

## Bougainville's Impact on the Bilateral Relationship

Australia's relationship with Papua New Guinea is recovering well from its low point after the Sandline crisis in early 1997. ... [Early and frequent contact with the new Skate government] enabled Australia to engage the PNG Government on a range of issues affecting our national interest, including economic reform, development assistance, commercial concerns, civil aviation, defence cooperation, management of the Torres Strait and the Bougainville conflict.<sup>1</sup>

- 3.1 Papua New Guinea (PNG) is Australia's closest neighbour, and there are around 10,000 Australians living and working there. Our geographic proximity and historical links have given PNG a special place in Australia's foreign relations. Nearly a quarter of a century after PNG's independence, the bilateral relationship is a complex and wide-ranging one. Australia has a clear interest in a politically stable and economically viable PNG, and in maintaining friendly relations with a strategically important neighbour.<sup>2</sup> As the Committee's 1997 report on proceedings of a public seminar on the bilateral relationship observed:

The proximity to Australia of the island chain of PNG, lying as it does astride our northern and north-eastern approaches, combined with the circumstances of its shared border with Indonesia, mean

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<sup>1</sup> DFAT, *Annual Report*, 1997-98, p. 78.

<sup>2</sup> These themes were highlighted by the Hon Alexander Downer MP, Minister for Foreign Affairs, in a speech delivered on 11 November 1998 after a conference held in Canberra on the subject of 'Crime and the Bilateral Relationship'.

that it is in Australia's interests to foster a cohesive, unified, non-secessionist PNG.<sup>3</sup>

- 3.2 The most significant elements of the relationship between Australia and PNG are formalised in several bilateral agreements under the broad umbrella of the Joint Declaration of Principles of 1987, which was revised in 1992.<sup>4</sup>

## Trade and Investment

- 3.3 PNG is Australia's 19<sup>th</sup> largest trading partner and 10<sup>th</sup> largest investment destination. Australian exports to PNG were worth \$1.15 billion in 1997-98, over half of which were manufactured goods. Australian imports from PNG totalled \$768 million in 1997-98. Australian investment in PNG was estimated at \$1.42 billion as at June 1997, mainly in the mining, petroleum and services sectors. PNG investment in Australia totalled \$32 million for the same period.<sup>5</sup> Total two-way trade amounted to \$1.9 billion in 1997-98, with exports to PNG ranking higher than for France, Norway and Brazil combined.<sup>6</sup>
- 3.4 The Australian Government, through the national interest account operated by the Export Finance and Insurance Corporation (EFIC), has substantial exposure to this trade and investment (\$188.64 million as at 31 January 1998).<sup>7</sup> While careful to distance itself from negative comments by international financial institutions on the state of the PNG economy, EFIC has nevertheless drawn attention to key indicators such as PNG's high burden of debt.<sup>8</sup>
- 3.5 If successful, the joint venture project to establish a gas pipeline from the PNG central highlands to Gladstone in Queensland, which has recently reached an advanced stage of negotiation, will represent a major credibility achievement for PNG among foreign investors. In late July

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3 JSCFADT, *Papua New Guinea Update*, February 1997, citing Professor Paul Dibb, Strategic and Defence Studies Centre, Australian National University, p. 18.

4 Formal agreements include the Papua New Guinea / Australia Trade and Commercial Relations Agreement, the Agreement for the Promotion and Protection of Investment, the Double Taxation Agreement, the Treaty on Development Cooperation, the Agreed Statement on Security Cooperation, and the Torres Strait Treaty. Australia has also signed an MOU on the PNG-Queensland Gas Pipeline (5 August 1998).

5 DFAT, 'PNG Country Brief', February 1999, p. 9 (<http://www.dfat.gov.au/geo/spacific/png>).

6 Eleventh Australia-PNG Ministerial Forum, 'Joint Statement', December 1998, p. 2.

7 DFAT, 'PNG Country Brief', loc. cit.

8 Reported in the PNG *Post-Courier*, 20 May 1999 (See Exhibit 23, Folder A).

1999, the signing in Brisbane of sales agreements between several major customers and the project partners was announced.<sup>9</sup>

## Development Cooperation

- 3.6 The PNG development cooperation program, which is established under the terms of the Treaty on Development Cooperation of 1989, is Australia's largest bilateral aid program. The treaty requires indicative levels to be set for a five-year period, with the level and form of aid to be reviewed every three years.
- 3.7 Since 1992, budget support has been phased out in favour of jointly programmed aid managed by Australia. The final budget support payment will be made in June 2000. For 1999-2000 the total aid flow to PNG has been estimated as \$328.9 million, of which \$264.9 million represents jointly programmed aid and \$64.0 million comprises budget support.<sup>10</sup>
- 3.8 Over the last decade, Australia has provided approximately two thirds of all Official Development Assistance (ODA) to PNG. Japan has emerged recently as a significant donor and, together with Germany and New Zealand, provide the bulk of the balance of bilateral aid. The World Bank, the ADB, the European Union (EU), the United Nations Development Program and the International Federation of the Red Cross are the main multilateral and international agencies providing assistance to PNG.<sup>11</sup>

## Aid Treaty Review

- 3.9 Notwithstanding the shift from budget support to program or project aid since 1992, criticisms have been levelled at apparent corruption and lack of accountability—within PNG Government agencies and some private sector businesses—for overseas development assistance funds. These criticisms have appeared in the Australian press from time to time.<sup>12</sup>

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9 PNG *Post-Courier*, 'Deals to see gas flowing', 28 July 1999.

10 AusAID, Exhibits 19(c) and 22(a).

11 ABC New Online reported on 27 August 1999, for example, that the ADB had agreed to lend PNG US\$25 million to support health services, and that an ADB team in PNG had indicated that the Bank would establish an extended mission in Port Moresby.

12 Examples published at the time of the 11<sup>th</sup> Australia-PNG Ministerial Forum were — *The Sunday Age*, 13 December 1998; *The Canberra Times*, 21 December 1998; *The Age*, 22 December 1998; and *The Financial Review*, 23 December 1998.

3.10 At the Australia-PNG Ministerial Forum in December 1998, both countries agreed to revised levels of aid funding until the end of the 1999-2000 financial year. The agreements reached at the Forum included a set of principles under which the revised aid arrangements would be implemented from 1 July 2000:

- A strengthened benchmarks system of sectoral performance targets consistent with the World Bank and International Monetary Fund (IMF) economic reform program;
- A growing proportion of the aid program to be devoted to rewarding and encouraging good performance by aid agencies inside and outside the PNG Government (the Incentive Fund);
- A maximum indicative annual planning figure for the period July 2000 to June 2003 of \$300 million in nominal terms;
- Where appropriate, promotion of a sectoral investment approach;
- Increasing levels of participation in the aid program by PNG agencies, companies and individuals; and
- Continual refinement of the program to meet PNG development priorities.<sup>13</sup>

3.11 Agreement by PNG ministers to the above principles was subject to endorsement by the PNG National Executive Council (NEC). In a joint statement issued following discussions in Adelaide in May 1999, Foreign Ministers Downer and Yaki indicated that the new Treaty on Development Cooperation would:

... make Australia's aid program to Papua New Guinea more accountable as well as responsive to the needs of Papua New Guineans throughout the country. The Treaty is designed to complement PNG's commitment to positive engagement with other important partners in progress, such as the World Bank and IMF. It will also underpin other measures attracting investment and strengthening economic growth.<sup>14</sup>

## **Australian Aid to Bougainville**

3.12 Australian aid to Bougainville is a major component of our bilateral development assistance program to PNG. All aid to Bougainville is

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13 11<sup>th</sup> Australia-PNG Ministerial Forum, 'Joint Statement', op. cit. p. 3.

14 Minister for Foreign Affairs, Media Release AA19, 'Australia - Papua New Guinea Aid Treaty', 20 May 1999.

therefore delivered under the bilateral treaty, which recognises Australia's support for PNG sovereignty in relation to Bougainville.<sup>15</sup>

- 3.13 Australia will spend more than \$100 million in Bougainville over the five years to the end of financial year 2002-03. The following table illustrates the proportion of jointly programmed Australian aid to Bougainville within the overall aid program to PNG, from 1994-95 to 1999-2000.

**Table 3.1 Australian Aid to PNG: 1994-95 to 1999-2000**

|                                                                  | 1994-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-2000    |
|------------------------------------------------------------------|---------|-------|-------|-------|-------|------------|
|                                                                  | \$m     | \$m   | \$m   | \$m   | \$m   | \$m (est.) |
| Total aid to PNG<br>(includes Budget support)                    | 307.6   | 312.2 | 313.2 | 313.7 | 299.9 | 328.9      |
| Jointly-programmed Aid to PNG                                    | 77.3    | 118.6 | 154.9 | 191.2 | 228.8 | 264.9      |
| Aid to Bougainville<br>(within jointly-programmed bilateral aid) | 2.1     | 1.0   | 5.6   | 18.0  | 17.9  | 21.5       |

Source: AusAID, Exhibits 19(c) and 22(a).

- 3.14 As DFAT explained, Australian development assistance in Bougainville is carried out in close consultation with the PNG Government, and the Australian aid program cannot (and should not) meet the entire development and reconstruction needs of the province.<sup>16</sup>

- 3.15 Implementation of the Australian aid program is constrained by a number of factors, including:

... an uncertain and fluctuating security situation, the lack of a clear coordination mechanism acceptable to all parties, weak public and private sectors with low absorption capacity and unreliable transport infrastructure, which has made aid delivery very difficult and expensive.<sup>17</sup>

- 3.16 The scope and effectiveness of aid delivery to Bougainville is discussed in further detail in Chapter 6.

15 DFAT / AusAID / Defence, Submission, p. 497.

16 Ibid, pp. 498-499.

17 Ibid, p. 499.

## The Defence Relationship

- 3.17 Australia's defence ties with PNG are determined by the Joint Declaration of Principles Guiding Relations Between Australia and Papua New Guinea and the Treaty on Defence Cooperation. The joint ministerial statement of 22 October 1997 on the New Defence Partnership placed the focus of cooperation on developing human resources in the PNG Defence Force (PNGDF) in the areas of strategic planning, defence management and core military skills, including leadership and discipline. Total expenditure for Defence Cooperation in 1997-98 was \$63.4 million, of which some \$19.6 million was allocated to PNG, mainly for refurbishment of PNGDF equipment and for personnel and training activities.<sup>18</sup>
- 3.18 The training and supply of the PNGDF by Australia under the Defence Cooperation Program has in the past given rise to criticism in both Australia and PNG of, on the one hand, the use made by the PNGDF of some of the assistance provided under the program and, on the other, the perceived paternalistic attitudes in Australia which did not give the PNG forces sufficient say in how funds should be used.
- 3.19 In Australia, questions were asked in Parliament and a petition was lodged in relation to the alleged continued use of four Australian Iroquois helicopters as offensive weapons against rebel forces in Bougainville in the early 1990s. As the Committee found in its 1991 report on the bilateral relationship, the most publicised and controversial action of the Australian government in support of the territorial integrity of PNG was the supply of the four helicopters to the PNGDF in mid 1989 at a crucial stage in the Bougainville crisis. The Committee believed that the helicopters were used subsequently in Bougainville for purposes other than those contained in the agreed conditions, which were for transportation, surveillance and medivac activities.<sup>19</sup>
- 3.20 As recently as 1996, the Committee's report of the proceedings of a public seminar on Australia's relationship with PNG highlighted the possible need to review aspects of the Defence Cooperation Program. It was suggested that Australia should reconsider its training assistance to the

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18 Department of Defence, *Defence Annual Report 1997-98*, 21 October 1998, Appendix E: Defence Cooperation.

19 R Smyth and N Burdett, 'In Need of Urgent Repair? Australia's Relations with Papua New Guinea', *Current Affairs Bulletin*, Vol. 73 No. 5, February / March 1997, p. 29. House of Representatives, *Hansard*, 15 October 1992, p. 2194 (Mack), 17 October 1994, p. 2162 (Mack / Punch) and 19 October 1994, p. 2432 (Mack / Bilney). Senate, *Hansard*, 3 November 1992, p. 2048 (Bourne / Evans). JSCFADT, *Australia's Relations with Papua New Guinea*, December 1991, pp. 193-196.

PNGDF—the overall training program, and training in peacemaking and human rights.<sup>20</sup>

- 3.21 It is interesting to note that the then PNGDF Commander, Major General Jerry Singirok, considered it necessary to reassure the general population on several occasions between May and July 1999 of the neutrality of the PNGDF in PNG's political affairs, following concerns of military intervention in politics expressed in particular by opposition leaders and the so-called G17 group of Islands MPs.

### **Australian Defence Involvement in the Bougainville Peace Process**

- 3.22 The contribution of the Australian Department of Defence (Defence) to the Bougainville peace process has to date been in the context of a whole-of-government approach in which DFAT takes the lead. In its initial submission, Defence explained that this approach has been essential, given the range of Australian foreign policy and strategic interests in Bougainville.<sup>21</sup>
- 3.23 In essence, Defence's main involvement has been in providing direct support for the former Truce Monitoring Group (TMG) and the current Peace Monitoring Group (PMG). The three Commanders of the PMG have been drawn from the Australian Defence Force (ADF). Support tasks have included transporting delegates to peace talks, providing monitors and logistic support to PMG operations 'on the ground', and providing policy advice to the Australian Government.<sup>22</sup>
- 3.24 The contribution of both the TMG and the PMG to the peace process is examined in detail in Chapter 5.

### **The PNG Economy and Structural Reform**

- 3.25 Australia's long-standing links with PNG, our large aid program, close defence relationship and a shared border in the Torres Strait, ensure that Australia continues to take an active interest in PNG's development and thus its economic management. Major economic problems pose a huge challenge to sustainable growth in PNG, and Australia's engagement with PNG in attempts to solve them has caused some strains in the relationship from time to time.

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20 JSCFADT, *Papua New Guinea Update*, op. cit., p. 40.

21 Defence, Submission, p. 226.

22 Ibid.

- 3.26 In an independent report commissioned by AusAID in 1998, the authors examined the PNG economy and its outlook for the future. The report, and a later update, highlighted the vulnerability of the small and commodity-based PNG economy to external economic pressures for at least the foreseeable future. At the micro level, a key factor that will determine the success of PNG's 1999 budget strategy, according to the consultants' update, will be whether or not a new Structural Adjustment Program (SAP) can be negotiated with the IMF and the World Bank:

Though PNG managed to get through 1998 without a new SAP it is likely to be much more difficult to do so again in 1999.<sup>23</sup>

- 3.27 During the term of the Skate Government, there were a number of regional and domestic factors which made economic reform an even more difficult task. The combined effects of the East Asia economic crisis, the severest drought in PNG's history, failed negotiations with the IMF and the World Bank on structural reform, decline of PNG's important forestry industry and consequent revenue shortfalls, the havoc wreaked by the tidal wave on the north coast in July 1998, and the burden imposed by settlement of Sandline International's claim against the PNG Government for compensation totalling around \$A38 million including costs, all had a devastating effect on the PNG economy. In desperation, the Government turned to Taiwan as a source of financial rescue.
- 3.28 The Australian media reported in July that Australian 'senior government officials' had urged the PNG Government to exercise caution in proceeding with diplomatic recognition of Taiwan in return for cheap loan funds.<sup>24</sup> In subsequent media reports, it was alleged that Taiwanese companies were to be given priority in tendering for lucrative infrastructure and resource projects, including the construction of the \$A3.7 billion gas pipeline to Queensland.<sup>25</sup> Against the background of an impending no-confidence vote when Parliament resumed, other reports at the time highlighted the major economic and political reform agendas expected to be launched by Mr Skate's ultimate successor, Sir Mekere

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23 AusAID, *Papua New Guinea: Coping with Shocks and Achieving Broad-Based Economic Development*, International Development Issues No. 52, May 1998, and *The Economy of Papua New Guinea*, November 1998, p. 16.

24 AAP, 2 July 1999, 'Australia warns off PNG on desperation Taiwan loan', and 4 July 1999, 'Australia ready to help if PNG situation worsens'; *Australian Financial Review*, 2 July 1999, pp. 1, 4; 'Row over Taiwan ties claim', *The [PNG] National*, 5 July 1999, p. 1, *The Age*, 3 July 1999, p. 2. See also commentary by Mary-Louise O'Callaghan, *The Weekend Australian*, 10-11 July 1999, p. 21. These press articles are contained in Exhibit 23, Folder A.

25 PNG *Post-Courier*, 'Taiwanese were to get priority', 20 July 1999.

Morauta.<sup>26</sup> On 21 July 1999, Sir Mekere announced that his government had rescinded the decision to grant diplomatic recognition to Taiwan.

- 3.29 One of Sir Mekere's first public statements after his election as Prime Minister was to confirm economic reform and restoration of investor confidence, as well as Bougainville, as high priorities for the new government. In a subsequent ABC Four Corners program broadcast on 26 July 1999, he stated:

My hope is to convince Bougainvilleans that it is worth belonging to Papua New Guinea [but] ... independence is not negotiable.

- 3.30 On 10 August 1999, the Prime Minister announced a K212 million supplementary budget designed to combat the drastic fall in the value of the currency, soaring inflation, rising interest rates and public sector over-spending. He also announced new revenue-raising measures worth K72.4 million.<sup>27</sup>
- 3.31 Bougainville has represented an enormous drain on PNG's finances, and on the ability of the central government to balance the needs of all 19 provinces in allocating scarce funding for a whole range of urgent development assistance and poverty alleviation programs. The potential impact on the PNG budget of the compensation payment to Sandline International in an out of court settlement announced in March 1999 was highlighted at the time by a range of media observers. The leader of the JSCFADT delegation to Bougainville, Senator David MacGibbon, also drew attention to the dimensions of the problem, when the Committee's interim report was tabled on 31 March 1999.<sup>28</sup>
- 3.32 During its visit, the delegation to Bougainville saw evidence of Bougainville's collapsed economy. Apart from the loss of the mining industries and revenues, economic collapse was evidenced by abandoned plantations, rusting and overgrown factory buildings and other business premises, and by disused or damaged wharf facilities. While freedom of movement is gradually returning, there is only limited trading and other commercial activity, apart perhaps from a brisk trade in scrap materials.<sup>29</sup>

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26 *The Sydney Morning Herald*, 30 June 1999, p. 12; *Asia Pulse*, 2 July 1999; *The Bulletin*, 27 July 1999, p. 33. Speaker John Pundari MP was also widely rumoured before the Parliament resumed to be likely to seek election as Prime Minister after briefly re-aligning himself with the Government.

27 *Asia Pulse*, 10 August 1999, *The Australian*, 11 August 1999, p. 8.

28 Mary Louise O'Callaghan, *The Australian*, 31 March 1999, p. 8 and 3 May 1999, 'Sandline payout to "help" PNG'; AAP, 1 May 1999, 'Mercenaries affair put to rest with \$38 million payout'; Senator D J MacGibbon, Senate, *Hansard*, 31 March 1999, p. 3248.

29 AAP reported recently (16 July 1999) that BCL has launched legal action to stop theft of scrap metal from the company's sites in Arawa, Loloho and Panguna.

The physical destruction of facilities as a result of the war in Bougainville has now been compounded by a severely weakened administrative capacity, in a province that was once regarded as having one of the best administrative systems in PNG.

- 3.33 Embryonic attempts to revive Bougainville's commercial life may be jeopardised by the dubious operations of pyramid-style banks. There are three such enterprises ('mangru banks') now operating in Bougainville, offering clients 100 per cent interest. According to the evidence of one witness, there is considerable potential for many small investors to lose money.<sup>30</sup> In mainland PNG, there are similar pyramid operations — including 'Money Rain' and 'U-Vistrak' — which were granted concessions by the Skate government. Media reports suggest that influential political figures were early investors in such schemes.<sup>31</sup> The PNG Government announced an inquiry into 'fast money' schemes, in August 1999.<sup>32</sup>

## IMF and the World Bank

- 3.34 The World Bank, the IMF and the Asian Development Bank (ADB) have been active participants in PNG's development programs. These international financial institutions were principal sponsors of the PNG Government's economic reform programs which were established in response to the economic crises of 1989-90 and 1994-95:

At the time, the direct participation of the international agencies in Papua New Guinea's reform efforts was instrumental in encouraging the mobilisation of additional financial assistance from bilateral donors, including Australia and Japan.<sup>33</sup>

- 3.35 In recent years, Australia has strongly supported PNG's engagement with the IMF and the World Bank on restructuring and stabilisation initiatives, and has agreed to provide balance of payments assistance in the form of bridging finance or government-to-government loans on several occasions in the mid 1990s as part of international packages of financial support.
- 3.36 The political turmoil in Port Moresby ahead of the resumption of Parliament in July 1999 severely hindered plans for economic recovery,

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30 A Regan, Transcript, 4 June 1999, p. 261.

31 *Australian Financial Review*, 'Unravelling Papua New Guinea Politics', 7 July 1999. *The Canberra Times*, 10 August 1999, p. 9.

32 AAP, 'PNG Government inquiry into fast money schemes', 25 August 1999.

33 AusAID, *Papua New Guinea: Coping with Shocks and Achieving Broad-Based Economic Development*, op. cit., p. 134. The report also points out that the value of the reform programs sponsored by the IMF and the World Bank is enhanced by the considerable technical assistance and expertise included in the reform packages.

particularly in terms of building investor confidence. For example, the international share float of the PNG company New Britain Palm Oil was cancelled, and a number of key IBM staff working on a major technical project for Telikom PNG were reported to have left Port Moresby.<sup>34</sup>

- 3.37 In announcing the intended visits of the Foreign Minister, Mr Downer and the Treasurer, Mr Costello to meet with senior government ministers in Port Moresby in July 1999, media reports also indicated that the Treasurer had strongly endorsed the decision by the PNG Government to re-engage with the IMF and the World Bank. Subsequent reports indicated that Australia had agreed to bring forward a payment to PNG of approximately \$30 million from within the budget support component of the bilateral aid program.<sup>35</sup>

## Provincial Government Framework

- 3.38 The Organic Law on Provincial and Local-level Governments was passed by the PNG Parliament in July 1995, introducing a new system of provincial and local government.<sup>36</sup> The Law provides for the abolition of separately elected provincial governments and the establishment of provincial assemblies with representatives consisting of national parliament members, heads of local councils, representatives of traditional leaders, women's representatives and up to three other members. The Law enabled a number of the central government's responsibilities to be transferred to the provincial assemblies, in an overall effort to improve the living standards of the bulk of the rural population.
- 3.39 As a special case, Bougainville was exempted from the provincial government arrangements which applied to the other provinces, although there was a 'sunset clause' which was due to expire on 31 December 1998. The Bougainville Transitional Government (BTG) was established by the PNG Government in 1995 as an interim provincial government pending resolution of the Bougainville crisis, subject to expiry at the end of December 1998. Without further constitutional provision being made, the

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34 *Financial Review*, 13 July 1999, pp. 1, 4.

35 *Australian Financial Review*, 'Australia gives PNG ties top-level priority', 28 July 1999, *PNG Post-Courier*, 'Australia vows K51 million aid', 30 July 1999 and 'Australia pledges loyalty to PNG', 2 August 1999.

36 Section 11 of the PNG Constitution provides that the Constitution and the Organic Laws are the Supreme Law of PNG. Organic laws are laws that are fundamental to the Constitution, but distinct from it. For an Organic law to be amended, it requires enactment of another Organic law or an amendment to the Constitution. See also A. Regan, Submission, p. 575-581.

Organic Law would automatically apply to Bougainville from 1 January 1999.<sup>37</sup>

- 3.40 In early December 1998 the Opposition failed to support the second vote on amendments to the Organic Law allowing members representing Bougainville in the national Parliament to hold office in the proposed Bougainville Reconciliation Government (BRG), which was a key element of the Lincoln Agreement.<sup>38</sup> In response, officials from the PNG Government and the Bougainville parties drafted an alternative agreement and constitution for the formation of the BRG.<sup>39</sup>
- 3.41 As the charter of the BTG expired on 31 December 1998 and could not be extended, and in the absence of enabling legislation for establishment of the BRG, the default position was that North Solomons Province would revert to the existing provincial government legislation applying to all other PNG Provinces, and John Momis would become Governor of Bougainville as Member for Bougainville Regional in the national parliament.<sup>40</sup>
- 3.42 The impasse led the PNG Government and Bougainvillean leaders to negotiate a revised strategy for establishment of the BRG. This strategy involved suspension by the NEC of Bougainville's provincial government, and placing the province under NEC control. On 15 January 1999, a Bougainville Constituent Assembly (BCA) was formed by Bougainvillean leaders with BIG Vice-Chairman Mr Joseph Kabui and former BTG premier Mr Gerard Sinato elected as Co-Chairmen.<sup>41</sup> The BCA's role was to act as an advisory body to the NEC, pending the election of a BRG and endorsement by the PNG Parliament when it resumed.
- 3.43 In the meantime, the Hon Sam Akoitai MP, as Special Minister of State, was given supervisory responsibility for the North Solomons Province. From the Committee delegation's own observations during the visit in March 1999, it was apparent that Mr Akoitai, a traditional chief from

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37 Further discussion of the application of the Organic Law to Bougainville, and the political debate at the time, is contained in the submission from Mr Anthony Regan, pp. 575-581, and in Chapter 4.

38 See Appendix G, paragraph 8.2.

39 DFAT, Submission, p. 493. The 'Draft Basic Agreement' and 'Constitution for a BRG', which were endorsed by the Bougainville Constituent Assembly in January 1999, are provided at Appendix J. Although the Basic Agreement has in turn been endorsed by the PNG government, the BRG Constitution, which was drawn up largely by the BRA / BIG in conjunction with officials from the former BTG, has not yet been endorsed.

40 DFAT, Transcript, 19 February 1999, p. 5.

41 BIG: Bougainville Interim Government.

Wakunai district, has the trust and support of a very wide cross-section of the Bougainvillean factions.<sup>42</sup>

## Constitutional Challenges

- 3.44 In January 1999, Opposition MP and Bougainville Regional Member, the Hon John Momis MP, who was denied the Governorship by the order to suspend Bougainville's provincial government, issued a legal challenge to the constitutional legality of the suspension. After an initial hearing in the National Court of PNG, the judge dismissed the application on 15 February 1999 and referred the constitutional questions to the Supreme Court. The Supreme Court ruled on 5 May 1999 that Mr Momis did not have standing to bring an action for interpretation of the NEC's suspension of the provincial government. Eventually, Mr Momis' challenge to the legality of the suspension of the Bougainville Provincial Government was dismissed by the Supreme Court on 20 July 1999, although apparently on technical grounds rather than on the substantive issues.<sup>43</sup>
- 3.45 In Bougainville, the Committee delegation observed that the Momis challenge had the public support of the Leitana Council of Elders, although the full extent of grass-roots support for the Council's stated endorsement was difficult to determine. Further, DFAT confirmed in evidence to the Committee that John Momis enjoyed wide support in the province, not only in Buka.<sup>44</sup>

## Political Leadership

- 3.46 This inquiry comes at a time of considerable political upheaval in Port Moresby. The leadership of former Prime Minister Skate had been under continuing pressure, with defections from the government coalition and the formation of new parties and alliances. Mr Skate avoided the threat of a vote of no-confidence by adjourning the Parliament from December 1998 until 13 July 1999.
- 3.47 In his two years as Prime Minister, Mr Skate dismissed two deputies and several ministers, reinstated Mr Haiveta and steadfastly refused to recall

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42 JSCFADT, *Interim Report*, op. cit., p. 8.

43 DFAT, Transcript, 19 February 1999, p. 5; PNG *National*, 6 May 1999 and 15 June 1999; PNG *Post-Courier*, 'Court dismisses Momis' challenge', 21 July 1999. See also: A Regan, Submission, pp. 582-583.

44 JSCFADT, *Interim Report*, op. cit., p. 7. DFAT, Transcript, 19 February 1999, p. 31.

Parliament before July 1999 in the face of sustained criticism (and a judgment of the Supreme Court in June 1999) that the premature adjournment of Parliament was unconstitutional. Towards the end of June 1999, 17 members of the PNG First party, including eight cabinet ministers, resigned to join a rival party led by Sir Mekere Morauta.<sup>45</sup>

3.48 The economic pressures facing Mr Skate's administration included high unemployment, 22 per cent inflation, increasing national debt and a currency whose value continued to decline, falling to record lows in May, June and July 1999.<sup>46</sup> During the period of his Prime Ministership, Mr Skate also survived numerous allegations of corruption and financial mismanagement. In April 1999, the Catholic Archbishop in PNG warned of rising discontent at the record of the Prime Minister in the areas of economic mis-management, political bribery and corruption, high inflation, breakdown in service delivery, rising unemployment and escalating crime levels.<sup>47</sup> Mr Skate's sudden resignation on 8 July 1999 was the culmination of mounting pressure on his leadership and the strong expectation that he would lose the vote of no-confidence the moment Parliament resumed.

3.49 However, despite these negative aspects of his leadership, Mr Skate received consistent praise, including from the President of the Bougainville People's Congress (BPC) and from Moses Havini, for his personal efforts to maintain the momentum of the peace process in Bougainville. As Mary-Louise O'Callaghan has written:

... his willingness to listen, to not stand on ceremony, has been a key reason why a decade of secessionist violence has come to an end and PNG's most intractable problem since independence appears closer than before to a long-term solution. As a contribution to the life of the nation this achievement, which eluded all three of Skate's predecessors, [should] not be underestimated.<sup>48</sup>

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45 *Sydney Morning Herald*, 28 June 1999, p. 5. The *Financial Review* reported on 4 December 1998 that Australia and New Zealand had urged the PNG Government to reconvene Parliament to pass legislation crucial to the formation of the BRG.

46 ABC News, <http://www.abc.net.au/news/newslink>, 12 May 1999. *The Age*, 3 July 1999, p. 1.

47 Archbishop Barnes, as reported by Asia Pulse, 1 April 1999. Mr Skate responded with a list of national priorities, which included Bougainville, as reported in PNG *Post-Courier*, 19 April 1999. The *Financial Review*, on 12 July 1999, summarised the Skate Government's economic and political failings as being attributable to Mr Skate's refusal or inability to accept and live within the international norms of economic and political discipline.

48 *The Weekend Australian*, 10-11 July 1999, p. 21.

- 3.50 Australia's Minister for Foreign Affairs has also placed on record the Government's acknowledgment of the important roles played by Bill Skate and the Minister of State, Sam Akoitai, in moving the peace process forward.<sup>49</sup>
- 3.51 The unpredictability of PNG politics was underlined during the extraordinary leadership manoeuvres and fluctuating allegiances of many MPs following Mr Skate's resignation. Party leaders had tried to prevent defections during the weeks before Parliament's resumption, by isolating groups of supporters at resorts, on boats and in one case by flying them to Cairns. During this time, a Skate government adviser was accused of trying to bribe Opposition MPs with cash inducements.
- 3.52 Immediately after his election, Sir Mekere announced five priorities for his government:
- Restoring integrity to PNG's political institutions;
  - Stabilising the value of the kina;
  - Restoring stability to the national budget;
  - Removing obstacles to investment and economic growth; and
  - Bringing the peace process in Bougainville to a successful conclusion.<sup>50</sup>
- 3.53 The Prime Minister has acknowledged the arduous task facing him:
- I need not remind any of you of the depths of the country's problems ... of the low incomes and low employment, the high prices, the deterioration in health and education. The sad truth is, the reality is even worse than it seems.<sup>51</sup>
- Indeed, Sir Mekere announced in July 1999 that PNG's ailing economy would need corrective action in the form of a mini-budget in August this year, to address the problems of growing inflation, a budget deficit of around K220 million (approximately \$A110 million) and interest rates remaining at 20 to 25 per cent.<sup>52</sup>
- 3.54 The impact on the Bougainville negotiations of the change of leadership and coalition partners in the central government is yet to emerge. However, Mr Kabui commented shortly after the election of Sir Mekere

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49 Hon Alexander Downer MP, House of Representatives, *Hansard*, 9 June 1999, p. 5157. See also M Havini, International Representative of the Bougainville Freedom Movement, Transcript, 13 April 1999, p. 124.

50 Reported in *The Sydney Morning Herald*, 16 July 1999, p. 16.

51 Reported in *The Weekend Australian*, Mary-Louise O'Callaghan, 17-18 July 1999, p. 26.

52 AAP, 19 July 1999, 'New PM to hand down mini-budget early August'.

Morauta that Bougainville did not want 'unpredictable politics' in PNG, as it would not help to resolve the conflict:

I hope this government will maintain the policies and achievements made so far on Bougainville through peaceful means by the People of Bougainville with the support and backing of the last government.<sup>53</sup>

- 3.55 In his first ministry, Sir Mekere retained Bougainville Affairs within the Prime Minister's portfolio, 'in order to give the peace process [his] personal attention and support' and has described the future of Bougainville as one of the greatest challenges facing the nation. A new Bougainville Peace and Restoration Office has been established as an agency responsible to the Prime Minister.<sup>54</sup> Australia signalled strong early support for the new government by scheduling visits by two senior ministers—the Foreign Minister and the Treasurer—in July 1999. In the following month, the Foreign Minister, Sir Michael Somare, was also appointed Minister for Bougainville Affairs.<sup>55</sup>

### **Lack of Bipartisan Support**

- 3.56 Progress on the Bougainville issue has not been helped by the lack of clear bipartisan support at the national government level, which has had more to do with the prevailing political instability in Port Moresby and the legalities of suspending the provincial government than disagreements over policies for a negotiated settlement of the Bougainville problem.<sup>56</sup>
- 3.57 During the Committee delegation's visit in March 1999, the members were made aware of the divisions that exist in Port Moresby on directions that should be taken to resolve the Bougainville situation. Although the delegation was unable to meet with Mr Skate while in Port Moresby, the impression was gained that he and the Special Minister of State, Sam Akoitai had made very positive personal efforts to keep the peace process moving forward.
- 3.58 On the other hand, the delegation gained the impression from some Opposition members in Port Moresby that, although a negotiated settlement of the conflict was broadly supported, there was inconsistent

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53 PNG *Post-Courier*, 'Peace effort must go on', 15 July 1999.

54 Asia Pulse, 'New Govt. faces big task to put PNG on road to recovery', 26 July 1999. PNG *Post-Courier*, 'Morauta takes on Bougainville as personal assignment', 27 July 1999. The Prime Minister's portfolio also includes Treasury, Finance, Information and Communications and the NEC.

55 PNG *Post-Courier*, 'The Chief takes on Bougainville affairs', 27 August 1999.

56 DFAT, Transcript, 19 February 1999, p. 32.

recognition of the need to pursue that goal without first resolving the legal position of the interim provincial government. At the national level, poor policy-making capacity and competing policy concerns may also be contributing to a lack of understanding in the national Parliament of the causes and outcomes of the Bougainville conflict (as Mr Regan has suggested in his submission), and to what the Committee delegation perceived as 'fairly grudging' acknowledgment of the need for persistence in pursuing the peace process.<sup>57</sup>

3.59 While matters of Government policy and internal PNG politics pertaining to the Bougainville situation are clearly ones for PNG alone, Australia is a very interested observer of the political processes involved, and offers advice and guidance from time to time. Past tensions in the bilateral relationship have underlined, however, the need for acute sensitivity in suggesting policy directions on matters which are rightly the sovereign concern of PNG.<sup>58</sup>

3.60 In its first public appearance before the Committee in February 1999, DFAT suggested, however, that there is evidence of bipartisan support for the peace process and a negotiated long-term political future for Bougainville:

It is bipartisan in the sense that the opposition, as far as we can tell, strongly believes in a peaceful resolution of the Bougainville conflict, has participated in the negotiations up until now, and has indicated that it had very few problems with the legislation that would have brought about changes to the PNG constitution to create a Bougainville reconciliation government.

The problem it has—and it supported John Momis on this—was with the PNG Government's decision to suspend the Bougainville provincial government. That is what it is testing in the courts ...<sup>59</sup>

3.61 Nevertheless, it is abundantly clear that bipartisan support for appropriate legislative action in the national Parliament is vital to the establishment of a formal provincial administration in Bougainville. The Committee believes that, although resolution of the Bougainville issue in the national Parliament is entirely a matter for the PNG Government, Australia should

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57 JSCFADT, *Interim Report*, pp. 12, 13. A Regan, Submission, p. 590.

58 Underlying tensions surfaced again in July 1999 when the PNG Government reacted sharply to media reports that Australia warned PNG to 'think again' about extending diplomatic recognition to Taiwan at the time negotiations were allegedly under way for large loans and grants to PNG under favourable conditions. In evidence DFAT emphasised the Australian Government's acknowledgment of PNG's sovereignty in such matters—see Transcript, 19 February 1999, p. 31.

59 DFAT, Transcript, 19 February 1999, p. 32.

do everything possible to encourage the PNG Parliament to adopt a politically bipartisan approach to moving the peace process forward. An example of such action would, for example, have included encouraging the PNG Government to recall Parliament earlier than the stipulated date of 13 July 1999, in order to enhance prospects for bipartisan action on Bougainville.

- 3.62 Once the political environment in Port Moresby regains stability under the new leadership, it would be helpful for the Australian Government to continue to press for bipartisan agreement on Bougainville. This might be most effectively achieved if undertaken as well through regional forums such as the Peace Process Steering Committee (PPSC), which comprises the PNG Government and the regional governments contributing to the PMG operations.
- 3.63 The impact of autonomy and independence issues on the peace negotiations is discussed in outline later in this chapter, as well as in more detail in Chapter 4.

## The Sandline Crisis

- 3.64 After the PNG Government's secret plans to use Sandline mercenaries in Bougainville were revealed by the international media on 22 February 1997, it was discovered that a proposal to hold a controlling interest in BCL (Bougainville Copper Limited) was central to the Government's plan to reopen the mine, as part of its long-term resolution of the Bougainville war.<sup>60</sup>
- 3.65 The Sandline debacle in early 1997 had the effect of reviving the focus on negotiated settlement of the Bougainville issue. Its failure represented the PNG Government's last attempt to find a military solution to the Bougainville conflict.
- 3.66 In his recent book, ABC correspondent Sean Dorney described the termination of the Sandline deal as providing a welcome circuit-breaker to the war on Bougainville. This assessment was endorsed by the Australian Foreign Minister at the book launch associated with a seminar in Canberra on transnational crime and the bilateral relationship. Mr Downer agreed that the Sandline affair had placed great strains on the bilateral

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<sup>60</sup> Mary Louise O'Callaghan, *The Weekend Australian*, 22 February 1997, pp. 1, 8. Sean Dorney, *The Sandline Affair: Politics and mercenaries and the Bougainville crisis*, ABC Books, September 1998, pp. 245-247.

relationship, but ultimately had proven to be a turning point for the better, and paved the way for a breakthrough in the Bougainville conflict.<sup>61</sup>

- 3.67 A more detailed discussion of the Sandline affair has been included in the history of the Bougainville conflict in Chapter 2.

## Autonomy and Independence Issues

- 3.68 Australia's consistent view in relation to Bougainville has been that issues of autonomy, independence and secession are matters for the PNG Government to resolve in discussions with Bougainvillean leaders. The Committee's interim report outlined this view in reference to informal meetings with a range of key participants in the peace process:

On several occasions, the leader of the [Committee] delegation made it clear that Bougainville's political future, and any aspects related to whether the Province should be granted varying degrees of autonomy, were entirely matters for the PNG Government to decide, in conjunction with the Bougainvillean leaders.<sup>62</sup>

- 3.69 The interim report also highlighted the central importance of the independence / autonomy issue for many of the participants in the peace negotiations, and expressed concern that failure to make progress in resolving differences on that issue could seriously hinder the peace process itself.<sup>63</sup>
- 3.70 Views relating to self-determination for Bougainville, and variations on the themes of independence and special autonomy arrangements, were presented in many submissions to the inquiry. The Bougainville Freedom Movement (BFM), for example, argued in its submission that the people of Bougainville were now 'united in their common aspiration for an independent homeland and called for the Government of Papua New Guinea to give the people of Bougainville, as a matter of principle, the chance to exercise their individual and collective rights to self-

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61 Sean Dorney, op. cit., p. 346. AAP, 11 November 1998, 'Downer says Sandline turning point in PNG relationship'. The seminar was organised jointly by the Australian Defence Studies Centre, the Australian National University, the PNG National Research Institute and the Australian Federal Police (Canberra, 11 November 1998).

62 JSCFADT, *Interim Report*, op. cit., p. 14. At a press conference in Port Moresby on 16 March 1999 the delegation leader, Senator MacGibbon, said that Australia's position had always been to support the integrity and sovereignty of the PNG Government, and that Australia had never supported separatist or secessionist movements anywhere in PNG.

63 JSCFADT, *Interim Report*, op. cit., p. 14.

determination'.<sup>64</sup> Similar views were expressed in individual submissions, from Ms Rosemarie Gillespie, Mr George Villaflor and Mr Alex Dawia, for example.<sup>65</sup>

3.71 On the other hand, DFAT stated that in its assessment most Bougainvilleans are actually quite comfortable with remaining part of PNG, but that 'they will want a greater say in their own affairs than they have so far had'. DFAT also indicated that there is a big question about the extent to which the PNG Government would be able to grant a larger measure of autonomy to Bougainville than it already has.<sup>66</sup>

3.72 Other submissions and evidence at public hearings highlighted the diversity of languages, cultures and traditions, and historical tensions within Bougainville itself. Hence, there is no certainty of a common purpose or unity on self-determination or indeed on many other issues. The diversity of the Bougainvillean experience and perspective has been described by Anthony Regan in the following terms:

Bougainville is made up of 19 language groups. No language group has ever constituted a political entity with centralised political authority. Rather each has long comprised small and still largely independent societies. The communities tend to be 'fragile', grouping and re-grouping as leadership changes or conflict occurs.

... Many differences in culture relate to places groups have occupied in the main ecological niches—coast, valley and mountain.<sup>67</sup>

3.73 A useful description of the historical background to Bougainville's present-day ethnic composition and the gradual development of a separate Bougainvillean identity is contained in Anthony Regan's submission and its attachments.<sup>68</sup> A map showing the geographical distribution of the 19 main language groups of North Solomons Province is shown on the following page.

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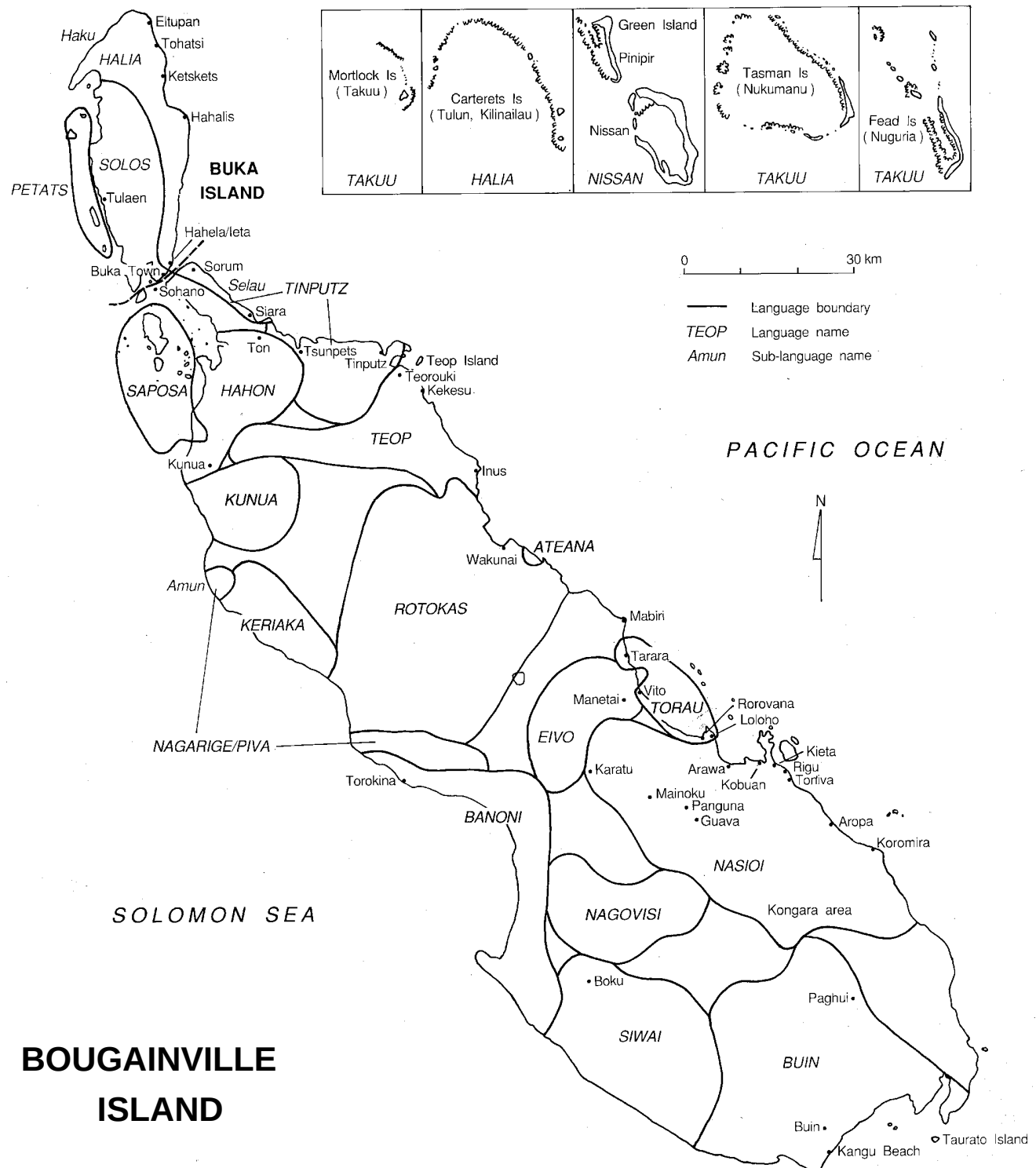
64 BFM, Submission p. 388.

65 R Gillespie, Submission, pp. 308-312; A Dawia, Submission, p. 10; G Villaflor, Submission, p. 91.

66 DFAT, Transcript, 19 February 1999, p. 4.

67 A Regan, Submission, pp. 544-545.

68 Ibid, pp. 547-549.

**Figure 3.1 North Solomons Province: 19 Language Areas**

Source: Cartography Unit, RSPAS. Map reproduced with the permission of Professor M Spriggs, Department of Archaeology and Anthropology, Australian National University, Canberra.

- 3.74 Many Bougainvilleans supported the idea of independence by the 1960s, although once the attempted secession of 1975-76 was resolved, independence was not a major issue again until 1988-89 when the PNG security forces responded with violence against Bougainvilleans. As Anthony Regan has written, with the withdrawal of the security forces in March 1990, the threat from outsiders became relatively remote, and so reduced in significance as a mobilising and binding force. As a consequence, divisions among Bougainvilleans became more significant, and intensified during the ten years of armed conflict.<sup>69</sup>
- 3.75 During the latter stages of Mr Skate's leadership, he and senior ministers held several meetings with Bougainville's leaders, as agreed under the terms of the Matakana and Okataina Understanding.<sup>70</sup> At a meeting in Buka on 30 June 1999, Mr Skate re-affirmed the Government's view on the so-called 'political issue', that full and separate independence for Bougainville was not an available option. However, he acknowledged the leaders' request for a referendum on the issue, and there were reports in the Australian and PNG press that the Government was working on a limited autonomy package for discussion with BPC President, Joseph Kabui, who was reported to have indicated that 'even if the people of Bougainville voted against independence at a referendum, the bottom line is still going to be the highest form of autonomy'.<sup>71</sup>
- 3.76 Acknowledging the personal contribution of Mr Skate towards continuing the peace negotiations, Mr Kabui was reported as stating that, although independence remained the ultimate goal, Bougainville's political leaders in the BPC had not stipulated a time-frame for its achievement.<sup>72</sup> The autonomy package being developed was reported as having bipartisan support, and was expected to give Bougainville greater control of its natural resources, finances, taxation system and possibly immigration, but not policing and defence.<sup>73</sup>
- 3.77 Chapter 4 examines further the impact of the 'political issue' on the peace negotiations.

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69 Ibid, pp. 546-547.

70 See Appendix K.

71 PNG *Post-Courier*, 1 July 1999. PNG *National*, 1 July 1999. *The Age*, 1 and 2 July 1999. Asia Pulse, 1 July 1999. *The Financial Review*, 2 July 1999. 'ABC World News' from Radio Australia, 30 June 1999. *The Sydney Morning Herald*, 13 July 1999.

72 'World News' from Radio Australia, 30 June 1999.

73 *The Age*, 'Bougainville Autonomy Bid', 1 July 1999. Asia Pulse, 'PM to Consider Referendum on Bougainville Autonomy', 1 July 1999.