CFMEU SUBMISSION

TO THE

Senate Foreign Affairs, Defence and Trade Committee

Inquiry into the economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific

October 2008

John Sutton

National Secretary

Construction, Forestry, Mining & Energy Union of Australia

PO BOX Q235

QVB Building Post Office

Sydney NSW 1230

02 8525 5850 telephone

02 8524 5851 facsimile

jsutton@fed.cfmeu.asn.au

TABLE OF CONTENTS

INTRODUCTION

The Construction Forestry Mining and Energy Union (CFMEU) is a progressive union with a proud history of advocacy for developing countries and international solidarity. The Senate Committee's review of economic and security challenges facing our region is timely given the recent change of government and repositioning of Australia's aid and foreign policies, most notably in the recent Port Moresby Declaration.

Our union has been actively involved in development issues in the Southwest Pacific. We have contributed to development projects directly in Timor-Leste and contributed to many more through Union Aid Abroad (APHEDA). We have strong partnerships with unions and other progressive organisations in the region. The CFMEU has also been a vocal advocate regarding trade and economic justice issues affecting island nations in our region.

Our interest in the region is not simply a function of the union's progressive politics. Many of the members we represent, particularly those in construction, have migrated to Australia from Pacific islands and take a keen interest in the affairs of the region and the role that Australia plays. The union has also strongly advocated for a robust and fair system of permanent migration and against the all too often exploitative treatment of guest workers.

This submission will deal primarily with economic and social issues, focusing on development and trade as well as the vexed issue of labour mobility. Of particular interest is the recently announced pilot program for seasonal migration of unskilled workers from the Pacific to Australia. Our union has a number of specific concerns in relation to the programme.

We will also examine how the trade agenda relates to debate over temporary migration and seasonal work. Therefore the primary focus of our contribution will be in relation to specific terms of reference: b) (i) employment opportunities, labour mobility, education and skilling and b) (ii) ….trade, foreign investment and economic infrastructure.

PAPUA NEW GUINEA

The Papua New Guinean economy has experienced an average annual growth rate of just above 2% per annum since independence in 1975.[1] There is however, a long term decline in growth per capita as the population outstrips economic advances. The result is that real income per capita is in long term decline[2]. Ben Scott points out in his Lowy Institute paper that over the country's 30 year history, growth has been sporadic and patchy, characterised by a boom and bust cycle which has seen an economic growth rate of 18% in a single year (1993) followed by a contraction of 4% in 1997. Scott argues that much of this is attributable to PNG's reliance on natural resources (about 10% of GDP in 2004). The recent commodities boom has aided economic growth in PNG as it has in Australia.

In terms of social development indicators, Papua New Guinea is regarded as one of the least developed nations in the Pacific.[3] Child mortality rates are high in most areas of the country, and the average national life expectancy is only 57 years.[4] Providing universal access to health, education and other amenities is difficult. The geographic diversity of Papua New Guinea, combined with poor transport and communication infrastructure, physically isolates numerous communities from basic services. Further, limited government resources means that there are often high costs associated with obtaining health care and schooling, payment of which is beyond the means of many in rural and remote areas.[5]
These indicators have not improved significantly since the World Bank and International Monetary Fund introduced three rounds of Structural Adjustment Packages (SAPs) aimed at

[1] Ben Scott re-imagining PNG Lowy Institute Paper 2005

[2] DFAT *Papua New Guinea – the road ahead*

[3] United Nations Development Project, "Millennium Development Goals: Progress Report for Papua New Guinea 2004."

[4] Morris, "Analytical Report for the White Paper on Australia's Aid Program ".pp. 2

[5] United Nations Development Project, "Millennium Development Goals: Progress Report for Papua New Guinea 2004."

liberalising the economy. Wages for example were deregulated in the 1990s. Many now argue that these neo-liberal programmes were a manifest failure that contributed very little to development outcomes in PNG.[6]

The United Nations Human Development Index rates PNG behind its Pacific neighbours but ahead of other comparable developing nations such as those in Sub Saharan Africa[7].
One of the greatest and most concerning challenges to development in Papua New Guinea is the rapid spread of HIV which disproportionately affects the most productive section of the population, those of prime working age. This is likely to have significant and damaging consequences for Papua New Guinea as a nation, a people and an economy. A study by the Australian Bureau of Agricultural and Resource Economics (ABARE) found that population would continue to out strip growth and by 2013 real GDP per person would be 15% below that of 2002. When these figures are adjusted to include the ramifications of the HIV epidemic, the picture becomes even more alarming. The Centre for International Economics estimates that if infection rates continue to grow between 15- 30% per year then measures of economic welfare in PNG could be cut by between 12 and 48% by 2020. It estimates a reduction in the labour force of 13 to 38% in the same period.[8] This economic modelling is particularly relevant given the fact that Papua New Guinea, like the rest of the region, already has an acute skills shortage. According to AusAID:

"Skills are a scarce resource. Many Pacific countries have difficulties attracting, developing and retaining skilled staff.
Low levels of investment in human resources has led to many public servants lacking basic skills (for example, literacy and numeracy), including at senior levels. Skills at provincial levels of government are, on average, substantially weaker than at the national level. Key public sector

---

[6] Scott makes this point strongly in the Lowy Institute paper.

[7] United Nations *Human development report 2005: international cooperation at a crossroads: aid, trade and security in an unequal world* UNDP 2005

[8] *Potential economic impacts of an HIV/AIDS epidemic in Papua New Guinea 2002* from www.ausaid.gov.au

skills urgently require development, especially for improved service delivery. The private sector faces similar challenges, which constrains economic growth. Retaining technically experienced personnel, such as accountants, can be difficult in the face of historically high demand in Australia and New Zealand."[9]

Skills shortages are already a capacity constraint on PNG's economy. If the modelling of the impact of HIV from the Centre for International Economics is correct, PNG is likely to experience a significant labour shortage in the very near future. It is in this context that the CFMEU has significant concerns in relation the recent announcement by the Australian Government to begin a program of seasonal guest workers who are sub trade skilled to work as agricultural labourers. However, working migration is so strongly desirable in PNG that it may create a situation where higher skilled workers travel to Australia to take lower skilled jobs. This would not aid development outcomes in PNG.

PNG is included in a list of countries that will send workers to Australia under the pilot scheme. This issue of migration is also discussed later in this submission.

SOUTHWEST PACIFIC ISLAND STATES

The nations that constitute Polynesia, Melanesia and Micronesia vary greatly in their human development, economic and social indicators. In 2006 the region received US$1.1 billion in aid, with Australia representing one of the most significant donors.[10] Around 3 million people in the region (including Papua New Guinea) live in extreme poverty, surviving on the equivalent of less than $1 a day. Of the Pacific Islands, Kiribati has the highest incidence of extreme poverty at 38%, with Fiji also demonstrating a high proportion at 35%[11]. A useful summary table is provided by the UNDP report 'Progress in Asia and the Pacific against the Millennium Goals':

[9] http://www.ausaid.gov.au/publications/pdf/track_devgov.pdf

[10] Asian Development Bank, *Hardship and Poverty in the Pacific*

[11] AusAID *Tracking development and governance in the Pacific*

Table 2: Growth has picked up in Melanesia

	Goal 1 Extreme poverty and hunger	Goal 1 Extreme poverty and hunger	Economic growth	Economic growth
	% population below US$1 a day (Purchasing Power Parity (PPP)	% population under-nourished	Average annual growth 2005–2007 (current US$)	GDP per person (current US$)
Melanesia and Timor-Leste				
Fiji	35	4	0.3	3 306
PNG	40	13	5.6	943
Solomon Islands	23	20	5.8	684
Vanuatu	26	12	6.8	1799
Timor-Leste	45	8	6.8	346
Polynesia				
Cook Islands	12		1.1	7 549
Niue	0			4 464
Samoa	6	4	3.6	2 277
Tonga	4		-0.2	2 176
Tuvalu	17		2.5	1 346
Micronesia				
FSM	5		0.6	2 205
Kiribati	38	6	1.5	703
Marshall Islands	20		1.8	2 363
Nauru				3 500
Palau	59		5.5	7 785

Source: UNESCAP/ADB/UNDP Report: Millennium Development Goals: Progress in Asia and the Pacific 2007, cited in AusAID 2008. Fiji's poverty number comes from Chand 2007. Extreme poverty numbers are from the Secretariat of the Pacific (SPC) 2004, except PNG (World Bank 2007) and Timor-Leste. GDP numbers are from AusAID 2008.

Notes: Data drawn from different years. Underlined poverty numbers are basic needs poverty lines. These are reported where figures based on Purchasing Power Parity (PPP) measures are unavailable. Basic needs poverty line data are generally more available than measures based on PPP. Palau's poverty number relates to a United States definition and so is not comparable to the other Pacific countries.

The period from 2000 has been characterised by stagnating economic growth in the Pacific. More recently however, levels of economic growth have risen. The most recent figures show regional growth at 3.4% for 2004 and an average of 2.8% for 2005 to 2007[12]. These figures include PNG which represents roughly half the region's GDP and has experienced an upswing as a result of the commodity prices boom.

In the period 2005- 2007, Tonga and Fiji have experienced negative growth. Kiribati, Marshall Islands, Federated States of Micronesia, Cook Islands and Nauru all experienced growth under 2%. Vanuatu and Timor Leste (also as a result of the commodities boom) had the highest growth at over 6%.

Health outcomes also vary in the Pacific. For example, Fiji has a comparatively low child morbidity rate, with around 18 deaths per 1000 live births. In nearby Kiribati, that rate skyrockets to 65. The highest rate in Polynesia is Tuvalu with 38 per 1000. HIV/AIDS, malaria and

[12] AusAID 2008

other diseases remain prevalent. Tuvalu and Kiribati in particular have difficulty on this measure with infection rates of 495 and 426 respectively per 100 000 people compared to the Cook Islands with 26 per 100 000.[13]

As has been pointed out earlier, the region suffers from an acute skills shortage. Education and training is crucial for any meaningful development outcomes in the region. Poor educational infrastructure contributes but so too does a hollowing out of the labour market cased in most cases by migration to Australia and New Zealand.

[13] UNESCAP/ADB/UNDP Report: Millennium Development Goals 2007

REMITTANCES, THE SEASONAL WORKERS SCHEME AND TRADE

Structural changes are occurring in the economies of the region. Notably, the role of remittances is growing: in the period since 2000, remittances have increased a substantial 36% per year. In 2005, remittances to the Pacific reached a reported $425 million, however this figure must be considered an underestimate because it does not include informal transactions.[14]

However, the significance of remittances is limited to a few key countries. In 2005, 90% of Pacific Island remittances were received by just 4 countries; Fiji, Kiribati, Samoa and Tonga. The recently announced Australian seasonal worker scheme will inevitably lead to a higher rate of remittances although the scheme at this stage is only open to PNG, Kiribati, Tonga and Vanuatu.

Remittances are not an efficient way of monetary transfer. The World Bank estimates that up to 17% of value can be lost in the course of transaction to the Pacific. As well, the level of monies remitted home often declines in the longer term as migration becomes permanent and reliant family joins relatives abroad. Remittances are, by their nature, an insecure form of economic transaction. Many Pacific nations lose a high percentage of skilled labour to Australia and New Zealand. The resulting skills shortage is a continuing capacity constraint. In order to successfully develop, Pacific Islands will need to train and ***retain*** skilled workers. It should be noted that the recently announced seasonal worker scheme has, as yet, no training element. It is simply aimed at plugging alleged gaps in the Australian labour market. Apart from the immediate effect of injecting a little more Australian currency into Pacific economies, it is doubtful the scheme will have any lasting effect on skills in the region. It The more likely long term outcome is that the seasonal worker scheme will add to the skills shortages amongst those poor countries in an attempt to address labour market difficulties in a rich country.

[14] AusAID 2008

The CFMEU has also publicly pointed out that Pacific Island guest workers are likely to be exploited. There are emerging patterns as to which workers suffer exploitation in our temporary migration system. Anecdotal evidence suggests that (relied upon here because for the past 11 years no proper research has been conducted or released by the Department on the operation of the temporary migration system) the lower the skill set of a worker the more likely they are to be exploited. Similarly, the lower a worker's level of English language training, the higher the likelihood of exploitation. Further, the more remote the location of work, the more likeliood of exploitation. Finally and most importantly, the poorer the worker and the poorer the community is from which that worker is drawn, the greater the possibility of exploitation. Although the statistics to establish this empirically have not been released, the pointers above are roughly how DIAC structures its own targeting for investigation and compliance.

The 4 risk factors highlighted above (skill level, English language ability, isolation and poverty) will be impossible to militate against in the Pacific seasonal worker scheme.
Finally, the issue of trade is also of concern to the CFMEU. We note that trading arrangements between Australia and the Pacific are currently around $5 billion and growing. The Pacific Agreement on Closer Economic Relations (PACER) is currently being negotiated into a new Free Trade Agreement (PACER Plus). The negotiations have currently been focused on the movement of goods but the CFMEU has concerns in relation to a proposed new agreement. Nick Maclellan has pointed out, some estimates put the cost of such an agreement to smaller Pacific nations at as much as $10 million per annum.

Further, given our position above, we share the concerns of AID/WATCH co-director Flint Duxfield that the recently announced seasonal worker scheme may be used as a bargaining chip to extract trade concessions from our less powerful neighbours. Such an approach would not be in the interest of the region.