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2018 PNG UPDATE: PNG IN THE YEAR OF APEC

Professor Stephen Howes and Professor LN Pillai (eds.)

Front Cover:
The UPNG New Lecture Theatre
(Photo: Shannon Young)

Back Cover:
The Hon Charles Abel MP
The Hon Ian Ling-Stuckey MP
Mr Nelson Atip Nema, Mr Rohan Fox, and Professor Stephen Howes
Dame Meg Taylor
(Photos: Shannon Young)

Inaugural Address

The Hon Charles Abel MP, Treasurer and Deputy Prime Minister



Good morning, and thank you for the opportunity to present the inaugural address at the 2018 PNG update.

It's certainly a fantastic new lecture theatre so let's give a round of applause to the Australian government. And one for the PNG government!

I want to thank the University of Papua New Guinea (UPNG) and The Australian National University (ANU) for continuing to host this initiative, and the Australian government and people for the sponsorship through Australian aid.

I think it is wonderful and a sign of Papua New Guinea's maturity as a nation and economy that we can come together, debate and hopefully better understand the challenges facing our country today.

I would like to congratulate the organising committee from ANU and UPNG, notably:

- Professor Stephen Howes of the Development Policy Centre at ANU and Professor Lekshmi Pillai, Executive Dean, School of Business and Public Policy UPNG
- Mr Vincent Maliabe, the Acting Vice Chancellor UPNG, council members and staff
- Sir Charles Lepani, Chairman of the APEC 2018 Coordinating Authority, Ian Ling Stuckey, Shadow Minister for Treasury and Finance
- Dame Meg Taylor, Secretary General, Pacific Islands Forum

- All visitors, participants, speakers, students and friends.

I'm honoured to be invited to this campus once again, having spoken on different occasions here including a previous PNG Update if I'm not mistaken.

I am looking forward to robust debate on all of the key issues raised by the organisers. We have a variety of interesting sessions ranging from land, macroeconomy, health, agriculture and many others, ending in a session on the digital economy. The backdrop to all this is the main theme of "PNG in the year of APEC."

The fortunes of this institution, with its decorated legacy, mirror the fortunes of our nation. The history and progress of this country will always deeply involve the University of PNG.

Challenges will always come and go, but continue to be vigilant in your commitment to this great institution and its standards, whether you are a council member, student or member of the teaching staff or administration.

My daughter Courtney is part of the current cohort of law students, so I'm your Deputy Prime Minister and Treasurer but also a concerned parent. Papua New Guinea cannot compete on the world stage without quality institutions imparting quality education to our children. We still have so much work to do at UPNG and within our education system in general to achieve the required international standards.

I've had an opportunity to travel to the United States, Asia and Israel recently. One thing which continues to strike me as I compare countries is that we have one of the best education systems in the world on our doorstep in Australia. I really believe we need to integrate our education system more with the Australian system, bring more lecturers over here, and teachers into our schools and vice versa. I also believe we should have more PNG grade 10s accessing boarding schools and universities in Australia like in previous years. I have written to the High Commissioner Bruce Davies on this and will take up with my counterpart treasurer, Scott Morrison and Foreign Minister Julie Bishop when we meet next week.

The people to people engagement between our countries that we always talk about needs more realisation. I'd really like to see Australia give us visa on arrival status. There should be more Australians in PNG and more Papua New Guineans in Australia. We need to accelerate the education of our young people, the quality of English spoken and written expression, the adoption of the latest technology and systems by greater interaction with the Australian people and education system.

Another significant and related element in terms of global integration and access to knowledge and accelerating education is a modern ICT infrastructure network. I gave a speech to open the ICT forum recently and emphasised the critical importance of the new 20 terabyte cable from Sydney, and the domestic submarine cable and terrestrial fibre optic network. Access to cheap, speedy internet, means access to knowledge and education. It's a no brainer. It's a part of the 25-point plan, and the procurement of the international cable is underway, again with the help of our Australian friends.

Events such as the 2018 APEC meeting are also about global integration, participation and knowledge sharing. We need modern capital and technology to develop. It is a bold undertaking by our small country to introduce ourselves to the world and we are committed now. We need to take full advantage of it.

The obvious point I'm making here is the importance of education and an educated population. It is the key because we have all the other elements necessary in the development equation. The standard of our human capital is hindering the speed of the transformation to a modern economy delivering the minimum socio-economic standards.

The Asia Pacific region is becoming increasingly significant in terms of the global economy and trade. There is an obvious dynamic going on with the rise and rise of China in particular. We need to be fully aware of this in terms of the opportunities and challenges it represents. Traditional relationships, development assistance, business and trade, are all shifting.

We want trade and investment. We appreciate concessional financing. But we also hold dear democracy and its principles and institutions. We like free press, freedom of speech and human rights. Many of these foundations still remain fragile and we need our traditional partners to remain fully engaged in the region and with us.

Events such as this forum, APEC, the Asia Pacific Caribbean Forum, the Pacific Games, the U20 Women's World Cup and the Rugby League World Cup games, encourage people to come to PNG and see and judge for themselves the opportunities and challenges of our country. They can see that we are an open, democratic country with many opportunities and a lot of potential. Challenging some of the negative stereotypes of our country is not easy and will take time. Post-colonial thinking combined with the advent of rampant social media can certainly make it harder for people to see beyond the rhetoric and look at the direction the country is heading in.

PNG has experienced a sustained period of political stability since 2002, when the National Alliance-led government under Sir Michael Somare completed almost two full terms, due in part to the Morautu government-instituted legal changes that limited movements of Members of Parliament between parties. These provisions have been since deemed unconstitutional.

The O'Neill-led governments of 2011/12, 2012 to 2017 and current coalition have sustained under the relatively original provisions of the constitution unlike previous governments. Political stability is a prerequisite for development, and this was demonstrated in the experience since independence in the constant changes through motions of no confidence which made it extremely difficult for any sort of constructive governance.

I don't think the constitutional architects who wrote the provisions for motions of no confidence really envisioned the manner in which they were ultimately used. The current opening grace period of eighteen months used to be six months in the original constitution. The O'Neill/Dion government tried unsuccessfully to amend the grace period to thirty months.

Political stability is important but not at the cost of political entrenchment of course. The mechanism of motions of no confidence is fine but the various hurdles such as the number of members required to activate a motion must not be so low as to make it potentially frivolous. A weak party system that we still have, in conjunction with an easily activated no confidence process and short grace periods, can lead to election mandates being usurped.

So, political stability under our Prime Minister has enabled us to test our policies in the last six years. We are also able to compare these with the National Alliance (NA) led government, which was in power for nine continuous years, or other governments. It is also noteworthy that Somare-led governments previously also add to this period tally in terms of Somare leadership. Sir Cecil Abel by the way was one of the founders of the Bully Beef Club and a great friend of Sir Michael.

The NA government, particularly in its second term, enjoyed huge revenue flows from a commodity boom and built up large trust account balances that unfortunately, and despite some good intentions, were rapidly spent without much to show for it. When I came in as Planning Minister in 2012, the Sweep taskforce was investigating much of the abuse that had happened at the Department of Planning, and we had to review the method of pooling and distributing funds from programs such as the National Agriculture Development Program and the Rehabilitation of Education Sector Infrastructure.

Despite the wastage the NA government got debt down and delivered the PNG Liquefied Natural Gas (LNG) project. The current low-price environment is revealing some flaws in the project agreement, and of course we did not provide for domestic market obligations or local content obligations. Nevertheless a massive achievement which will bear more fruit one day.

When the O'Neill/Namah and then O'Neill/Dion government took power we began a deliberate program to create a larger resource envelope and invest heavily into infrastructure, education, health and law and order. This commenced with the Tuition Fee-Free (TFF) policy in 2011.

The government pursued a policy of deliberate deficit budgets to continue fiscal stimulus after the PNG LNG construction phase, and to bridge the gap until production began. There was much excitement and anticipation leading into first gas because it was touted that our revenues would double.

Well, it's an old story now that oil prices collapsed immediately after production commenced. We then faced the El Nino drought, devastating earthquake and national elections.

The good news is that there has been significant and visible improvements in our productive capacity through infrastructure in terms of roads, the major sea and airports, hospitals and schools. This stimulates the economy and makes services more accessible. Our economy is slowly becoming more diversified, and revenue reliance on the mineral and petroleum sector has greatly reduced.

The bad news is that against the growth in GDP, particularly related to the PNG LNG project, against which we spent many hundreds of millions for the equity investment and landowners' commitments, we have not had the corresponding revenue growth whilst the interest burden and cost of the public service has grown.

So with these experiences behind us, the O'Neill/Abel government is responding through the 100 Day/25 Point Plan, commencing with the 2017 supplementary budget and now the 2018 budget, with measures to:

- Increase revenue to 14.6% of GDP and beyond
- Restrict costs to 16% of GDP
- Maintain a debt to GDP ratio below 35% and bring budgets back to balance over time
- Bring on the PNG LNG expansion project, Papua LNG and Wafi Golpu project under an improved fiscal template
- Progress internal generation of cheaper, cleaner and more reliable power and reducing reliance on imported diesel
- Progress the local production of rice, stockfeed, dairy, vegetables, eggs and meat, particularly to reduce imports and forex demand
- Address the forex shortage through central bank intervention, new project acceleration and debt restructuring to bring in the balance of the Credit Suisse loan, the World Bank budget support and the ADB health loan and budget support (signed yesterday)
- Fix the Highlands Highway (\$1bn ADB Multi Tranche Financing Facility)
- Complete the Lae and POM sea ports and activation of an international operator
- Support SMEs
- Meet our commitments to free education, health and the provincial governments and districts.

We need to continue to give due attention to institutional governance, especially around accountability and procurement, and also corruption. The Prime Minister will be making some announcements shortly on the activation of ICAC.

The sweep of government accounts has not only raised significant revenues that we can use for frontline services, but also reduces our domestic financing costs as we were previously borrowing this money back from the banks who held these surplus funds.

The government is also committed to getting a fairer share of returns on our natural resources whilst appreciating the significance of resources such as our forests, tuna stocks and biodiversity in a global sense as explained in the national strategy for responsible sustainable development or stars.

The Alotau Accord highlights the high population growth rate as a development priority, and new programs in health with the World Bank and the Asian Development Bank (ADB) emphasise access to family planning in conjunction with our good friends in the United Nations Development Programme (UNDP) and our NGO partners.

With the impact coming through of our 25 Point Plan interventions as captured in the

2017 supplementary and 2018 budgets, and the oil price sustaining above US\$70 per barrel, the indicators are looking promising. If it were not for the massive earthquake affecting gas, oil and gold production, at current prices we were certainly looking at outdoing the 2018 budget revenue projections. We will publish a mid-year financial outlook report shortly to see how we are tracking.

We have had some tough times and that is exactly why government responded as it did straight after the elections.

I believe the APEC event will cap off a year of recovery for our country in spectacular fashion.

Let us have some constructive ideas at this forum, negative and positive views but always in a constructive, solution-driven spirit.

This conference starts by looking at something as fundamental and traditional as land and ends by looking at something as modern as the digital economy. I think this perfectly encapsulates what PNG is about, a country with deep traditional and cultural roots that is able to both embrace the riches of its past with the opportunities of the future.

Thank you to the speakers, participants and audience. Thank you UPNG. A special thanks to those overseas friends who continue to support events such as these and support our beloved country PNG. May you gain satisfaction and fulfilment from your efforts in return.

Thank you.

