



Australian Government

Department of Foreign Affairs and Trade

12 November 2008

Committee Secretary
Senate Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Please find enclosed Department of Foreign Affairs and Trade's submission to the Senate Foreign Affairs, Trade Committee *Inquiry into the Economic and Security Challenges Facing Papua New Guinea and the Island States of the South West Pacific*.

This submission has been approved by the Minister for Foreign Affairs, the Hon Stephen Smith MP and the Minister for Trade, the Hon Simon Crean MP.

Yours sincerely

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A/g First Assistant Secretary
Pacific Division

**Senate Standing Committee on Foreign Affairs, Defence
and Trade**

**Inquiry into the
Economic and Security Challenges Facing
PNG and the Island States
of the South West Pacific***

Department of Foreign Affairs and Trade

November 2008

* This submission covers the independent Pacific Island States:
Papua New Guinea (PNG), Fiji, Solomon Islands, Vanuatu, Tonga, Samoa, Kiribati,
Nauru, Federated States of Micronesia (FSM), Marshall Islands, Palau.

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Overview

Australia is deeply committed to the long-term stability and prosperity of the Pacific. Many of the challenges faced by Pacific island states¹ are entrenched and will take time to resolve, but Australia's commitment is for the long haul.

The March 2008 **Port Moresby Declaration** articulated a new era of close cooperation between Australia and its Pacific island neighbours. These new relationships are based on a respect for the independence of the island nations, and the diversity and complexity of the challenges they face.

The historical, cultural and people-to-people links between Australia and the Pacific are substantial, especially in the case of Papua New Guinea (PNG). This has given rise to genuine warmth between the Australian people and those of PNG and the Pacific islands. This provides a deep reservoir of goodwill to help overcome the occasional differences which may arise.

Australia and its Pacific island neighbours are, along with New Zealand, a close community. This community has come together in times of crisis to address regional security problems, with considerable success. The regional peace monitoring operations in Bougainville and Solomon Islands succeeded in restoring stability and law and order, without the need to call on international peace keepers. In each case, the military, police and officials of Pacific states worked together to produce **Pacific solutions to Pacific problems**. These are achievements the Pacific community can be proud of.

While Pacific island states need to take responsibility for their own development, the challenges facing them are often such that they can only realistically do so with strong support from partners like Australia. Australia believes that it can work productively with its Pacific neighbours to help achieve their development goals. We share a common desire to promote economic growth, improve governance, strengthen infrastructure, and deliver better health and education services.

Good progress has been made in some areas, particularly on macroeconomic reforms. However, in most cases, socio-economic indicators remain a concern and economic growth is lagging well behind other developing countries. Ongoing development challenges include demographic and cultural factors, private sector investment and enterprise development, scarce resources, geographic isolation, inadequate skills and infrastructure, environmental degradation, ethnic tensions, law and order problems, urbanisation, and land issues. Most Pacific states are not on track to meet the **Millennium Development Goals** by the target date of 2015. Sub-Saharan Africa is the only region behind the Pacific in failing to meet these goals.

Australia is committed to working with its Pacific neighbours to accelerate progress. The new **Pacific Partnerships for Development**, with individual Pacific island

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states, are based on mutual, long-term, measurable commitments and performance targets and shared accountability. Australian aid will increase in return for demonstrated progress towards improved governance, infrastructure, health and education. Partnership Agreements with PNG and Samoa were signed in August 2008. Australia is pursuing similar Agreements with the Solomon Islands, Kiribati, Vanuatu, Tonga, Nauru, and Tuvalu.

Australia will strengthen these Partnerships with the commencement of a **Pacific Seasonal Worker Pilot Scheme**. Up to 2500 workers from PNG, Vanuatu, Kiribati and Tonga will be granted visas to work for up to seven months in any twelve month period in the horticultural industry in regional Australia. The scheme will provide new opportunities for income generation and training in the Pacific region, while also filling identified gaps in the Australian labour market. The Scheme also reflects Australia's commitment to pursuing a new era of economic cooperation and development in the Pacific.

Australia is also working to promote greater trade, investment and economic integration between Australia and the Pacific island states. Central to this effort will be the development of a region-wide free trade agreement, **PACER Plus**, tailored to meet the special conditions in the Pacific and the individual needs and capacities of island states. Australia's commitment to enhancing the region's trading capacity reflects our view that building competitiveness and productivity will lead to increased growth and prosperity for the nations of the Pacific.

Australia remains a major supporter of and participant in the **Pacific Islands Forum**. The Forum is responsible for promoting development, including through the Pacific Plan, and addressing regional security issues, including in the spirit of the 2000 Biketawa Declaration, which recognised collective responsibility for addressing security challenges in the region. The Forum Leaders' Meetings, most recently in Niue in August 2008, and the Forum Ministerial Contact Group on Fiji are playing a crucial role in efforts to bring about a return to democracy in Fiji. The Forum has also been highly supportive of the work of the Regional Assistance Mission to Solomon Islands (RAMSI), which includes participants from nearly all Forum states, and of the earlier Bougainville Peace Monitoring Group.

Australia is the major donor to the independent Pacific island states (except for the US Compact States), and can be expected to remain so for the foreseeable future. **Australia's financial commitment** to the Pacific in 2008-2009 includes just under A\$ 1 billion in development assistance. In addition, just over A\$ 51 million was committed to the Pacific in 2007-2008 for Defence Cooperation.

Australia will be called on to assist its Pacific neighbours in times of difficulty such as natural disasters or civil unrest. Australia will continue to work with New Zealand and other international partners, such as France, the United States, Japan, and the European Union, to address such needs as they arise.

The Economic Challenges

Papua New Guinea

PNG has recently enjoyed a strong **economic performance**. After several years of contraction, the PNG economy grew at an average rate of 4.1% from 2004-7. Debt has fallen from 72% of GDP in 2002 to around 34% in 2007. The budget is in surplus for the first time in many years and is projected to remain so to the end of the decade. After remaining low for four years, inflation rose to 10.7% in the year to June 2008 because of higher international fuel and food prices.

This strong economic performance has been the result of the international commodity boom (high world prices for oil, gold and copper) and sound economic management. PNG has significantly improved its macroeconomic, financial and budget management. PNG has placed over Kina 2 billion of its windfall mining revenues intended for public sector investments into trust funds, which now total 17% of GDP, in part because of limited spending capacity.

The PNG economy has also enjoyed success in some specific sectors. The liberalisation of the mobile phone market has expanded coverage and reduced consumer prices significantly, providing a boost to small business. Mining ventures and oil palm estates have been successful and, as a result, provide much-needed financial, medical and other services in the areas where they operate.

Mining and oil account for 86 % of PNG's exports, but only 3 % of employment. There are large scale mines at Ok Tedi (copper) and Lihir and Porgera (gold), and a major oil and gas field at Kutubu. The Ramu Nickel mine is due to commence production in the second half of 2009. However, mining revenues appear to have peaked and mining revenue growth is predicted to fall. This will reduce the budget surplus over time. The major proposed LNG project in the Hides field in the Southern Highlands should make up for this to a considerable extent by bringing substantial revenue flows. Maximising the project's benefits for development will be a significant challenge for PNG – however, it also represents a significant opportunity in terms of employment and economic growth.

The revenue windfall from mining has been slow to translate into PNG government investment in **infrastructure** (roads, utilities, communications), and improved health and education services. Greater investment will be required if PNG is to sustain economic growth and improve levels of productivity over time.

Agricultural exports include forestry, coffee, copra and palm oil, but most agricultural activity is in subsistence farming. PNG has considerable potential for **tourism** but this has not been fully developed due to poor infrastructure and law and order problems in some areas. Restricted access to traditionally owned land for development remains a challenge. Only 3% of all land is registered and potentially available for purchase or lease. PNG is seeking to address this through a process of land reform, with Australian support.

PNG's **foreign trade** is heavily focused on Australia, which accounts for 30% of its merchandise exports and 52% of imports. Two-way merchandise trade is worth \$4.2 billion annually, and is highly diverse despite being dominated by petroleum. Japan and China are PNG's next most important export destinations, accounting for 8% and 6% respectively. Among import sources, Singapore and China are ranked next after Australia, with market shares of 13% and 6% respectively.

PNG is not on track to achieve the **Millennium Development Goals** by the target date of 2015. While macroeconomic outcomes have been good, there is little evidence that the lives of most citizens are improving. Unemployment is high and the delivery of basic services is deficient, especially in rural areas. The poor performance of the public sector and state owned enterprises is widely seen as a barrier to growth. There is concern that the increasing incidence of HIV/AIDS will have a major economic and social impact.

Demographic and social challenges constrain economic prospects. 85% of the population still lives in rural areas and relies mostly on subsistence agriculture. The population has doubled to 6.1 million since independence in 1975, and is projected to exceed 8 million by 2020. Population growth is high at 2.7%. Only 54% of the population is literate. Only 54% of students complete primary school and 6% complete secondary school. Child mortality rates remain high and life expectancy rates low. PNG rates 137th out of 177 nations on the United Nations Human Development Index.

Australian aid and other assistance has much to offer PNG in its efforts to progress its medium term development priorities. Its government agencies and security forces stand to benefit from continuing support to maintain capacity and deliver services. PNG will continue to look to Australia for help in times of crisis such as natural disasters or civil unrest.

Pacific Wide Challenges

Most Pacific island states have maintained sound **macroeconomic** environments after adopting painful economic reforms in the 1990s, which have kept deficits and inflation under control. Budget formulation and fiscal transparency have been generally sound, especially in PNG, Samoa and Vanuatu.

There has been some success at the **microeconomic** level. Recent instances of privatisation in some Pacific states have produced economic efficiencies, particularly in the aviation and telecommunications sectors. There has been less progress with regard to structural reform, policies to promote inclusion and equity, and government effectiveness and service delivery.

Fostering a positive **trade and investment** environment is vital to support Pacific nations to engage more deeply with the regional economy and enable them to take full advantage of the opportunities offered by greater market access. Trade liberalisation alone is not enough to drive economic development and a key challenge is to help Pacific states to build capacity through structural reform, to allow them to better reap the benefits of international trade.

The **PACER Plus initiative** to deliver a free trade agreement between Australia, New Zealand and Forum island countries offers the region opportunities for closer economic integration, more open markets and improved trade competitiveness and trade policy capacity (see Part II). PACER Plus provides a platform for Australia to work with Pacific neighbours to strengthen their national capacities to trade within the region and beyond and to put their economies on a more sustainable footing.

While some Pacific states recognise the benefits of **trade liberalisation**, protectionist sentiment in the region remains strong. Many Pacific islanders feel vulnerable to being swamped by imports from outside the region – which it must be said was also the fear in New Zealand at the time the Closer Economic Relations agreement between Australia and New Zealand was finalised nearly 25 years ago. As Australia’s oldest free trade agreement, the CER offers an instructive example that nations do not need to be of the same size to reap the benefits of trade liberalisation. Over the life of the CER, New Zealand’s exports to Australia have averaged annual growth of 7.9 %.

There is also caution about **foreign investment** which is often seen as predatory or challenging national interests due to past negative experiences of foreign exploitation. However, the generally positive experience in Pacific island countries of liberalisation in the telecommunications and civil aviation sectors has highlighted the potential benefits of trade liberalisation to improve services and lower costs for consumers and businesses and encourage investment. It has also highlighted that difficult decisions made by leaders in the face of significant vested interests and political pressures can deliver for the long-term national interest. Australia’s own experience with structural reform during the 1980s demonstrates that domestic reform that aims to build competitiveness can lead to stronger economic growth and prosperity.

World Bank indicators highlight significant **governance** problems in some countries. Weak systems for government financial management, procurement and audit contribute to this challenge. Samoa performs best against these indicators.

The Pacific as a whole is not making good progress towards achieving the **Millennium Development Goals** by the target date of 2015. Development indicators reveal that at least three million people in the Pacific are living in extreme poverty (on an income of less than US\$ 1 per day). Increasing numbers are underemployed and living in slum conditions. Malnutrition is a problem in parts of PNG and the Solomon Islands. Traditional safety nets - family and clan ties and access to subsistence agriculture – are being eroded by land degradation, cash economies, urbanisation and population growth.

The Paris Declaration on Aid Effectiveness and the **Millennium Development Goals** recognise that the primary responsibility for poverty reduction and economic development lies with the countries themselves. The World Bank has highlighted the need for more effective government performance in the Pacific on the delivery of health and education services.

PNG and Samoa both have development strategies based on the Millennium Development Goals, which include performance management frameworks. However, development targets are yet to be costed and funding sources identified. Performance management frameworks are less well developed elsewhere.

There is mixed progress towards universal primary **education**. Samoa, Tonga and Fiji are progressing well, but the other Pacific islands states are not on track to meet the Millennium Development Goals. One million children in the Pacific do not attend school. Even for those who do attend primary school, learning achievement is generally low. Many children leave primary school unable to read, write or solve basic mathematical problems. Secondary school enrolments are low in most countries.

Health issues are a major concern. 18,000 children die each year (13,000 in PNG), mostly from preventable causes. Maternal mortality rates are high in PNG and the Solomon Islands. Between 50,000 and 150,000 people have HIV/AIDS (75% of these in PNG). Malaria, tuberculosis, diabetes and obesity are a major problem in different areas. Malaria and tuberculosis are at their worst in PNG and the Solomon Islands. Inadequate access to clean drinking water is a key issue, and is a major cause of infant mortality.

PNG has by far the richest natural resource base in the Pacific. **Solomon Islands and Fiji** enjoy sufficient resources to be economically viable if well managed. However, ethnic tensions and political instability in Fiji and the Solomon Islands have undermined the institutions and economic environment required to achieve this. In Solomon Islands, development has also been constrained by a sharp decline in forestry resources, a lack of public sector capacity, weak land tenure, poor infrastructure and high population growth.

Fiji is one of the few Pacific states with the size, natural resources and agricultural and tourism potential to be economically successful. Its economy is largely based on sugar, tourism and remittances. However, political instability (see below) and poor decision making by the Interim Government, have undermined this potential. Fiji has experienced a severe economic decline. In 2007, the economy contracted by 6.6%, remittances fell by up to 30% and sugar and tourism performed poorly.

Nauru, once one of the wealthiest nations per capita on earth due to its rich phosphate deposits, suffered a serious economic decline and political instability in the 1980s and 1990s. Declining phosphate production, mismanagement and malfeasance resulted in a collapse of Nauru's economy in 2004, including an accrued debt burden of more than \$A1 billion for a population of 10,000. Although phosphate mining recommenced in late 2006, and analysis indicates that secondary reserves can be viably mined for up to another 30 years, Nauru has few other revenue sources and remains reliant on foreign aid.

Access to natural resources has not translated into higher **per capita incomes** and living standards in the Pacific. The poorest countries are PNG followed by Solomon Islands, Vanuatu, Kiribati and Tuvalu, all with poor human development indicators, per capita incomes of less than US\$ 2000 a year and some populations living in extreme poverty. The highest per capita income of US\$ 7800 is in Palau, where tourism is the main economic activity and per capita aid levels are particularly high.

Outside PNG's mineral wealth, the most valuable resource in the Pacific is **fisheries**, including the largest and most valuable remaining tuna stocks in the world. These are

a magnet for the distant water fishing nations which operate under fishing licenses issued by each Pacific state (predominantly to China, Taiwan and Japan, and a lesser extent to Spain and Russia). The Pacific states struggle to extract reasonable economic returns from the modest fishing license fees, and to police and prosecute the illegal and under-reported fishing which occurs in their vast maritime Exclusive Economic Zones.

License fees paid by the distant water **fishing** nations amount to a modest US\$ 60 million per annum, or 4-6% of the total landed value of the fish catch. It is believed that this landed value is vastly under-reported, with poaching estimated at 40%. There is evidence that serious over-fishing of the two major commercial tuna stocks (big eye and yellow fin) may place these at a serious risk of collapse within 3-5 years if corrective action is not taken.

Most Pacific island states are heavily dependent on coastal **fishing** resources for subsistence food, but these stocks are diminishing in many areas due to human population growth and unsustainable fishing practices. Fish contributes 70-90% of protein in the diet of most Pacific islanders. The sustainable management of traditional coastal fisheries resources is increasingly important given the global rise in food prices and increased cost of imported non-traditional foods.

Tourism is well developed in some states, particularly Fiji, Vanuatu, Samoa and Palau. However, most of the Pacific states have limited natural resources, infrastructure and transport access to enable the development of tourism. Political instability and law and order problems have also inhibited tourism in some Pacific states. Even where tourism is successful, increasing its wider economic benefits depends on the application of effective investment and taxation regimes. Aviation liberalisation has opened up new opportunities in markets such as China and the Republic of Korea, and increased Australian and New Zealand tourism.

One of the most important resources in the Pacific is its people. However, most Pacific islanders do not have the education or technical skills necessary to fulfil their economic potential or their aspirations. Where these skills do exist, Pacific Islanders have been able to make valuable contributions to the development of their countries, including through financial **remittances**. Since 2000, remittances have increased rapidly in the Pacific, with an average growth of 36% to US\$ 500 million per annum in 2008. It is estimated that these official figures under-estimate actual remittances by at least one third, because they ignore informal transactions, often in kind.

The opportunity for Pacific island states to earn **remittances** from a mobile labour force, or human resource exports, depends on the development of in-demand skills and on access to other labour markets, on a temporary or permanent basis. Some States have achieved significant progress in this regard. For example, Samoa, Tonga, Kiribati and Fiji benefit from remittances from their large diaspora communities and/or their mobile labour forces. In Tonga, 40% of GDP is derived from expatriate remittances. In Fiji, remittances are the second highest foreign exchange earner.

Population growth rates in the Pacific are high – averaging around 2.8% in PNG, Solomon Islands and Vanuatu - which means a doubling of population every 25 years. Such high population growth rates reduce per capita growth rates and impose a severe

strain on limited resources, the environment, health and education services and employment opportunities. In Melanesia, population pressures also lead to increasing urbanisation, where incomes are 10-16 times higher than rural incomes.

Recent rises in world **food and oil prices** have affected the Pacific island states. Their geographic isolation makes them especially vulnerable to rising oil prices for transport. The Pacific Island Forum Leaders meeting in Niue in August 2008 called for greater efforts to reduce dependence on oil through measures to improve energy efficiency and greater use of renewable energy, and for the development of a system for bulk fuel procurement in the Pacific.

The smaller Pacific island states, some of which are **micro states**, face severe challenges. Their lack of resources, absence of economies of scale, isolation, high transport costs, and vulnerability to climate change and natural disasters severely limit opportunities for development.

Foreign aid remains the main source of income for most Pacific island states. Net aid to the Pacific from all known donor sources rose from US\$ 750 million in 1997 to US\$ 1.1 billion in 2006. However, per capita aid rates have remained at constant levels due to high population growth rates. Despite per capita aid in the Pacific being amongst the highest in the world, per capita income has fallen and debt levels have risen since 1995 – except in those states where expatriate remittances have contributed to growth. The region will continue to look to **Australian aid** and expertise to pursue its development goals.

The Security Challenges

Papua New Guinea

PNG has been politically stable for some time. The most recent national elections in 2007 were less violent than those of the past, reversing a long-term trend.

In 2007, Prime Minister Somare became the first Prime Minister since independence to serve a full term in office. This was in part the result of changes to the political system designed to strengthen stability. Somare was re-elected comfortably to his fourth term and now commands a large majority in the PNG Parliament. The PNG Defence Force and Royal PNG Constabulary currently also have stable leadership, and are loyal to the government of the day.

Prime Minister Somare and other prominent leaders have dominated the political landscape in PNG for three decades, but a new generation of leaders will in due course take the reins of power. The future stability and prosperity of PNG will depend on this new generation of leaders.

PNG is difficult to govern because of its inadequate infrastructure, low levels of capacity, poor law and order, challenging terrain, tribal loyalties and great cultural diversity. PNG is prone to natural disasters, including the possible effects of climate change, cyclones, volcanic eruptions, earthquakes, droughts and tsunamis. The impact of such disasters can be especially severe in PNG given its relatively high population levels, challenging terrain and heavy dependence on subsistence agriculture for food.

Law and order is a significant problem. Rapid urbanisation, unemployment and poverty contribute to crime. The spread of modern weapons has magnified the impact of urban crime and tribal fighting in the highlands. Police capacity to address these challenges is limited. The PNG Government is placing a high priority on increasing police numbers and other resources, with Australian support (see Part II).

PNG has a number of specialist offices dedicated to improving accountability and transparency in government. The Auditor-General's Office recently identified cases of serious alleged financial mismanagement which it referred to Parliament's Public Accounts Committee. As these referrals illustrate, promoting good governance will be a significant long-term challenge for PNG and its donor partners, including Australia.

The restoration of peace to **Bougainville** has been a significant success (see Part II). The ten year Bougainville civil war was the most serious conflict in the Pacific since the Second World War. Bougainville has remained predominantly peaceful since the signing of the 1998 Ceasefire Agreement and the 2001 Bougainville Peace Agreement. Australia led a multinational Peace Monitoring Group of Pacific forces in Bougainville from 1998 to 2003.

The Peace Monitoring Group oversaw the implementation of the Bougainville Peace Agreement to enable Bougainville to elect its first autonomous government in 2005. An International Election Observer Mission declared the elections to be competent

and transparent. Under the Peace Agreement, Bougainville is required to hold a referendum on independence at some time between 2015 and 2020. Bougainville is still heavily dependent on external support but is slowly rebuilding its political institutions and economy.

However, tensions remain, particularly in the south. Autonomous Bougainville Government (ABG) President Kabui passed away in June 2008, and a by-election will be held at the end of the year to elect a successor. The ABG has expressed an interest in resuming mining on Bougainville, following the closure of the Panguna mine as a result of the civil war. However, there are a number of legal, landowner and environmental issues which will require resolution if mining is to recommence.

Breakdowns of law and order in other regional areas of PNG, such as the Southern Highlands in 2002, have been contained from serious escalation or from spreading to other regions by significant geographical and cultural barriers.

In **foreign relations**, PNG is able to wield considerable influence amongst its Pacific island neighbours because of its size and the status and longevity of its political leaders. Prime Minister Somare is widely regarded, and respected, as the elder statesman of the Pacific. PNG has used this influence effectively to resolve conflict and promote peace in times of crisis in places such as Fiji and the Solomon Islands. This positive PNG leadership in the region is highly valued by Australia. PNG is also a leading member of the Melanesian Spearhead Group with Fiji, Vanuatu and Solomon Islands.

Australia looms large in PNG's foreign and trade policy calculations. Australia's diplomatic presence in PNG is larger than that of any other country. PNG enjoys good relations with its neighbour, Indonesia. The PNG Government accepts Indonesian sovereignty over Papua. PNG also maintains strong ties with China, Japan, South Korea and Malaysia.

Solomon Islands

In 1998, security in Solomon Islands declined following the emergence of ethnic violence on the island of Guadalcanal. The tension arose from Guadalcanal resentment of the influence of settlers from other islands, particularly Malaita, drawn by economic opportunities to Guadalcanal. By 1999, Guadalcanal militants had taken control of the countryside around Honiara. Violent clashes involving rival militant groups destabilised the Solomon Islands Government (SIG) and undermined national institutions. In June 2000, an insurrection mounted by Malaitan militants resulted in the brief detention of Prime Minister Ulufa'alu and his subsequent forced resignation.

In 2003, Solomon Islands Prime Minister Kemakeza requested Australian assistance to address the rapidly deteriorating law and order situation. At a meeting of Pacific Islands Forum (PIF) Foreign Ministers in June 2003, Australia and New Zealand proposed a package of assistance which was unanimously endorsed by the PIF and supported by the Solomon Islands Parliament. The Australia-led Regional Assistance Mission to the Solomon Islands (RAMSI) commenced in 2003 (see Part II).

Many parties in Solomon Islands have outstanding grievances arising from their losses during the years of conflict which have yet to be dealt with effectively by successive SIG governments. Lack of progress toward reconciliation remains a potential source of violence and instability.

Solomon Islands has close relations with PNG and Vanuatu and is a member of the Melanesian Spearhead Group. It has historic ties with Australia and the UK. Asian logging companies have substantial interests in Solomon Islands. Australia, Britain, New Zealand, Papua New Guinea, Japan, Taiwan and the European Union all have diplomatic representatives in Honiara. The United States has a resident consular agent. Solomon Islands has diplomatic missions in Canberra, Port Moresby, Taipei, at the UN in New York and at the European Commission in Brussels. Solomon Islands recognises Taiwan.

It is estimated that Solomon Islands will receive aid equivalent to 60 percent of GDP in 2008. Australian and New Zealand Assistance, including through RAMSI, dominates donor contributions to Solomon Islands, with other significant contributions coming from the EU, Japan and Taiwan. Levels of Taiwan's Overseas Development Assistance to Solomon Islands are not reported to the UN or OECD. Taiwan has indicated that it will improve the accountability of funding that is channelled directly through MPs. Multilateral donors (including the UN, World Bank and Asian Development Bank) are increasing their presence in Solomon Islands.

Fiji

In December 2006, the Commander of the Fiji Military Forces seized power in a coup, ousting the democratically elected Government led by Prime Minister Qarase. Bainimarama has since occupied the self-appointed position of "Interim Prime Minister" in the Fiji Interim Government. Political opponents, critics of the regime, the media and some members of the legal profession have been subject to harassment and intimidation. Two Australian publishers have been summarily deported, despite court injunctions. In the immediate aftermath of the coup, a number of people were assaulted in military or police custody resulting in four deaths and a number of serious injuries. There has been widespread opposition to the regime's People's Charter process, which is intended to achieve extensive reforms, including to Fiji's Constitution and its electoral system. Opponents of the People's Charter have been threatened by the regime. In this context of political instability, the economy has suffered a severe decline (see above).

The Pacific Islands Forum, along with other members of the international community including the Commonwealth, the European Union, the United States and the United Nations, has continued its calls for Commodore Bainimarama to restore democracy and the rule of law in Fiji by holding a credible democratic election. The international community is working to ensure that Commodore Bainimarama honours the commitment he gave Forum Leaders in October 2007 to hold an election by March 2009. Australia and other donors have provided financial and technical assistance in support of preparations for an election. The Forum and the Commonwealth Secretariat have called for an independent and inclusive political dialogue in Fiji. In September 2008, Commodore Bainimarama told the United Nations General Assembly that an election would not be held in Fiji until reforms under the People's

Charter had been achieved. The Interim Government's efforts to expand relations with non-traditional partners have had limited success.

Pacific Wide Challenges

One of the most pervasive problems in the Pacific is **illegal fishing**. For most states, fish stocks are their most valuable resource (see above). Most of the illegal fishing is undertaken by the large fishing fleets of the distant water fishing nations (mainly China, Taiwan and Japan), who enter the Exclusive Economic Zones (EEZs) of the island states to fish without licenses or, if licensed, to engage in other illegal practices such as concealing the true size of their catch. The vast size of the EEZs makes them impossible to police effectively, even with Australian assistance (see Part II). Illegal cross-border fishing from Indonesian and Philippine fishing vessels is a problem for PNG and Palau. Illegal fishing of protected marine species also occurs.

The Pacific region is vulnerable to **transnational crime**, which is liable to exploit any state with weak surveillance, legislative and/or law enforcement systems. The Pacific Ocean is used for the transshipment by air and sea of a range of illicit drugs between Asia, North and South America and Australia. Illicit narcotics originating in Asia and Latin America have been detected and seized from ships, airfreight and airline passenger luggage, including cocaine, heroin, amphetamine precursors and cannabis. A large methamphetamine factory has been uncovered in Fiji.

Pacific states with weak legislation have been used by international criminal syndicates for large-scale **money laundering**. Small arms have been trafficked through the region to end up in the hands of criminals in PNG and the Solomon Islands. Prostitution, people smuggling and people trafficking have become a problem in some states.

One of the key challenges for the Pacific island states is **maritime and border security**. The large number of foreign fishing vessels and increasing number of pleasure craft and cruise ships in the Pacific pose a real risk of drug and contraband smuggling, illegal immigration and people smuggling. The success of border management systems at ports and airports remains patchy.

While the current threat of terrorism in the Pacific is low, the factors which make the region vulnerable to organised and **transnational crime** could potentially be exploited by terrorist networks, particularly as regards money laundering. Police investigations reveal that the Pacific is being targeted by individuals and groups seeking to undertake a range of transnational crime.

In their competition to secure diplomatic recognition in the Pacific, **China and Taiwan** have in the past provided assistance that has not always been in keeping with our objectives of improved governance and economic reform in the region. Recent improvements in cross-Strait relations have begun to lessen this rivalry and should provide an opportunity for both to remodel their development assistance programs to support sustainable development over the long-term. Australia is committed to working with all donors in the Pacific to ensure development assistance meets international standards of best practice. Eight Pacific States recognise China (Cook Islands, Fiji, Federated States of Micronesia, Niue, PNG, Samoa, Tonga and

Vanuatu); six recognise Taiwan (Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands and Tuvalu).

The growth of **ethnic Chinese populations** in many Pacific island states has also given rise to some ethnic tensions, which has at times contributed to violence in cases such as the Solomon Islands and Tonga. This remains a potential cause of tension in several Pacific island states.

One of the strengths of the Pacific is its good **human rights** record as regards political rights (functioning democracies, rule of law, freedom of speech) – with the notable exception of Fiji after its coups. This is partly due to the widespread common law heritage and sound legal systems, based on those of Australia and New Zealand in Melanesia and Polynesia, and on the United States in Micronesia. The human rights record on economic and social rights, including on gender equity and income distribution, is not as strong.

The Pacific island states are prone to **natural disasters**, including the potential impact of **climate change**, sea level rise, cyclones, earthquakes, volcanic eruptions, droughts and tsunamis. These can have a severe impact in small islands due to isolation, poor infrastructure and transport, and reliance on subsistence food supplies. Australia will remain the major source of disaster relief support in the Pacific (except in the US Compact States of the FSM, Marshall Islands and Palau where the US is responsible for emergency relief, and in the French Territories).

The Implications for Australia

Long-Term Commitment:

Many of the economic and security challenges faced by the Pacific island states are complex and deep-rooted and will take time, persistence and ingenuity to resolve. Australia is the major economic and political power in the region, and is looked to by the Pacific island states and the international community to take the lead in helping to address these challenges. There will be no easy or one-size-fits-all solutions. Addressing these challenges will require a substantial, long-term commitment from Australia. The Government recognises these realities and is giving priority to responding to them.

Pacific Partnerships for Development:

Pursuant to Prime Minister Rudd's March 2008 Port Moresby Declaration, Australia is developing new partnerships with its Pacific neighbours to help them achieve their goals and face shared challenges. These partnerships are based on mutual respect for each other's rights and obligations; mutual responsibility to achieve performance targets; and mutual commitments to deliver on undertakings.

While Pacific island states need to take responsibility for their own development, the challenges facing them are such that they can only realistically address them with the strong support from regional and international partners like Australia. Only Pacific governments can determine their own development goals and priorities, and make and implement the policy decisions to overcome their challenges. But often they will only be able to do so when empowered by productive partnerships.

Australia recognises these dynamics and is committed to providing the required support. Our Pacific partners need to recognise Australia's requirement to ensure the effective use of its aid, and to accept shared accountability for meeting commitments. In accordance with the Port Moresby Declaration, we also envisage that our partners will commit to effective action to improve governance, infrastructure, health and education for the welfare of their people.

Leadership in Times of Crisis:

The Pacific island states and the international community will continue to look to Australia to take the lead in assisting its Pacific neighbours in times of natural disasters and civil unrest. Australia accepts these responsibilities and will continue to work with the Pacific island states, New Zealand, the United Nations, and other external donors during humanitarian crises and to promote peace and stability, as the need arises.

Maximizing Human Resource Potential:

The most valuable resource in any country, including the Pacific, is its people. Pacific islanders have much to gain from improved education and professional and technical

training opportunities, and from greater access to other labour markets to expand their employment and income earning potential. Australian aid, including through our new Pacific Partnerships for Development and Pacific Seasonal Worker Pilot Scheme - if proven successful - may do much to contribute to this. With the latter new initiative, the Australian Government is deliberately starting with a modest-sized scheme to trial and prove suitable approaches to the challenges that such schemes can present in terms of pastoral care and protection of worker rights.

The Strength of the Pacific Community:

Australia and its Pacific island neighbours are, along with New Zealand, a close community. The historical and cultural links between Australia and the Pacific are substantial. These include business, education, migration, church, cultural and sporting links, in addition to wide ranging official connections through development assistance, security and other cooperation. These people to people links will deepen and strengthen over time as development cooperation increases and labour and education links expand between Australia and the Pacific. They have given rise to a genuine warmth and understanding between the people of Australia and the Pacific.

Pacific Solutions to Pacific Problems:

The Pacific community has developed a successful approach to dealing with specific security problems in the region. Notably, the regional peace monitoring operations in Bougainville and the Solomon Islands restored stability and law and order without international peace keeping support. This Pacific approach to Pacific problems is one which Australia and its Pacific neighbours can build on to address future security challenges. A collaborative Pacific approach to problems such as the coup in Fiji is also the most effective means to restore democracy and the rule of law in the region.

Papua New Guinea

During the first ten months of its term in office, an intense agenda of **high-level contact** with PNG and the Pacific reflects the high priority which the Government accords to bilateral relations. Up to August 2008, high-level visitors to PNG included: Governor-General Major General Jeffery, Prime Minister Rudd (accompanied by Parliamentary Secretary for International Development Assistance McMullan and Parliamentary Secretary for Pacific Island Affairs Kerr), and the Minister for Agriculture, Fisheries and Forestry Burke.

Attendance at the Government's first PNG-Australia Ministerial Forum, held in Madang in April 2008, was strong. Australia was represented by: Minister for Foreign Affairs Smith, Minister for Trade Crean, Minister for Climate Change and Water Wong, Minister for the Environment, Heritage and the Arts Garrett, Minister for Resources, Energy and Tourism Ferguson, Minister for Home Affairs Debus, Mr McMullan, Mr Kerr and Parliamentary Secretary to the Minister for Health and Ageing McLucas.

The March 2008 Port Moresby Declaration encapsulated a new approach to Australia's relations with PNG and the Pacific, centred on Pacific Development Partnerships (see below). The **Australia-PNG Partnership for Development**, signed by Prime Ministers in Niue in August 2008, will support better access to markets and services, progress towards universal basic education, improved health outcomes, a more efficient and effective public service, and sound development statistics for use in policy and program formulation.

Australia is the largest source of **foreign aid** to PNG estimated at \$A389.4 million in 2008/09. This represents about 70% of all foreign aid received and about 11% of total PNG revenue and grants. PNG is Australia's second largest aid recipient, after Indonesia. Australian aid to PNG will continue at high levels for the foreseeable future.

The joint PNG-Australia Development Cooperation Strategy has a specific focus on four core areas: improved governance and nation building; sustainable broad-based economic growth and increased productivity; improved service delivery and stability; and a strengthened, coordinated and effective response to the HIV/AIDS epidemic.

The 2008 Ministerial Forum agreed to the continued placement of senior and experienced Australian government officials in PNG agencies to help strengthen governance and accountability. Ministers agreed to rename the Enhanced Cooperation Program (ECP) as the ***Strongim Gavman Program*** (SGP) (Tok Pisin for "strengthening government"). The SGP builds on the broad model and scope of the ECP, which was agreed between Australia and PNG in December 2003. SGP officials are focused on the provision of strategic and policy advice and on building capacity in the PNG public service, including through mentoring to improve the knowledge and skills of PNG staff. As of September 2008, under the SGP, 46 Australian officials, drawn from 12 Australian government agencies, were working

closely with PNG counterparts, under the oversight of PNG ministers and agency heads, to progress reform in the areas of economic and public sector governance, border management and transport safety and security, and law and justice.

The Australian Federal Police (AFP) enjoys a good working relationship with the PNG police force. Australia and PNG cooperate on transnational crime, money laundering, customs, immigration and border security issues. Under the former ECP, Australia and PNG had planned to deploy progressively up to 210 AFP personnel to improve law and order. However, Australia was obliged to withdraw the first group of AFP deployees, and to cease further AFP in-line deployments, following the PNG Supreme Court ruling on 13 May 2005 that elements of the PNG domestic legislation that had been passed in order to implement the ECP Treaty were in conflict with the PNG Constitution. This decision had implications for the immunities of ECP personnel engaged in "in line" duties. The 2008 Ministerial Forum agreed to the commencement of a policing partnership, involving the deployment of AFP advisers to PNG, which would operate outside the SGP. This began in September 2008.

Australia supports the PNG Defence Force under the approximately A\$11 million per annum Defence Cooperation Program. In addition, Australia provided A\$38 million in recent years to assist PNG to downsize its Defence Force, and intends to provide a further A\$48 million to improve defence capacity over the coming 10 years.

Fiji

The 2006 Fiji coup has been condemned by Australia, all the Pacific island states and the international community. At the Pacific Islands Forum Leaders meeting in Tonga in October 2007, Commodore Bainimarama, under pressure from Australia and others, undertook to hold an election by March 2009. This commitment was reaffirmed at the Forum Foreign Ministers meeting in Auckland in March 2008 by Fiji's "Interim Foreign Minister".

In July 2008, a Forum Ministerial Contact Group, consisting of Foreign Ministers from Australia, New Zealand, PNG, Samoa, Tonga and Tuvalu, met in Fiji to monitor progress. The Ministerial Contact Group found that an election by March 2009 was possible, but Bainimarama refused to commit to this date. Bainimarama subsequently wrote to Forum Leaders to formally advise that elections could not be held in Fiji until electoral reforms were put in place. No time frame has been set for this process. Bainimarama did not attend the Niue Forum Leaders meeting in August 2008.

In their Niue Communique, Forum Leaders expressed their serious concern at the failure of the Fiji Interim Government to attend the Forum, which they considered to be unacceptable. Leaders stated that the Fiji Interim Government should have attended to account for the undertakings given at the 2007 Forum Leaders Meeting to hold an election by March 2009, reaffirmed the importance of honouring these undertakings, and agreed to maintain pressure on Fiji to meet the agreed election deadline.

Forum Leaders in Niue called for a political dialogue process to create a conducive environment for March 2009 elections, which should be a genuine dialogue (without preconditions or predetermined outcomes), supported by all key stakeholders, and not

used to delay the elections. Leaders directed the Ministerial Contact Group to monitor progress on the political dialogue and the situation in Fiji, to report back to Leaders before the end of 2008, and to recommend further measures to promote the compliance of the Fiji Interim Government with its election commitment. Leaders will consider convening a further special meeting of Forum Leaders before the end of 2008 to review the situation in Fiji.

Australia has also responded to the coup by placing targeted travel sanctions on those responsible for the coup and appointees of the interim regime and their families. Defence cooperation with Fiji was suspended, as were parts of the development assistance program where action by the Fiji military has rendered them ineffective. However, the balance of AusAID assistance remains. The sanctions are designed to target those responsible for the coup while not undermining the ongoing development needs of the people of Fiji.

Solomon Islands

Since 2003, the Regional Assistance Mission to the Solomon Islands (RAMSI) has assisted the Solomon Islands Government to restore law and order, strengthen institutions, improve governance and reinvigorate the economy. RAMSI is led by Australia and contains personnel from Australia, New Zealand, Fiji, Samoa, Vanuatu, Tonga, Kiribati, Cook Islands, Nauru, Papua New Guinea, Tuvalu, Federated States of Micronesia, Palau, Marshall Islands, Niue and Solomon Islands.

RAMSI's initial priorities were to restore law and order and stabilise government finances. Due to the large numbers of weapons present within the community, RAMSI includes a military component (from Australia, New Zealand, PNG, Tonga), to provide force protection for RAMSI's police contingent. RAMSI police have a presence in all nine provinces of Solomon Islands. Since RAMSI's arrival, over 3600 firearms have been surrendered or confiscated.

With the initial priority of restoring stability achieved, RAMSI is now focused on the longer-term issues of capacity building, governance, economic reform, rebuilding the police force, and strengthening judicial and correctional institutions. RAMSI's civilian component has increased significantly, with personnel working within the SIG to help build the capacity to make improvements sustainable.

In 2007 the Pacific Islands Forum RAMSI Taskforce recommended that the Forum oversight of RAMSI be enhanced through the establishment of a Forum Ministerial Standing Committee (FMSC). In July 2008, the FMSC agreed to a strengthened partnership between RAMSI and the Solomon Islands Government, under a new RAMSI-SIG Partnership Framework. This will develop mutually agreed, conditions-based timelines aimed at reducing RAMSI's engagement in critical areas of government as the capacity of the Solomon Islands grows.

RAMSI has created an enabling environment to progress economic reform in the Solomon Islands. The economic governance program is improving economic and financial management and encouraging reforms to generate economic growth. Under the stability provided by RAMSI, the economy has grown by more than 5% per annum (from a very low base), driven by the restoration of law and order, significant

donor assistance, logging activity and improvements in public finance. (Per capita growth has been eroded by high population growth rates.) A new Foreign Investment Act has led to growth in planned investment. Tariffs have been reduced, overall debt has declined and government revenue increased by over 50 %.

However, future growth is likely to be constrained by an imminent decline in forestry resources, a lack of public sector capacity, weak land tenure, poor infrastructure and high population growth. The work of RAMSI complements Australia's bilateral assistance program in Solomon Islands. Through this program and other regional programs, Australia is continuing to work with the Solomon Islands to build national capacity to address development needs, strengthen governance, and promote stability, security, economic reform and growth.

The bilateral program focuses on improving access to critical health services, rural livelihoods, peace-building and management of natural resources in the lands and forestry sectors. The program also focuses on rural development and infrastructure. Australia's total overseas development assistance to the Solomon Islands is estimated at A\$236.4 million in 2008-2009, with approximately A\$40 million delivered through bilateral and regional programs and the rest through RAMSI. Since 2003, the Australian Government's total financial commitment to RAMSI has been A\$1.396 billion, including the 2008-09 forward estimate of A\$235.3 million.

Nauru

After first becoming involved with Nauru in 1914, at the outbreak of World War One, Australia (together with New Zealand and the United Kingdom) administered Nauru under a Mandate of the League of Nations and (after World War Two) under a United Nations Trusteeship until independence in 1968. Today, Australia remains Nauru's most important trade, investment and development assistance partner.

In August 1993, the Nauru and Australian Governments signed a Compact of Settlement (NACOS) which ended litigation by Nauru against Australia in the International Court of Justice over rehabilitation of phosphate land mined before independence. As part of the settlement, Australia paid Nauru A\$57 million in cash and agreed to provide a further A\$50 million over a period of twenty years.

In 2004 Nauru sought assistance from the Pacific Islands Forum (PIF) in light of its serious financial crisis (see Part I). In response, the PIF developed the Pacific Regional Assistance to Nauru (PRAN). Contributors include Australia, the EU, New Zealand, Japan and Taiwan. Australian contributions to PRAN amounted to A\$450,000 in 2006-07.

In 2004 Australia and Nauru agreed on a Memorandum of Understanding (MOU), to be reviewed on an annual basis, to provide special assistance to Nauru to address its financial crisis and to specify joint commitments for the management of Australia's Offshore Processing Centre. The MOU was amended in July 2008 to reflect the closing of the Centre. The MOU represents an Australian commitment to help Nauru restore essential infrastructure and services and regain economic self sufficiency. Since 2005 Australia has deployed officials to assist Nauru to implement economic,

governance, education and health and police reforms. Negotiations are planned to conclude a Pacific Development Partnership with Nauru by 2009 (see below).

Australian aid to Nauru is based on the priorities in Nauru's National Sustainable Development Strategy. In 2008-09 this will amount to A\$29 million, including funding under the MOU, bilateral and regional programs and activities managed by the Australian Federal Police and Attorney-General's Department. The development assistance supports health, education, utilities, policing, economic and financial management and public sector capacity building.

Pacific Wide Responses

- ***High Level Engagement***

During the first nine months of the Rudd Government, an intense agenda of Ministerial travel to PNG and the Pacific is indicative of the high priority accorded by the government to the region. In addition to the travel to PNG (described above), Governor-General Major General Jeffrey has travelled to Tonga and PNG, Prime Minister Rudd to the Solomon Islands; Foreign Minister Smith to the Solomon Islands (three times) and to Fiji; Parliamentary Secretary for International Development Assistance McMullan to Samoa, Tonga, Kiribati, Solomon Islands (twice), PNG (three times), Vanuatu and the Cook Islands; Parliamentary Secretary for Pacific Island Affairs Kerr to Samoa (three times), Solomon Islands (three times), Tonga, Kiribati and Vanuatu; and Minister for Home Affairs Debus to Samoa.

- ***Peace and Security***

Australia has assisted Pacific island states to restore peace and security in times of crisis. The ADF/civilian Bougainville Peace Monitoring Group (PMG) in PNG from 1998-2003 and the ADF/AFP/civilian RAMSI mission in the Solomon Islands from 2003-2008 and in Tonga in 2006 are good examples. Australia has worked closely with New Zealand in these cases.

Such operations have been very successful because they have been at the invitation of Pacific governments to assist with problems they could not manage alone, have had the full support of other Pacific island states, and have had clearly defined and short-term goals. In the case of Bougainville and Solomon Islands, the deployments included security forces from many Pacific island states. The exclusively Pacific nature of the peace keeping forces in the Bougainville PMG and RAMSI produced highly successful Pacific solutions to Pacific problems.

- ***Pacific Partnerships for Development***

The March 2008 Port Moresby Declaration encapsulated a new approach to Australia's relations with PNG and the Pacific, centred on *Pacific Partnerships for Development*. These involve a whole-of-government approach and agreed development goals based on three pillars:

- mutual respect – Australia recognises Pacific Partner leadership of development strategies and the Partners recognise Australia’s need to ensure effective use of aid
- mutual responsibility – Australia and each Pacific Partner agree on mutual, long-term, measurable commitments and performance targets and shared accountability
- mutual commitments – Australia commits to increase aid and Pacific Partners commit to improve governance, infrastructure and health and education.

The first Pacific Partnership Frameworks were signed with PNG (see above) and Samoa at the Pacific Leaders Forum in Niue in August 2008. While Samoa has been one of the more successful Pacific island states in terms of economic growth and progress towards achieving the Millennium Development Goals by the target date, it still faces challenges. The **Australia-Samoa Partnership** will help to address these with efforts to create a more robust economy through private-sector led growth and employment, better quality health and education, improved governance and reduced vulnerability to climate change.

Negotiations are currently underway with Solomon Islands and Kiribati with the aim of concluding Partnerships by December 2008. Further negotiations are planned to conclude partnerships with Vanuatu (March 2009), Tonga and Nauru (June 2009) and Tuvalu (September 2009).

- ***Trade***

Australia is committed to a new era of economic cooperation with the Pacific and attaches a high priority to promoting trade, investment and economic integration between Australia and the Pacific island states. Australia is the largest trading partner for the Pacific island states, with total two way trade amounting to A\$7.3 billion annually, more than our trade with France, Canada or the Netherlands. The region runs a modest trade surplus with Australia, with PNG, Fiji and Samoa contributing the most to this.

The 1982 South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) provides non-reciprocal duty-free access to Australia and New Zealand for goods from Pacific island states, subject to rules of origin. The non-reciprocal nature of SPARTECA means that it does not provide a basis for driving regional trade liberalisation or competitive regional export industries.

The 2003 Pacific Agreement on Closer Economic Relations (**PACER**) obliges all parties to enter into consultations once they enter into free trade agreement negotiations with another country. Parties include Australia, New Zealand, PNG, Solomon Islands, Fiji, Tonga, Samoa, Kiribati, Cook Islands, Nauru and Niue. PACER also prescribes a Regional Trade Facilitation Program funded by Australia and New Zealand and other donors. Its is being implemented by the Secretariat of the Pacific Community (quarantine), the Forum Secretariat (standards and conformance) and the Oceania Customs Organisation (customs).

Australia believes that the closer economic integration of the Pacific island states with Australia and New Zealand is one of the best means to expand opportunities for

economic growth in the Pacific. A key element of this is the development of a region-wide free trade agreement, **PACER Plus**. Such an agreement would help build the economic and trade performance of the Pacific states, enhance economic sustainability, deepen regional integration, and promote mutual trade interests. The AusAID-commissioned study on the "*Benefits, Challenges and Way Forward on PACER Plus*" predicts a significant increase in trade volumes (up to 20%) from the elimination of regional trade barriers and improved efficiencies.

Australia maintains ambitious objectives for **PACER Plus** as the best means to enable trade and regional economic integration to underpin the gradual and progressive integration of the Pacific island states into the international economy. A high quality and broad ranging free trade agreement, with national level trade capacity and trade development assistance, offers the best prospect of promoting long-term and sustainable development and economic growth.

Pacific Islands Forum Leaders agreed in 2008 to deepen consultations to develop a roadmap for **PACER Plus** negotiations. In addition, at the Forum Trade Ministers Meeting a month prior to the Leaders Meeting, Ministers recognised the strong shared desire to move forward on PACER and welcomed the Australian and New Zealand provision of trade fellowships, funding for national studies and further technical capacity-building workshops. The 'Australian Leadership Award Fellowships' will provide capacity building and training in Australia in 2008-09 and training for a 'second desk' official in each Pacific state engaged in negotiations, at a cost of A\$1,275,000 for Australia. In addition, Pacific states will be able to access A\$65,000 through a "Pacific Research Facility" (totalling A\$910,000) on PACER Plus related research. These initiatives are consistent with informal consultations in Auckland in May 2008, in which Pacific states highlighted the need for research and analysis in order for them to make an informed decision on the benefits of greater engagement in the regional economy.

Australia will be seeking to advance work on **PACER Plus** by consulting Pacific island states on individual means to enable them to benefit from the opportunities offered through economic integration and liberalised trade, while avoiding a one-size-fits-all approach and taking into account the different country contexts, stages of development, levels of capacity and national interests. Strengthening trade in the region offers a greater capacity for the nations of the Pacific to reduce their dependency on development assistance and to achieve sustainable economic growth.

Australia will also work with Pacific countries to support structural reform to ensure issues of low population or geographic isolation are not compounded by inefficiencies that impose high transaction costs, inhibit external trade and economic growth and undermine the capacity of Pacific nations to deliver services to its citizens. Australia's experience with structural reform, and agenda which is ongoing, will provide an example for the region of the economic growth and enhanced opportunities which result from domestic reform.

One of the biggest challenges for the Pacific region is how to nurture and bring about high rates of sustainable economic and employment growth. In an increasingly globalised world, the Pacific cannot afford to fall behind - but in some important key social and economic indicators, that's exactly what is happening in some island states. Although trade by itself cannot represent a developmental panacea, we cannot secure

prosperity without trade and Australia's objective is to see our immediate region as prosperous, trading, and stable.

A properly considered, comprehensive **PACER Plus** free trade agreement comprising a carefully crafted trade capacity building or 'Plus' component provides a key platform to deliver this outcome. It may also require us to broaden our conception of what constitutes trade-related capacity building and for PACER Plus to be linked to Australia's bilateral Partnerships for Development.

At the 2008 Forum Leaders' Meeting in Niue, Leaders reaffirmed the continuing importance of pursuing greater economic integration and trade as a regional priority and endorsed the need for officials to formulate a detailed roadmap on **PACER Plus**, with a view to Leaders agreeing at the 2009 Forum to the commencement of negotiations. This decision clearly demonstrates regional recognition at the highest level that trade and economic growth are inextricably linked. The view of Leaders' also indicates that an ambitious agenda of regional economic integration and market consolidation offers one way in which the region can build economic advantage and compensate for the small size and isolation of fragmented island economies. The benefits of improved trade with Australia are borne out by statistics (see table) that indicate that in total goods and services trade PICs maintain a trade surplus of AUD680 million. Those countries that trade more with Australia (PNG, Fiji and Samoa) draw the greatest benefit.

In moving forward on **PACER Plus** we will need to progress discussions in a collaborative manner, possibly at different speeds with different partners, and with tailored solutions to match specific trading interests. Australia will also need to work hard to clearly demonstrate as far as possible the quantifiable benefits of PACER Plus in enabling the strengths of the Australian economy to be tapped more effectively to deliver benefits to island countries through market consolidation and being part of a larger regional market. In the face of global competition, Pacific island economic integration with Australia provides one way in which we can collectively develop stronger competitive responses.

- *Labour mobility*

In August 2008 Australia announced a **Pacific Seasonal Worker Pilot Scheme**. Up to 2500 visas will be issued to allow workers from PNG, Tonga, Vanuatu and Kiribati to work for up to seven months in any twelve month period in the horticultural industry in regional Australia. Tonga, Vanuatu and Kiribati already have mechanisms in place to select suitable workers. Australia will work with PNG to establish similar mechanisms in that country.

The initiative demonstrates Australia's new partnership with its Pacific island neighbours. It reflects the special historical links between Australia and the Pacific and Australia's commitment to improve employment and remittance opportunities for Pacific islanders. Participants in the scheme will benefit from the income, experience and training received. It will also benefit many Australian farmers who have not been able to find sufficient labour to get their produce to market.

The scheme will include strict conditions to ensure that there is no exploitation of Pacific workers and no undercutting of Australian working standards and awards. It will operate for three years and be reviewed after 18 months to ensure it is meeting the needs of Australian employers and Pacific island workers, and that safeguards are operating effectively. The mutual responsibilities and commitments of each participating state will be included in bilateral Memoranda of Understanding currently being negotiated. Initial batches of workers may arrive in Australia as early as December 2008.

- ***Defence Cooperation***

Australia has an extensive **Defence Cooperation Program (DCP)** in the Pacific. In 2007-08, the DCP will provide A\$51.11 million for activity in PNG, Solomon Islands, Tonga, Samoa, Vanuatu, Palau, Republic of Marshall Islands, Federated States of Micronesia, Tuvalu, Kiribati and Cook Islands.

The DCP involves approximately 60 ADF and civilian advisers who supply ongoing support and guidance to Pacific island security forces in the areas of reform, governance, strategic planning, command and control, maritime security, peacekeeping, humanitarian assistance and disaster relief, communications, logistic support, education and training. The ADF provides assistance to the Defence Forces of PNG and Tonga, and to the national police forces (primarily the maritime wings) of the other countries. Defence Cooperation with Fiji is currently suspended.

The **Pacific Patrol Boat Program** is the centrepiece of Australia's Defence engagement with the Pacific and provides participating countries with a credible maritime surveillance capability to monitor and manage the maritime resources in their exclusive economic zones.

Between 1987 and 1997 Australia donated 22 patrol boats to 12 Pacific island states for law enforcement in their territorial waters. The boats are operated by the military in PNG, Fiji and Tonga and by the national police forces in other states. The Program provides Australian advisers in each state (except in Fiji since the coup), support for training exercises and operations, capacity building, equipment and infrastructure. In 2008-09 A\$28.5 million will be spent on the Program.

The major focus of activity is maritime surveillance for illegal fishing. The boats may also be used for search and rescue, policing of transnational crime, humanitarian and disaster relief, medical evacuations, election support, quarantine and other government purposes.

- ***Transnational Crime***

Australia, through the Australian Federal Police, has established a **Pacific Transnational Crime Network (PTCN)** to provide a proactive, transnational criminal intelligence and investigative capability in the Pacific. The Network comprises Transnational Crime Units (TCUs) in Fiji, Samoa, Tonga, PNG, Vanuatu and the FSM, and a Pacific Transnational Crime Coordination Centre in Samoa. These Units are staffed by specially trained law enforcement officials from the Pacific island states, supported by the Australia Federal Police.

The Australian Federal Police works closely with the police forces in the Pacific, including through the Pacific Island Chiefs of Police. Basic training for Pacific police forces has been provided by AusAID under the Pacific Regional Policing Initiative. This will be replaced in 2009 by a new **Pacific Police Development Program** administered by the Australian Federal Police. Training for the police and military responsible for maritime surveillance in the Pacific Patrol Boats is provided by the Department of Defence.

Australia, through the Attorney-General's Department, is providing legal assistance to Pacific island states to develop new policing and criminal justice legislation to assist them to implement the Honiara Declaration on Mutual Assistance in Criminal Matters, Proceeds of Crime and Extradition, and the Nasonini Declaration in relation to counter-terrorism, terrorist financing, money laundering, drug trafficking, people smuggling and people trafficking. Australia has signed Counter-Terrorism Memoranda of Understanding with PNG and Fiji.

Australia is working with the Pacific states to improve their counter-terrorism capacity. The Attorney-General's Department **Anti-Money Laundering Assistance Team (AMLAT)** is assisting Pacific states to develop anti-money laundering and counter financing of terrorism systems, including in the areas of financial intelligence reporting, legal arrangements and law enforcement. AMLAT has supported the creation of Financial Intelligence Units in the Pacific states, with technical support from the Australian Transaction Reports and Analysis Centre (AUSTRAC) and funding from AusAID. AMLAT is also collaborating with and supporting the Pacific Anti-Money Laundering Project (PALP) based in the Pacific Islands Forum Secretariat.

Australia, through the Department of Immigration and Citizenship, is also contributing to strengthened border protection and counter terrorism capability in the Pacific. This includes technical assistance for diagnostic border assessments, alert systems designs and implementation, border management systems, identity verification, legislative drafting, regulatory frameworks, forensic document examination and immigration intelligence analysis. Training on border protection and document examination has been provided through the Pacific Islands Forum.

Australia participates actively in the Forum Regional Security Committee (FRSC), established in 1987. This is the major regional security forum in the Pacific, with the support of regional law enforcement and border agencies and other regional and international stakeholders. The Committee produces an annual Pacific Transnational Crime Assessment (PTCA) on regional issues, trends and emerging threats.

- ***Fisheries***

Australia is a strong supporter of, and the major donor to, the Pacific regional fisheries agencies: the Forum Fisheries Agency, the Western and Central Pacific Fisheries Commission and the Secretariat of the Pacific Community. Australia is working within these agencies to advance practical action to implement the Vava'u Declaration on Fisheries Management from the 2007 Pacific Leaders Forum.

Australia is working to strengthen mechanisms under the 1992 Niue Treaty on Cooperation in Fisheries Surveillance and Law Enforcement in the South Pacific Region. Australia is promoting the need for a new multilateral Pacific umbrella treaty-level agreement, patterned on the Niue Treaty Subsidiary Agreement model, but permitting active engagement by external nations, notably the United States and France. This mechanism to protect regional fisheries would provide for the exchange of law enforcement data, cross-vesting of law enforcement powers and the use of fisheries data for other law enforcement issues. This 'Niue Plus' approach was endorsed by Pacific Islands Forum Leaders in August 2008.

- *Climate change*

At their meeting in Niue in August 2008, Pacific Forum Leaders recognised the urgent social, economic and security threats posed by the adverse impacts of climate change and sea level rise in the Pacific, and agreed to continue to develop Pacific-tailored approaches to combating climate change with the appropriate support of the international community. They encouraged donors to increase technical and financial support for climate change adaptation, mitigation and, if necessary, relocation. Leaders also called on the South Pacific Regional Environment Program (SPREP) to review regional meteorological services.

- *Development Assistance*

Australian aid in PNG and the Pacific will amount to just under A\$1 billion in 2008-2009. This is a significant investment to support development and reduce poverty in the region. Programs are aimed at increasing economic growth and improving basic services. Further details on Australia's development cooperation are provided in AusAID's submission to the inquiry.

- On infrastructure, Australia is contributing A\$127 million to the new Pacific Regional Infrastructure Facility to undertake improvements to the quality, reliability and availability of infrastructure in the region.
- On investment and business development, partnerships with the Asian Development Bank and the World Bank's International Finance Corporation are supporting regulation and legislative reform to reduce barriers to business activity, promote access to finance and improve the functioning of financial markets. The Pacific Women and Private Sector Development initiative is helping to build women's entrepreneurial capacity and promote their economic empowerment.
- In water and sanitation, Australia will commit a proportion of the A\$300 million Water and Sanitation Initiative to the Pacific to address the critical challenge to health and wellbeing posed by inadequate access to clean water and sanitation.
- In regards to land, the A\$54 million Pacific Land Program aims to strengthen Pacific land systems to enable greater levels of social and economic development and reduce the potential for instability due to land related conflict.

- Support for vocational training and skills development capacity building is provided through the A\$149.5 million Australia Pacific Technical College (APTC). The APTC will initially train 3,000 students to Australian qualification standards to enable them to compete for job opportunities locally, regionally and internationally.
- In basic education, support is being provided to strengthen national education systems, help put more children in school and improve the quality of education. In 2007-08 Australia provided A\$60 million for basic education in PNG and the Pacific (excluding scholarships) and funding will be progressively increased to improve education access and quality.
- To build public sector capacity Australia is providing A\$107 million to help strengthen public administration in the Pacific by enhancing government and tertiary institutional partnerships between Australia and the region, addressing public workforce development needs and providing support for the planning and implementation of public sector reforms.
- To enhance the management and leadership capacity of senior public servants in the Pacific Australia is supporting the A\$9 million Pacific Executive (PACE) Program in collaboration with the Australia and New Zealand School of Government.
- Microfinance is critical to ensuring that financial services are made available to the poor. AusAID is developing options to increase the access of the poor to financial services in general and to microfinance in particular.
- Australia is significantly scaling up its response to HIV and other Sexually Transmitted Infections (STIs) and has committed A\$30 million over the five years 2009-2013 for the Pacific Islands HIV and STI Response Fund. Australia is also the lead donor supporting PNG's national HIV and AIDS response, providing A\$178 million over 5 years, including a A\$100 million program to expand prevention and treatment services throughout PNG.
- In the health sector more generally, A\$25 million has been allocated to roll back malaria in the Pacific. Australia is working with regional organisations, multilateral agencies, Pacific Island governments and other donors to develop new programs in the Pacific to eradicate malaria island by island commencing in the Solomon Islands and Vanuatu.
- Recognising that poverty is both a cause and consequence of disability Australia is also providing A\$45 million to develop an avoidable blindness program and a comprehensive disability strategy to guide Australia's international development assistance program.
- ***Disaster Relief***

Australia is the major source of disaster relief in the Pacific. Australia has developed an A\$12.4 million Enhanced Humanitarian Response Initiative for 2008-2011 to

improve our response to Pacific disasters, ensure an early and competent Australian civil response, and assist Pacific island states to mitigate, prepare for and respond to such events. Australia is establishing an A\$68.9 million Australian Tsunami Warning System for the Pacific, due for completion in 2009. Australia also is supporting implementation of the Regional Disaster Risk Reduction and Disaster Management Framework for Action 2005-2015, endorsed by Pacific Leaders in Madang in 2005. The Australian Defence Force also assists with disaster relief in the Pacific. The 1992 France, Australia, New Zealand (FRANZ) Agreement to coordinate disaster relief efforts in the Pacific has enhanced military cooperation on humanitarian assistance and disaster relief.

- *Cultural Heritage*

Australia is contributing A\$1 million to UNESCO to be used over the next four years to help build capacity in areas related to the World Heritage Convention in the Pacific.

Pacific Regional Organisations

While the majority of Australian activity in the Pacific is conducted via our bilateral relations, Australia is also addressing economic and security challenges through Pacific regional fora. Australia is a founding member of and the major financial donor to all the regional organisations in the Pacific.

The **Pacific Islands Forum** (PIF) addresses regional economic and security challenges under policy direction provided at the annual Leaders Meeting. Australia will host the PIF Leaders meeting in 2009. The PIF mandate covers the pursuit of peace, harmony, security and economic prosperity, underpinned by good governance, sustainable resource management, observance of democratic values and the promotion of human rights.

Pacific Leaders agreed in 2005 on a **Pacific Plan** as a framework for greater regional cooperation and integration, based on the four pillars of economic growth, sustainable development, good governance and security. Australia is working with its Pacific partners to implement the Plan. The Pacific Plan covers fisheries, energy, trade, economic integration, climate change, transport, information and communications technology, health, education and good governance.

Australia works with its Forum partners to address regional security issues in accordance with the 2000 **Biketawa Declaration**, which includes a commitment to upholding democracy and a process for addressing regional crises. The Biketawa Declaration has been invoked twice since 2000, in Solomon Islands (RAMSI) and in Nauru (PRAN). Under this framework, three successful election observer missions in the region - Bougainville, Solomon Islands and Fiji - have also been undertaken. It has also provided a framework for the Forum to take the international lead on Fiji following the December 2006 coup.

The **Forum Fisheries Agency** (FFA) implements regional fisheries programs and coordinates regional approaches to multilateral fisheries treaties. The Western and Central Pacific Fisheries Commission (WCPFC) is charged with managing the long-term conservation and sustainable use of highly migratory fish stocks.

The **Secretariat of the Pacific Community** (SPC) provides technical assistance in the areas of agriculture, marine resources, health, socio-economic programs, statistics, community education and gender equity. The **South Pacific Regional Environment Program** (SPREP) promotes cooperation and provides assistance to protect the Pacific regional environment. The **South Pacific Applied Geoscience Commission** (SOPAC) provides geoscience services to members.

Australia is working with other Pacific states on the PIF Regional Institutional Framework Review, as directed by Leaders, to reform and rationalise some of the Pacific regional fora. Pacific Leaders in Niue in August 2008 called for this process to be completed in 2009 with implementation to commence in 2010.

Cooperation with Other States and Agencies

Australia works closely with **New Zealand** in the pursuit of our shared objectives to promote development and stability in the Pacific. This collaboration has been particularly important in our common responses to security problems in situations such as Bougainville, Solomon Islands and Fiji. Australia and New Zealand also cooperate closely on aid, trade, fisheries, maritime surveillance and other security issues. This cooperation takes place on a bilateral basis and through the Pacific Islands Forum and other regional fora. In February 2008 the Prime Ministers of Australia and New Zealand agreed to work to facilitate common approaches to development and to reinforce each other's development efforts.

The **United States** is the major donor to the three US Compact states of the FSM, Marshall Islands and Palau. Australia works closely with the United States on maritime surveillance and other security issues. France is responsible for its territories of New Caledonia, French Polynesia and Wallis and Futuna. The European Union, Japan, China and Taiwan are also significant donors to the region.

France is the only EU Member State with a direct presence in the Pacific. Australia cooperates with France on defence, fisheries surveillance, coral reef protection, HIV/AIDS and tsunami early warning. Initiatives include the 2006 trilateral declaration (Australia, France, NZ) on Cooperation on Maritime Surveillance and Combating Illegal, Unreported and Unregulated Fishing in the Pacific, the France Australia New Zealand (FRANZ) Agreement on regional disaster response cooperation, and the Franco-Pacific HIV/AIDS/STI Initiative between France and Australia to address HIV/AIDS.

Australia collaborates on regional security issues with the United States, New Zealand and France, including through our annual Quadrilateral Defence Cooperation Talks. Consultations with the US and Japan take place in the context of our Trilateral Security Dialogue. The US, Japan, France and the UK have joined Australia and New Zealand in condemning the coup in Fiji and urging an early return to democracy.

Australia maintains a regular dialogue with the **European Union** on development in the Pacific, particularly as regards climate change, fuel and food security, regional integration and aid effectiveness. Australia is also working with **Japan** to explore means of closer cooperation in development assistance and peace building in the

Pacific. Australia works closely with the **Asian Development Bank, the World Bank and the United Nations** to improve the quality and effectiveness of aid in the Pacific.

Australia welcomes aid from other donors to the Pacific where this is constructive, transparent, accountable and supports national development goals. Australia maintains a dialogue with **China and Taiwan** to encourage more effective and transparent aid delivery, expressing concerns about poor aid practices where these occur.

Australia supports enhanced participation of Pacific island countries in the **World Trade Organisation** and welcomes Forum Trade Ministers' agreement to a donor roundtable meeting (in late October) to discuss the continued funding of the existing Forum WTO office in Geneva. Australia supports WTO membership for Samoa and Vanuatu and is working closely with these countries to achieve WTO accession as soon as possible.

Australia also works with Pacific member states of the **United Nations** to ensure that the UN gives due attention to the development and security issues in the region. Key areas of cooperation include climate change and environmental issues, fisheries and sea law, UN reform, peace building and conflict resolution and UN responses to development challenges, including the Millennium Development Goals.

Attachments

**AUSTRALIA'S TRADE WITH PACIFIC ISLAND
COUNTRIES AND TERRITORIES**

(Goods and Services, in A\$ million)

	Calendar year 2006				Financial year 2006-2007				%age change Total trade 2003/2004
	Exports	Imports	Total Trade	Balance of Trade	Exports	Imports	Total Trade	Balance of Trade	
Cook Islands	7	0	7	7	11	0	11	11	36.36%
FSM	9	0	9	9	9	7	16	2	43.75%
Fr Polynesia	73	4	77	69	82	7	89	75	13.48%
Fiji	606	958	1564	-352	505	958	1463	-453	-6.90%
Kiribati	27	2	29	25	31	1	32	30	9.38%
New Caledonia	277	93	370	184	344	109	453	235	18.32%
RMI	6	0	6	6	7	0	7	7	14.29%
Nauru	18	0	18	18	22	0	22	22	18.18%
Niue	0	0	0	0	4	0	4	4	0.00%
Palau	1	0	1	1	1	0	1	1	0.00%
PNG	1886	2538	4424	-652	2,085	2,806	4891	-721	9.55%
Samoa	34	75	109	-41	29	93	122	-64	10.66%
Solomon Islands	81	4	85	77	92	6	98	86	13.27%
Tonga	12	1	13	11	13	0	13	13	0.00%
Tuvalu	4	1	5	3	4	0	4	4	-25.00%
Vanuatu	67	3	70	64	70	2	72	68	2.78%

Source: DFAT STARS Database; ABS Cat no 5368.0, December 2007

Australian Aid to the Pacific

The Government has pledged to **increase Official Development Assistance from 0.3 to 0.5 per cent of GNI by 2015**. The 2008-09 Budget provided an estimated \$999 million for PNG and the Pacific, up from \$872 million in 2007-08.

Country/Region	Budget Estimate 2008-09 (\$m)	
	Country program	Total ODA
Papua New Guinea	359.8	389.4
Solomon Islands	105.5	236.4 a
Vanuatu	37.4	51.8
Fiji	21.0	26.9
Tonga	13.2	19.3
Samoa	19.6	28.3
Kiribati	11.6	18.4
Tuvalu	4.3	6.3
Nauru	15.2	26.6 b
Micronesia	2.5	6.5 c
Cook Islands	2.7	5.1
Niue and Tokelau	1.6	2.7
Regional and Other Pacific		181.9 d
Papua New Guinea and Pacific		999.5²

a) Includes ODA eligible Australian Government expenditure under the Regional Assistance Mission to Solomon Islands.

b) Includes cash paid in each year in line with the Nauru Settlement Treaty, in addition to amounts through the AusAID Country Program for Nauru. This includes funding under a Memorandum of Understanding negotiated on an annual basis between the Australian Government and the Government of Nauru.

c) For the purposes of this table, Micronesia includes the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands.

d) Regional and other Pacific ODA includes amounts attributable to the Pacific region (but not to a specific country) from the Pacific Regional Program as well as AusAID global programs and other government departments.