

ABC Radio Australia Interview with Ross Garnaut 14 January 2013

By Jemima Garrett

GARRETT: Ross Garnaut, Welcome to Radio Australia and thanks for joining the program.

GARNAUT: Very good to be with you, Jemima.

GARRETT: The PNG government has banned your entry to the country and you have had to bring forward your resignation as chairman of Ok Tedi. Why did you have to resign?

GARNAUT: As I set out in my resignation letter the ban meant that I could not interact face to face with other Directors and with senior management of the company. There are some things that can be handled electronically from a distance but there are several very important issues that Ok Tedi can't delay indefinitely. One of these is Board consideration of whether or not to approve the Mine Life Extension, and there are very complicated environmental issues to consider. The management team and consultants have done a very good job, a very thorough job of testing that out, but it is the responsibility of the Board to assess that, to assess whether the risks are acceptable and how any risks line up against community impacts. So that can't be delayed much longer and that needs face to face communications with other directors and members of the management team. There other big issues that I mention in the letter that are also in need of attention. So, seeing there was no prospect of imminent release of the ban it was wise in my judgement to hand over to a chairman who could address those issues and see them through to a conclusion.

GARRETT: The temperature on this issue has gone up a notch with documents revealing that BHP Billiton is blasting PNG over the ban on you, and over Prime Minister O'Neill's allegedly holding BHP's application for exploration licences as hostage to this issue. What is the way out of this impasse?

GARNAUT: On BHP's communications, those communications are back in November. Certainly, my ban was a low point for Australian diplomacy generally, a low point for PNG development and a low point for PNG democracy. But, on Friday with my resignation, that passed into history. The important thing now is that this ban comes to be seen as a misstep along the

path of the development of the Papua New Guinea state. The important thing now is that things like this never happen again, that a government never again seeks to exercise leverage against legitimate international corporate interests through the misuse of immigration powers. If it became an accepted precedent, the retention of the precedent would introduce a major new element of sovereign risk, a barrier to PNG development and a recurring volcano in bi-lateral relations.

GARRETT: Now, you say you want Australia to negotiate a bi-lateral or a regional agreement that will prevent a repeat of this situation - what do you envisage exactly?

GARNAUT: Oh well, I am not going to second guess the officials and ministers that have responsibility for this, I will just put on the agenda the crucial importance of making sure this never happens again. And Australia is the regional power that is in the best position to lead the development of rules that could prevent the arbitrary use of incidental powers that could seriously disrupt international business and development.

GARRETT: BHP has come out pretty strongly on this but does it have a leg to stand on considering it created the environmental catastrophe at Ok Tedi that we have seen there?

5:59 GARNAUT: Well, let's be clear the BHP communications to the Papua New Guinea government, ..er to the Australian government, were private and BHP has not taken a public stand on this. So, let's not get involved in what were private communications. But, more generally, BHP did create very large problems with the environment at Ok Tedi. They recognise this and announced an intention to close the mine down back at the beginning of this century. That would have been very disruptive to communities in the region who, after the mine was developed, went from being what were once, close to the poorest people on earth with life expectancy at birth just about the lowest anywhere on Earth up in those Star Mountains, to people with access, in the North Fly, to health services, employment opportunities, incomes, educational opportunities that were well above those elsewhere in Papua New Guinea. So the communities made it clear that precipitate closure of the mine would not be what they wanted. Similarly the mine played a central role in the Papua New Guinea economy. There were times when it accounted for 20-25% of GDP, which is more than the total mining, manufacturing and agricultural sectors of Australia put together. It still accounts for a very high share of GDP.

It was, by far, the main source of revenue and became a much bigger source of revenue, after 2004, with higher copper and gold prices, although that probably wasn't anticipated at the time. But anyway, the government wanted to find ways of keeping the mine open and so BHP put a lot of effort into developing, with the Papua New Guinea government, with the agreement of the Papua New Guinea government of the day, a set of rules that would provide a good chance of what was going to be certainly the largest act of corporate philanthropy, the donation of this mine for charitable development purposes in PNG, to give that a reasonable chance of succeeding under good governance rules. It was also very concerned to make sure that if it agreed to the continuation of the mine after its departure, it was under governance arrangements that could ensure responsible management from an environmental perspective from a safety perspective. This is a huge industrial undertaking in a remote environment and any slippage in governance would lead to potentially very large problems. BHP went to great lengths in the rules for PNGSDP to ensure that there was the best possible chance of the new arrangements leading to good governance of the mine and the funds generated by it. Subsequently, I think the experience of PNGSDP and of Ok Tedi, has borne out the wisdom of the Papua New Guinea government of the day and BHP, in setting up these rules. There has been a very large effort in environmental remediation, a billion dollars spent since the hand over. There's been a very careful management of finances so that PNGSDP has developed as a model for good governance. If there is ever to be a successful sovereign wealth fund in PNG it will need to be governed as well as PNGSDP's long term fund. It is a model of good governance. It is unlike the public enterprises in PNG with their poor record on audit, on transparency, on accounting for monies within their responsibility. And the mine has run well with very high safety standards, excellent financial and technical performance, and as I mentioned, effective high priority given to environmental management, which is not to say that the historical legacy was a small one or that it has gone away. Material that was put in the river a long time ago continues to go down the river and to cause problem, that is part of the historical reality, but I think that BHP can feel that it did what it could, once it recognised the problem, to make up to Papua New Guinea communities for the damage that had once been done.

11:38 GARRETT: The Papua New Guinea Sustainable Development Program is at the heart of this dispute and Prime Minister O'Neill says it should be a PNG-based, PNG-run organisation. Doesn't he have a point 10 years since BHP left Ok Tedi?

GARNAUT: Well, I am not sure this will be a continuing issue, Jemima. I think everyone has an interest in it not being a continuing issue. In the past the Prime Minister made a number of points. It is clear from his statement to the parliament that his ban on me was one of those points but all of the of the boundaries have been tested, there is a new Chairman in place, both for PNGSDP and for Ok Tedi, and it is in everyone's interests now that the existing arrangements work as effectively as they can for Papua New Guinea development. PNGSDP is a Papua New Guinea organisation. Its headquarters is in Port Moresby. It is registered in Singapore for good reasons that are on the public record. It manages an international long term fund but has been investing an increasing proportion of that onshore in Papua New Guinea, as investments become available that fit responsibly into a low risk portfolio. In management of the long-term fund the crucial thing is that the money is there for keeping development going in Western Province after the mine closure. Every mine closes one day, although some go on for a very long time. Ok Tedi won't be an exception. There was an important Commission established by the World Bank under eminent Indonesian, Emil Salim, to investigate the impact of mines in remote locations on development and the conclusion of that was that the standard mine that created a lot of activity and infrastructure for a while, and then closed leaving dislocation, did more harm than good. There is good prospects of Ok tedi not being like that because the money is in the long term fund and it requires careful low-risk management of that fund to make sure that it is there for keeping development going after mine closure. But it is all based in Papua New Guinea. Increasing proportions of the long-term fund are invested in PNG. There is development expenditure now running at the rate of 100 million a year, 100% of that in Papua New Guinea. The Chief Executive has always been a Papua New Guinean. The majority of the board are Papua New Guineans so it is a Papua New Guinea organisation.

14:46 GARRETT: What future do you see for PNGSDP if it loses the independence it has at the moment?

GARNAUT: Well, let's not speculate about things that, I hope, are unlikely to happen. The rules are robust rules, not easily changed. The Prime Minister has expressed confidence in my presence with the new Chairman of the Board of PNGSDP, at the time the new Chairman and I advised him of the change of arrangements way back at the beginning of October and we shouldn't presume that the unfortunate ructions of recent times will continue. If the current arrangements continue to work, and that is what we all hope, and that is what

will be best for Papua New Guinea, then Papua New Guinea will have something that lots of poor developing countries don't have and that is some pluralism in the development effort; a development agency that is not part of the system of government that can introduce some variation in the way things are doing. It also will have a development organisation, a development partner, that is able to take very long term perspectives. In Papua New Guinea every important development takes a very long time to reach fruition, whether you are talking about a new mine, a new gas field, a new large-scale agricultural development or development of rural institutions for community development. One of the problems of standard aid and, frankly, one of the problems of government programs is it is very hard to maintain expertise, personnel and consistent perspectives over long periods of time. PNGSDP can do that as a development partner of the government and the resources under its control are large enough for that to make a substantial positive contribution to Papua New Guinea development.

17:03 GARRETT: Papua New Guinea's former Prime Minister Sir Mekere Morauta has been nominated to take over from you as Chairman of both Ok Tedi and PNG Sustainable Development. What sort of job will he do?

GARNAUT: Oh, Mekere is eminently well qualified for those roles. For those of your listeners who don't know his background he was the first Papua New Guinean Secretary of Finance and Treasury. Just before independence he ran those departments. Actually, they were in one department at the time, before the split of Treasury from Finance. He ran those departments with high proficiency for over a decade. That was a period known for strong financial and economic management in Papua New Guinea, as recognised by the World Bank and other external observers at the time. He was subsequently Managing Director of the Papua New Guinea Banking Corporation, subsequently Governor of the central bank, the Bank of Papua New Guinea. He has been Prime Minister through a remarkable period of reform of financial institutions at the beginning of this century that stood the test of time. Sir Mekere has also been on the Board of Ok Tedi in the first few years, ex-officio when he was Secretary for Finance and when BHP was in the driving role so he has got a strong background to run those two organisations very well.

GARRETT: Ross, we are running out of time so I might get you to keep your answers very short and I'll turn now to the more broad economic issues.

Papua New Guinea is in the throws of a resources boom much bigger proportionately to that which is going on in Australia. Just how much of an opportunity is this for PNG to lift itself out of poverty?

GARNAUT: Oh, it is a huge opportunity. It really began with a lift in commodity prices from about 2004. At first the impact on the national economy was principally through revenues from Ok Tedi which rose enormously from substantial but moderate levels to levels, which took it for a while, well above the total contributions of Australian aid. The Ok Tedi contribution is very large still. The high gold prices made other gold mines in Papua New Guinea major contributors to revenue and in the last few years we have had very large levels of resources investment boosting economic activity. The contribution to revenue will come later on. There is always a substantial lag in that but a big immediate boost to general economic activity. So this is a great opportunity. Whether or not it is transformational in a positive way for PNG development will depend on the quality of financial management and the quality of implementation of development programs.

20:33 GARRETT: You've said good governance is crucial to this. What lessons can be learnt from the experience of PNG Sustainable Development?

GARNAUT: I think it stands there as a model of good governance. You can see that in the careful auditing, the careful accounting for everything that is spent, the transparency with which it operates. And it is good for Papua New Guinea to have successful domestic models. As I've mentioned, PNGSDP is a Papua New Guinea program and company. It shows you can high levels of good governance within a Papua New Guinea organisation.

GARRETT: Some people might be surprised to hear that you say one of the biggest enemies of good governance in Papua New Guinea is people in Australia who indiscriminately criticise the country. What makes you say that?

GARNAUT: Well, in Papua New Guinea, right from the early days of independence there has been a great struggle for development going on. Development from the base that PNG had at the time of independence is very difficult.

GARRETT: Interruption –Sorry Ross I've just had people breaking in there. I might just ask you that question again to get over ..is that your phone?

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22:38 GARNAUT: The general background to those sorts of remarks which over the years I have made a number of times is that development is hard in Papua New Guinea. It was always the case that successful development would take generations. You've got to build institutions, many of them from scratch. You've got to gradually spread education. The rules that guide a successful democracy and a successful market economy don't emerge naturally in any human communities. They were hard to build in the West. They are hard to build everywhere. And so successful development is always the result of a struggle between people with different perspectives different motivations, giving different priorities to probity and good governance and that struggle has been intense in PNG all along. PNG is very fortunate to have a strong civil society, a lot of it based in the vibrant Christian churches, but going well beyond that. There are always people ready to stand up for good governance, to criticise poor governance, to make self-sacrificing contributions to the development of institutions, to constrain corruption and poor governance more generally. What helps Papua New Guinea, from foreigners is for foreigners to take a deep interest in all of that, to recognise the nuances, to recognise that things are never all good or all bad and to know enough about Papua New Guinea, to understand enough about Papua New Guinea, to discriminate in their comments between the things and the people that are positive and the things and the people that are negative. What has tended to happen is that relatively few Australians have put the effort in to understand all of those nuances in Papua New Guinea and you tend to get either indifference or strong general negative comments not directed at particular issues that need to be addressed. A blanket indiscriminating condemnation of Papua New Guinea undervalues and demoralises those who are working in selfless ways for the public interest and provides cover for those who are not.

GARRETT: You have been particularly critical of the Australian media. Why is that?

GARNAUT: Well really the same points and I wouldn't only make those comments about the Australian media but there are very few people within the Australian media who recognise a story about Papua New Guinea as having worth unless it fits into a few stereotypes; the stereotype of violence, the stereotype of corruption, the stereotype of environmental degradation. The

true stories of development in PNG are about contests over all of these things with people working for different objectives but it takes quite a lot of effort to understand the nuances. Few people in the media are prepared to put that effort in but I think even more fundamentally the consumers of the products of the media aren't interested in that sort of detail in PNG so that encourages the presentation of stereotypes. That is deeply damaging for Papua New Guinea development.

27:06 GARRETT: Papua New Guinea has a very active young generation of activists and leaders who are contributing to the national political debate. How important are they to whether PNG is able to make the most of this resources boom?

GARNAUT: They are crucial. And that is part of the story I have already mentioned. There are a lot of people, not only young people, young and old, but certainly a lot of young people, highly motivated, better educated than the new generation and those before them who want to see development in PNG, want to see equity, want to see good governance, want to see democracy work. There is a lot of them and the international community should be prepared to put in the effort to recognise who they are and support them.

GARRETT: What action would you like to see from Foreign Minister, Bob Carr, or from the Gillard government, to improve the way Australia relates to Papua New Guinea?

28:09 GARNAUT: Oh the general point I'd make is, first of all Papua New Guinea is enormously important to Australia. It's got more people than New Zealand and the number of people growing very rapidly. It is right on our doorstep. A successful PNG is a very important partner for Australians of future generations. An unsuccessful PNG is an immense problem on our doorstep. Just imagine the problem that the Caribbean and Central America has been for the United States, from time to time. When you have instability and problems on your doorstep ... well Papua New Guinea, proportionately, is many, many times larger than those Caribbean and Central American countries to America. But I'd emphasise the positive gains that Australia would get from having a successful, vibrant prosperous democracy on its doorstep and there are prospects for that. The most important things Australians have to do is to understand that development in PNG and in other countries but PNG is the one we are talking about, and the one that is most important for Australia, is complex. You've got to put a lot of effort into understanding the dynamics of

development. Secondly, we should be engaged in being helpful to development on the basis of knowledge and not ignorance. Thirdly, it is crucially important that we treat Papua New Guinea and Papua New Guineans with respect. And respect starts with accepting the complexity of things and putting effort into understanding them, understanding the complex realities, and one dimension of respect is to be able to straight-forwardly and constructively put alternative views to those you are hearing from a PNG leadership. So the fourth requirement is that we are not supine in our relations with PNG.

30:20 GARRETT: You have said you are an optimist about PNG, but not a starry-eyed one, where do you hope to see the country in ten years time?

GARNAUT: Well, I can tell you where I hope to see it and where I think it might be but whether or not it is there depends on struggles that will work themselves out in PNG over the next ten years. Let me say that some of the goals and aspirations that Prime Minister O'Neill has articulated would be a very important contribution to successful outcomes. But with good governance, with good management of the financial consequences of the resources boom, with effective implementation of carefully thought-out development efforts, Papua New Guinea in a decade's time could have the basic transport and communications infrastructure that makes broadly-based development possible. It is possible that in ten years' time we could be well along the way to raising the quality of education of large numbers of people to the international standards that will be necessary ...

(Line drops out and has to be re-established)

GARNAUT:that will be necessary for any country Papua New Guinea included, to be successful in the competitive world of the 2020's. Education is a long term job so it won't be the whole of the PNG education system that can be raised to acceptable levels within a decade but by then some institutions could be at those standards and some Papua New Guineans could be recipients of good education, whereas few who get all of their education in PNG at the moment are able to do so. On health the PNG general standard is poor at the moment and standard measures of health outcomes, like life expectancy, put PNG towards the bottom end of the developing world. PNG will have the resources and the opportunity to raise those health levels over ten years towards the middle of the developing country range of standards and

that would be a major improvement for the Papua New Guinea people. I think all of these things are possible and they are worth working for.

GARRETT: Papua New Guinea's Prime Minister in his latest budget has put out a big agenda which is hoping to achieve just these things. What do you see as positive in that budget and what are the risks?

GARNAUT: I think the government's focus on infrastructure is a good one. There has been too little focus on maintenance of existing infrastructure assets as well as development of new ones in the resources boom so far. It has only really been in the resources boom, since about 2004, that PNG has had the financial capacity to do much in this area but now it has got that financial capacity. Of course, successful development over long periods of time has to be based on macro-economic stability so the very first condition of successful development is running an economic policy that maintains stable monetary and financial conditions and the main risk I see in the current budget is the sudden, within one year, extraordinarily high level of growth in public expenditure, the most rapid growth since independence in any budget and the very high budgeted deficit, I think the highest budgeted deficit since independence, at a time when the economy is still being buoyed up by exceptionally high resource incomes and activity and there may be some dip in that. So the risks I see are mainly to do with macro-stability. Papua New Guinea has people who understand these risks and I wish them well in managing them.

GARRETT: Ross Garnaut, thanks for sharing your thoughts with Radio Australia.