

23 October 2008



Dr Kathleen Dermody
Secretary
Senate Standing Committee on Foreign Affairs Defence and Trade
PO Box 6100
PARLIAMENT HOUSE
CANBERRA ACT 2600

Dear Dr Dermody

**THE ECONOMIC AND SECURITY CHALLENGES OF PAPUA NEW GUINEA AND THE
ISLAND STATES OF THE SOUTH-WEST PACIFIC**

I am pleased to attach the Council's submission to the above Inquiry.

If the committee wishes I will be pleased to meet with the members of the Committee for a discussion about the issues raised.

Yours sincerely

(Ian Felton)
President

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SUBMISSION BY AUSTRALIA PACIFIC ISLANDS BUSINESS COUNCIL TO AUSTRALIAN SENATE STANDING COMMITTEE ON FOREIGN AFFAIRS DEFENCE AND TRADE INQUIRY INTO THE ECONOMIC AND SECURITY CHALLENGES OF PAPUA NEW GUINEA AND THE ISLAND STATES OF THE SOUTH-WEST PACIFIC, OCTOBER 2008.

ABOUT THE COUNCIL

The Australia Pacific Islands Business Council is a non-profit association of businesses with interests in the business and economic relationship between Australia and all the Pacific islands jurisdictions other than Papua New Guinea and Fiji for which there are separate bilateral business councils, and the economic development of those States and Territories.

The Council:

- Promotes bilateral trade and investment and the economic development of the relevant jurisdictions.
- Provides a channel for communicating to governments policy issues of importance to business.
- Acts as a networking facilitator for businesses working in the bilateral relationship.

The Council operates from a secretariat office based in Brisbane where it has a shared secretariat with the Australia Fiji Business Council and the Australia Papua New Guinea Business Council.

The Council President makes periodic calls on Foreign Affairs portfolio ministers and parliamentary secretaries in Canberra and on senior officials of various relevant departments. The secretariat maintains regular contact with officials of the Australia Department of Foreign Affairs and Trade.

The Council is exempt from the requirement to register as a lobbyist under the Commonwealth Government's Code of Conduct for Lobbyists.

A PACIFIC ENGAGED: AUSTRALIA'S RELATIONS WITH PAPUA NEW GUINEA AND THE ISLAND STATES OF THE SOUTH-WEST PACIFIC

In 2002 and 2003 the Foreign Affairs, Defence and Trade References Committee of the Australian Senate conducted an enquiry into Australia's Relations With Papua New Guinea And The Island States Of The South-West Pacific and on 12 August 2003 tabled in the Senate its report under the above title.

It is the Council's view that as a starting point for the current enquiry it would be worth re-examining the submissions, transcripts and the report which contained many worthwhile recommendations. Many of the recommendations remain apposite.

The Council considered the response of the then Australian Government, lodged on 24 June 2005, tardily some one year and ten months after the tabling of the report, insipid and lacking imagination.

A copy of the comments on the final report made by the Council, in partnership with the Australia Papua New Guinea Business Council and the Australia Fiji Business Council, to the then Foreign Minister, the Hon Alexander Downer MP, and the then Chairman of the Committee, the late the Hon Senator Peter Cook, is attached for the information of the Committee.

THE ECONOMIC AND SECURITY CHALLENGES

The greatest economic and security challenge faced by the Pacific island countries revolves around employment growth. There are a whole range of issues which bear on the management of the economies and security matters of the different countries, but the key to driving improvement in most of these matters is the growth of sustainable employment for the people of each jurisdiction.

But opportunities are limited, and goals must be realistically set. Most of these sovereign states in the Pacific Islands have populations and national budgets less than small Australian regional centres e.g. Grafton in NSW. It must be recognised that in some of the smaller Pacific Island countries it is likely that the public sector will continue to dominate, but it needs to be subject to effective accountability and supported by an appropriately sized private sector. It needs also to be acknowledged that some of these countries are unlikely to ever achieve a level of economic and business development which would make them economically independent of development assistance.

Most Pacific island countries have a high proportion of their populations aged 20 or below. This youth bulge is rapidly approaching adulthood, with little clear prospect of being able to enter the mainstream economy. Even now, the number of young people moving from the education system into the economy exceeds significantly the number of new jobs being created in the economy. There is across the region a tsunami of youth unable to find meaningful employment and providing a real social, economic and security challenge.

Failure of the economies to provide meaningful employment for large numbers of young people has already manifested itself in emerging law and order issues in some countries, and if increasing numbers of young people find themselves economically deprived so the problem is likely grow. A deteriorating internal security environment will discourage investment and stifle long term sustainable employment growth. This is a significant security issue not only for the countries concerned but also for Australia.

SPECIFIC COUNTRY COMMENTARY SOLOMON ISLANDS

The Solomon Islands economy has since 2000 endured a period of serious economic downturn, and of social and political unrest. The first step towards stabilising the situation was the deployment in July 2003 of the Regional Assistance Mission to Solomon Islands (RAMSI). The political and economic situation in the Solomon Islands remained volatile until 2007, but we are pleased to say that over the last twelve months the political environment has stabilised and this has led to an improved climate for business in the Solomon Islands.

The Council's sources report that RAMSI personnel are doing an excellent job across a whole range of policy and services areas. In some cases perhaps too good though as we understand in a recent court procedure a defendant widely known to have been guilty of the offences as charged were dismissed due to a very strong performance by the RAMSI funded public defence counsel!

There is no doubt that to enable the Solomon Islands to continue down the path of social, economic and governance recovery RAMSI will need to remain in place for a very long time. This will have a profound effect on business confidence, and when improved business confidence translates into employment growth it will lead to the sustained longer term outcomes which RAMSI seeks to achieve.

As an indication of the Council's positive assessment of the improvements which have occurred in Solomon Islands since 2007 we arranged for the Prime Minister for the Solomon Islands to address a business luncheon in Brisbane in June 2008. The luncheon attracted some 80 participants.

As a means of trying to further build business confidence, including amongst the potential investor community in Australia, the Council is planning to hold a one day Solomon Islands Business Forum in Brisbane during 2009.

It would have been helpful if Solomon Islands had been included in the Australian government's seasonal labour market access pilot scheme. See further comments below.

NEW CALEDONIA

Because New Caledonia is not an Island State of the South West Pacific, but an overseas territory of France, it is unclear whether the Terms of Reference for this inquiry apply to it.

From a business perspective, no discussion of the Pacific islands economies can exclude New Caledonia. New Caledonia is the closest Pacific islands market to Australia. Its capital, Noumea, is less flight time from Brisbane than is Melbourne.

By a combination of being the depository of around 25% of the world's nickel reserves and the recipient of around AUD1.5bn in financial transfers from France, New Caledonia has a per capita GDP of around AUD38,600, broadly comparable with Australia's per capita GDP. By comparison, the independent island states of the South-west Pacific have national per capita GDPs of only a fraction of that.

The recent development of two additional major nickel mines in New Caledonia (one in the final stages of construction and one about one-third through construction) have created substantial business opportunities in New Caledonia for Australian businesses. When the two new mines commence operation (one in 2009 and the other in 2011) they will add further to New Caledonia's national income, and will create further opportunities for Australian business.

The Council holds an annual Australia New Caledonia Business Forum in Brisbane which attracts participants from business and government in Australia and New Caledonia. It also arranges a business mission to New Caledonia to introduce interested Australian companies to the market. It also participates in a committee of government and business held under the Australia New Caledonia Trade and Economic Relations Arrangements signed by the then Australian Minister for Trade in 2002. The Council would like to see these meetings held at least annually in order to more expeditiously progress issues discussed (the last meeting was held in 2005).

The Council is concerned that at a time when there is significant potential growth in the market, the Austrade office in Noumea, which also services the growing Vanuatu market, has been reduced from four staff to one staff over the last three years or so. Austrade rhetorically reflects the Australian government's stated commitment to the Pacific but its actions in reducing by 75% the staff available to assist Australian business in this and the Vanuatu market is at odds with the rhetoric.

VANUATU

The Vanuatu economy has been growing recently in a more stable political environment than has existed in Vanuatu for some time. Much of the growth has been in the building and construction sector, including some hotel developments which will assist in the growth of the tourism sector.

The Council is exploring holding a business and investment event on Vanuatu in Brisbane in 2009.

POLYNESIA (NIUE, SAMOA, TONGA, COOK ISLANDS, FRENCH POLYNESIA)

The Council's remit includes all the Polynesian countries and territories. In practice, though the Council's resources do not allow it to devote as much time and energy as it would like to building further relationships with these small markets. The Council has in the past arranged business missions to Samoa and Tonga, and the companies which participated in those missions have achieved some success. Samoa in particular has been keen to further develop closer business relationships with Australia. Shipping rates from Australia to the Polynesian countries make it very difficult for Australian companies to compete against suppliers based in New Zealand. There is some anecdotal evidence that Australian exports to Polynesia markets are greater than is reflected in Australian export figures due to products being sourced from New Zealand, from where shipping rates are cheaper, having been exported from Australia to New Zealand.

MICRONESIA (KIRIBATI, TUVALU, NAURU, PALAU, MARSHALL ISLANDS, FEDERATED STATES OF MICRONESIA, GUAM, CNMI)

The Council's remit includes all the Micronesian countries and territories. In practice, though the Council's resources do not allow it to devote as much time and energy as it would like to building further relationships with these small markets. The Guam market is of particular interest, with significant business opportunities flowing from work associated with the transfer of United States military facilities and personnel from Okinawa. In January 2008 the Council hosted in Sydney a business briefing and luncheon for the Governor of Guam who was visiting Australia under an Australian government visit program. The Council is considering the possibility of arranging a business mission to Guam in 2009.

EMPLOYMENT GROWTH

The key to employment growth in these smaller Pacific islands economies will be the development of a vibrant and sustainable SME sector. Business is committed to work for the growth of small and medium enterprise as the driver of economic and employment growth and which is therefore a key factor in the achievement of development targets through poverty reduction. The development of a private sector to absorb all school leavers in some of these economies will never occur. Therefore the capacity to export labour which will return remittances to the countries will be of increasing importance.

Pacific islands economies generally performed poorly in a recent World Bank global study on doing business. The highest ranked was Fiji at 39th. Amongst the 181 countries surveyed, other Pacific islands countries ranked from 43 (Tonga) to 126 (Federated States of Micronesia). The ease of doing business index averages the economy's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. By comparison, Singapore ranked 1st and Australia ranked 9th.

Each country has different characteristics, and there is no one solution which will fit all. Generally, the countries of Melanesia have the best resources which can enable employment growth in a number of sectors given political, policy and social stability. The Polynesian and Micronesia countries have fewer natural resources, and the opportunities to develop industry and grow employment beyond the tourism sector, fisheries and some small scale agriculture are quite limited.

THE RELATIONSHIP BETWEEN DEVELOPMENT ASSISTANCE AND BUSINESS DEVELOPMENT

The Council acknowledges the value which development assistance funding from the Australian government, delivered through AusAID, has made in many areas in Fiji.

We also acknowledge the accessibility of the Director-General of AusAID and senior staff when calls are requested on them in Canberra.

It is, however, only recently that some senior staff in AusAID have recognised the importance of the private sector in delivering long term sustainable economic growth. But this recognition has been patchy within the organisation, and there appears to be uncertainty within AusAID about how to effectively engage with the private sector.

There must be much more focus in the aid program on business development. This goes beyond supporting capacity building and improvement of the business enabling environment, but includes supporting the building of business and entrepreneurial skills through the aid program and, very importantly, assisting small business with access to capital which at present is a significant impediment to small business growth.

The Enterprise Challenge Fund is a step in the right direction of assisting with access to capital, but its major drawback is that a successful applicant is required to be in a position to put up \$100,000 in equity or kind towards the project being funded. There will be cases where good business proposals will fail to qualify for the ECF grant due to this requirement.

There are a range of further non-bank financing mechanisms including micro-finance which may be available for some businesses.

There is also merit in the suggestions floated in 2007 that Australian companies investing in Pacific island countries might qualify for Australian tax concessions provided certain specified criteria about the investment were met.

LABOUR MOBILITY

As an advocate since at least 2002 of seasonal labour market access for Pacific Island countries to meet labour shortages in Australia's horticulture industry the Council applauds the Australian Government for its decision to introduce a pilot scheme.

However, we do consider the pilot scheme to be timid. Australia's greatest interests lie in Melanesia, and it is our view that all the Melanesian countries, including Fiji, should be included in the pilot scheme. Instead, the Australian Government has piggy-backed on the pioneering work done by the New Zealand Government in their Recognised Seasonal Employer (RSE) scheme and included only countries which were included in that scheme with the addition of Papua New Guinea.

From the Council's perspective, such a scheme has benefits for Australia in that it will assist overcome a shortfall in available labour in the horticulture sector, projected to be some 100,000 over the next several years, and will assist horticulturalists to increase food production to meet both Australia's domestic needs and to expand Australia's exports of fresh fruit and vegetables.

A scheme will also assist the Pacific islands economies by providing another source of revenue for those countries through remittances (in 2006, remittances were reported globally to exceed USD300bn: development assistance globally was reported in 2006 to be USD104bn). It will also provide a social safety valve for countries which have a serious youth bulge. A high proportion of the population is under 20 years of age in almost all countries: there is little if any employment growth to absorb these people into the workforce. The Council does not see a scheme as a panacea to the economic problems of these countries, nor a reason for countries to defer taking the necessary, sometimes hard, decisions necessary to improve their economies.

The exclusion of two of the major economies in Melanesia (Solomon Islands and Fiji) from the Australian government's pilot scheme is unfortunate to say the least. Their inclusion would have emphasised the Australian government's commitment to these Pacific island countries closest to Australia. It would surely not have been beyond the wit of the Australian government to work with these countries to develop processes to enable them to participate, just as New Zealand did when it introduced its pilot scheme in 2007.

EDUCATION AND SKILLING

Education standards across the region are inconsistent, and needs improvement to enable its graduates to have the skills necessary to secure employment in the global labour marketplace.

The Australian Pacific Technical College, while established as a response to pressure from the Pacific islands governments on Australia at the Pacific Islands Forum in 2005 to allow access by Pacific island nationals to the Australian seasonal labour market, is a step in a forward direction towards further improving tertiary education opportunities in the region.

The APTC concept would be enhanced by being expanded to provide effective strengthening of the whole education system in the Pacific islands countries to the point where technical and professional qualifications obtained at their educational institutions have equivalency with Australian qualifications.

Such recognition would facilitate the movement of their citizens between these countries and Australia at a higher level than just as unskilled seasonal workers.

An equivalence in technical and professional qualifications will also assist to achieve the objectives envisaged for regional economic integration under PACER Plus.

Much could be achieved by removal of obstacles to the recognition of professional and technical qualifications obtained in the other jurisdiction. Mostly in Australia these obstacles occur at the State level through the policies of technical and professional associations which make difficult registration by overseas applicants.

The relevant governments and aid donors in the education sector must work closely with business in identifying future employment needs of business, and ensure that the education system is tuned to produce workers with the appropriate skills and training to enable their absorption into the workforce. Appropriate technical training is an essential.

BARRIERS TO TRADE, FOREIGN INVESTMENT, ECONOMIC INFRASTRUCTURE, LAND OWNERSHIP AND PRIVATE SECTOR DEVELOPMENT

Trade and Foreign Investment

There is substantial work to be done in removing barriers to trade and foreign investment in all countries across the region. Slow bureaucratic processes and excessive regulation hamper foreign investors. In surveys undertaken by the World Bank, Pacific islands countries generally do not score especially well against criteria which indicate the ease of doing business in those countries. It is not practical to make detailed commentary here on a dozen or so markets, but we would simply say that much work needs to be done to enable Pacific island countries to achieve their potential. Political and community attitudes need to change and modernise if Pacific island countries are going to move into the 21st century and beyond.

Non-tariff Barriers

In its submission to the 2002-03 Inquiry, the Council put forward some issues in relation to non-tariff barriers to trade. The comments made in that submission are repeated below. Since that submission, nothing has changed in relation to the issues raised.

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

Papua New Guinea and other Pacific Island countries are amongst the highest consumers of imported tin fish products per head of population. Many Pacific Islanders' diet revolves around imported fish such as mackerel, sardines and tuna. Tuna appears to be the growth area and will continue to grow as mackerel and sardine species diminish due to the problems of fish sustainability. Tuna in the Pacific is showing great sustainability, and a number of tuna processing plants have been established in Pacific Island countries.

At present it is very difficult to import tuna or any other fish species into Australia, and to then obtain a re export permit to export the same product to any other Pacific Island country. AQIS regulations are unnecessarily restrictive, and it is proving very difficult to obtain export permits, not to mention the time involved in inspections plus the cost of inspections to have the re export permit granted.

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

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

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

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

PACER Plus

The Council strongly supports work being done towards closer economic integration between Australia and the Pacific Islands countries through PACER Plus.

It is the Council's view that Australia and the Pacific island countries need to embrace each other economically in order to unlock the true potential of their economies for the benefit of all their people.

Our vision is for Australia and these countries to be in an economic relationship similar to that which exists between Australia and New Zealand. Indeed, it may be that the best outcome from PACER is that the ANZCERTA is opened up to Pacific islands countries in the same way that the EU has in recent years become open to States which were not even considered prospective members not so many years ago.

Achievement of such an outcome requires political and economic courage and leadership in Australia and the Pacific islands countries. It needs a lot of work to establish a vision of what sort of relationship Australia and these countries will have in 30 to 50 years.

What must be resisted is that some vested interests will want to use the PACER negotiations to just fiddle at the margins – that it might be seen as just a tariff adjustment and market concession exercise, or as something which benefits Australia at the expense of Pacific islands economies. To overcome this it needs people to think outside the square and take long term visionary view.

It is understandable that individual businesspeople will assess the opportunities and threats presented by PACER Plus against the needs of their individual businesses. The policy and advocacy capacity of Pacific islands governments needs to be bolstered, possibly through the aid program, to enable it to take leadership in the debate and to make assessments and policy in their longer term national interests which might well be different from the interests of some individual businesses.

It will be important that there is an extensive process of dialogue with all stakeholders about what might be achieved in the long term by PACER Plus, and that a roadmap is established which includes appropriate measures for capacity building across their economies and for mitigating the potential social effects in the short to medium term which might be the outcome of necessary economic restructuring necessary to achieve the long term goals and objectives of PACER Plus.

Twenty five years ago many people thought that ANZCERTA would never amount to much, but look at what it has achieved. PACER Plus must be seen as a long term opportunity like ANZCERTA.

Sixty years ago in Europe no-one envisaged the full scope of what could be achieved through economic integration through what is now known as the European Union.

Economic Infrastructure

Efficient well maintained infrastructure is crucial to business. The standard of key infrastructure (communications, roading, power, water, ports, airports) across the region is generally poor. The recent start of an independent mobile telephone operator in a number of countries is a positive step. But international telecommunications, internet access, and domestic land line service provision still requires reform in virtually every country if they are to have a world standard service.

Similarly, measures need to be taken to ensure that other infrastructure such as roads, power, water, ports and airports are properly funded and otherwise resourced, so they can operate efficiently and effectively in a clear policy environment that is focussed on appropriate microeconomic reform and competition.

All countries face serious challenges with all of its economic infrastructure. Current infrastructure plant is deteriorating across the region. Without good infrastructure no business, whether private or government, will thrive and remote communities especially will remain weak and be denied access into the mainstream economy. Power and water supply, ports and airports are in serious need of upgrade to meet modern demands.

The Australian government could work offer to work with the Pacific island governments to develop strategies for overcoming these problems, including the possibility of innovative financing through Public Private Partnerships where appropriate.

Land Ownership

Throughout the Pacific, land access requires careful management.

But land issues can always be used for political purposes because of the deeply ingrained cultural value of land to Pacific islanders, and the fear of the alienation of their land. There are politicians in the Pacific who have made lifetime careers out of fear mongering on land issues.

Work being undertaken through AusAID generally on possible reforms to enable better economic usage of land while allow landowners comfort and security are very worthwhile, and may lead in time to a more stable and predictable environment for all parties. This work needs to continue in partnership with Pacific stakeholders.



GLADSTONE PACIFIC NICKEL LTD

20 August 2008

Mr Frank Yourn
Executive Director
Australia Pacific Islands Business Council
P O Box 422
Wynnum QLD 4178

Dear Frank

Re: Gladstone Pacific Nickel's Vision and Plans for Activities in the Solomon Islands

This letter with attachments is written in response to your email of Friday 1 August 2008 wherein you passed on the announcement that the Australian Parliament's Senate Standing Committee on Foreign Affairs, Defence and Trade is to enquire into major economic and security challenges facing the island states of the southwest Pacific.

We apologise for its delayed arrival and trust that it will not be too late participate in the presentation of a submission to the Senate Standing Committee.

This package which is submitted to you contains three principal components:

- The most recent Gladstone Pacific Nickel Ltd (GPN) Corporate DVD;
- A GPN document outlining the vision and plans which Gladstone Pacific Nickel Ltd have for activities in the Solomon Islands and some of the impediments which could be alleviated with help from the Australian Government; and
- A GPN document formulating the strategy for Community Relations and Communications Planning in New Caledonia, where our Company is committed to a large scale long term programme exploration, mining and ore export programme.

A cornerstone of GPN's activities in the Solomon Islands to date has been the promotion, at all levels of Government and Community, of an International Tender Process, prepared and the responses judged by the Government. GPN intends to submit a bid and along with other interested parties wishes to have its proposals judged on a "level playing field".

GPN has a number of their senior people with experience in South West Pacific Nations. This provides the company with an in-depth understanding of mining, environment, surface and ground water control, including revegetation and rehabilitation within the political and social structure that exists.

GPN is interested in establishing a long term sustainable mining and export operation managed and operated by Solomon Islands workforce. The GPN proposal would not require specialist foreign workforce (to operate a complex processing plant) and would not create the long term legacy associated with a very large tailings dam in a region that has high rainfall and is also prone to extreme seismic activity.

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OFFICES IN BRISBANE | GLADSTONE | NEW CALEDONIA | SOLOMON ISLANDS

By way of this submission Gladstone Pacific Nickel's request to the Australia Pacific Islands Business Council and to the Senate Standing Committee is to seek assistance (see page 4 of the attached Presentation Memorandum) to advise and help the Solomon Islands Government remove the logjams, implement an International Tender process and award the mining rights on Isabel to an appropriately qualified mining company. The exploitation of Nickel Ore from Isabel Island has been identified by the SI Government as a significant development opportunity and we would encourage the PIBC to establish a reliable and acceptable support system that will help them achieve their goal. The GPNL proposal for exploration and development on Isabel has the unique advantage that it can be implemented within the next two years and a sustainable mining venture will be in place for in excess of 20 years. Beyond mining the skill generation opportunities are significant in new enterprises established for seed collection, propagation, plant nurseries, rehabilitation and revegetation.

Yours Sincerely



John Downie
Chief Executive Officer



GLADSTONE PACIFIC NICKEL LTD

**Presentation Memorandum
to the
Australia Pacific Islands Business Council**

Introduction

This presentation is made by Gladstone Pacific Nickel Limited (GPN). Our Company is an Australian public company which was listed on the Aim market of the London Stock Exchange early in 2005.

The Company is focussed on establishing a modern nickel and cobalt high pressure acid leach ("HPAL") plant at Gladstone in Central Queensland in order to partially fill what the Directors believe is a widening gap between the current global nickel metal production and world demand.

Initially GPN will produce approximately 60,000 tonnes of nickel and 5,000 tonnes of cobalt metal per year. Progression to stage 2 will involve the expansion of the proposed HPAL processing plant, refinery and associated infrastructure required to double the Projects ore treatment capacity and to produce approximately 120,000 tonnes of nickel and 10,000 tonnes of cobalt metal per year.

The Project thus has the potential as a nickel produce to be one of the largest of its type in the world from the first two stages.

Major Project Facilitation status from the Australian Federal Government and Significant Project Status from the Queensland State Government has been received.

The Project requires a long term guaranteed supply of large tonnages of lateritic nickel ore as feed stock for the Gladstone refinery. Some of the ore will come from the GPN owned deposits at Marlborough, 175 km north of Gladstone.

Additional ore will be shipped about 1000 nautical miles from deposits in New Caledonia where GPN has established an incorporated mining joint venture with the highly regarded major New Caledonian mining company Société Minière Georges Montagnat SARL.

GPN is attempting to secure additional long term supplies of lateritic ore from other Pacific Rim Countries, in particular the Solomon Islands.

This presentation memorandum summarises the activities of GPN in the Solomon Islands, highlights the difficulties encountered and seeks help and assistance from the Australian Federal Government

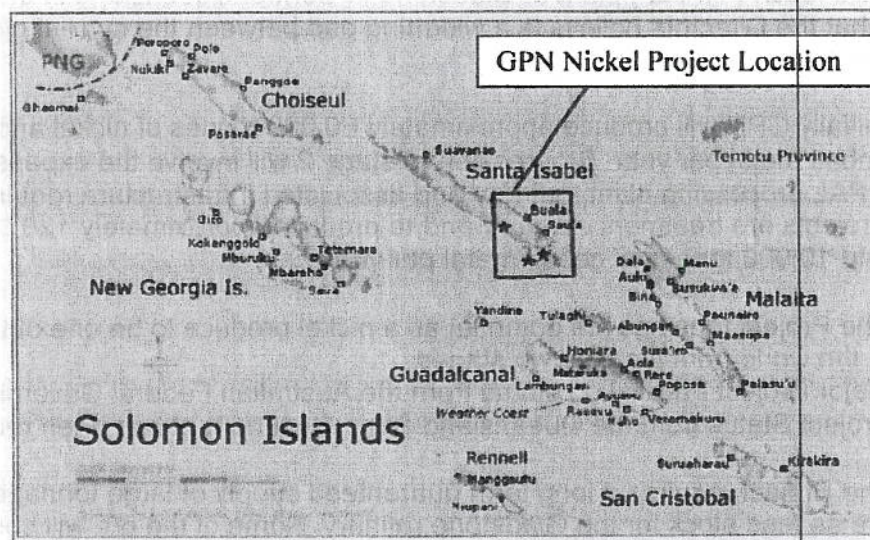
GPN Objectives In the Solomon Islands

GPN established a presence in the Solomon Islands in 2005, creating a wholly owned subsidiary Gladstone Solomon Islands Pty Ltd as a consequence of growing global demand for nickel and improvements in the processing of lateritic nickel ore using HPAL technology.

GPN made application for Prospecting Licences in 2005 and was advised that the Government's intention was to prepare and advertise a tender document internationally. The response would be judged by an independent panel with the successful bidder being granted the Prospecting Licences subject to satisfying all aspects of the Solomon Islands Mining Regulations.

GPN agrees with the Government's intention and awaits the publication of the International Tender Document

With some confidence that it can win the Tender, GPN has prepared an initial study programme which will confirm the available tonnage of lateritic nickel ore and the means of exporting this to the Process Plant at Gladstone



The initial study programme will consider five activities.

- Environmental and Cultural impacts on the Project.
- Evaluate the resources and grades of laterites on San Jorge, Takata and the adjacent coastline of Santa Isabel.
- Prepare a mine plan and a list of mining and support equipment.
- Evaluate infrastructure needs including access roads, stockpiles, bins, conveyors, ship load out alternatives and power generation.
- Evaluate the optimum ship size and load out rate. Examine the needs for Navigational Aids, Tugs, Pilots, Customs and Quarantine clearance

A preliminary plan of operations has been prepared based on the preliminary resource and mining evaluation done by an Australian Mining Consultant.

The plan is included here to demonstrate that Gladstone Pacific Nickel is serious in its intent to develop a project however the parameters may change significantly when the proposed Initial Study Programme is completed.

- The Project would aim to mine 1 million dry tonnes per year (about 1.5 million wet tonnes per year).
- Two ore types, one low magnesium laterite and the other high magnesium laterite, would be separately delivered to 50,000 tonne to 100,000 stockpiles.
- Overburden placement and mine operations generally would be designed to effectively rehabilitate mined out areas.
- Load out of both types of ore would be via conveyor and ship loader or by barges onto ships whose size may vary from Handimax (50,000 tonne) to Panamax (70,000 tonne).
- The load out rate may vary from 10,000 tonne per day to 40,000 tonne per day.

The programme would extend over a period of 3 to 4 years leading to commencement of mining and shipping operations.

Current Activities and Impediments

Following advice from the Solomon Islands Government in 2005 that an International Tender (IT) was the preferred means of issuing Prospecting Licences, GPN has been actively engaged in promoting the IT concept.

In particular, GPN has organized village awareness programmes, study tours to New Caledonia and Gladstone and meetings with Central and Provincial Governments' Ministers to give the Governments and Landowners a better idea of the lateritic nickel industry and to emphasize the importance of having the "level playing field" that an IT would achieve.

However, during the last three years the Solomon Islands Government has been incapable of advancing its stated objectives about the IT process. Increasing enquiries from overseas mining companies has lead to the illegal issue of Prospecting Licences and consequent court cases which have delayed and are still delaying the IT process.

All previous geological and exploration data held by the Solomon Islands Department of Mines and Energy has been lost or stolen. Attempts are being made to retrieve this data but little progress is being made

GPN sees that a major impediment to the progress of this Project or for that matter any project in the Solomon Islands is the absence of bureaucratic efficiency, lack of funding and infrastructure and a workforce that is under educated and untrained.

Successful Outcomes in the Solomon Islands

The lack of progress being achieved by Gladstone Pacific Nickel in the Solomon Islands is mirrored by other Australian Companies and to a lesser extent other overseas companies trying to do business there.

GPN considers that a successful outcome for the Solomon Islands and for GPN could occur with assistance from the Australian Federal and State Governments. The forms of assistance are not necessarily monetary but "hands on" advice and direction. GPN is aware that Government Departmental assistance has already been successfully delivered in many instances by RAMSI. The assistance could be any or all of the following:

- Assist the Mines and Energy Department in fast tracking of the IT preparation and assessment phases. Offer technical, environmental help and expertise via the agencies that may be involved.
- Assist the Mines and Energy Department in the recovery of past geological and exploration records and data.
- Formulate and implement a policy to educate and train Solomon Islanders at schools/colleges and businesses in Central Queensland. This could include the whole range of trades skills, heavy equipment operator training, hospitality, health and maritime operations (e.g. tugs, barges, pilots, quarantine).
- Examine the secondary education requirements within the Provinces. GPN understands that a major long term funding grant has been given to the Solomon Islands for all primary school education in the country
- Assist with public infrastructure around the lease areas of Takata and San Jorge (and Jejevo). This would include schools, power supply, water, sewage and wharf facilities.
- Assist with navigational aids and port infrastructure for vessels to arrive at and depart from new GPN mining ports on Santa Isabel.



**AUSTRALIA FIJI
BUSINESS COUNCIL**



**AUSTRALIA PACIFIC ISLANDS
BUSINESS COUNCIL**



**AUSTRALIA PAPUA NEW GUINEA
BUSINESS COUNCIL**

***A Pacific engaged, Australia's relations with Papua New Guinea and
the island states of the south-west Pacific,***

**COMMENTS ON THE REPORT OF THE SENATE COMMITTEE
ON FOREIGN AFFAIRS DEFENCE AND TRADE**

We have now had an opportunity to review the report of the Senate Foreign Affairs, Defence and Trade References Committee, *A Pacific engaged, Australia's relations with Papua New Guinea and the island states of the south-west Pacific*, which was tabled in the Senate on 12 August. We are pleased to offer the following comments which we hope will be helpful to the government in formulating a proactive and forward looking response to the report.

We commend the committee for producing a very detailed report. We consider that all the recommendations made in the report are worthy of very thorough consideration. Some of the recommendations can and should, we believe, be implemented quite quickly and to good effect. Others will require a much longer period of discussion to determine whether they are achievable. Some of them may only be practical in the very long term.

In the opening sentences of his tabling statement in the Senate on 12 August, the Chairman of the Committee, Senator Cook, referred to the Pacific islands region as a "*somewhat neglected part of our neighbourhood*", and said that over the last two decades references to the Asia Pacific region have focussed on Asia to our north or about how the Pacific ties Australia to the North and South American continents. We support this broad assessment of neglect and oversight, and recall comment made by the Honourable Ieremia Tabai, former President of Kiribati, who during his time as Secretary-General of the then South Pacific Forum from 1992 to 1998 sometimes referred frustratedly to the Pacific islands as "*the hole in the Asia Pacific doughnut*".

The Councils would like to think that this report, combined with recent strategic and regional policy changes, might create a new dawning in the relationship between Australia and the countries of the region, providing an impetus to give greater focus to the building of enduring linkages at all levels.

Recommendation 1 of the report proposes further research, analysis and debate on the idea of a **Pacific economic and political community**. It lists seven objectives of such a community. The Council supports the seven objectives listed as providing a sound basis for, at the very least, Australia's relations with the countries of the region whether or not they eventually translate into an economic and political community. We would, however, emphasise that the objective of sustainable economic growth for the region, which is listed first of the seven objectives, can only be achieved through the

development of strong national private sectors which can combine to form a strong regional economy.

We support, and will be pleased to participate in, debate about the merits of the Pacific economic and political community. There are many complex issues which will form part of the debate, many of which will be considerable obstacles to the achievement of a community,. But we believe the debate is well worth having both in Australia and around the region. It may be worth noting at this point that at the time Europe set out on its journey to its present day union there were many who believed the difficulties would prevail and the idea would fail. So the idea should not be dismissed without thorough examination and debate.

We suggest that if an **Eminent Persons Group** is formed to consult on this or wider issues that its membership include at least one person with extensive business experience around the region. The Councils would be pleased at an appropriate time to put forward a name or names for consideration.

The report makes two recommendations in relation to **quarantine** matters. The Councils support the thrust of those recommendations, but would suggest that in relation to recommendation 4 which proposes a bi-annual meeting of Australian and Pacific island countries quarantine and health authorities that AQIS should establish a regular dialogue with Australian business interests in the region to ensure that it is fully briefed on issues of concern to Australian business on quarantine and health issues. The Council would be willing to be the co-ordinating point for that dialogue process.

Recommendation 6 proposes the Forum Economic Ministers Meeting (FEMM) should be involved in public education strategies relating to explaining policies directed towards the achievement of **economic self sufficiency**. In assessing the question of economic self sufficiency, it is important to acknowledge that some Pacific island states are so small and have such limited resources that their potential for economic self sufficiency is very limited. What is crucial is that each country, whether large or small, manages whatever resources it has in the most effective manner and for the benefit of all its people. While the action proposed under the recommendation would be fine in so far as it goes, it is our view that additional focus needs also to be placed on educating political leaders and officials in addition to the community in general about the central importance of the development of the private sector as the driver of economic growth.

The Joint Statement issued at the end of the 2002 FEMM in Vanuatu recorded that *“Ministers recognised that economic reform was most successful when conducted in partnership with the private sector. The Ministers encouraged wider consultation with all private sector interests when developing economic reform policies so that the implementation of those policies would be more effective. They also recognised that developing an environment of trust and mutual respect is a prerequisite for successful consultation between the public and private sectors.”*

On the day preceding the FEMM, a Forum Secretariat initiated workshop involving public and private sector representatives from Forum countries was held to discuss public private sector partnerships. A number of recommendations for action were agreed at this workshop, and endorsed by the FEMM, including that the Forum Secretariat would seek funding to assist the strengthening and development of public private sector consultative mechanisms at the national and regional level.

Participants in the workshop agreed that the then President of the Fiji Employers Federation, one of the few reasonably well resourced private sector organisations in the region, would co-ordinate setting up a networking process nationally and regionally. Unfortunately when he developed a proposal to take this process forward and sought funding support from the Forum Secretariat he was rebuffed. We are unaware of any further action taken on this FEMM approved initiative.

The Councils strongly believe that private sector development is crucial to economic development in the Pacific island countries, although we also recognise that the size of some of the smallest countries means that the size of the private sector will in those cases be very limited. But with the exception of the more developed economies, there are few effective chambers of commerce or peak private sector bodies which can engage in informed policy discussions with governments. Regional co-operation between the more developed private sector peak councils and the less well developed groups can help enhance the relationship between all groups and their national governments, and will assist regional business and economic development. In some cases, governments see the private sector as some sort of enemy. Sometimes political leaders endorse the recommendations of regional meetings without understanding the implications of their decisions, frequently because their bureaucracies have limited policy analysis and advising capability.

There is a good deal of nurturing required to help all parties develop dialogue and policy discussion at a national level before regional consultative processes are likely to be viable. It seems to us that the Forum Secretariat could play a valuable role, with support from our Councils and private sector bodies in the more developed economies, in providing this nurturing to the poorly resourced private sector, as well as to the public sector, in the Forum island countries.

The report's recommendations on the **tourism** industry are broadly supported. Tourism is the proven growth product in the Pacific, but performance in the region is patchy. It is, however, important to recognise that as with most other issues in the region there is no "one size fits all" solution. The tourism industries in some Pacific island countries, notably Fiji, Cook Islands and New Zealand, and to a lesser extent Vanuatu, are well developed, professionally managed and marketed, and provide an attractive world class product. Indeed, in any "guidance", as the report describes it, being provided to Pacific island countries on developing viable tourist industries, the other countries in the region with successful tourist industries could make a valuable contribution, helping to make give the initiative more of a home grown flavour.

The question of **labour mobility**, which might also be called the right of freedom of movement, has many facets. It is linked closely to the concept of regional integration, although it is not necessarily dependent on such integration being full and complete. Remittances form an important part of the economies of mostly the smaller Pacific island economies, although the emergence very recently of remittances as a significant factor in Fiji's national accounts comes as something of a surprise. It is our view that those countries which will most benefit from labour market access in Australia are those which have such limited national resources that their capacity to develop their national economies and grow employment opportunities are quite constrained.

While the Council supports some form of access to the Australian labour market, we believe it should be carefully managed and initially focus on those countries which have limited national resources and opportunities for economic growth and national labour market development, and with which Australia has the closest ties.

The northern Pacific Micronesian states have their own special relationship with the United States of America, and some of the Polynesian states have special arrangements with New Zealand. These two groups of countries appear objectively to be in less need of labour market access to Australia. Countries such as Papua New Guinea, Solomon Islands, Vanuatu and Fiji, are sufficiently well endowed with resources that, with efficient management, can be developed into sustainable economies for the benefit of all their people.

Thus, In the model we would suggest, the countries to which such a scheme might be of most value and to which it might initially be applied would be Nauru, Tuvalu and Kiribati which have little in the way of natural resources and economic growth potential, and have the closest ties to Australia.

If a scheme were to be applied more widely, we would suggest that it might be offset in some way against the migration program from each country which might encourage a reduction in the brain drain from the region. We would also counsel strongly that any labour market access scheme should not be limited to seasonal work, which appears to have been part of the focus of the committee. People from the Pacific islands can offer skills in almost any field, and should not be stereotyped as seasonal workers. Labour mobility programs can be an effective tool for skills transfer.

Some Australian businesses with interests in the Pacific already operate workplace exchange programs for skills development and transfer, and would be willing to develop these further with the necessary support from the Australian and Pacific island governments in relation to visas and work permits.

The Australia Papua New Guinea Business Council recently wrote to the Foreign Minister, Mr Downer, endorsing initiatives being taken to utilise the **development assistance** program with Papua New Guinea to address law and order, governance and financial management issues in Papua New Guinea. We endorse this principle across the region.

The matter of whether to conclude bilateral treaties on development assistance with Pacific island countries is one for the Australian government to decide, but we would suggest that size and scope of the aid relationship with Papua New Guinea sets it apart from the other countries in terms of how formal the bilateral aid relationship should be.

We certainly endorse the concept of establishing performance benchmarks to assess aid delivery, including the goal of increasing local participation.

The Australia Papua New Guinea Business Council has greatly appreciated the willingness of AusAID senior staff to engage in dialogue on the PNG bilateral program over the last year or so. The other Councils would welcome similar opportunities in relation to other Pacific island countries.

The Councils would like to see four key characteristics in the aid program across the region:

- greater consultation with business in programs which have an effect on economic production and the operation of the business sector.
- more careful selection of aid program managers to ensure there is an understanding of the national environment and a strong personal commitment to the development of the particular country – it is the perception of business that some aid program managers are not so committed, but see their work as just another job in the continuum of their career.
- ensuring that programs are designed in bite sized chunks which are digestible within the relevant administrative environment.
- ensuring that aid program review mechanisms produce an honest appraisal of their effectiveness, and not one which seeks to justify that the resources input has been effective (the “met or exceeded objectives” syndrome should be avoided). There is some concern within the Council that some aid program providers have greater attention to maintaining their contract status rather than being rigorous about program quality assessment.

The Councils acknowledge the invaluable role of **community based and volunteer organisations** in building community relationships, advancing economic development and facilitating skills transfer. The Australia Fiji Business Council and the Australia Papua New Guinea Business Council are association members of AESOP, and two of our Vice-presidents hold the Chair and Deputy Chair of AESOP. We support proposals to increase the resources available to AESOP and Australian Youth Ambassadors for Development. We note also that there are many community based and volunteer groups in the region which perform invaluable work in social and economic development. The need to properly resource these groups should not be overlooked.

The concept of “**twinning**” Australian local government councils and public service departments with Pacific island countries has some interesting possibilities. As we pointed out in our submission, many Australian local government councils manage larger budgets and deliver a wider range of services to their communities than some

Pacific islands national governments. Twinning opens up the possibility of skills transfer and a whole range of community based relationships which could potentially provide substantial benefit for Pacific island countries, and is worth exploring further. We are aware that some Queensland government agencies have developed close, even in some circumstances almost mentoring, relationships with especially agencies of the Papua New Guinea government, but also with some other Pacific island countries. There could be scope to build on these already established relationships.

Institutional strengthening, especially in the law and justice and governance sectors, is already a significant part of the Australian aid program in the Pacific, and we support its continuation. We think the record in this area is mixed. It is of critical importance to be clear as to the goals of proposed institutional strengthening projects, including careful evaluation of the long term impact and value of the proposed project. It is an area of high importance to business, as a country's performance in this sector is one of the factors informing foreign investment decisions.

In our submission to the committee, we made much of the need to develop **closer political relationships** between Australia and the Pacific island countries. We commented on the current Prime Minister's failure to regularly attend Pacific Island Forum meetings, and the lack of bilateral visits to the region by ministers, except notably for Mr Downer and in the case of Papua New Guinea. We have noted with interest that other submissions also raised this issue.

We are delighted the report picks up this issue, and makes appropriate recommendations. We strongly advocate the liberalisation of ministerial and parliamentary travel to the Pacific islands region to encourage visits to the region, either as part of an itinerary for travel to destinations beyond the region or on discrete visits to Pacific island countries. We reiterate here that with careful scheduling it is possible to make a one or two day visit from Australia to the Pacific island countries closest to Australia. Such visits should not be regarded as counting against overseas travel entitlements, or should be part of a separately established and discrete program.

The Councils stand ready to facilitate contact with Australian business in the region by any minister or member of parliament visiting Pacific island countries.

We would also support a program of the Minister for Trade or the Minister for Foreign Affairs being pro-active in leading delegations of Australian business people on visits to the larger economies in the region. The New Zealand government is much more pro-active in this area, although we would not advocate exactly following the New Zealand model. Such a program would increase the profile of the region in Australia, and demonstrate to both Australian business and to Pacific island governments and business a strong commitment to the region by the Australian government.

The Councils share the view of the committee that the **media and education programs** in Australia are failing to secure the sustained interest of most Australians on

Pacific issues. It is our experience that Australians have mostly a negative perception of the region which inhibits investment and economic development.

In the case of Papua New Guinea, the historical associations of wartime, colonial administration and public service, or missionary experience are diminishing through generational change in Australia, meaning fewer and fewer Australians feel any connection with that country. Much is made of the Australian experience at Gallipoli, but in many senses the Papua New Guinea campaign in the second world war was of greater importance to Australia's security as a nation. Yet the PNG campaign, and especially the battles for the Kokoda Track and Milne Bay, are barely recognised by the current generation of Australians. Paul Keating, then Prime Minister of Australia, said at the Bomana War Cemetery on Anzac Day 1992, the 75th anniversary of the landing at Gallipoli, "... it might be said that, for Australians, the battles in Papua New Guinea were the most important ever fought". In searching for the right balance in the economic and social development of Papua New Guinea, it is important to rebuild those old linkages.

Fiji is largely viewed through the prism of the holiday experiences of the 100,000 plus Australians who visit annually as tourists or television images of coup leaders George Speight or Sitiveni Rabuka. There is no understanding of the wider economy, and of the opportunities there for doing business. The fact that Australian companies with long experience in Fiji continue to expand and reinvest there is an untold story in Australia.

The Australian community largely dumps all Pacific island countries into one basket. If there is a problem in one country, it is seen as region wide. Media commentary of an arc of instability reinforces this perception.

The Councils are willing to play their part in seeking to improve media and community understanding of the countries in the region.

The proposal for the establishment of an **Australia Pacific Council** has much to commend it as a first step towards changing the ignorance and false perceptions of the region. Such a Council, adequately resourced and with representatives from business, public service and academia with experience in the region, would be a very exciting initiative. The Councils are keen to support in any way we can the establishment of such a Council. There are members of the Councils whose knowledge of countries in the region would enable them to make an outstanding contribution to the work of such an organisation. The Councils would be pleased at an appropriate time to put forward a name or names for consideration.

We do not think the report adequately addresses the **brain drain** issue in its recommendations. The report discusses the issue in its narrative, and makes comments encouraging the continuation of tracing studies on returning students. We would at the very least like to see these tracing studies continue in order to produce a more comprehensive picture than the one which exists at present, although our preference would be for a study of AusAID scholarship recipients over the last ten years

and see how many of them are still contributing to the economic development of their country of origin. The flight of intellectual capital has a significant debilitating effect on the long term economic, political and social development of these economies, and we need to have a more accurate picture of its extent. We note comments in the report narrative that it is facile to argue the brain drain because there are no jobs available. We would suggest that where there is a scarcity of jobs, and this is not universally the case, it is because there is a linkage which needs to be broken between such scarcity, poor economic development and emigration.

The report fails to make any recommendations on the vexed issue of **regional aviation**. For as long as it remains the case that travel between any two Pacific island capitals is often best achieved through Brisbane, Sydney or Auckland, the region's economic development will be constrained. Business travellers, as well as tourists, require improved frequencies and competitive fares. We are aware that the Pacific Islands Forum at its meeting in Auckland in August agreed to an Australian funded study on regional aviation. The Councils would like to have opportunities to contribute to the work to be undertaken, particularly as prior to the announcement of the Forum study we had been undertaking the preparation of a paper on aviation in the region.

One of the issues raised in the Councils' submission was its concern about **travel advisories** issued in relation to Fiji at the time of the May 2000 coup. The advice issued at the time was not seen by the Australian government as a trade sanction, but its effect was the same as one. The advice recommended against all travel to Fiji at a time when the turmoil was restricted to a limited geographical area well away from most tourist areas. It was a significant factor in the decline in tourist arrivals in Fiji, led to economic hardship in Fiji, and damaged Australian business interests. The issue was also raised with the committee by others in relation to Papua New Guinea.

The issue arose again after the lodgement of our submission when, in January 2003, another travel advisory on Fiji was issued by DFAT and caused considerable concern to the Fiji tourist industry which includes substantial Australian business interests.

The narrative of the report discussed the issue to some extent, and makes a suggestion about how DFAT might deal with these issues in future. Although not in the form of a recommendation, we hope that DFAT will take note of the concerns of the Council and of the report's suggestion and will establish an appropriate consultative mechanism for the issue of future travel advices. The Council appreciates that the protection of Australian citizens overseas is of the highest priority for the Australian government. Such a priority demands that such advices are accurate and precise, and that they are not used as a means of making political statements nor applying economic sanctions.

Before concluding this paper, we wish to place on the record our appreciation for the willingness of the Minister for Foreign Affairs and the Minister for Trade and their department and other portfolio agencies to engage in dialogue with the Council on matters which are of concern to Australian business in the region. We believe we all benefit from this dialogue, and look forward to its continuation.