

CHAPTER ONE

Introduction and conduct of the inquiry

Referral of the inquiry

1.1 On 13 March 2002, the Senate established an inquiry into Australia's relations with Papua New Guinea and the islands of the south-west Pacific¹ to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report by 12 December 2002.

1.2 On 12 November 2002, the Committee sought and was granted an extension of time to report on 26 June 2003. However, as the Committee was subsequently granted approval to travel to a number of the islands in May 2003, the Committee sought and was granted on 25 June 2003, an extension of time to report to 12 August 2003.

Terms of reference

1.3 The Senate referred the following matters to the Committee:

Australia's relationship with Papua New Guinea and the island states of the south-west Pacific (known as Oceania or the South Pacific), with particular reference to:

- (a) the current state of political relations between regional states and Australia and New Zealand;
- (b) economic relations, including trade, tourism and investment;
- (c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- (d) the implications for Australia of political, economic and security developments in the region.

1 These islands include: New Caledonia, Vanuatu, Solomon Islands, Nauru, Fiji, Tonga, Samoa, Tuvalu, Tokelau, Kiribati, Cook Islands, Niue, Federated States of Micronesia, Marshall Islands & Northern Mariana Islands.

Conduct of the inquiry

Advertisement

1.4 The Committee advertised the terms of reference in *The Australian* on 1 June 2002, with the original closing date for submissions being 11 June 2002. However, as the inquiry sparked strong interest, and in order to ensure that all individuals and organisations' views were able to be heard, the Committee removed any 'closing date' for submissions. It continued to receive submissions up to August 2003.

Submissions

1.5 The Committee received 93 submissions, including supplementary submissions. These are listed at Appendix 1.

Public hearings

1.6 The Committee held eight public hearings and four *in-camera* hearings. Public hearings were held in Canberra, Brisbane, Sydney and Melbourne. A list of the Committee's public hearings, together with the names of witnesses who appeared, is at Appendix 2.

Briefings

1.7 The Committee received a detailed briefing from officers of the Department of Foreign Affairs and Trade, AusAID, Austrade and the Department of Defence prior to departure on its fact-finding mission to Papua New Guinea and the Pacific, detailed below.

Committee 'fact-finding mission'

1.8 Early in the inquiry, it was made abundantly clear from PNG and Pacific sources that, if the report of the Committee was to have any credibility, then it would be essential for the Committee to visit the region. The Committee therefore, took a decision to approach the President of the Senate to seek approval for such travel on the basis of the importance of the region to Australia's on-going relations and interest. Travel overseas is not standard practice for Senate Committees both in terms of available resources, but more particularly because an Australian Parliamentary Committee does not have any powers to conduct public hearings outside of Australia.

1.9 The President reiterated the issues outlined above but offered his support if the Committee chose to put its proposal to the Prime Minister and the Minister for Foreign Affairs. On 31 January 2003, the Committee wrote to the Prime Minister, the Hon John Howard MP and the Minister for Foreign Affairs, the Hon Alexander Downer MP seeking approval for the Committee to travel to Papua New Guinea and the Pacific as an Additional Parliamentary Delegation. On 7 March 2003, the Committee received approval from the Minister for Foreign Affairs and on 21 March 2003, the Committee received approval from the Prime Minister. The Committee subsequently also received approval from both Presiding Officers of the Parliament.

1.10 The Committee travelled to Samoa, Tonga, Fiji, the Solomon Islands and Papua New Guinea from 22–31 May 2003. The Committee would like to express its sincere thanks to the Government for its support of this very important inquiry and for facilitating the travel of the Committee, including the provision of an RAAF aircraft for travel to the more isolated areas. In particular, it facilitated a visit to Honiara which otherwise would have been impossible. This visit was timely in view of the ‘cooperative intervention’ that Australia subsequently made in the Solomon Islands in July 2003.

1.11 The Committee members and the inquiry benefited enormously from the experience and reports from Australian diplomatic missions and in the media indicate that the visit was very well received in Papua New Guinea and the Pacific.

1.12 Appendix 3 details the Committee’s visit, with a comprehensive itinerary and photographs. Many of the aspects of the Committee’s discussions during the visit are highlighted throughout this report.

References

1.13 References made in this report are to individual submissions as received by the Committee, not to a bound volume. References to the Committee *Hansard* transcript are to the Official *Hansard* report of public hearings.

Acknowledgments

1.14 The Committee would like to acknowledge the assistance of the Parliamentary Library in providing statistical and analysis services. The Committee also thanks all witnesses, and departmental officers for their contributions.

1.15 The Committee extends its special gratitude to the diplomatic posts, the High Commissioners of Samoa, Tonga, Fiji, the Solomon Islands and Papua New Guinea, and their staff and AusAID for their assistance in making the Committee’s travel both highly productive and informative. The Committee considers Australia to be well served by the professionalism and enthusiasm of our representation in the region.

Structure of report

1.16 In its deliberations, the Committee agreed that its report should consist of an analysis of the major issues confronting Papua New Guinea and the Pacific as a region and then specifically address the issues the Committee considered particularly important to individual countries. Therefore, the Committee has structured its report under the following sections:

- Section One: Economic issues
 - Chapter Two—Economic and social overview
 - Chapter Three—Australia’s economic relations with PNG and the Pacific
 - Chapter Four—Australia’s development assistance to PNG and the Pacific

- Chapter Five—Sustainable development, environmental management and disaster management
- Section Two: Political and strategic issues
 - Chapter Six—Australia’s political relations with PNG and the Pacific
 - Chapter Seven—Security and transnational organised crime
 - Chapter Eight—Australia’s knowledge of the region
 - Chapter Nine—New Zealand’s relations with Australia and the region
- Section Three: Chapter Ten—Country specific issues.

1.17 The Committee realises that Australian aid, economic, political and security relationships are inextricably linked and therefore, despite the division of issues into individual chapters, there are inevitably numerous links between chapters.

Scope of the inquiry

1.18 Any parliamentary inquiry seeking to address Australia’s relationship with the Pacific region confronts significant challenges. These include questions of methodology, access to data, testing of opinions and evidence and gathering local advice, to say nothing of the variety of economic, environmental, cultural and social issues that warrant attention.

Although island nations often conjure up images of paradise, they are among the most ecologically and economically vulnerable. The Pacific region and the key development issues affecting it are often misunderstood. The colonial era has left a legacy of administrative and development priorities, which are westernized, centralised, costly and which most often bypass village and rural development. Development issues in the Pacific vary from country to country and depend upon a range of geographical, historical, cultural and other contextual factors. However, in common, is the challenge of attempting to reconcile the desire for economic growth and material goods with environmental sustainability, without destroying the local identity and social and cultural values of the people.²

1.19 Pacific island nations are experiencing a period of rapid social change characterised by uncertainty and instability as a result of environmental and development pressures. There are numerous issues for these countries to contend with during this time, such as:

- increasing social and economic inequality;
- corruption;
- high unemployment—particularly for youth;
- ethnic tensions;

2 *Submission 19*, p. 3 (OXFAM Community Aid Abroad)

- environmental degradation; and
- declining health, education and living standards.

1.20 With these considerations in mind, the Committee sought to assess how effectively Australia's assistance in the region was addressing these issues and in what ways Australia might in the future, assist these countries to achieve a level of sustainability.

1.21 The Committee acknowledges that the difficulties of working in and relating to the entire region are many, particularly given the diversity of culture and physical characteristics. To this end, the Committee was keen to avoid generalisations and has considered issues specific to each country in a separate chapter.

1.22 It was clear to the Committee from the evidence presented, and most starkly from the Committee's visit to the region, that PNG and the countries of the Pacific have enormous potential for prosperous development. The challenge is to effectively harness the enthusiasm within the region to adequately support the realisation of the ideal.

Themes

1.23 In its deliberations, the Committee agreed that its report should be based on three central themes: Australia's engagement with Pacific countries, Australians' knowledge of the region and good governance. These concepts were highlighted throughout the inquiry as underlying most issues confronting Australia's relations with Papua New Guinea and the Pacific. These concepts are developed further below but they also influence much of the Committee's commentary later in the report.

Engagement

1.24 The Committee considers positive and regular engagement with PNG and Pacific island nations by officials, organizations, firms and private institutions to be fundamental to a constructive and prosperous relationship.

1.25 The Committee sought to consider all facets of Australia's engagement with PNG and the Pacific island nations, including the effectiveness of that engagement and the extent to which Australia was adding value to the development of the region. The Committee was conscious of the role played by non-government organisations and the importance of religion in the region and therefore considered the extent to which Australia's engagement extended beyond official government and agency links to engage the community.

1.26 The Committee was presented with an enormous range of information about Australia's engagement in the region. However, there appears to be a lack of sufficient information in relation to PNG and the Pacific in the areas of:

- economic and social statistics;
- trade and investment opportunities;

- environmental indicators;
- crime and terrorism intelligence; and
- Pacific political relationships.

1.27 Such information is vital to the development of informed policy. The Committee discovered that whilst information is available in some of these areas, it is lacking in others.

Knowledge

1.28 In relation to knowledge, the Committee sought to determine the extent to which the usual means of awareness raising—primarily the media and education—were successful in engaging Australians’ awareness about Pacific issues, or in conveying an adequate account of the richness and diversity of Pacific island cultures, of their political and economic circumstances, and of their inhabitants’ views of Australia as a regional power.

Good governance

1.29 The Committee endorses Australia’s focus on good governance and regards the efficiency, effectiveness and transparency of institutions and governments to be fundamental to the region’s wellbeing.

1.30 The Committee has addressed the impact of the governance agenda on PNG and Pacific island nations. In particular, the Committee sought to consider whether or not the governance agenda in the region adequately takes account of the cultural diversity in the region and whether adequate measures were in place to assist countries with the adjustment that inevitably comes with reform.

Committee’s approach to the recommendations

1.31 The Committee deliberated at length about how to frame its recommendations in the light of the many challenges within the region. Broadly, the Committee agrees with the current policy settings. In the subsequent chapters, we set out recommendations where we think those policy settings can be adjusted to improve the economic and social conditions within the region. Mindful of the trends illustrated by the tables and discussion in Chapter Two—Economic and social overview—it appears that, notwithstanding all of the efforts being made, the region is in decline with some countries on the brink of collapse and others on a slower yet inexorable downward path. Of course, there are some who buck the trend. Samoa is one of those.

1.32 As a consequence, the Committee gave thought to its own role in making recommendations. Clearly, we have a review function. Senate inquiries are also opportunities to put forward proactive, perhaps all-encompassing ideas, which, while they may not be perfectly developed, nonetheless raise issues for public debate and an alternative vision for policy direction.

1.33 In this Report, we make two tiers of recommendations. Firstly, we put forward a global recommendation about a Pacific economic and political community.

Secondly, we put forward a series of recommendations which relate to the current policy settings and which seek to tighten and improve them. If our first proposal is adopted, we believe that each of the recommendations made to improve current policy can also be picked up. They are complementary to the broader global idea in our first recommendation. However, global proposals require political will to pursue them and time to win the necessary support to provide a basis for realising them. If our first proposal is not adopted, then we would urge that all other recommendations in this Report, which can be implemented immediately, be proceeded with.

1.34 Apart from our first recommendation, all the other recommendations stand by themselves and our justification for making them appear in the chapters that discuss the issues leading to those recommendations. Our first recommendation, however, requires some further elaboration.

1.35 The Committee considered whether it should put forward a firm proposition as a positive proposal or whether it should take the more conservative course of explaining the idea behind the recommendation and promoting it for public discussion and debate. There was a view in the Committee that we should take the more radical approach and recommend that a Pacific economic and political community be established. This view argues that not only is the idea worthy of consideration but also action in support of it needs to be galvanised or it will simply fade.

1.36 In the event, the Committee has taken the approach of putting forward the idea of an economic and political community for public debate. We have done so because insufficient evidence and analysis has been received by our inquiry to enable us to be categorical about all of the likely issues the creation of such a community raises. This approach, while adopted by the Committee, should be seen as perhaps a more prudent, but nonetheless determined way of advancing the idea of a Pacific economic and political community.

1.37 The discussion concerning the feasibility of a Pacific economic and political community is set out in full in Chapter Three. In essence, it proposes a Pacific community which will eventually have one currency, one labour market, common strong budgetary and fiscal discipline, democratic and ethical governance, shared defence and security arrangements, common laws and resolve in fighting crime, and, health, welfare, education and environmental goals.

1.38 Our concept of such a community is one which recognises and values the cultural diversity of the region and the independent nations within it, and takes into account the differing levels of growth and development of each country.

1.39 This recommendation is based on the following considerations:

- The economic and social problems of the region are worsening.
- Australia has a responsibility to assist nations in the Asia Pacific region.
- If sustainable regional economic growth can be achieved issues of governance, international crime, law and order, regional security and the

health and well being of people living within the region, and in Australia, will improve.

- The region is made up of 16 countries which are independent and sovereign entities whose independence is respected.
- Many of the countries suffer the problems that arise in small nations with micro economies. To obtain sustainable economic growth, reform needs to be pursued across the region by all nations taking into account the special issues affecting small countries.
- While all nations have the right to pursue their own economic goals, each nation has an obligation to the other countries in the region to achieve economic reform and sustainable growth.
- If the region continues to decline, the costs to Australia of dealing with the consequences will be much greater than the costs to Australia of moving to establish a community which can increase regional prosperity.

1.40 All of the evidence our Inquiry obtained agreed at least on one point: Australia has an obligation to assist the Pacific states to protect their security and stimulate their economies. Many of the reasons in support of this proposition are equally transferable to small economies off the north and west coasts of Australia, such as East Timor.

1.41 The arguments in support of our regional obligations can be categorised in at least three ways: our shared history and links with the region; Australia is the major economic power and security presence in the region; the region is vital to Australia for defence and security, protection from terrorism, protection from organised crime and drug trafficking, and for health and security from disease, and from an environmental and ecological point of view.

1.42 Notwithstanding Australia's obligations, there is a considerable cost incurred in living up to them. The actual cost of Australia's role in the Pacific is probably unknowable and certainly extends well beyond budgeted outlays for foreign aid in the region. Security costs are buried in general outlays in the Defence and Security portfolios. The cost of organised crime, drug and criminal penetration of Australian society is spread across Commonwealth and State, Customs, police, courts, prisons, rehabilitation, health and other outlays, and in unmeasurable social costs. The costs of diseases finding their way into Australia are met within the general outlays on health and welfare budgets, and in the suffering incurred.

1.43 While the Committee accepts Australia's obligation to the region, the Committee is also mindful that the more economically self-reliant the nations in the region become, the more likely it is that governance improves and the more the security, policing, health and environmental obligations can be met. Better outcomes on these issues means less costs to Australian taxpayers.

1.44 A further hidden cost is the damage that competing economic policies within the region can cause. One example of regional policy conflict which impinges on Australia's economic efficiency involves the conflicting positions taken in the current

Doha Round of world trade negotiations. In this Round, Australia in its own right, and as Chairman of the Cairns Group, is committed to removing agricultural protection in Europe and elsewhere in the world. This is being challenged by the ACP—African, Caribbean and Pacific—group that represents most of the world’s least-developed economies. Currently, Australia, Thailand and Brazil have taken an action in the WTO against protection in the European sugar industry. This has caused the ACP group to criticise Australia and defend EU agricultural protection.

1.45 In the context of the Doha Round with its heavy emphasis on developing countries, Australia and the Cairns Group is faced with opposition from the least-developed world over liberalising European agriculture. The more European levels of protection decline, the less value preferential access is to ACP countries and the more competitive are efficient producers like Australia.

1.46 In the present case, there is nothing to stop the EU continuing to provide the same relative value of preferential access to ACP countries. Obtaining such an agreement from Europe would be more beneficial to the ACP Group than defending European protection to Australia. Australian economic efficiency would be helped considerably by ending protection in agriculture. A more economically efficient Australia is in a stronger position to meet our obligations to the region. The more countries in the region support high levels of agricultural protection in exchange for preferential access, the less pressure there is for them and the Europeans to reform their own markets and the more they hobble Australia’s capacity to be a good neighbour.

1.47 For this and other similar reasons, the Committee believes that a central plank for a Pacific economic and political community is one of rights and obligations. If Australia has an obligation to the region, and the region has a right to expect Australia to play its role, then the region also has an obligation to Australia to work towards economic reform and efficiency.

1.48 The Committee believes that the idea of a Pacific economic and political community is worthy of public debate and further research. The idea of a single currency has appeal because it would save many small economies from having to manage their own currencies and duplicating central bank functions. However, the Committee believes the implications for Australia of a single currency need to be further considered. Our strong preference is for a regional single currency to be the Australian dollar.

1.49 The Committee is also mindful that the idea of a single labour market will be contentious. Elsewhere in the Report, we recommend a pilot program for giving island communities access to seasonal work in Australia. Support for our recommendations came from the business community who argue there is a gap in the Australian labour market for this type of worker. The Committee also believes that, if Pacific island people were to have controlled access to the Australian labour market in this form, then incomes repatriated back to their countries of origin would help create the basis for a stronger and less dependent local economy. In short, this is a better way of supporting economic development than simply giving aid. However, the Committee

believes that there are many issues about a single labour market that require further study and analysis and recommends that this be done.

1.50 Budgetary and fiscal management practices vary throughout the region. The Committee is of the view that, while obtaining greater budget certainty is part of the general policy of “good governance”, nonetheless a Pacific economic and political community that had as one of its key principles effective budgetary and fiscal discipline, is important in promoting sustainable economic growth, and a fairer distribution of benefits.

1.51 The Committee believes that the decision on whether to join a Pacific economic and political community should be a decision for each country and that the benefits of such a community would be considerable. That leaves open the question of what Australia’s obligation is to countries that choose to remain out of such an arrangement. This is not an issue we have directed our attention to. It is something to be considered if the proposal for such a community were to gain official acceptance.

1.52 Finally, we believe the question of how to go about establishing a Pacific community is a matter for more detailed consideration. The attitude of New Zealand to this proposal will be a very important determinant on how viable this idea is. New Zealand views should be carefully ascertained. Also decisive, will of course, be the views of Pacific Island countries and PNG. At this stage we believe, the idea has merit and is worth further research, analysis and debate.

Recommendation 1

That the idea of a Pacific economic and political community which recognises and values the cultural diversity in the region, and the independent nations within it, and takes into account differing levels of growth and development, is worthy of further research, analysis and debate. Such a community should be based on the objectives of:

- sustainable economic growth for the region;
- democratic and ethical governance;
- shared and balanced defence and security arrangements;
- common legal provisions and commitment to fight crime;
- priority health, welfare and educational goals;
- recognition of and action for improved environmental standards; and
- recognition of mutual responsibility and obligations between member countries of the community.

Over time, such a community would involve establishing a common currency, preferably based on the Australian dollar. It would also involve a common labour market and common budgetary and fiscal standards.

Recommendation 2

The Committee recommends that an Eminent Persons Group be established, with access to specialists from Australia, New Zealand, PNG and the Pacific Island Countries to investigate the proposal for a ‘Pacific Economic and Political Community’. The Group should meet with all governments in the region to gauge the desire of countries to move in such a direction.

Issues outside the Committee’s terms of reference

1.53 A number of submissions and discussions referred to matters which were primarily outside the terms of reference of the inquiry, and are generally not discussed in the report. These include issues relating to the Indonesian province of West Papua and questions regarding West Papuan self-determination.

1.54 Whilst the Committee recognises that Papua New Guinea’s border with West Papua is particularly relevant to the inquiry, the issues raised in relation to West Papua have only been considered to this extent (see Chapters Seven and Ten).

1.55 The Committee notes that the Joint Standing Committee on Foreign Affairs and Trade is conducting an inquiry into Australia’s relationships with Indonesia. Submissions and evidence received by this Committee concerning West Papua have been forwarded to that inquiry.



Senator the Hon. Peter Cook
Chair

