

The next six months will bear close watching by international companies with current or potential interest in Papua New Guinea (PNG). The recent election of a new Prime Minister, James Marape, and appointment of a new Cabinet have come at a time when the country is facing serious budgetary challenges and an existential issue in the form of a vote in October on the future of Bougainville. A significant new element has also emerged in the form of questions about the future of government policy on a range of resources issues. The Australian Government, which in addition to issues affecting sizeable Australian investment into PNG, has concerns relating to the growing Chinese presence in the Pacific and the future of the refugee processing centre on Manus Island. Australia has made early efforts to engage with the new Government, including a visit in late June by Australia's Foreign Minister Marise Payne.

Prime Minister James Marape has had extensive ministerial experience, especially as a long-term finance minister. Yet his appointment represents some generational change in PNG's political leadership. He was closely involved in many of the O'Neill Government's policies, including its poor approach to macroeconomic policy and the budget; however, Marape is now seeking to differentiate himself on issues like corruption, landowner rights and the importance of agriculture in the lives of ordinary Papua New Guineans.

In his first weeks in office, Marape has made a number of statements about his approach to foreign investment. These have contained affirmations of positive attitudes to investment, but a dominant theme has been his view of the need for signals about benefits to flow to Papua New Guineans, and especially to the Government coffers and resource owners. In early statements, Marape has said that legislation governing the country's resources, specifically in the extractive industries, would be reviewed, but this would be done in consultation with industry and would not be rushed. He was looking to introduce a new legislative framework by 2025 that is, after the next national elections, due in 2022. In a further reassuring note, he has said that he would not seek to unwind existing contracts. A more equivocal note has been struck in relation to the \$14 billion Papua LNG project, which will be reviewed to ensure it was concluded in accordance with all applicable laws. Marape and the new Petroleum Minister, Kerenga Kua, have given indications that a review could lead to a re-opening of negotiations. The government has also announced that it will review fly-in-fly-out arrangements.

Notwithstanding the rather mixed signals emerging in these early days, a positive element is an extended timeframe which Marape has indicated, especially when seen against the background of serious industry concern about earlier proposals to amend the mining legislation. In 2018, a mining spokesman warned that proposed measures affecting royalties, fly-in-fly-out practices, acquisition of projects, length of mining leases and licences, and other elements would be serious deterrents to current and future operations. Overall, the impression is that the new government, while sending clear signals about the need for the country to get a better and more tangible return from resource exploitation, is also working on speaking up its investment-friendly credentials. A clear message has yet to emerge about where, and how far, the changes in this direction might lead.

The new government will face other serious issues affecting the economy. Many elements affect PNG's business environment in strongly negative ways, including foreign exchange shortages, a severely degraded public service, a highly over-valued currency, rampant corruption, security concerns and high-cost inputs. These have contributed to what the World Bank describes as a largely unfavourable business environment. Marape, as a former finance minister, is well aware of these considerations and, among other measures, has announced that legislation will be introduced to establish an Independent Commission Against Corruption.

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Marape has also signalled more intense attention towards the country's agricultural sector, which though the mainstay of the majority of the population, has been overlooked as governments have focused on the resources sector. It will be more difficult domestically to take on other elements like the currency valuation, which delivers cheap imports, or the much-abused system of distributing development funds through members of Parliament. Budget discipline will also be sorely needed, but it is too early to judge whether Marape will redress some of the egregious negatives evident in recent years, including the severe underfunding of, and cuts to, education and health. There are also serious questions regarding the policies of recent years; including neglect of agriculture, running up of debt to unprecedented levels, poor investment decisions and appeals to nationalistic sentiment.

The future of Bougainville is a major item on the national agenda this year and has profound implications for the future of PNG as a country. The island's inhabitants will vote in October on their future, either as an independent entity or a province with enhanced autonomy. The National Parliament will then consider next steps, bearing in mind that Bougainville independence could potentially affect separatist sympathies in other provinces such as New Ireland. Marape and the National Government are taking a measured approach, stating that they will listen to the people of Bougainville while also making clear the view that the country would be better with Bougainville remaining within it.

At the same time as the political manoeuvring over the referendum, there is ongoing controversy about the future of the Bougainville copper mine, which was a central factor leading to the civil war on the island thirty years ago. Handling these various factors will be a severe test for the new National Government during the remainder of 2019 and probably beyond. The Australian Government will also be watching these developments closely, bearing as they will on the future unity, security and stability of PNG.

The Australian Government will have other preoccupations with the new government in Port Moresby. Marape has, in early statements, reaffirmed in familiar terms the positive nature of the relationship with Australia. Foreign Minister Marise Payne has done likewise following her visit to Port Moresby and Bougainville in June. Canberra will remain concerned about the future of the refugee processing centre on Manus Island, and the new government in Port Moresby has already given signs that it is ready to twist the kangaroo's tail on this sensitive issue, with an announcement on 26 June foreshadowing changes to current security arrangements at the centre.

Marape, echoing familiar "look north" lines, has foreshadowed greater focus on business and other relations with major Association of Southeast Asian Nation (ASEAN) countries. He has also sent signals that his approach to relations with China will be based on assessments of PNG's interests. This too will be an area of keen Australian interest, given the sizeable expansion of Chinese investment, aid and other activities in the South Pacific. In a comparatively short time, Chinese involvement with PNG has developed material substance, with bilateral trade at \$2 billion and growing heavy investment in major resource projects, and involvement in sectors including telecommunications, broadband network, internet infrastructure energy and roads/port infrastructure. This activity has been matched by a significant increase in Australian Government approaches and resources devoted to the Pacific, including PNG. Such resources include a new \$2 billion infrastructure facility, a \$1 billion facility for EFIC (Australia's export credit agency) for infrastructure-related purposes in Asia and the Pacific region, plans to work with Japan and the United States on electrification work in PNG and plans for a naval facility on Manus Island. Both the heightened Australian Government focus on, and extra resources devoted to, the Pacific should have positive implications for Australian businesses in PNG.

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