

Introduction

- 1.1 On 6 February 2001, a National Interest Statement (NIS) relating to the 14 December 2000 *Loan Agreement Between Australia and the Independent State of Papua New Guinea* for the amount of US\$30 million was tabled in both Houses of the Parliament, in accordance with the provisions of the *International Monetary Agreements Act 1947* (the Act), as amended. The text of the NIS is contained in Appendix A.

The International Monetary Agreements Act

- 1.2 The Act, as amended by the *International Monetary Agreements Amendment Act 1998*, specifies the conditions under which the Australian Government may provide financial assistance in the form of a loan (or a currency swap) to a country undertaking an economic adjustment program supported by the International Monetary Fund (IMF).
- 1.3 Under the provisions of section 8D of the Act, the Treasurer, on behalf of Australia, is required to publicly release and table in both Houses of the Parliament a statement—the NIS—indicating the reasons why the loan agreement is in Australia's national interest, together with a description of its nature and terms. Section 8D also requires the Treasurer to table the NIS as soon as practicable after Australia has entered into the agreement under section 8C of the Act.¹
- 1.4 The essential elements of an NIS are specified in section 8E of the Act, which prescribes that the statement include:

1 If Parliament is not sitting when the Treasurer publicly releases an NIS, section 8C requires the Statement to be tabled as soon as possible after Parliament next sits.

- (a) a description in as much detail as practicable of the nature and terms of an agreement made under section 8C; and
 - (b) the reasons why the agreement is in Australia's national interest, with reference particularly to foreign policy, trade and economic interests.
- 1.5 Section 8C of the Act sets out the conditions under which Australian assistance may be provided in support of an IMF program in a recipient country. The Treasurer may enter into a loan agreement only if the IMF requests this assistance, and he/she is satisfied that at least one other government or organisation has provided, or intends to provide, financial assistance to that country in response to a similar request from the IMF. A further condition under section 8C is that the agreement must provide for Australia to be able to require early repayment of a loan in the event of suspension, or premature termination, of the IMF program.

Role of the Joint Standing Committee

- 1.6 Section 8F of the Act provides that an NIS tabled under section 8D shall stand referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT, the Committee), for inquiry and report within two months of the reference to the Committee.

The First Loan

- 1.7 An NIS for an Australian Government loan of US\$80 million to Papua New Guinea (PNG)—equivalent to A\$133.2 million—was tabled on 28 August 2000 in both Houses of the Parliament. The loan to which that Statement referred was executed on 21 June 2000.
- 1.8 The parties to the 21 June 2000 *Loan Agreement Between Australia and the Independent State of Papua New Guinea* were the Commonwealth of Australia, the Reserve Bank of Australia, the Independent State of PNG and the Bank of PNG. As explained in the NIS tabled on 28 August, the loan was provided to supplement assistance from the IMF to PNG's program of economic adjustment, involving a US\$115 million Stand-By Arrangement agreed by the IMF Board in March 2000.

The Committee's report of October 2000

- 1.9 On 30 October 2000, following the conduct of a public inquiry into the (first) NIS, the Committee tabled a short report of its findings. In the

report, the Committee concluded, *inter alia*, that if further loans were made under the Act, the material provided on Australia's national interest should contain greater breadth and depth. The Committee was also critical of the 'barest minimum of detail' provided on the terms and conditions of the loan.²

- 1.10 The report went on to express its concerns about the timing of the tabling of the NIS and hence the adverse impact on the Committee's ability to examine the loan arrangements effectively. Accordingly, the Committee recommended that the Act, as amended in 1998, be further amended to ensure that Parliamentary scrutiny of loans proposed under its provisions occurs before such loans are executed.³ Nevertheless, the Committee supported the execution of the loan.
- 1.11 The Government's response to the Committee's previous report was tabled on 8 March 2001. In that response, the Government accepted the Committee's suggestions for improving the content of the NIS by providing additional detail on the terms and conditions of the loan, inclusion of a chronology and by providing greater detail on Australia's relationship with PNG. However, the Government did not accept the Committee's recommendation to amend the Act so that the Committee would have the opportunity to examine the NIS before a loan is executed.
- 1.12 This is a disappointing outcome, since the Committee's primary concern had been that the existing legislation does not facilitate meaningful Parliamentary scrutiny of the NIS before the particular loan has become a *fait accompli*.

The Second Loan

- 1.13 In the first NIS tabled on 28 August 2000, the Treasurer stated that the Government had announced in June that year an intention to provide additional financial assistance to PNG of up to US\$30 million in three equal tranches. In the second NIS dated 14 December 2000 and tabled on 6 February 2001, the Treasurer again stated that the Government had decided at the time the first loan was announced to provide two separate

2 JSCFADT, *Australian Government Loan to Papua New Guinea*, October 2000, pp. 40, 42. The matters required to be included in an NIS are described in paragraph 1.4 above.

3 *Ibid*, p. 42.

loans in support of the International Monetary Fund's 14-month Stand-By Arrangement, which commenced in March 2000.⁴

- 1.14 The second loan, which was executed on 14 December 2000, directly linked provision of the loan funds to the satisfactory completion by PNG of the first three program reviews under the Stand-By Arrangement. The first review was completed on 13 October, and the PNG Government consequently gained immediate access to the funds under the first tranche (equivalent to A\$18.9 million) as soon as the second loan was executed.⁵

NIS dated 14 December 2000

- 1.15 In broad terms, the NIS explaining the second loan to PNG is similar to the one tabled previously in relation to the first loan, but with additional explanatory information. In a press release issued on 19 December, the Treasurer announced that the loan contributes to the replenishment of PNG's international reserves, allows for lower PNG Government debt to the Bank of PNG, and underpins the PNG Government's economic reform and its efforts to achieve good governance.
- 1.16 The NIS, which is the subject of this inquiry, noted that the Loan Agreement with PNG complies with the provisions of section 8C of the Act (see paragraph 1.5 above).⁶ Detailed discussion of the material provided in the NIS is contained in Chapter 2.

Loans Chronology

- 1.17 As stated in the second NIS, the steps taken since the tabling of the first NIS on 28 August 2000 were:
- 13 October 2000: IMF Executive Board approved the first program review of the Stand-By Arrangement which, subject to the execution of the Agreement for the Australian loan of US\$30 million (on 14 December), triggered the first US\$10 million tranche of Australian support, valued at A\$18.9 million;

4 For further information regarding the Stand-By Arrangement and the World Bank's US\$90 million Structural Adjustment Loan, see the first NIS tabled on 28 August 2000 (p. 3), the second NIS dated 14 December 2000, tabled on 6 February 2001 (pp. 3-4), and the transcript of previous evidence presented by the Treasury at a hearing on 12 September (Transcript, p. 3).

5 NIS, 14 December 2000, p. 3 (see Appendix A). Treasurer's press release no. 115, 19 December 2000. The IMF's Executive Board is currently scheduled to complete the further program reviews in January and March 2001.

6 NIS, 14 December 2000.

- 30 October 2000: Tabling of the JSCFADT report into the 21 June 2000 loan of \$US80 million to PNG;
- 14 December 2000: Execution of the US\$30 million loan from the Commonwealth of Australia to the Independent State of PNG. Other parties to the Agreement were the Reserve Bank of Australia and the Bank of PNG.

The Bilateral Relationship

- 1.18 The Committee's previous report included an overview of the current situation in PNG, together with an assessment of the Australia-PNG relationship. The importance of the Morauta Government's political and economic reform programs to the bilateral relationship and their significance to the Australian Government's current loans arrangements were also discussed in detail in that report.⁷ The report also highlighted the significance of Australia's bilateral trade and investment relationship with PNG as well as the continuing importance of Australia's aid program to PNG as a high proportion of total overseas development assistance.⁸
- 1.19 Given the comprehensiveness of the framework material presented in that report, it is not proposed to revisit those issues in the current report, except to the extent that the situation in PNG may have changed since the previous review. These aspects are discussed further in Chapter 2.

Conduct of the Inquiry

- 1.20 In view of the Committee's review and report towards the end of last year on the first loan to PNG, the Committee decided that it was not necessary to again advertise the second inquiry in the national press. Instead, the Committee wrote directly to the primary contributors to the first inquiry—Treasury, Department of Foreign Affairs and Trade, the Australian Agency for International Development (AusAID), the Research School of

7 JSCFADT, op. cit., Chapter 2. In evidence, DFAT made reference to passage of the Central Bank Act, the Banking and Financial Institutions Act, the Privatisation Amendment Act, the Organic Law on Political Parties and Candidates and to promulgation of guidelines for the Rural Development Fund (Transcript, 12 September 2000, p. 5).

8 JSCFADT, op. cit., pp. 24-25. Australia currently provides around \$300 million in aid to PNG each year, equivalent to almost half the bilateral aid effort and to a fifth of Australia's total aid program.

Pacific and Asian Studies at the Australian National University (ANU), the PNG High Commissioner and the Australia-PNG Business Council—informing them of the proposed inquiry and requesting written submissions.

- 1.21 The Committee decided that a public hearing would be necessary to examine the second NIS, particularly in light of press reports that the visa of the World Bank's representative in Port Moresby had been cancelled, continuing uncertainties regarding the major PNG-Australia gas pipeline project and the uneven progress achieved in some elements of the Morauta Government's reform agenda. Accordingly, a public hearing was held in Canberra on 9 March 2001. The written submissions made to the Committee are listed in Appendix B.⁹ Witnesses who appeared at the public hearing on 9 March 2001 are listed in Appendix C.

Focus of the report

- 1.22 Chapter 2 examines Australia's national interests in the context of the second loan to PNG, as well as the nature and terms of the second Loan Agreement. The chapter also states the conclusions reached by the Committee following its second review of the Agreement, re-affirms the previous recommendation to further amend the Act, and considers interim arrangements should additional loans be made to PNG (or any other recipient country) before the Act has been amended.

9 Most of the submissions are available through the Committee's website under 'current inquiries': www.aph.gov.au/house/committee/jfadt