PACIFIC ISLANDS FORUM SECRETARIAT

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Transmitted By Email: FADT.SEN@aph.gov.au

The Secretary,
Senate Foreign Affairs, Defence and Trade Committee
PO Box 6100
Parliament House
Canberra ACT 1600
AUSTRALIA

Attention: Ms Angela Lancsar, Committee Secretariat

Dear Ms Lancsar,

INQUIRY INTO THE MAIN ECONOMIC AND SECURITY CHALLENGES FACING PAPUA NEW GUINEA AND THE ISLAND STATES OF THE SOUTH WEST PACIFIC

As per your Committee's invitation of 30 June 2008, please find enclosed the Forum Secretariat's written submission on the above subject, which we believe you will find useful for your purposes. We thank you for allowing us sufficient time to prepare this submission.

2.   The submission is divided into two major sections – the first section discusses the work of the Forum Secretariat with regard to economic development, employment opportunities and labour mobility. The section also discusses other development issues such as barriers to trade, foreign investment, economic infrastructure and private development.

3.   The second section addresses the work of the Secretariat within the scope of political and security work.

4.   Each of the sections provides a summary of key challenges, the work undertaken by the Secretariat to support its members address these challenges and recommendations on how the Australian Government can assist.

5.   Please contact Dr Roman Grynberg, Director, Economic Governance (romang@forumsec.org.fj) should you require further clarification on the submission.

Yours sincerely,

Peter Forau
Acting Secretary General

Encl.

PACIFIC ISLANDS FORUM SECRETARIAT

**SUBMISSION TO THE AUSTRALIAN SENATE STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE –
*'INQUIRY INTO THE MAIN ECONOMIC AND SECURITY CHALLENGES FACING PAPUA NEW GUINEA AND ISLAND STATES OF THE SOUTHWEST PACIFIC'***

INTRODUCTION

The Pacific region, like other developing regions of the world, is highly susceptible to global trends, such as the loss of preferential access to major markets, and to exogenous shocks such as high fuel and food prices.

As Australia looks for opportunities to help countries in the region to build a more secure and economically viable future, the Standing Committee on Foreign Affairs, Defence and Trade announced an inquiry into the major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific.

In response to this inquiry the Pacific Islands Forum Secretariat (PIFS) has prepared a submission which outlines the work that the Secretariat has conducted in the specific areas identified and, more specifically, work undertaken in Papua New Guinea (PNG). In the process, recommendations have been provided on the areas where closer collaboration would be useful in progressing the work of the Forum Secretariat, particularly with regard to achieving the Leaders Vision for the region.

For ease of reference, this submission is divided into 2 sections. The first section will discuss the work of the Economic Governance Program, focusing particularly on the challenges to economic development, employment opportunities and labour mobility. This section also discusses issues including barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development issues.

The second section addresses the work of the Political and Security Program which examines the current challenges faced within the facets of the political and security work of the Forum Secretariat.

Section I: Challenges to Economic Development and Economic Growth in PNG and FICs

1.1 Challenges to Economic Development and Economic Growth faced by FICs

According to the 2008 Pacific Economic Survey produced by the Australian Agency for International Development (AusAID) and as supported by a number of similar reports by the International Monetary Fund (IMF)[1] and the Asian Development Bank (ADB)[2], the recent performance of Forum Island Countries (FICs) shows that faster economic growth is possible in the region. After virtual stagnation in the early years of this decade, regional economic growth increased to 3.5 per cent in 2004. Growth averaged 2.8 per cent between 2005 and 2007, and is forecast to reach 4.5 per cent in 2008. This improved regional performance masks considerable variation across island countries, with some being held back by political instability.

Moreover, the survey states that while PNG is experiencing massive increases in government revenue due to high commodity prices and increases in oil production, most Pacific island countries are net importers of fuel and food and are suffering. However, several—Fiji, Vanuatu, Cook Islands, Samoa and Palau—have shown that the region can succeed in tourism if domestic policies are supportive, in particular, in the area of aviation reforms. Opportunities to work abroad are unevenly spread across the region although remittances have grown dramatically to reach US$425 million in 2005, which signifies an annual average growth rate of 36 percent from 2000. Most countries are showing good macroeconomic management, but microeconomic performance is mixed. Some countries show improvements in governance, but control of corruption has worsened in others.

a. Quality of Governance

A report by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) highlights the importance of good governance and accountability as important ingredients for sustained economic growth in the Pacific, given the severe resource constraints faced by these countries, on the one hand, and the traditional system of patronage, on the other. Pacific societies have a strong tradition of patronage, which favours those with influence and connections, particularly in the exploitation of natural resources, and penalizes those without.

Moreover, bad governance also means that inequalities between urban and rural areas, between socio-economic groups and sometimes between ethnic groups, are becoming increasingly entrenched. Furthermore, the difficult physical environment, with high mountainous terrain in some countries and vastly spread-out, remote atolls in others, makes the provision of services such as education and health very difficult and costly, so that small, remote communities are marginalized, with reduced opportunities and

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[1] IMF Article IV Mission Reports for Fiji, FSM, Kiribati, the Marshall Islands, Palau, PNG, Samoa, Solomon Islands, Tonga and Vanuatu
[2] 2008 Asian Development Outlook (ADO), ADB

increased poverty incidence. Moreover, World Bank Institute data shows variable standards in governance across the Pacific. Some countries improved between 2002 and 2005, namely Solomon Islands (from a very low base), Vanuatu and the Federated States of Micronesia (FSM). But the indicators also suggest lower control of corruption over the same period for Fiji, PNG and Tonga.

b. Poor Macroeconomic Management

According to the 2008 Pacific Economic Survey, responsible macroeconomic policies have kept fiscal deficits in check and inflation under control in most Pacific island countries. Progress in microeconomic reform, however, has been slower. Overall, there has been little progress in making the Pacific an easier place to do business—in fact, the region's international rankings on 'cost of doing business' indicators worsened in 2007. The Survey also found that sound macroeconomic policies in PNG, Timor-Leste and Solomon Islands have built a foundation for growth. Vanuatu's fiscal reforms, expanded aviation sector, relatively liberal investment policies, and active land market have helped put the country on a higher growth path—averaging six per cent per year since 2003. Samoa's reforms, including encouraging new entrants into telecommunications and aviation, have supported its growth. Samoa is the only Pacific island country to score highly on the World Bank's Country Policy Institutional Assessment— it is ranked the seventh highest out of 77 low-income countries. Palau's growth is being driven by tourism, accounting for about 45 per cent of the economy, and is supported by liberal immigration policies, which have resulted in rapid growth in the workforce.[3]

c. Vulnerability

Because of their small size, remoteness and geographical fragmentation, many Pacific communities are highly vulnerable and suffer disproportionately from external shocks, such as adverse climatic events or market failures. Natural disasters have caused extensive damage to lives and property, while the very existence of several atoll economies is threatened by higher sea levels. With the exception of Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu, agricultural land is very limited and can do little more than support the local population. Traditional ownership patterns govern land use in the Pacific and the atoll economies are increasingly constrained by the shortage of usable land. A few Pacific island countries have developed the tourism industry but lack of infrastructure, especially regular transport services and accommodation, prevent it from reaching its potential. Fisheries, especially tuna, are an important resource in several of these countries but fish processing is limited as it is too capital intensive. Timber is another natural resource available to some countries but exploitation is unsustainable, reflecting both the inability of the large number of traditional owners of this resource to protect their interests adequately in commercial negotiations, and weak governance.[4]

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[3] 2008 Pacific Economic Survey, AusAID
[4] Bulletin on Asia-Pacific Perspectives, 2004, UNESCAP

d. Rising Fuel Prices

While incomes in PNG have been boosted by the mineral boom, high oil prices have put pressure on inflation and exchange rates in other Pacific islands. Pacific island countries depend heavily on oil-based fuel for their energy needs and surging oil prices have made them vulnerable. Higher oil prices represent a substantial cost to individuals and firms as many of the region's most important industries (particularly transport and tourism) are highly energy intensive. Increasing oil prices places significant pressure on price for both domestically produced goods and imports in FICs. This in turn reduces consumers' purchasing power. The small Micronesian and Polynesian economies, with their very limited export bases and reliance on aid, remittances and tourism, have been most affected by high fuel prices, and there has been a rapid rise in oil imports relative to exports. Moreover, largely as a result of high oil prices, but also reflecting economic downturns in Fiji and Tonga, current account deficits have widened in most Pacific island countries, and the import cover provided by reserves has fallen.[5]

e. Loss of Preferential Access

Many FICs have been trading with developed countries using preferential systems, for example preferences accorded under the Cotonou Agreement for the Pacific ACP States and Fiji's preferential agreement with US on Garments to name a few. However with increasing globalisation and the desire to level the trading playing field, these bigger countries are removing these preferential agreements. This has drastic impact on many of our FICs, who rely on such preferences to sustain their export incomes. This issue will be delved into when discussing trade.

1.2 Challenges to Economic Development and Economic Growth in Papua New Guinea

According to the 2008 Asian Development Bank (ADB) Outlook report[6], growth has accelerated in 2007 and government revenues surged, with the rise in world prices for export commodities. GDP growth is forecasted to stay above 6% this year, generated by buoyant public spending and incomes as well as new mineral projects. The improvement was largely attributable to the flow-through of high prices for export commodities, which allowed for a rise in both government and household spending, and stimulated investment. The ADB report also noted that business confidence generally improved, which helped raise private investment. The economy has also realized some benefits from structural reforms, and extra government revenues earned from the most profitable phase of the nation's largest gold mine, *'Ok Tedi'*. A stable domestic political environment last year also helped, with the prime minister being elected to another parliamentary term in a coalition government that holds a large majority.

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[5] 2008 Pacific Economic Survey, AusAID
[6] 2008 Asian Development Outlook (ADO), ADB

a. Quality of Governance

The main challenges that would basically hinder economic growth and development in PNG would stem from the surge of corruption and un-competitive non-mineral exports. Recent reports from the World Bank indicate that PNG ranks very poorly. It was noted that while governance has improved in some FICs in recent years, it has deteriorated drastically in PNG.

b. Rising Global Commodity Prices

Like her neighbors' the rise in commodity prices also has an effect on PNG's economy. Oil, gold and copper are important exports for PNG and oil production makes a significant contribution to GDP. Real copper prices have almost quadrupled in real terms since 2001, providing a significant benefit to PNG. It is imperative that windfall revenues from these commodity price booms are well managed. Experience suggests that resource booms often give rise to difficult economic and governance problems. At present, PNG is devoting most of its revenue (beyond those amounts allocated in the 2006 budget) to investments in transport infrastructure, education, health, law and justice. In the 2007 budget, the windfall revenues expected from high copper and oil prices will be spent on equity injections into State Owned Enterprises (SOEs), natural gas pipeline projects and public debt repayments.

c. Sustainable Management of Natural Resources

Since the 1990s, logging in PNG has more than doubled, particularly since the moratorium on new licenses was lifted in 2001. Mining and Petroleum activity has expanded dramatically in PNG, with drilling projects underway around PNG for new mining projects.

1.2.1 Labour Mobility

Temporary movement of natural persons (TMNP) or labour mobility has emerged as an issue of increasing importance to the economic development in the FICs. FICs have long experienced migration of its people to larger and more developed host countries particularly our neighbours Australia and New Zealand in search for better education, public services and employment opportunities.

Various Forum Leaders' Summits and Ministerial mandates have given direction to the development strategies to take advantage of emerging and identified market opportunities for temporary movement of natural persons from Pacific Forum member countries. The Kalibobo Road Map or the Pacific Plan Initiative 1.2 states is to *"integrate trade in services, including temporary movement of labour, into the Pacific Island Countries Trade Agreement (PICTA) and the Economic Partnership Agreement (EPA)"*.

The FEMM, in its consideration of labour market issues in FICs, noted the importance of well-functioning labour markets to support economic growth, and the need to balance the goals of labour policy – static efficiency, dynamic efficiency and social justice. Labour markets in the region - defined as the formal labour market, and the informal labour market (which includes labour working in subsistence) - are not operating at their optimal efficiency. Moreover, labour market policies and legislation appear to play significant roles in generating these inefficiencies and available evidence suggests that addressing labour policy, at both the national and regional levels could enhance the static and dynamic efficiencies of the region's labour markets.

1.2.2 Work undertaken by the Secretariat

At the national level, a number of policy guidelines were noted that could improve the contribution of labour to economic development. These include: (i) Stakeholders, including employers and unions should be consulted in the formulation of labour market policy; (ii) Gender equality should be implemented in employment law and practice; (iii) Labour market policies should be an integrated part of overall national development strategies and economic reform efforts; (iv) The availability of labour market information is fundamental to making informed choices and appropriate policies; and (v) National labour policies should reflect the important role played by both the informal and formal sectors.

At the regional level, FEMM reiterated the potential benefits of labour mobility between Forum members, whilst recognizing the importance of domestic policies in promoting sustainable growth.

FIC representatives noted that the major challenges and issues faced pertained to their current labour force and market access, training and supply capacity, limitation of current labour laws and limited and/or lack of recruitment structures. Some FICs already have in place liberal market access arrangements for labour into Australia, New Zealand, and USA through historical linkages and existing skilled and semi-skilled labour provisions. Additionally some FICs were also faced with skills shortages in certain fields and there was a possibility of looking into flexible arrangements to facilitate the movement of labour within FICs, possibly under PICTA.

While there is still room for improvement, the current RSE scheme currently run in NZ has proven to be of some success for both the employer and FIC workers. Very recently, the Government of Australia announced at the Forum Leaders Meeting in Niue of a pilot scheme of seasonal work opportunities for Pacific Island Countries as a means towards greater economic integration and development. The Pacific island countries participating in the pilot scheme will include workers from Kiribati, Tonga, Vanuatu and Papua New Guinea. A quota of up to 2,500 people will allowed to live and work in Australia for seven months in any 12-month period.[7] At present, the temporary movement of labour is seen in isolation or separately to other important trade sectors or from the issue of wider

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[7] PACNEWS, 18 August 2008

economic integration with FICs most important trading partners, Australia and New Zealand.

There is also a need for FICs to invest continuously in appropriate training and skills development to take advantage of national and regional opportunities, in order to facilitate market access and meeting domestic and international labour market requirements through skills development and training. Views were exchanged on the need to invest in adequate training institutes which provide internationally-regional level recognised trade certification.

From a trade unions perspective, key issues of consideration with respect to labour mobility initiatives was the need to have sufficient safeguard measures to avoid any form of worker exploitation including the erosion of prevailing market rate wages. Potential social impacts should also be considered and there should be attempts to minimise any negative social impacts.

1.3   Trade

In 2004, Pacific Leaders through the Auckland Declaration envisaged the Pacific region as a *region of peace, harmony, security and economic prosperity, so that all of its people can lead free and worthwhile lives*. Based on the Leaders' Vision, the Pacific Plan was birthed to enhance and stimulate economic growth, sustainable development, good governance and security for Pacific countries through regionalism. Pacific Leaders under the Pacific Plan recognised the need to enhance economic growth through trade and emphasized as a regional priority, the expansion of markets for trade in goods with Forum and non-Forum members.

Objectives 1.3 and 1.4 of the Pacific Plan calls Forum members to *implement the Regional Trade Facilitation Programme in a timely and effective way* and *Investigate the potential impacts under the Pacific Agreement on Closer Economic Relations (PACER) of a move towards a comprehensive framework for trade (including services) and economic cooperation, between Australia, New Zealand and the Forum Island Countries."*

In 2005 Forum Trade Ministers agreed on the need to give serious consideration to deepening Forum-wide trade arrangements in the light of regional and international developments, and agreed *that there was also a need to move beyond SPARTECA towards a more comprehensive framework for trade and economic cooperation between Australia, New Zealand and the FICs, as provided for under PACER, to foster economic growth, investment and employment in the Pacific region.*

To that end, the need for the FICs to actively participate in international trade has been part of the Forum wide agenda. Challenges faced by the FICs with regards to trade range from their capacity to market export opportunities, to build capacity to negotiate favourable trade arrangements with countries of interest. Apart from being small island

countries, the FICs are burdened with distance from major markets, high cost of operation, significant transportation cost, weak infrastructure, and other significant capacity constraints relating to trade such as availability of the right technology in production and process related activities.

1.3.1 Work Undertaken by the Pacific Islands Forum Secretariat

PIFS is involved in the following key agreements relating to trade:
- Facilitating FIC participation in the World Trade (WTO) and assisting FICs to promoting their interests in WTO multilateral trade negotiations, especially through the Office of the Forum Permanent Representation to the WTO in Geneva, established with the assistance of the EU;
- Supporting FICs as Pacific members of the Africa, Caribbean and Pacific (ACP) Group in their Economic Partnership Agreement (EPA) negotiations with the EU and coordinating EPA-related activities at the regional level;
- Supporting FICs in their regional integration initiatives under PICTA;
- South Pacific Agreement on Regional Trade and Economic Cooperation (SPARTECA);
- Pacific Agreement on Closer Economic Relations (PACER);
- Undertaking regional and national trade capacity-building activities in response to regional and national requests for assistance; and
- Conducting studies and related work relative to possible trading arrangements

The role of facilitating FIC participation in the WTO is aimed at promoting active participation of the FICs in the WTO negotiations to ensure that WTO policies and rules take account of their interests and concerns. This includes the representation of the FICs' common positions in the WTO negotiations and building alliances with the other WTO members that share common interests (such as the Small Economies, the African Caribbean Pacific Group, the Least Developed Countries). Overall, participation through the Forum Office in Geneva aims to ensure that the WTO rules complement the trade reforms and initiatives that are being undertaken at the national and regional level, within and amongst the FICs as well as between the FICs and key trading partners to assure successful adjustment to globalization.

At the recent Forum Leaders Meeting in Niue, Leaders recognised the importance of the WTO rules based multilateral trading system and noted the need to bring the Doha Development Round negotiations to a successful conclusion and expressed regret at the stalemate on agriculture and non-agricultural market access modalities. Leaders urged WTO members to re-engage at resolving issues in the coming months and make progress in other areas such as services and rules.

On developments on a comprehensive agreement between the Pacific ACP States (PACPS) and the EU, the Secretariat continues to support the PACPS in their Economic Partnership Agreement (EPA) negotiations.

There have been several in-country activities organised to support the FICs to take advantage of the SPARTECA, PICTA and the Regional Trade Facilitation Programme (RTFP) under PACER. Numerous trade capacity building workshops on non-tariff barriers to trade, WTO, trade in services, trade negotiations and private sector development has been organised over the years. PNG has been part of these activities with participation at different levels.

The Forum Secretariat is also the coordinating agent and manages the Regional Trade Facilitation Programme (RTFP). The RTFP consists of a Customs component, a Quarantine component and a Standards & Conformance component. The RTFP activities are specifically targeted to improve, harmonise and strengthen, through practical implementation, of Customs procedures, Sanitary and Phytosanitary measures and Standards & Conformance processes. A review of the RTFP has been completed and presented to the 2008 Forum Trade Ministers Meeting (FTMM) in July 2008, to discuss ways forward to continue and support regional trade facilitation.

At the Forum Leaders Meeting emphasis was placed on continuing efforts towards greater economic integration and trade as a regional priority. Leaders endorsed the outcomes of the FTMM and highlighted the need to commence work on a road map on PACER Plus, with a view to agreeing on the commencement of negotiations at the 2009 Forum. To that end, Leaders also shared strong desires to move forward with PACER Plus and work towards building negotiating capacity of Pacific island countries with emphasis by Pacific island countries on the recognition of a Chief Trade Advisor with support from Australia.

1.4   Foreign Investment

Most FICs have enacted legislation regulating foreign investment in their respective countries. Most FICs have received technical assistance from donor agencies to improve their foreign investment legislation. Even so, not all current legislation is as up to date as it could be; and not all legislation is as 'good' as it could be. However, even with adequate legislation, many FICs do not have the human resources in terms of numbers and abilities to properly implement the existing legislation. This creates an administrative barrier to foreign investment. The best solution to this barrier is to ensure that the relevant government agencies are appropriately staffed with the qualified and experienced staff necessary to carry out this function. PIFS can assist and guide the FICs in policy work, but the ultimate responsibility for implementation lies with their line ministries. To ensure that they have this capability on a continuous basis significant increases are needed in the amount of institutional strengthening given to the countries by donors. The difference between "technical assistance" and "institutional strengthening" needs to be noted, with technical assistance being more intermittent and short term to provide a particular skill, whereas institutional strengthening is long term and continuous and aims to provide the government agency with the ongoing ability to implement those skills by themselves without the need for additional assistance.

a.   Infrastructure (1)

Most FICs compare poorly with competing investment locations in the provision of infrastructure. The reasons for this are mostly well understood, but one that is not often mentioned is the ability of the relevant government agencies to prioritise their infrastructure development in ways that will promote foreign investment. This is a strategic decision making process that can require a high level of multifunctional skills. For example, it is often said that there is potential to develop the copra industry in many FICs, but the shipping infrastructure is not there to bring it from the provinces to a central location for processing and/or exporting. Except that when shipping is provided the expected industry development doesn't occur. To be successful it needs a more complex array of solutions, including technical and marketing expertise, local entrepreneur development, availability of finance, etc. A foreign investor can provide this, but foreigners are often excluded on the basis that this is an indigenous industry and therefore needs to be protected. Yes it is an indigenous industry, but excluding all foreign investment is not the answer. A controlled foreign investment is a much better way to proceed. But to make this work effectively requires a high level of skill and experience within the relevant government agencies.

b. Infrastructure (2)

When considering foreign investment in large scale projects the infrastructure problems are often those of magnitude and the government's ability to fund them. Donors (as against IFIs) have a reluctance to fund private sector provision of infrastructure. More creative funding mechanisms therefore need to be explored jointly by FICs, the donors, IFIs and the private sector.

c. Availability of Finance

Whilst the larger foreign investors would have access to international sources of finance, many foreigners wanting to invest in SMEs would not. They face the same problem that local investors have in accessing local finance. In an uncertain financial environment, commercial banks are required to protect their lending by adopting appropriate measures. This usually requires the investor to meet a set of criteria that severely limit the availability of finance. This dilemma has been debated for many years without much progress being made. PIFS is currently working with the regional commercial banks to find ways in which their lending risk can be reduced, thereby freeing up more finance for SME lending.

1.5   Private Sector Development

The Private Sector Development work programme of the Forum Secretariat aims to build a vibrant, cohesive, sustainable and competitive private sector through appropriate government policies, programmes and activities. These can be accomplished through the promotion of domestic entrepreneurship, attracting foreign investment, investing in human resources to strengthen their productive capabilities, enhancing existing products and developing new products to increase the level of competitiveness of the FICs. In

implementing the work programme, the Secretariat liaises closely with the Forum Trade Offices in Auckland, Sydney, Beijing and Tokyo. Barriers which in effect hinder efforts to develop the private sector include:

- Lack of collaboration between Public Sector officials and the Private Sector often results in the ignorance of the Private sector on developments that ultimately affect them.
- Lack of cohesion and cooperation particularly between the private sector organizations or associations in the countries.
- The often arduous and bureaucratic Government systems in the FICs often delay assistance to the Private Sector.
- Ineffectiveness of relevant government departments to follow-up on work that has been conducted by PSD Unit during in-country workshops also hinders further development programmes
- Need for proper and better facilitated consultation with Private Sector on issues of which ultimately affect them, e.g. Trade, Intellectual Property etc.
- Information dissemination is also a barrier to Private Sector Development.

1.5.1 Work Undertaken by the Pacific Islands Forum Secretariat

The programmes currently being run by PIFS that work towards reducing the barriers to PSD are:

Business Development Programmes

The unit runs a number of capacity building workshops to build capacity in the Countries. This takes place upon the requests of the member governments. Recent work in capacity building has been focused on Business Diagnostic Toolkits training. Other workshops focusing on Business building include, Business Planning and Marketing Strategies.

Product Development Programmes

Product development workshops/training focuses on Value Adding to Agriculture, Marine Products and Handicrafts. The key objective of these workshops is designed to assist the rural-based enterprises or entrepreneurs for that matter to capitalize on the successes already achieved and, wherever appropriate, to foster cooperation between existing and new enterprises.

Market Development Programme

The PSD Unit with the assistance of the trade offices in Auckland, Sydney, Beijing and Tokyo assists businesses in the area of Market Development as well. Assistance is targeted at increasing market access by linking the domestic markets to external markets, enhancing products to gain a competitive edge, by making them more consumer and market oriented, thus increasing its export potential or capability.

Funding Schemes

The objective of the Assistance schemes that is offered by the PSD Unit of the Forum Secretariat is to develop the capacity of SMEs in the FICs to become more efficient and competitive. Schemes offered include:
1. Fellowship Scheme.
2. Industrial Development & Training Project (IDTP).
3. Short Term Advisory Service.
4. Marketing Support Fund (MSF).

The PSD Unit in its efforts to build capacity throughout the region also conducted a Business Diagnostic Toolkits Training workshop in Port Moresby in November 2007. A second follow-up workshop was to be conducted in June 2008, however due to other pressing work commitments from the PNG Coordinating team this did not eventuate.

Until recently the PSD Unit has focused some of its attention in the area of Intellectual Property and Traditional Knowledge (IP & TK), particularly to assist SMEs realize the economic benefits of owning IP and TK rights. It had provided assistance to a tribal group in PNG – the Bainnings, through Pacific Spices Ltd by securing the expertise of Dr David Martin of M-Cam, a IP Research Facility in Virginia, USA. With his assistance the Bainnings will be able to realize tangible benefits from the mining operations currently being carried out on their traditionally owned lands.

1.6   Economic Infrastructure

According to the Pacific 2020 report, it has been recognised in the Pacific that sound management and effective delivery of economic infrastructure can lead to economic growth and sustainable development[8]. Economic Infrastructure (EI) is often referred to as the construction and operation of physical structures that enable other economic activities to take place.[9] EI includes structures such as telecommunication, electricity, water and sanitation, roads, airports and aviation, ports and shipping. Poor operation of EI in the Pacific has led to FICs lagging behind comparator countries of similar size and income levels.[10]

While the Pacific island countries face mounting problems in relation to capacity constraints, size and locality, other considerations such as regulatory arrangements, infrastructure maintenance issues, topography[11]; vulnerability to natural disasters; land; and skilled labour are also problematic to EI development. The 2006 Asian Development Bank (ADB) Regional Technical Assistance (RETA) Inception Report has also highlighted the differing characteristics of FICs proves that a one-size fits all solution

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[8] Pacific 2020, *Challenges and Opportunities for Growth*, (2006), AusAID
[9] The Pacific Infrastructure Challenges, *A review of obstacles and opportunities for improving performance in the Pacific Islands*, World Bank East Asia and Pacific Region Pacific Island Countries Management Unit
(2006);http://www.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/05/02/00016001
6_20060502174828/Rendered/PDF/360310Pacific01ture0Report01PUBLIC1.pdf
[10] 2008 Pacific Economic Survey, AusAID
[11] Ibid

will not be effective to address infrastructure issues in the Pacific.[12] Thus, under the RETA, working papers on specific infrastructure constraints to service delivery were developed for implementation at the national and regional level to resolve problematic issues.

The following cover issues from the ADB RETA report on critical issues confronting effective service delivery of telecommunication, water/sanitation, power, roads, ports and shipping. The Regional Strategy on Pacific Islands Infrastructure and related work mandated from the Forum Economic Ministers Meeting (FEMM) form the basis of this submission.

Regulatory Arrangements

In the Pacific, with the exception of a few FICs, most economic infrastructures is inappropriately regulated and provided by monopoly usually government entities. Prices are set on political rather than economic criterion. In the case of water services, supply tariffs are generally set by supply entities and approved by cabinet in respective FICs. Water and sanitation is also managed in varying degrees of regularity and rigour, by Ministries responsible for environment. In electricity, regulation is similarly haphazard and often non existent outside provincial centres.

FEMM, in 2006 and 2007, considered a number of issues pertaining to economic regulation and assisting FICs improve regulatory outcomes. In their consideration of the 2006 FEMM Benchmark Study on Economic Regulation, Ministers noted the broad rationale for the introduction of economic regulation which is to correct market failures so that optimal efficiency in production, pricing and economic welfare is achieved. Also considered were the broad range of factors that inhibit the effectiveness of economic regulation in the region. The most important of these are:

(i) *Technical capacity and institutions*, which includes lack of analytical and technical skills and expertise at both policy and delivery phases;
(ii) *Governance*, which includes lack of adequate consultation with stakeholders and inadequate attention to the needs of all sectors, particularly the broader community;
(iii)*Lack of financial resources* for policy makers, legal draftspersons and regulators; and
(iv) *Legal environment*, which includes inappropriate legislation, and the absence of alternative dispute resolution processes.

In recognition of these regulatory impediments, FEMM identified policy guidelines for economic regulation which could help FICs make economic regulation more effective at the national level. These include:

(i) The objective of the regulation should fit within the FICs overall economic development strategy;
(ii) Where appropriate the regulator should be independent of government;

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[12] ADB Inception Report, *Improving the Delivery of Infrastructure,*(2006)

(iii) An appropriate policy and legislative review process should be undertaken periodically; and

(iv) In line with earlier FEMM decisions, greater efforts need to be made to undertake consultations with relevant stakeholders, including the private sector, on economic regulation issues.

Economic Ministers, in 2006, also noted that work undertaken by the Secretariat so far has indicated a wide range of areas where there may be potential for regional co-operation and regional provision of services.

In 2007, FEMM considered an additional study that examined regional options for economic regulation. They identified the need for a phased implementation of regional approaches through: firstly, a *policy phase* where the relevant policy objectives are identified and adopted; secondly, a *development of legislation phase* which considers the appropriate type of laws to implement; and finally, an *implementation phase*, where legislation is enacted and regulation enforced.

FEMM also the potential for a policy framework and common regulatory laws, which can be comparable, are appropriate and enforceable based on agreed principles. These laws should in the short-to-medium term provide a template for effective regulation in small market environments. These should also take into account the limited resources that FICs may have available to monitor and enforce compliance. These laws, whilst allowing enough flexibility for application at the national level, would allow for greater FIC collaboration, and also provide the legislative basis from which the regional approaches proposed could carry out enforcement.

Ministers also noted the factors critical to the success of regulatory reform at the national level, including a clear policy framework for regulation; the importance of periodic monitoring and review of regulations; and the need for coordination amongst implementing agencies.

FEMM also noted a possible regional regulatory framework, whilst allowing enough flexibility for application at the national level, would allow for greater FIC collaboration, and also provide the legislative basis from which other regional approaches could carry out enforcement as well as the potential for the phased establishment of a regional or sub-regional Competition, Fair Trading and Pricing and Access Regulatory Authority.

The recent increase in energy costs has highlighted the fragility of most of the public balance sheets of infrastructure entities in the region to the point of bankruptcy or catastrophic failure of ability to provide services. To that end, Forum Leaders at their meeting in Niue recently, invited Forum Economic Ministers to consider the impact and responses to the rising global commodity and energy prices in their meeting in October.

Other sectors such as roads ports and shipping are also inappropriately regulated, although there has been a reform in some FICs where initiatives to improve the

monitoring, planning and maintenance of roads have been scheduled. Fees accorded to ports are centrally appointed by respective authorities for port services and stevedoring services in commercial ports are usually outsourced to well-established companies setting their own fees without competition. Smaller ports are usually neglected and have become obsolete and rundown due to poor maintenance and servicing.

In the case of shipping, for many FICs government and community owned shipping services operate in competition to privately owned operations. Initiative to issue licences on certain domestic routes has limited competition on some routes in a bid to support private shippers and increase viability of operations[13]. Cabbotage generally is not tolerated despite the opportunity to improve services and the procedures to supply non economic routes political rather than rationally motivated. A similar provision often exists with domestic aviation.

FICs have also highlighted some of the barriers to effective shipping services is outdated and unreliable coastal navigation (hydrographic) charts creating problems in respect to public safety. Safety of shipping and aviation in the region is a major concern. Because of the natural hubs in Australia and New Zealand, improvement in Pacific infrastructure would lead to increased volumes through Pacific entry point (Including Telecommunications) resulting in improved efficiencies in Australia and New Zealand.

a. Maintenance Issues

Ongoing maintenance and monitoring of infrastructure assets is seen as one of the major barriers to economic growth and development. For Instance, lack of maintenance of water supply assets (except for Vanuatu and PNG) accounted for approximately 20 to 30 of loss through undetected leakages and illegal connections. Privatisation has succeeded in improving water supply but much work needs to be done in the FICs.

In respect to electricity, issues with maintenance are still a cause for concern in both urban and rural areas. However, the effects in rural areas are considerably more profound given remoteness, lack of skilled technical expertise and escalating costs of maintenance and repair. A push for better coherent planning, economic regulation, institutional arrangements, more private sector participation in services and investment and CSO policing could make rural power services commercially viable. Attracting private sector investment through outsourcing of services has always been a problem in most FICs.

Underfinanced, under-equipped entities and under-skilled labour have also contributed to the poor maintenance of infrastructure in the FICs. Overburdened governments with no funding or limited funding for road maintenance is a serious and chronic issue in the Pacific. Majority of FICs have not been consistent is establishing good preventative road maintenance policy. Funding from overseas donors and development partners have also been problematic in a sense that infrastructure development, in most cases, are not tagged or aligned with national planning policies and town council development.

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[13] As in the case of Fiji and Fiji Islands Maritime Safety Authority (FIMSA)

b. Institutional Structures

Institutional structures have stagnated EI developments in the countries. Many entities do not posses the staff skill and expertise to carryout adequate operations and maintenance procedures and training needed. According to the 2007 ADB report focusing on aviation and shipping in the pacific, there is a comparative need for Governments to identify and priorities reform objectives[14]. Similarly the 2008 Pacific Economic Survey also voiced similar sentiments for strong regulation policy to strengthen reforms in the case of telecommunication and consumer protection.

c. Vulnerability to Natural Disasters

Furthermore, given the isolation and geographical location of many Pacific island countries, cyclone, earthquakes and rising sea levels *inter alia* pose many challenges for small island nations in the region. In more recent cases, the reconstruction costs after Cyclone Heta hit Niue were estimated at over NZ$ 20 million[15], more than double the GDP of Niue in 2000[16]. In Fiji Cyclone Daman (2007) cost the economy $6.5million in damages[17] and Cyclone Gene (2008)[18] cost the economy $5 million in damages and excludes cost of damages to rural water supply.

d. Land

In the Pacific, majority of the land is communally owned. As such only a small percentage is categorized as freehold and state lease. In specific case in the Pacific as in the case of Fiji for example, where classes of lease are of commercial viability, these have been mortgaged. The significance of land and land rights has always been a sensitive issue with Pacific island countries since the economic value and the traditional value differ significantly. In relation to land usage for infrastructure, permanent structures require land that is secure[19]. This has usually been a cause of hindrance in the Pacific as land and land issues remain a sensitive issue to many Pacific island countries.

e. Limited Pool of Skilled labour

The growing number of unskilled labour in the Pacific has risen in recent times with approximately 40% of the population in the Pacific under 15 years of age[20]. Although there are qualified and relatively skilled workers available in the pacific, the numbers are relatively small in terms of qualified supply pool for infrastructure management roles. Furthermore, the incentives brought on by transmigration labour market schemes from smaller Pacific island countries to larger nations like Australia and New Zealand are problematic for smaller countries to maintain skilled labour.

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[14] ADB oceanic Voyages, *Aviation and Shipping in the Pacific (2007)*
[15] http://www.sopac.org.fj/data/virlib/ER/ER0034b.pdf
[16] http://en.wikisource.org/wiki/CIA_World_Fact_Book,_2004/Niue
[17] www.reliefweb.int/rw/rwb.nsf/doc106?OpenForm&emid=TC-2007-000223-FJI&rc=5 - 47k
[18] http://www.reliefweb.int/rw/RWB.NSF/db900SID/MUMA-7BT93K?OpenDocument
[19] 'secure' in the sense that land is free from legal challenges and dispute
[20] See note 1, pg 29

1.6.1 Work Undertaken by the Pacific Islands Forum Secretariat

As highlighted, Forum Economic Ministers have recognised the need to develop a policy environment supportive of regional economic integration. One of the specific issues identified as requiring attention vis-à-vis regional economic integration is economic regulation.

Moreover, at their meeting in 2007, Forum Leaders *reaffirmed the importance of intensified efforts in harnessing regional economic integration in view of its potential for engendering economic growth*. They noted the work of Forum Economic Ministers in advancing Pacific Plan initiatives in the area of economic governance, including those related to strengthening regional approaches in the area of economic regulation and in this context, agreed to renew their commitment to the implementation of strengthened regional approaches.

Leaders also *noted and encouraged the pooling of resources to help alleviate underlying structural problems in delivering services such as customs and economic regulation, and reaffirmed the urgency of strengthening regional support, particularly through sustainable, long term solutions, in the spirit of the Pacific Plan.*

Work undertaken by PIFS with regards to economic regulation has been based on the implementation of the Leaders and FEMM mandates. More recently, a workshop on economic regulation was held from 25 August to 27 August 2008 in Fiji to consider country experiences in economic regulation, to provide guidance to FICs in improving regulatory outcomes at the national level as well as to explore and create awareness on some options with regard to the type of support that could be provided at the regional level to complement existing national policies and priorities. A key outcome from the workshop was a Regional Regulatory Stepladder, which contained a number of activities that could be taken in the short-term and short-to-medium term in terms of taking regional approaches to economic regulation.

In the short-term:-
  (i)   Establishing pre-conditions at the national level to support regional initiatives, which include formulation of common rules/ legislation and a mutually supportive policy framework;
  (ii) Design and scope of a regional advisory service as proposed by the Asian Development Bank, following its RETA on Infrastructure, which is expected to build regulatory capacity and rapid response technical assistance. Further consultations with member countries on the design, with particular emphasis on cost effective arrangements for member countries will be required; and
  (iii) Support for, in principle, the concept put forward by the World Bank and other development partners, regarding the facilitation of a regional resource facility for telecommunications sector regulation for FICs. The design work will be subject to further country consultations, particularly in terms of financing modalities.

Medium Term:-

(i) Setting up a Regional Regulator for one priority sector and based on lessons from the proposed regional arrangement, extend the service provision to other priority sectors. Group discussion have already identified proposed areas for support, for example, the SIS countries recognising the need for support for regulation in shipping, ICT and utilities, whilst the workshop agreed to the suggestion by non-SIS FICs for priority sectors to be identified, at the soonest, to allow for a project for a possible regional regulator to be put forward to FEMM next year.

Under the Economic Growth pillar of the Pacific Plan, Objective 2 calls for *improved efficiency and effectiveness of infrastructure developments and associated serviced delivery.*

In accordance with specific mandates from Pacific Leaders and Ministerial directions, work undertaken by PIFS in infrastructure has been ongoing to address issues such as telecommunication, electricity, water and sanitation, transport, airport and aviation, ports and shipping.

At the 2007 Pacific Leader Forum, decisions by Pacific Leaders on the Pacific Plan recalled their decision in 2005 on t*he Pacific Plan Digital Strategy to find technological solutions to bridge the communication and digital divide in the Pacific islands region and agreed that sub-marine cable technology offers an ideal opportunity for enhanced regional cooperation through a regional project that links many countries and territories in the region and is supported by a mix of private and public financing*;

Leaders welcomed initiatives on the South Pacific Islands Network (SPIN) initiative and the trans-Pacific submarine cable network aimed at connecting numerous PICs and territories to international telecommunication backbone and requested the Forum Secretariat to continue the consultative process throughout 2008 in conjunction with the Secretariat of the Pacific Community (SPC). Work by the Forum Secretariat is still ongoing.

Leaders also welcomed the work undertaken on improving shipping services and aviation liberalization, as well as support of developing sub-regional air and shipping services, noting the significant cost savings and greater efficiencies that could be secured, directed that this work continue. At the recent Forum Leaders Meeting, transport and ICT were highlighted as regional priorities. Thus, in reaffirming their commitments, Forum Leaders recently committed their governments to provide sufficient national resources and policy focus to improve transport and ICT. Leaders also called on regional organisations including SPC and USP to supplement national capacity and improve air and maritime services, safety and security as well as continued implementation of the digital strategy.

At present, the region has moved closer to liberalisation of air transportation through the ratification of Pacific Islands Air Service Agreement (PIASA). Phase 1 of PIASA commenced at the end of March 2008. Pacific Aviation Safety Office (PASO) is fully operational after hiring three inspectors to carry out audit and inspection to improve aviation security and safety in the Pacific. Forum Leaders at their Meeting in Niue acknowledged the commencement of PASO and have urged members to utilise services, where possible as well as consider funding options for the sustainability of the office.

In recent developments, the Forum Secretariat acknowledges the launching of a new Pacific Region Infrastructure Facility by the Australia, New Zealand, Asian Development Bank and the Work Bank to assist Pacific island countries overcome and improve infrastructure challenges in the Pacific. The Forum Secretariat is mindful of the benefits it will bring to the FICs and will endeavour to work with development partners in the implementation process of this new scheme.[21]

1.7   Recommendations

The Australian Senate Standing Committee on Foreign Affairs, Defence and Trade is requested to recommend to the Federal Government of Australia that current support to the Secretariat in its efforts to support PNG and FICs in their efforts to overcome the highlighted challenges be continued.

Labour Market Reform and Policy Development

The creation of a worker ready pool for intraregional and external labour markets requires significant labour market reforms and policy development. Therefore, activities relating to the harmonisation of labour market legislation and regulation, developing a regional framework that involves skills development, amongst others, are critical. The 2006 FEMM Action Plan outlines member commitment on the need to progress labour market governance and policy reforms, and these require the Secretariat to remain engaged with relevant development partners to assist with this process.

Trade-Related Activities

- That appropriate resources be provided to the Forum Island Countries for developing capacity for engagement in trade integration initiatives;

- Negotiations of a trade agreement with the FICs take into account the Forum Trade Ministers' 2008 Meeting deliberation that any PACER Plus arrangement be more than a typical FTA, with sufficient flexibility to take account of different capacity, country contexts and stages of development in the region; and

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[21] Pacific Island Report, *New $173 Million Fund Announced For Pacific*. August 21, 2008

- That significant effort is made towards the elimination of barriers for the export of FIC goods and services to Australia, and that trade facilitation be an integral part of development of trade for the FICs.

Private Sector Development

- There is a need for an overall institutional strengthening within Government Ministries responsible for Investment and Private Sector development. For the effective delivery of needs to FICs the PSD Unit has in the past used the Trade Offices located in Sydney, Auckland, Tokyo and Beijing particularly for the delivery of technical assistance.

- Technical Assistance to strengthen the ability of line ministries to make the best policy decisions for their countries, to increase the role of the PSD Unit of PIFS in supporting private sector development.

Economic Infrastructure

a. **Regional Cooperation**
- Support towards the implementation of the FEMM mandates on regional approaches to economic regulation (as highlighted above), as endorsed by Forum Leaders.

b. **Telecommunications**
- Support to effective telecom sector regulatory capacity throughout the FICs. Effective telecom regulations can then be extended to multiple sectors (power, water, ports and shipping).
- Assistance in structuring and developing regulatory regimes including USO, interconnection, human resource development and liberalization of regulatory environment, harmonizing law including convergence and cyber legislation[22];
- Support to regional infrastructure projects in undersea optical fibre and satellite capacity.

c. *Power*
- Support towards efforts to effectively regulate this sector including sustainable tariffs, USO, and financial innovation in generation;
- Develop Community Service Obligations (CSO) policies are needed to make coverage of services to all segments of the population commercially viable;

d. *Roads*
- Develop key reform policies to improve service delivery by conducting an assessment on the requirements for roads maintenance throughout FICs, raising

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[22] Second Forum Communication Policy Ministerial Meeting, Forum Communications Action Plan – 2002 Review, Pacific Islands Forum Secretariat

awareness in the governments on the strategic importance of maintaining road standards;

- Develop, implement and provide technical training in the area of computerised road asset management systems (RAMS) similar to systems used in PNG and Fiji;
- Increase opportunities to outsource and encourage participation by the private sector.

e. Ports

- Review the administration in some of the minor ports in the context of developing national CSO policy covering ports, power, water, telecoms, and domestic shipping;
- Outsourcing of outer islands infrastructure administration and maintenance (including minor ports) should be maximized in order to assist FICs close existing gaps.

f. Shipping

- Assistance in creating regional linkages in shipping between Small Island States and its localities;
- Rationalisation of domestic shipping sector in order to make routes financially viable;
- Strengthening of technical regulation (including all safety aspects including navaids supervision and maintenance and distress response) and licensing of routes.

g. Water

- Water Policy is needed in most countries to assess the safe limits of raw water resources extraction rates, and ways the resources should be husbanded to cater for the future;
- A CSO policy for water supply (and other sectors) is needed to make coverage of service to all segments of the population commercially viable. Private sector participation needs to be encourage, for outsourcing of services and investment; and
- Training capacity in technical skills and management including budget preparations for the water sector needs to be increased and made accessible to service providers under national regional assistance programs, including twinning arrangements with counterpart utilities in neighbouring countries.

Section II Political, Security and Legal Programme

The Forum Secretariat works with Forum member countries to provide legal assistance and enhance legal cooperation in the Pacific region in various ways. Through the Pacific Plan, the Secretariat is working to explore opportunities for enhanced legal sector cooperation including the sharing of judicial resources and legal institutions at a regional level. The Legal Adviser also works with other areas of the Secretariat as well as other regional and international organisations to provide advice and help coordinate regional action on international legal issues of interest to members.

Through the assistance of its legislative drafters, the Secretariat also provides a resource to members for the preparation, enactment and implementation of legislation in areas designated as regional priorities.

In recent years the Secretariat has undertaken a large amount of legal assistance work in the areas of security, transnational crime and anti-terrorism, in accordance with the Forum's Honiara Declaration and Nasonini Declaration on Regional Security.

2.1   Security challenges facing the FICs

a.   Transnational organised crime

Combating transnational organised crime remains a high priority globally and also within the Pacific region. Importantly, transnational organised criminal activity is diverse. From illegal fishing, to drug trafficking; the trafficking and sexual exploitation of people; paedophilia rings; crime cartels; and even Intellectual Property Rights infringement. The activities of these groups represent an erosion of the shared values of our society.

Addressing these activities however is complex and the effect of globalisation cannot be discounted when looking at transnational organised crime. Globalisation has enabled the erasure of national boundaries and greater freedom of movement and exchange of goods and people. But this has brought about significant challenges to those who are tasked with protecting sovereignty and the shared values of society. Transnational organised crime has adapted faster and more efficiently than law enforcement and arguably continues to do so. They network more effectively and they trust and share more easily. The domestic response however, of legislation and law and order institutions is slow and the international response even slower. In fact, Forum Island Countries'[23] limited capacity and mechanisms to share information has made identifying transnational criminal activity even more difficult.

b.   Money laundering

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[23] Forum Island Countries is the term used within the Pacific Islands Forum to refer to Forum member countries exclusive of Australia and New Zealand. Forum Island Countries are Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Money laundering and serious fraud also has a destabilising affect and of course money launders look to jurisdictions where regulation is the weakest so they can exploit loopholes in identification and reporting requirements. The Pacific region has witnessed a number of examples of this activity. Money laundering is an activity that is not just undertaken by transnational criminal groups, it is an activity that encompasses any financial transaction which generates an asset or value as the result of an illegal act, such as tax evasion or false accounting. This practice is undertaken by individuals, businesses, corrupt officials, organised crime entities and even states.

c. *Maritime security*

Pacific maritime security is of increasing importance. The most significant security challenge for Pacific Island countries is obtaining the resources required to respond to maritime threats while also ensuring the protection of sovereignty and sovereign rights. This has been, and continues to be, a significant factor when establishing multi-lateral frameworks for maritime security.

Within this maritime security domain is the issue of offshore shipping registries and flags of convenience. Of concern is the recent desire by some Pacific Island countries to establish their own shipping registries as a way to secure revenue. This concern stems from the knowledge that groups engaged in the illicit movement of weapons, people, drugs and contraband often use vessels that are registered in different countries to disguise their cargo.

d. *Cruise shipping*

Increases in cruise shipping throughout the Pacific region, have an ever increasing impact upon regional and global security. There has been an increase in cruise line activity in the Pacific. Active promotion of the Pacific has increased its profile and some of the major cruise line operators have indicated interest in increasing ship sizes and port calls within the region, particularly to exotic niche locations within each Pacific country. As well as the increase in passenger arrivals which will stretch existing border management functions/agencies, cruise ships are also vulnerable to exploitation by organised criminal groups and terrorist entities. Terrorist groups around the world have demonstrated their intent to target the tourist industry.

e. *Terrorism*

The terrorist strikes of 11 September 2001, the Bali bombings and the numerous terrorist acts since, have caused states to focus on how they can contribute to counter-terrorism efforts. There is now a recognised risk that conflict and extremism can develop anywhere including in the Pacific Islands. Notwithstanding this, the threat level from terrorist related activity in the Pacific is recognised as low. There is however, a difference between threat assessment and risk assessment. There is a converse risk that terrorist entities may exploit the Pacific security environment in support of terrorist activity in the wider international community. The utilisation of flags of convenience, money

laundering, arms trafficking are all activities that are undertaken by such groups, and activities that are occurring in the Pacific.

f.   Recent conflict and crises in FICs

Discussions on conflict in the Pacific region often span a number of different concepts, for example criminality, violence, violent conflict, civil unrest, political instability and crisis. In recent times, the region has seen large-scale armed violent conflict in Solomon Islands and Bougainville, Papua New Guinea. The large scale violent conflict on Guadalcanal began with organised raids by Guale militants in early 1999 on Malaitan settlers on Guadalcanal. In 2000, a Malaitan militia group emerged and, in turn, began to expel Guadalcanal people from Honiara. In 2000, the police armory in Auki was raided and a Malaitan militia group emerged which, in turn, began to expel Guadalcanal people from Honiara. In June 2000, the Royal Solomon Islands Police (RSIP) national armory was seized, which brought even more weapons into circulation. Clashes between these militia groups around the edges of Honiara continued until the Townsville Peace Agreement (TPA) in October 2000. Although the TPA brought an end to the fighting between the two militia groups, the disarmament process that followed was flawed, and weapons remained in circulation for a number of years until the RAMSI intervention enabled almost complete disarmament. These years saw an increase in lawlessness and criminality, with weapons – or the threat of weapons – being used by criminals – often ex-militants - to settle old scores, and to extort large amounts of money from government under the banner of compensation payments.

The conflict on the Papua New Guinea island of Bougainville had its roots in disagreement over the distribution of benefits of the Panguna mine that date back to pre-independence, and have long been intertwined with calls for greater autonomy or independence for the province. Violence began to escalate in 1988. In 1990, the mine was shut down, but conflict continued to spread as elements of the pro-independence Bougainville Revolutionary Army (BRA) shifted their focus towards taking control over Bougainville. In 2000, a separation took place between the BRA and groups that were opposed to secession and the BRA regime, who formed the Bougainville Resistance Forces (BRF), thus greatly increasing the complexity of the conflict.

Civil unrest has taken place in Tonga, Solomon Islands and Vanuatu. In July 2005, senior civil servants in Tonga were awarded a pay rise of 80%, sparking mass protest and strikes by the public servants' union that lasted 6 weeks. Eventually, the government conceded all the demands, including salary rises between 60% and 80% and the consideration of establishing a commission on constitutional reform. In November 2006, riots broke out in Nuku'alofa after the government assembly did not pass certain democratic reforms before going into recess. Looters sacked much of the commercial district.

On 18 April 2006, riots broke out in Honiara after Parliament elected Snyder Rini, obvious heir to Allan Kemakeza, as the new Prime Minister, sparking major disappointment in the crowd assembled outside. There was widespread belief that large sums of money changed hands in the Prime Ministerial elections, funded by Chinese

businessmen in Honiara. A mob of people proceeded to loot and burn Chinese-owned shops, mainly in the Chinatown area.

On 3 March 2007, violent clashes erupted at the Blacksands settlement near Port Vila between people of Tanna and Ambrym islands. Three people died, more than 100 were arrested initially, and a State of Emergency was declared. Houses were burnt down and properties were damaged.

The region has also seen instances of political crisis. The riots that destroyed large parts of Nuku'alofa in November 2006 were linked to the democratic reform process in Tonga. There are diverse views within Tonga on this process, and what the role of the king and nobles should be in a revised political system. The exact events leading up to the riots are under investigation. What is clear is the difficulties inherent in negotiating a road map for a reform process, in particular after the 2005 strikes, had set a precedent of protest and disobedience, and confirmed the power of mass gatherings.

Against a background of perceived inequalities between indigenous and Indo-Fijians, overlaid with tensions of over land and traditional governance, the Fiji Islands have witnessed a series of coups. Most recently, on 5 December 2006 the Commander of the Republic of Fiji Military Forces (RFMF), Commodore Voreqe Bainimarama, declared that he was assuming the Presidency, and dismissed the Prime Minister. In January 2007 Commodore Bainimarama "reinstated" the deposed President and under his purported authority, installed an interim Cabinet with himself (Bainimarama) as Interim Prime Minister.

Small arms and light weapons stolen or otherwise obtained from security force armouries have featured prominently in the Pacific's most recent conflicts in Fiji, Solomon Islands and Bougainville. While these weapons have been supplemented by home-made firearms, and small scale trafficking, the majority of the weapons to date have been obtained due to the lack adequate of control and stock-take of legitimate stocks of weapons in Pacific Island communities.

Apart from these more obvious expressions of conflict and crises, people in Pacific Island countries are expressing concerns about the changes that accompany modernisation processes and the monetisation of local economies. Conflicts – sometimes violent– over issues related to land, for example, are a cause of much concern. Some occasions in the past have seen local level violent conflict escalate into high-level armed conflict, as happened in Bougainville. Conversely, high-level armed conflicts can lead to an exacerbation of local level conflicts by the proliferation of arms and a breakdown of formal systems of law and order maintenance, such as in Solomon Islands during the Tensions. Local level violent conflict in Papua New Guinea kills several hundreds of people every year.

There are clear ovelaps between the issues that underlie conflict and crisis in the region and broader human security concerns. The value of the concept of human security lies in the fact that it shifts the traditional focus on state security, to the security of people. In

doing so, human security also underlines the importance of the work done by a wider array of stakeholders in addressing human security concerns, thus bringing into focus civil society and community based organisations as relevant actors in these processes. It also enables a broader spectrum of issues to be considered.

As such, it fits with the focus of the Biketawa Declaration adopted by Forum Leaders in 2000, which reflects a broader understanding of security concerns in its statements on the causes of conflict and tensions in the Pacific region. One of its guiding principles recognises 'the importance of averting the causes of conflict...', and the Declaration directs that action to be taken in times of crisis 'must constructively address difficult and sensitive issues underlying causes of tensions and conflict (ethnic tensions, socio-economic disparities, lack of good governance, land disputes and erosion of cultural values)'. Broader human security issues such as economic inequalities; land issues; weak governance capacity; unemployed and alienated youth; migration; urbanisation; inter-group tensions; and climate change have been identified as potential underlying causes of conflict and crisis in the Pacific region.

The issue of land as an underlying cause of conflict has been extensively studied in the Forum Secretariat's Land Management and Conflict Minimisation project. Most land in the Pacific is held under customary tenure, with relatively small tracts of freehold and state held land. Customarily owned land is central to the identity and personal security of people in the Pacific. At the same time, land plays a central role in economic development. The processes of development in Forum Island Countries are bringing fundamental changes that impact upon the governance, security and values of Forum Island communities.

The change processes that accompany modernisation intersect with the disjoint between customary and introduced forms of land management to form a context where there is much confusion and a lack of clarity regarding land management practices. Past attempts to survey and register customary land have left legacies of mistrust of state-based land management systems amongst customary landowners. There are concerns over real or perceived threats to customary land ownership through the registration of their land.

At the same time, economic development has been constrained by the difficulties faced by state institutions and investors in accessing customary land for development. Where economic development of customary land has taken place, it is often accompanied by conflict over the kinds of rates/compensation provided in return, and over the distribution of such benefits. State institutions with roles in land administration and management are hampered by a lack of clarity in the relationship between customary practices and introduced administrative processes, suffer from weaknesses in capacity, and can be focal points for corrupt practices.

The tension between facets of modernisation processes, including economic development, and the ways in which land continues to be central to the identity of Pacific people, forms the background of *local level* land-related conflict. Within this context of change, misunderstandings and poorly designed and executed land administration and

management systems, there are various stakeholder groups with different interests in land. Local level land-related conflict can take place amongst landowner groups; between landowner groups and tenants who are leasing land; between landowner groups and state institutions needing to access land for public purposes, and between landowner groups and outside investors. All these different stakeholders can have particular motivations or interests, including the accumulation of wealth or power, which can underlie their position in a conflict or dispute. On the other hand, land has been identified as one important cause of some of the large scale, *national level* violent conflicts and crises that the region has seen. Land is bound up with the grievances that underlie the conflicts and crises in Bougainville, Solomon Islands and Fiji.

2.2.1 Work Undertaken by the Pacific Islands Forum Secretariat

Regional Security matters fall within the purview of the Political and Security Programme at the Forum Secretariat. Within that programme, a Law Enforcement Unit (LEU) has been established to provide a range of policy, coordination and capacity development advice to Pacific law enforcement agencies and regional stakeholders in all areas of law enforcement activity. The mandates for the activities of the Programme on regional security derive from the Pacific Plan as well as regional agreements such as the 1992 Honiara Declaration on law enforcement cooperation, the 1997 Aitutaki Declaration on regional security cooperation, the 2000 Biketawa Declaration, the 2002 Nasonini Declaration on regional security as well as the outcomes from the annual Forum Regional Security Committee meeting and requests from member governments, regional law enforcement organisations and secretariats.

Importantly, recognising the significant regional challenges in meeting the needs of the people of the Pacific and also in delivering effective national policies and basic services the Pacific Plan was endorsed by Forum leaders. Pacific leaders view the Plan as an appropriate strategy for the delivery of national policies, services and regional initiatives under the four key themes of economic growth, sustainable development, good governance and security.

The 2005 Pacific Plan for strengthening regional cooperation and integration has identified regional security as a priority area. As a consequence, there are a number of initiatives that encompass security in the Pacific Plan. The Pacific Plan identifies initiatives within an implementation framework that extends for 10 years. This framework enables effective engagement between Forum members, development partners and relevant non-state actors.

The Pacific Plan's strategic objective for security is "...Improved political and social conditions for stability and safety", which encompasses conflict prevention, human security and law enforcement initiatives.

The Pacific Plan is also based upon the concept of regionalism and depends upon support for regional approaches by Forum member countries and relevant stakeholders. The work of the Political and Security Programme of the Pacific Islands Forum Secretariat

recognises that adopting such an approach ensures consistency, and can enhance cooperation and integration.

Cooperation throughout the region and with international stakeholders and donors is vital to ensure regional and global security. Donor coordination is an area that can be improved for the benefit of the Pacific Islands. There are presently a large number of donors seeking to engage in the region and collaboration must exist to remove duplication. Pacific Island countries often struggle to meet the many demands that are generated by International Conventions and by donors, who for their own organisational reasons, seeking specific outcomes. To establish lasting, ultimately self sustaining systems and practices, there is a need to centrally manage initiatives and utilising regional institutions such as the Pacific Islands Forum Secretariat can enable this.

Crisis responses under the Biketawa Declaration

Under the Biketawa Declaration, the Forum has developed a series of responses to recent conflicts and crises. Engagement in Solomon Islands dates back to 2002, when the Forum Secretary General, as part of his 'good offices' role, appointed an Eminent Persons' Group (EPG) to Solomon Islands, to identify ways in which the Forum could assist Solomon Islands in the post-conflict reconstruction phase. The EPG was tasked to investigate the political, economic and security situation in Solomon Islands and provide recommendations as to how the region could assist. The EPG consisted of Eminent Persons from Australia, Samoa and Fiji.

The EPG visited Solomon Islands from 30 May to 6 June 2002. Its conclusions included eleven recommendations, including an emphasis on the need for donors to respond flexibly and support the Solomon Islands Government's own efforts; the consideration of provision of assistance to the Royal Solomon Islands Police force (RSIP) through attachments and exchanges with other Forum Island Countries (FICs); and on the development of arbitration mechanisms, similar to those in other FICs, to address the issue of compensation payments in Solomon Islands.

In mid 2003, the Biketawa Declaration provided the framework for the Regional Assistance Mission to Solomon Islands (RAMSI), which was mandated in accordance with the Declaration by a special meeting of Forum Foreign Ministers. Later that year, the Forum Secretariat commissioned a social impact assessment on Solomon Islands, to monitor the impact of the mission. The study established a baseline report for follow-up work, including a range of indicators based on the Millennium Development Goals and the National Economic Recovery, Reform and Development Plan, with the purpose of measuring progress of the intervention towards its stated goals and ensuring its sustainability. On 18 February 2005, the Solomon Islands Prime Minister invited the Forum to send a second Eminent Persons' Group to assess the impact of the intervention, and the challenges facing RAMSI in future. The EPG was appointed by the Forum Chair and comprised Eminent Persons from Fiji, Samoa and the Secretary General himself.

At the 2006 Pacific Islands Forum, Leaders agreed that a consultation mechanism be established between the Solomon Islands Government, RAMSI and the Forum, chaired by the representative of the Forum Chair and involving senior representatives of the Forum Troika of past, present and incoming chairs. This Enhanced Consultation Mechanism (ECM) holds quarterly consultations as a high level reference group to discuss the broad policy directions of RAMSI and to review progress achieved.

Leaders also agreed to establish a taskforce to review RAMSI. The Forum Secretariat appointed a Representative to the Solomon Islands, and the Solomon Islands Government appointed a Special Envoy to RAMSI. Along with the RAMSI Special Coordinator, they form the Triumvirate. The Taskforce recommended that the Triumvirate develop a jointly agreed indicative and conditions-based set of timelines for RAMSI, based on an agreed Medium Term Strategy and Performance Framework. In addition to the first tier of the triumvirate and the second tier of the Enhanced Consultation Mechanism, a Forum Ministerial Standing Committee (FMSC) has been established to provide oversight and governance to the RAMSI operation. The ECM has evolved into a preparatory meeting for the FMSC, which meets every 6 months.

At the 2004 Leaders meeting, Forum Leaders decided to support Nauru's request for assistance, recognising Nauru's economic crisis and the threats this posed to its security and national stability, and noting its commitment to reform. The Pacific Regional Assistance to Nauru is a plan of assistance, covering short term priorities until the end of 2005, medium term priorities until 2007, and long term priorities to be addressed beyond 2007.

In November 2006, following increasing tensions between the Government of Fiji and the Commander of the RFMF, Fiji Prime Minister Laisenia Qarase requested that, in accordance with the Biketawa Declaration, a meeting of Forum Foreign Ministers be convened. On 1 December 2006, the Forum Foreign Ministers met in Sydney, and established an Eminent Persons' Group, which visited Fiji in January 2007, by which time the military had taken over the government. The resulting report made a number of recommendations regarding the situation in Fiji, which were subsequently endorsed by Forum Foreign Ministers as a way forward to the restoration of constitutional and democratic government in Fiji. Forum Foreign Ministers also established in early 2007 a Joint Working Group of Member country officials including Fiji, to continue dialogue between Fiji and other Forum members in support of Fiji's early return to democracy.

At its first meeting, the Working Group agreed to commission an Independent Assessment to investigate the minimum time required to prepare for the next elections, and to consider what external assistance may be necessary to enable this process. The resulting report set out a number of technical issues that need to be addressed, and a timetable with milestones to elections by March 2009. This timetable was adopted by the Forum-Fiji Joint Working Group and accepted by the Fiji Interim Government.

Next, an Election Scoping Mission was conducted in August 2007 to provide advice on the resources needed to achieve this timetable. Based on its recommendations, an

Election Donor Coordination Committee (EDCC) was established to coordinate international assistance to Fiji in its preparation for elections.

At their meeting in Tonga in October 2007, Leaders welcomed commitments made by interim Prime Minister Bainimarama to holding elections by March 2009, and called for a meeting of Forum Foreign Affairs Ministers to review progress made towards those elections. This meeting took place in Auckland in March 2008. Ministers decided to establish a Ministerial Contact Group to strengthen monitoring and engagement with Fiji. The Ministerial Contact Group, consisting of Ministers from Australia, New Zealand, Papua New Guinea, Tonga and Tuvalu, visited Fiji in July 2008. By this time further developments in Fiji and statements by the Interim Government had indicated that the regime was no longer committed to its undertaking to hold elections by March 2009.

At the 39th Pacific Islands Forum Leaders' meeting held in Niue in August 2008, Forum Leaders considered the report of the Ministerial Contact Group. Leaders tasked the Ministerial Contact Group to continue monitoring the Fiji situation and report further to Leaders by the end of 2008 on the situation regarding election preparations and other key issues, including recommendation on further measures the Forum could take under the Biketawa Declaration. Leaders flagged the possibility of meeting again in a special session before the end of 2008 to consider such recommendations, including the possibility of suspension of a government from the Forum, consistent with paragraph 2(iv) of the Biketawa Declaration.

Human Security Framework for Conflict Prevention

Recognising the need to find ways to address underlying causes of conflict and crisis and work towards conflict prevention in Forum Island Countries, the Forum Secretariat, under a partnership with the UNDP Pacific Centre, is working towards the development of a three-year (2009-2011) Human Security Framework for Conflict Prevention. This was made a priority under the Security pillar of the Pacific Plan in 2007. The Human Security Framework for Conflict Prevention will provide insight into how broader security issues can be causes of conflict and crisis, and provide a set of tools for preventing and addressing these, at national and regional levels, according to three elements:
1. Addressing (potential) causes of conflict
2. Monitoring conflict escalation
3. Strengthening conflict resolution mechanisms

In many cases the human security issues identified as potential causes of conflict are already being addressed through existing government and civil society efforts. Instead of establishing new conflict prevention initiatives to address these (potential) causes of conflict, work on addressing (potential) causes of conflict can focus on the incorporation of conflict sensitive approaches in programmes and policies that aim to address these causes. However, in circumstances where serious conflict or crisis is imminent or recent, (potential) causes of conflict may require specific attention, for example the matter of inter-group tensions.

Land Management and Conflict Minimisation

The outcomes of the Land Management and Conflict Minimisation project provide the basis of the development of conflict sensitive approaches to land management. The minimisation of land-related conflict cannot be separated from the context of development of customary land. This inter-connection between the development of customary land whilst minimising land-related conflict entails two closely intertwined dimensions: the improvement of customary land administration and land management to facilitate the development of customary land whilst minimising local-level land-related conflict; and the improvement of land-related conflict resolution mechanisms for local-level land-related conflict and the prevention of escalation of land-related grievances into large scale conflict. The Forum Secretariat is working together with the Secretariat of the Pacific Community (SPC) to develop regional support mechanisms to assist Forum Island Countries in their priority land management and conflict minimisation efforts within their respective national development contexts.