which resulted in the  
impounding of a number of illegal fishing vessels.
22. Defence Cooperation program assistance is also provided to the Royal Papua New Guinea Constabulary (RPNGC) under the RPNGC Communications Project, which is a joint PNG/ADF endeavour aimed at enhancing the communications capability of the police. The project consists of a unit of three ADF advisers providing communications advice and training to the RPNGC. Such advice is important in large-scale operational activities, such as during the June 2002 elections in PNG. The unit recently held a multilateral Southwest Pacific Officers' Communications Course and a preparatory course in electronics training at Bomana Police College. The preparatory course selects and prepares a number of police personnel to undertake Defence Cooperation-sponsored accredited technical training at the Port Moresby Technical College.
23. The construction of three battalion-sized armouries at PNGDF establishments in Port Moresby has been one of the priorities for the Defence Cooperation program with



PNG this year. This project is designed to enhance the physical security of the PNGDF by improving weapons security and reducing the risk that PNGDF weapons will be used for illegal activities. The aim is also to make it more difficult for disgruntled PNGDF soldiers to access weapons when undertaking protest action against the Government. ADF advisers are continuing to work with the PNGDF to improve weapons management procedures and to train PNGDF personnel to manage weapon stocks. The PNGDF has demonstrated a strong commitment to these weapons control initiatives and an extension of the armouries project to the northern bases is being given consideration.

24. The major priority for defence assistance to PNG over the past twelve months has been assistance to the PNG Government in implementing its Defence Force reform and 'rebuilding' program (see below). One specialist financial adviser has been posted to the PNGDF reform team to streamline the administrative processes associated with reform and also to manage Australian funding provided to this initiative. The other Australian advisers posted to the PNGDF are currently providing support during the period of reform through the implementation of a comprehensive training and infrastructure upgrade program. Precedence will be placed on Defence Cooperation projects which enhance the resource and personnel management of the force, and which provide the opportunity to strengthen basic management skills. Other key areas of focus include improving junior leadership, logistics, and basic **military** skills.

#### ***Defence Assistance to Papua New Guinea Defence Force Reform***

25. Without substantial reform, the PNGDF will continue to decline. In an effort to counter this situation, the PNG Government recognised that a defence force reform program was required to achieve a professional, affordable and sustainable defence force, and embarked upon a program to downsize and reform the PNGDF. In improving the professionalism of the defence force, the PNG Government sought to increase PNGDF responsiveness to civilian authority and remove a continuing source of potential instability to the PNG political system. After a PNGDF revolt in March 2001, the PNG Defence Organisation developed and pursued a 'home-grown' defence reform program based on reducing the size of the force from around 4,000 to 2,000 personnel and improving the conditions and capability of the PNGDF.
26. In November 2001 the Australian Government offered the Morauta **Government** an initial financial contribution of A\$20 million to assist PNG defence reform. The A\$20 million is being managed via a trust fund arrangement with senior PNG Government officials nominated as signatories for disbursements. Eighty percent of this funding is for the payment of redundancy and repatriation costs to soldiers leaving the force. Within the current economic climate in PNG, this assistance is essential to any effort to reform or downsize.
27. Twenty percent of the A\$20 million is available for settling what the PNG Government refers to as 'reform stoppers'. These 'reform stoppers' are potential obstacles to reform, including payment of outstanding allowances, uniforms, barrack refurbishments, and issues outstanding from a previous repatriation exercise of



surplus personnel. An accounting firm was engaged by the PNG Government and is monitoring the disbursement of trust fund monies. A large number of the initial batch of 583 PNGDF personnel have received relevant entitlements, been removed from the Defence payroll, and been served with eviction notices.

28. A priority for the defence relationship with PNG over the coming year will continue to be support for the PNG Government's program of defence force reform. Substantial Australian assistance will be required if fundamental reforms are to be achieved and sustained over the longer term. Australian funding support for the reform program is generally viewed positively and has served to increase confidence in the reform process, as soldiers earmarked for retrenchment feel secure that their entitlements will be paid to them.

### ***Defence Cooperation with other Pacific Island Countries***

29. Besides PNG, Australia has Defence Cooperation relationships with the other eleven countries in the region that have Pacific Patrol Boats. These comprise Fiji, Vanuatu, Tonga, Solomon Islands, Samoa, Kiribati, Tuvalu, the Republic of the Marshall Islands, the Cook Islands and the Federated States of Micronesia and Palau. The Defence Cooperation relationship with Nauru is very limited and there is no Defence Cooperation relationship with the French Territories or the New Zealand protectorates of Niue and Tokelau.
30. In the South Pacific, only PNG, Fiji and Tonga have armed forces, while some other countries, such as Vanuatu and Solomon Islands, have paramilitary forces as part of their police forces. An important consideration in the development of the Defence Cooperation program with countries in the South Pacific is that the approach taken recognises the civil, as distinct from the military, interests of individual island countries. Australia considers it important not to encourage the creation or expansion of defence forces or paramilitary forces at the expense of more important and relevant internal policing functions.
31. In the 1970s and 1980s, the Defence Cooperation program in the South Pacific was predominantly equipment-oriented. Over the past decade, there has been an increasing emphasis on training, particularly in-country training activities. However expenditure is still directed primarily to the Pacific Patrol Boat project and related maritime activities in support of fisheries surveillance and management. Activities include training and technical and operational support to the defence or police forces of the Pacific Island countries that operate the Pacific Patrol Boats.
32. The Defence Cooperation program supports a number of multilateral activities which focus on building relationships between Australia and the region and promoting security cooperation among countries in the South Pacific. Examples include support for increased maritime surveillance cooperation in the Pacific, such as the recently signed Niue Subsidiary agreement between the Republic of the Marshall Islands, Palau and the Federated States of Micronesia. This agreement (the first of its kind in the South Pacific region) is a set of guidelines that allows for one signatory country's Pacific Patrol Boat to pursue, apprehend, board and detain suspect illegal fishing



vessels in another signatory country's waters. **Defence also sponsors** combined maritime exercises such as Exercise Paradise and hosts a Pacific Maritime Surveillance Conference on a biannual basis. In the past, Defence Cooperation assistance has also been provided to the Forum Fisheries Agency in Honiara to promote the sustainable development and management of fisheries resources in the South Pacific. Other multilateral Defence Cooperation activities include the South Pacific Communications Course (held in Port Moresby in May 2002) and the South Pacific Peacekeeping Seminar (held in Port Vila in November 2001).

33. At the Pacific Islands Forum in 2001, the then Minister for Defence, Mr Reith, announced the provision of support through the Pacific Small Arms Project. This project involves upgrading the security of national armouries and technical advice on accounting for small arms.

***Defence Cooperation with the Solomon Islands***

34. Following the June 2000 coup by Malaitan Eagle Force elements, the Royal Solomon Island Police (RSIP) was compromised by the dominance of Malaitans and ceased to function as a unified or legitimate security force. With the RSIP disintegrating, Defence ceased direct assistance. ADF advisers were withdrawn in mid-June 2000 and all Defence Cooperation training exercises and projects with the RSIP were cancelled.
35. While Australia will continue to seek ways to support the Solomon Islands, it is vital that the Solomon Islands Government takes responsibility in tackling law and order problems and economic management. Substantive action on both law and order and responsible financial management is a prerequisite for continuing donor assistance.
36. Defence is currently developing options for additional assistance to enhance the capability of the RSIP to restore and maintain law and order and to improve the force's management and responsiveness to government direction. To address these issues, there are plans to conduct security talks in conjunction with the Australian Federal Police and AusAID; provide a strategic communications plan along with a plan to address vehicle and small boats maintenance for the RSIP; and phased reengagement with the Solomon Islands' two Pacific Patrol Boats.

***Defence Cooperation with Fiji***

37. The defence relationship with **Fiji currently** involves annual defence talks, the training of Republic of Fiji Military Force (RFMF) personnel in Australia and Fiji, the provision of ADF military advisers to RFMF units, and support to the Pacific Patrol Boat program.
38. The Australian Government imposed defence sanctions on the RFMF in late 2000, in response to the overthrow of the constitutionally elected government in Fiji. Restrictions were placed on activities under the Defence Cooperation relationship, including the suspension of ADF training opportunities for RFMF personnel and the withdrawal of four ADF military advisers from RFMF units. (Support to the Pacific Patrol Boat program, including the provision of three naval advisers, continued during the sanction period).





39. Since the lifting of sanctions in October 2001, Defence has undertaken several activities to re-establish our relationship with the RFMF including sponsoring RFMF members to attend selected ADF courses in Australia such as at the Royal Military College and the Australian Defence College. Financial assistance has also been provided to RFMF personnel undertaking tertiary qualifications in Australian universities via correspondence. Defence has provided short-term attachments of ADF members to provide advice on areas such as engineering works and civilmilitary affairs.

#### **Defence Cooperation with Vanuatu**

40. Priorities for our Defence Cooperation assistance in Vanuatu include promoting a more effective and unified relationship between the Vanuatu Mobile Force (VMF) and the rest of the Vanuatu Police Force (VPF) and encouraging the VPF to be more involved in community policing in order to better manage law and order problems. The Defence Cooperation program funds five ADF advisers in Vanuatu. This includes two naval advisers attached to the Pacific Patrol Boat program, an army communications adviser and two army officers who provide advice on operations and training to the VPF.

41. Other priorities for the Defence Cooperation program in Vanuatu include increased resource management training to the VPF to improve the force's framework of financial accountability. We are also encouraging the VPF to streamline the allowance system to prevent future problems in the back pay of allowances. Defence recently participated on the Interdepartmental Committee developing the 'Whole of Government' Approach to the AusAID-sponsored *Vanuatu Police Force Capacity Building Project*.

#### **Defence Cooperation with Polynesia and Micronesia**

42. The Tonga Defence Service is a small force of less than 400 personnel. Recent Defence Cooperation support to Tonga has concentrated on upgrading Tongan Defence Service infrastructure, such as the rebuilding of Taliai Barracks. Defence Cooperation funds four ADF Advisers in Tonga which includes two naval advisers attached to the Pacific Patrol Boat, one communications adviser (also accredited to Samoa) and an army engineer overseeing the Defence Cooperation-funded infrastructure projects.
43. Defence Cooperation in the rest of Polynesia (Samoa, Tuvalu and the Cook Islands) and Micronesia (Palau, the Republic of Marshall Islands, Federated States of Micronesia and Kiribati) is focussed primarily on supporting the Pacific Patrol Boat program. Australia provides two or three naval advisers to each of these Pacific Island countries to assist them in the maintenance of the vessels. The Defence Cooperation program also funds crewmembers from these countries to participate on training courses at the Australian Maritime College in Tasmania. Nauru does not have a Pacific Patrol Boat but sometimes participates in other multilateral Defence Cooperation activities such as courses or seminars.

D. THE IMPLICATIONS FOR AUSTRALIA OF POLITICAL, ECONOMIC AND SECURITY DEVELOPMENTS IN THE REGION

***The South Pacific Environment***

44. **Although Australia has endeavoured** to foster stability within its immediate neighbourhood, the region faces large economic and structural challenges that pose a potential threat to the stability of the South Pacific. We have a strong interest in Pacific Island countries maintaining themselves, as much as feasible, as viable states which are able to improve, through prudent management, their self-reliance.
45. The roots of conflict - and intermittent crisis - in the region are profound. Economic challenges, increasing law and order problems and ethnic tensions beset many South Pacific countries. For many countries in the region, the revenue raising powers of Governments are strained and, as economies decline, populations grow and social tensions increase. In some cases, ethnic tensions have resulted in conflict where the distribution of resources has been seen as inequitable and disputes over land and for compensation emerge. The conflicts that erupted in Bougainville and the Solomon Islands provide a clear illustration of this.
46. The rise in law and order problems is compounded by security agencies in the South Pacific being asked to meet these increasing challenges with decreasing resources. Australia has a strong interest in helping the Melanesian governments improve law and order, because worsening domestic criminal activity, including corruption, frustrates development, increases instability, and affects the welfare of Australian expatriates. It also serves our interest in ensuring that the South Pacific does not become an operating base for organised transnational crime.
47. PNG in particular faces a number of demographic and social challenges over the next decade. PNG's high population growth (especially in the Highlands) has resulted in the population exceeding 5 million, surpassing the population of New Zealand and making PNG the second most populous state in the South Pacific after Australia. In rural areas, where over 80 percent of the population live, living standards are declining, employment opportunities are limited and services and infrastructure are decaying. Compounding these pressures on government services will be the increased burden on scarce health care resources caused by rising rates of HIV/AIDS infection. Exposure to western lifestyles, through education and the media, are increasing the expectations of the growing youth population beyond the opportunities presented by the economy. Increasingly, youth will not be satisfied by village life, leading to the already serious law and order situation deteriorating further, especially in the urban centres.
48. PNG faces an uncertain economic outlook. The PNG economy is in structural decline and the PNG Government has increasingly turned to Australia for short-term assistance and support. Over-reliance on non-renewable resource exploitation (providing about 21 percent of PNG's GDP and 23 percent of the PNG Government's tax take) will become a vulnerability after 2004 as reserves decrease, and projects wind-up. Mining and petroleum exports will decline by 25 percent, export revenues decline by 65 percent and government revenues will fall by 25

percent. The IMF, World Bank and the Asian Development Bank also share these concerns over the growing imbalances emerging in PNG's fiscal accounts and the pressures these will impose on any new PNG government. Papua New Guinea's capacity to manage its future problems and needs is uncertain and its institutional and personnel capacities are in grave decline.

### **Implications for Australia**

49. A **central focus** for regional security is to encourage the maintenance of internal stability within countries in the South Pacific. It is likely that Pacific Island countries, particularly in Melanesia, will continue to suffer political, ethnic and social tension intensified by continuing economic decline and poor governance. This will have a number of implications for Australia.
50. Further instability in the South Pacific would probably place additional demands on Defence. Over the past five years, internal conflicts in the region have placed financial and operational demands on the ADF, particularly in Bougainville and, to a lesser extent, recent defence support to the International Peace Monitoring Team in the Solomon Islands. Significant unrest in towns with large expatriate populations will also affect the ADF, which may be required to plan for, and even conduct, an evacuation of Australian nationals. Furthermore, requests for ADF humanitarian assistance are more likely in the event of significant natural or man-made disasters in the region if the operational capability of regional security forces was to reduce further (the humanitarian assistance capability in Pacific countries is already restricted due to limited air assets or engineering capabilities).
51. As part of the Australian Government's approach to maintaining regional security, Defence is committed to maintaining the bilateral and multilateral activities with the three defence forces in the South Pacific. Our assistance to the defence forces will remain focussed on training, infrastructure support and the building of the civilmilitary cooperation skills required for either peacekeeping or humanitarian assistance operations. However, in the event of political instability in any country in the region, the Government may direct the cessation of Defence Cooperation assistance at short notice.
52. It is very important that, as Pacific Island countries continue to face economic hardship, Australia continues to help strengthen regional security forces so that they are confident in conducting surveillance and protecting their exclusive economic zones from large-scale fisheries poaching. Defence is committed to supporting the Pacific Patrol Boat program out to 2027.
53. There is also the requirement for continued assistance to Pacific Island Governments to help them maintain internal law and order. This is best achieved by maintaining advisory support to regional police forces, limited equipment provision and continuing police training. In supporting regional police forces, Defence will continue to focus on those areas where skills possessed by the ADF can be of most benefit, such as communications and operations support. Regional police forces will also continue to require assistance in dealing with transnational crime issues such as



money laundering, counter-terrorism and drug trafficking. These are activities less suited to ADF involvement and are best supported by other agencies such the Australian Federal Police and the Attorney General's Department.

54. In the event of chronic instability in Australia's region (or other large ADF operations outside of our immediate region), there is the possibility that constraints on Defence resources may increase further. In this event, Australia may need to review and prioritise the Defence Cooperation program in the region. Defence will also need to ensure an even greater level of interdepartmental cooperative planning occurs, to ensure the burden of security assistance in the region is funded from across all appropriate government resources. Similarly, we would continue to work with our allies in the region to guarantee that the assistance we provide is not duplicating effort and is focussed on the areas of greatest need.