



AUSTRALIA PAPUA NEW GUINEA BUSINESS COUNCIL

24 November 2008

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



Dear Dr Dermody

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

I am pleased to attach the Council's submission to the above Inquiry. I apologise that the lodgement of this submission has been delayed.

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

Yours sincerely

(Ian Clarke)
President
(National Chairman, Gadens Lawyers)

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

ABOUT THE COUNCIL

The Australia Papua New Guinea Business Council is a non-profit association of businesses with interests in the Australia Papua New Guinea bilateral business and economic relationship and Papua New Guinea's economic development.

The Council:

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

The Council operates from a secretariat office based in Brisbane, and has a branch in Papua New Guinea. It works in co-operation with the Business Council of Papua New Guinea, a peak business body in Papua New Guinea.

The Council has a shared secretariat with the Australia Fiji Business Council and the Australia Pacific Islands Business Council.

The Council President makes periodic calls on Foreign Affairs portfolio ministers and parliamentary secretaries in Canberra and on senior officials of various relevant departments. With the Business Council of Papua New Guinea the Council engages with ministers at the annual Australia Papua New Guinea Business Forum. This engagement has been deepened from 2008 with the establishment at the initiative of the Australian Minister for Foreign Affairs of a bilateral business and officials committee which meets twice annually and which feeds issues, ideas and outcomes into the annual ministerial Forum. The secretariat maintains regular contact with officials of the Australia Department of Foreign Affairs and Trade.

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

The Council, again with the Business Council of Papua New Guinea, holds an annual Australia Papua New Guinea Business Forum and Trade Expo which is the landmark bilateral business event. The event in Cairns in May 2008 attracted some 300 participants. The event in 2009 will be held in Madang, Papua New Guinea.

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

In 2002 and 2003 the Foreign Affairs, Defence and Trade References Committee conducted an enquiry and on 12 August 2003 tabled in the Senate its report under the above title.

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

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

THE ECONOMIC AND SECURITY CHALLENGES

In many respects the greatest economic and security challenge faced by Papua New Guinea revolves around employment growth. There are a whole range of issues which bear on the management of the economy and security matters in Papua New Guinea, but the key to driving improvement in most of these matters is the growth of sustainable employment for the people of Papua New Guinea.

While the economy is growing strongly, there appears little evidence that this growth has manifested concomitant employment growth.

Papua New Guinea, like most Pacific island countries, has a high proportion of its population aged 20 or below. This youth bulge is rapidly approaching adulthood, with little clear prospect of being able to enter the mainstream economy.

Failure of the economy to provide meaningful employment for large numbers of young people has already manifested itself in law and order issues in Papua New Guinea, and if increasing numbers of young people find themselves economically deprived so the problem is likely grow. A deteriorating internal security environment will discourage investment and stifle long term sustainable employment growth. It will leave Papua New Guinea increasingly dependent on resources income which will inevitably have a finite life. It will fail to develop in Papua New Guinea a culture of work as a core means of life, with multiple generations of people accustomed to unemployment and idleness. This is a significant security issue not only for Papua New Guinea but also for Australia.

Beneath this overarching challenge of employment growth, there are many economic and social challenges which must be met: long term fiscal policy, infrastructure development and maintenance, capacity building, labour market issues, trade and investment policy management, internal security (law and order), health and education to name just some.

Some of these issues are crucial to the development of a stronger economy and to employment growth, while improvement in others will be a consequence of that growth. For example, increased employment will lead to increased tax revenue enabling better national funding of health services, but will also lead to better nutrition and greater health awareness in the community with consequential reductions in demands on health services.

A significant economic challenge for the Papua New Guinea Government is to harness the revenue flowing from current and projected resource projects into long term sustainable economic benefit. These funds need to be directed at economic infrastructure, health and education services and sustainable small business development. Some studies have been undertaken on this subject, but it is important that appropriate frameworks are put in place promptly to manage these flows for long term sustainable purposes.

EMPLOYMENT GROWTH AND PRIVATE SECTOR DEVELOPMENT

The key to employment growth will be the development of a vibrant and sustainable SME sector. The Council is committed to work for the growth of small and medium enterprise as the driver of economic and employment growth and as a key factor in the achievement of

development targets through poverty reduction. Large resources projects are important, but what will drive the economy in the long term is small and medium size business.

A recent World Bank global study on Doing Business ranked Papua New Guinea 95th amongst the 181 countries surveyed, and 9th out of 10 Pacific Islands Countries included in the report. The ease of doing business index averages the economy's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. By comparison, Singapore ranked 1st and Australia ranked 9th. A model such as Singapore should be a goal for Papua New Guinea.

While some have challenged the data collection methods (in relation to Papua New Guinea, at least) which led to Papua New Guinea's rating in this report, there can be no doubt that the mechanisms in Papua New Guinea to get prompt approval for projects need to be streamlined. Processes to set up and incorporate a business are reasonably efficient.

There is an excess of bureaucracy to be traversed at all levels for operating a business, with increased burdens if the business requires access to land and/or if it is a foreign business investment.

Key characteristics of an enabling environment which would encourage such growth include:

- (i) Improving access to capital for SMEs at competitive interest rates by small business through innovative approaches through lending agencies such as the Rural Development Bank, microfinance agencies and donors working in partnership with commercial financial institutions.
- (ii) Business linkage programs to support broadbased growth of SMEs in PNG.
- (iii) Improving capacity of the Small Business Development Corporation (use twinning arrangements with Australian and other suitable counterparts);
- (iv) Reduction of regulation to facilitate small business by streamlining government processes and eliminating unnecessary processes;
- (v) Development of programs for mentoring SMEs eg using volunteer sending agencies.
- (vi) Implementation of TVET report recommendations – matching the needs of vocational training to the job market.
- (vii) student scholarships/exchange programs to support and encourage young entrepreneurs.

We believe a national proactive Private Sector Growth Strategy led by the private sector is required to drive the sector forward and create sustainable employment and economic growth.

We have proposed that the Papua New Guinea government and all key stakeholders work together to develop a Private Sector Growth Strategy with a plan of action, that is more detailed than what is currently contained in the Medium Term Development Strategy (MTDS). Such a strategy would directly support implementation of priorities determined by key stakeholders (with business as a lead agent). A comprehensive plan over, say, a 5-10 year framework would deliver capacity building and maximise SME development.

THE RELATIONSHIP BETWEEN DEVELOPMENT ASSISTANCE AND BUSINESS DEVELOPMENT

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

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

It is, however, only recently that some senior staff in AusAID have recognised the importance of the private sector in delivering long term sustainable economic growth.

When Prime Minister Rudd visited Papua New Guinea in early March 2008, at a business breakfast in Port Moresby in response to a question he undertook that there would be improved consultation with the private sector about relevant parts of the aid program. But it then took six months for AusAID to convene a meeting of peak business bodies in Port Moresby to follow through on that commitment.

The Council invites an AusAID representative to attend its five executive committee meetings held each year in Sydney, Melbourne and Brisbane. We would encourage AusAID to increase its participation at these meetings. The Department of Foreign Affairs and Trade attends the majority of these meetings with the representation usually being an SES officer. These attendances facilitate a discussion about current issues in the relevant area of the relationship, expose business and officials to each others thinking on these issues, and contribute to the building of a more constructive relationship.

It seems to us that AusAID's principal involvement with business has been through its engagement with those companies which manage the delivery of aid contracts. While these companies are technically businesses, most have little engagement with the business community and from our observation appear to see themselves as being extensions of the aid program rather than members of the business community.

The initiative of AusAID to convene a meeting of peak business bodies in Port Moresby following Prime Minister Rudd's March initiative is welcomed, but we would like to see AusAID engaged more deeply with "real" business to the point where business is seen as a natural partner for the aid program, sharing similar objectives for the economic growth of Papua New Guinea, and to use the current vernacular a "go to" organisation for discussing major AusAID initiatives and policies rather than waiting for business representatives to call on them in Canberra.

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

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

We also believe that development assistance should be delivered in conjunction with the banking sector. Joint support and funding of the SME sector would be valuable to growth in that sector.

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

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

LABOUR MOBILITY

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

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

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

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

EDUCATION AND SKILLING

The national education system in Papua New Guinea has been in a state of continued deterioration for many years.

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

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

Such recognition would facilitate the movement of Papua New Guinea citizens between the two countries at a higher level than just as unskilled seasonal workers.

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

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

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

The Strongim Guvman program agreed by Australian and Papua New Guinean ministers at the Australia Papua New Guinea Ministerial Forum in April 2008 is an excellent start towards strengthening selected areas of the Papua New Guinea bureaucracy, and is warmly welcomed by the Council.

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

Trade and Foreign Investment

Papua New Guinea's abundant natural resources, in a period of high world demand, presents it with the opportunity to enter a new economic phase in its development.

A step change in the economic and social well being for every Papua New Guinean is the prize. The opportunities available are of a scale which has hitherto not been envisaged. But decisions need to be made in a dynamic and competitive international economic environment where efficiency in Government service delivery and support for project development are essential

For Papua New Guinea to maximise the opportunities it is crucial that the machinery of government is adequately equipped and resourced so it can respond in a timely and appropriate manner to the needs of business.

Time is of the essence in ensuring that projects move forward at a pace that captures the best return for all concerned.

Particular areas which need to be addressed include

1. A coordinated Government approach to project facilitation,
2. Access to skills globally through easy entry permitting and tax incentives
3. Incentives for technology transfer.
4. Incentives for local skills training.

Potential developments in the commercialisation of Papua New Guinea's energy reserves offer export earnings and the opportunity to develop in-country value adding industries. The need to develop PNG's oil and gas is urgent. A major impediment to development is the lack of capacity in the Government sector to deal with permitting, regulation and compliance. The Council is aware that Papua New Guinea has proposed to the Australian Government provision of support to enhance the Government's capacity to manage the development of the oil and gas industry.

We urge both Governments to address this issue without delay. There is too much at stake to not respond decisively and urgently.

In addition to major project facilitation, the public service must be fully resourced to deal with other business requirements including work permit issues and immigration and visa issues. Streamlining and fast tracking of applications need to be implemented as a matter of priority to improve the ease of doing business, and reduce the economic costs to business. Compliant enterprises should be recognised and fast tracked. Resources should be directed by government officials to properly police and process those that do not comply. It is common knowledge that there are a large number of illegal foreigners working in PNG. Many are running small trade stores that have been rented from PNG land and property owners.

Although figures are not available, it seems likely that there are companies operating in Papua New Guinea which do not have the appropriate permits and licences. This leads to significant loss of direct and indirect revenue to the Papua New Guinea government. The Australian and Papua New Guinea governments are urged to ensure the Papua New Guinea Internal Revenue Commission is fully resourced to protect revenue collection.

PACER Plus

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

It is the Council's view that Australia and Papua New Guinea need to embrace each other economically in order to unlock the true potential of the Papua New Guinea economy for the benefit of all its people.

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

Achievement of such an outcome requires political and economic courage and leadership in Australia and Papua New Guinea. It needs a lot of work to establish a vision of what sort of relationship Australia and Papua New Guinea will have in 30 to 50 years.

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

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

It will be important that there is an extensive process of dialogue with all stakeholders about what might be achieved in the long term by PACER Plus, and that a roadmap is established which includes appropriate measures for capacity building across the Papua New Guinea economy and

for mitigating the potential social effects in the short to medium term which might be the outcome of necessary economic restructuring necessary to achieve the long term goals and objectives of PACER Plus.

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

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

Without vision and courage to start a journey to the future, the relationship will be consigned to one of lost opportunity. If you always do what you've always done, then you'll only get what you've always got!

Economic Infrastructure

Efficient well maintained infrastructure is crucial to business.

It is vital that the Government of Papua New Guinea ensures that Papua New Guinea's telecommunications sector operates at world class standards of service, efficiency and cost.

This is not currently the case, although recent developments have moved encouragingly in the direction of greater competition and efficiency.

But the Government of Papua New Guinea policy needs to reflect a firm and clear commitment to efficiency and competition in the telecommunications sector.

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

Papua New Guinea's recent economic performance means that there are funds available to the Papua New Guinea government to initiate a significant economic infrastructure refurbishment and redevelopment program, where appropriate in partnership with the private sector.

Land Ownership

Under the leadership of the Deputy Prime Minister, the Papua New Guinea Government is working towards improvements in the balance between traditional land ownership and values and the need to make land economically productive in order to build a sustainable modern economy. This work is to be encouraged and supported, as it holds out the possibility of some resolution of what has been one of the most intractable issues in improving access to land for economic use in Papua New Guinea.



**AUSTRALIA FIJI
BUSINESS COUNCIL**



**AUSTRALIA PACIFIC ISLANDS
BUSINESS COUNCIL**



**AUSTRALIA PAPUA NEW GUINEA
BUSINESS COUNCIL**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There is much in the report, and in recent Australian government policy initiatives, which the Council supports. We again make the offer that the knowledge and experience of the Council in the region is available to contribute to the debates and policy processes which we hope will now follow this report.