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SUPPLEMENTARY REPORT ON THE ADMINISTRATION OF PAPUA NEW GUINEA
FOR THE PERIOD FROM 1 JULY 1973 TO 30 APRIL 1974

Note by the Secretary-General

The Secretary-General has the honour to transmit to each member of the Trusteeship Council one copy of the supplementary report on the administration of Papua New Guinea for the period from 1 July 1973 to 30 April 1974. These copies were received by the Secretary-General on 30 May 1974.

Quarante et unième session
Point 4 b) de l'ordre du jour provisoire

RAPPORT SUPPLEMENTAIRE SUR L'ADMINISTRATION DU PAPUA-NOUVELLE-GUINEE
POUR LA PERIODE DU 1er JUILLET 1973 AU 30 AVRIL 1974

Note du Secrétaire général

Le Secrétaire général a l'honneur de transmettre à chacun des membres du Conseil de tutelle un exemplaire du rapport supplémentaire sur l'administration du Papua-Nouvelle-Guinée pour la période du 1er juillet 1973 au 30 avril 1974. Ces exemplaires sont parvenus au Secrétaire général le 30 mai 1974.

SUPPLEMENTARY REPORT TO UNITED NATIONS

TRUSTEESHIP COUNCIL: 41ST SESSION

ON PAPUA NEW GUINEA

FOR PERIOD 1 JULY 1973 TO 30 APRIL 1974

SUPPLEMENTARY REPORT ON PAPUA NEW GUINEA
FOR PERIOD 1 JULY TO 30 APRIL 1974

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INTRODUCTION

This Supplementary Report seeks to provide members of the Trusteeship Council with information on developments since 30 June 1973.

As indicated at the beginning of Part X: Resolutions and Recommendations of the General Assembly and the Trusteeship Council of the Annual Report on Papua New Guinea for 1972-1973, the Administering Authority's comments on the Trusteeship Council's Recommendations of June 1973 include relevant information on measures that had been, or were being taken before 13 March 1974 on the matters covered. In general that information has not been repeated in this Supplementary Report.

In addition as noted by the Trusteeship Council in the Conclusions and Recommendations of its 40th Session, Ministers of Papua New Guinea have effective control over most aspects of the internal government of the country. In this report, therefore, on such matters, the emphasis has been directed to recording arrangements made for the transfer of authority where relevant and to indicating stated Papua New Guinean policy initiatives.

PART A : POLITICAL ADVANCEMENT

(1) SELF-GOVERNMENT AND INDEPENDENCE

During the latter part of 1973, both the Australian and Papua New Guinea Governments in close consultation continued to make the necessary legislative and administrative arrangements to enable the transfer of all internal powers to Papua New Guinea by 1 December 1973. Both Governments had discussed and agreed (in May 1973) on a concept of two-stage self-government, the first being the achieving of a formal state of self-government on 1 December 1973 and the second stage being the date on which Papua New Guinea's own self-governing constitution was brought into effect. Announcing this to the House of Assembly on 3 July 1973, the Chief Minister said:

"To summarise, after formal self-government in December 1973, the situation will be that Papua New Guinea ministers will be fully responsible for virtually all internal matters and the Administrator (by then known as the 'High Commissioner') will act on the advice of the Cabinet in regard to such matters. This situation will continue until our self-government constitution is proclaimed in May or June 1974.

In regard to Foreign Relations and Defence however, until independence the High Commissioner will retain, on behalf of Australia, the final responsibility although there will be full consultation with the Papua New Guinea Government."

To bring about formal self-government the administering authority amended the Papua New Guinea Act so that full authority over internal matters rested with the Papua New Guinea Government. The Minister for External Territories made the following comments when introducing the amendments in the House of Representatives on 23 August 1973:

"Each action taken by the Australian Government in moving to self-government in Papua New Guinea has been a deliberate one in a continuing process of transferring responsibility to where it rightly belongs with the elected representatives of Papua New Guinea.

Neither the formal achievements of self-government nor independence will be marked by an abrupt step or a dramatic change. Australia has involved the Papua New Guinea Government progressively in the full spectrum of government activities - not just in those areas over which final authority has passed."

A joint communique (of 18 November 1973), issued by the Chief Minister and the Minister for External Territories after the latter's final visit in that capacity to Papua New Guinea, outlined the arrangements which would apply from 1 December 1973. The Papua New Guinea Act 1949-1973 was to reserve to the Australian Government powers over Defence and Foreign Relations. Matters dealing with the Papua New Guinea Supreme Court, the administration of courts, the Public Solicitor, prosecutions, electoral policy and House of Assembly matters were at the request of the Constitutional Planning Committee and the Government of Papua New Guinea to be proclaimed as reserved. Transfer of powers in relation to those matters was to take place when Papua New Guinea's own constitution became operative and in accordance with arrangements set out for their exercise in that Constitution. The communique reaffirmed Australian policy, that Australia:

"would only act in the reserved areas after consulting with and obtaining the advice of Papua New Guinea."

On 1 December 1973 a short ceremony marked the achievement of formal self-government. Mr. L.W. Johnson, formerly the Administrator, was sworn in by the Chief Justice as the High Commissioner of Papua New Guinea.

The High Commissioner then signed a determination appointing ministers and determining their functions.

In recognition of the change in Papua New Guinea's status, the Ministry of External Territories within the Australian Government was abolished. The then Minister, Hon. W.L. Morrison, became Minister Assisting the Minister for Foreign Affairs in Papua New Guinea Matters. The Australian Minister for Foreign Affairs welcomed the achievement of self-government as an important step in the steady evolution of Papua New Guinea towards full nationhood. He emphasised that there would be no sharp break with Australia, nor any diminution in Australian interest in or concern for Papua New Guinea. Nevertheless, he said Papua New Guinea would itself wish to find its own place, as a country with full legal control over its own internal affairs, in the international community on a basis of its own national interest.

At its 40th Session in May-June 1973 the Trusteeship Council noted that the House of Assembly had affirmed its right as the duly elected parliament of the people to decide when independence should come. It also noted the view of the administering authority that on the question of independence, as on the question of self-government, the House of Assembly is regarded as representing the wishes of the people.

The General Assembly at its 28th Session (Res. 3109) while welcoming the attainment of self-government as an important step in the progress towards independence and while calling upon the administering power and the government of Papua New Guinea to consult on the timing of independence, and noting in this regard the views of the administering power and of the government of Papua New Guinea - that the House of Assembly is regarded as representing the wishes of the people of Papua New Guinea - noted :

"with respect to the timing of independence, the view of the administering power that there are two elements involved in the determination of the question

of independence: the view of the administering power and the views of the people of Papua New Guinea as expressed through their elected representatives in the House of Assembly, and that, in this regard, the administering power expects independence to come by 1975 and that independence should be achieved in the closest consultation with the Government and the House of Assembly of Papua New Guinea..."

In late February 1974 the Deputy Chairman of the Constitutional Planning Committee announced that its report would not be finished in time for the drafting and enactment of Papua New Guinea's constitution by May 1974, i.e. the proposed second stage of self-government. The Chief Minister made a statement to the House of Assembly on the implication of the delay in presentation of the report of the Constitutional Planning Committee. In the statement, on 1 March 1974, he said:

"It is obvious that our original agreement with the Australian Government on the two stage self-government proposal and on the procedures for the enactment of the constitution cannot be implemented and this agreement has therefore lapsed".

On 12 March 1974 the Chief Minister made a statement to the House of Assembly on the timing of independence, in which he referred to the House of Assembly's affirmation that it represented the wishes of the people in regard to the date of the country's independence, and to approval of that resolution by the General Assembly of the United Nations on 12 December 1973. He announced that he intended to move in the next sitting of the House of Assembly that the independence date be 1 December 1974. He stressed in his statement and in comments after it that the decision was one for the House of Assembly, and that the Government would accept whatever date was chosen by the House of Assembly.

Responding to this announcement by the Chief Minister, the Australian Minister Assisting the Minister for Foreign Affairs in Papua New Guinea Matters made a

statement in the House of Representatives on 14 March 1974 in which he said:

"...The Australian Government welcomes the initiative of the Papua New Guinean Government in seeking the endorsement of the House to this date and fully supports Mr Somare and his government in this move. The role of the House of Assembly is significant. The United Nations in its resolution of 12 December 1973 noted that 'the House of Assembly has affirmed its right as the duly elected Parliament of the people of Papua New Guinea to decide when independence is to come and that the administering power accepts that the House of Assembly represents the wishes of the people on the question of independence!'

... As Mr Somare said: the step will involve the assumption by this House of control over a few additional powers. We must take control of our defence forces and already we are in fact deciding policy questions regarding those forces. We must take control of policy regarding our own foreign affairs and already we are largely doing this. We are developing our own relations with Australia and our other neighbours already as if we were a sovereign country.

As I have explained to honourable members on previous occasions, steps have already been taken before self-government to enable Papua New Guinea to assume an international identity. It has become a member of international conferences. It has become a member of international organisations. It has taken part in the negotiation of border agreements with Indonesia. On the governmental level it has appointed a Minister for Foreign Relations supported by a department. The results have been impressive. The increasing recognition of Papua New Guinea's

international status is indicated by the number of foreign consulates that have already been established in Port Moresby, ahead of independence.

Papua New Guinea has been, as you are aware, increasingly involved in the fields of defence and Australia has fully consulted it on all aspects of defence policy. A senior minister in the Papua New Guinea government, Mr Albert Maori Kiki, is responsible for defence matters as well as for foreign relations.

This has not happened by chance. Short of independence Australia must retain authority in these fields, but it has been the Australian Government's policy to devolve steadily increasing responsibility to Papua New Guinea, with the concurrence of the Papua New Guinea government and consistently with the retention of ultimate authority. We believe that the experience which Papua New Guinea has gained in the exercise of these responsibilities will stand the country in good stead in the years after independence....

I turn to another matter, the question of a proposed constitution for Papua New Guinea. The Deputy Chairman of the Papua New Guinea Constitutional Planning Committee recently announced in the House of Assembly a revised timetable for the presentation of the Committee's report. As the Chief Minister, Mr Somare, has stated, the earlier agreement on the two stage self-government proposal cannot be implemented, and therefore no longer applies....."

Official Members

As part of the amendments to the Papua New Guinea Act necessary for self-government, the repeal (assented to 30 October 1973) of Section 36 (1)(a) of the Act abolished the 4 seats in the Papua New Guinea House of Assembly formerly held by Official Members appointed by the Australian Governor-General on the nomination of the Australian High Commissioner. The amendment took effect on self-government day, 1 December 1973. The last two official members were Mr. W. Kearney, Secretary for Law, and Mr. H. Ritchie, Technical Adviser to the Department of Finance.

(2) NATIONAL UNITY

Over the last 9 months much of the public discussion on national unity has arisen in relation to the publicity given to Papua Besena, a movement led by Miss Josephine Abaijah, Member of the House of Assembly for the Central Regional District. Miss Abaijah, alleging the economic underdevelopment of Papua, the dominance of New Guinea in terms of resources and of New Guineans in prominent positions, and the fact that it was only an act of colonialism which joined Papua and New Guinea together has urged separate status for Papua, and called for a referendum to determine the wishes of Papuans in relation to their future.

Many Papuans have supported Papua Besena in its demands for increased economic development for Papua, but most prominent Papuans have opposed the idea of Papua breaking away from New Guinea.

The Minister for External Territories during the latter months of 1973 met with Miss Abaijah. In a press release issued on 23 August 1973 after meeting with Miss Abaijah Mr Morrison affirmed the administering authority's policy on national unity:

"My government's policy, and it was the policy of the late government, is to hand over our remaining powers to a national and representative government, freely elected by the people of the whole of Papua New Guinea and able to represent the wishes of the majority of the people. Relations between our two countries will be conducted through the national government in Canberra and the central government of Papua New Guinea. Australian aid will be allocated solely through the central government.....".

Mr Morrison also stressed that the policy of developing Papua New Guinea as one nation had been endorsed by the Papua New Guinea House of Assembly and by the United Nations.

Both the Chief Minister and the Deputy Chief Minister (Dr John Guise, a Papuan) spoke in public of the PNG government's aim to redistribute wealth and benefits and to work to redress

the balance in the less developed areas. In a statement on 3 August 1973, the Chief Minister said:

"My government knows that we have inherited a country of unbalanced development. We know many districts have not had their share of the development funds to allow them to progress at pace with other parts of the country.

This has been a major concern of my Government. We are working to change this."

On National Day on September 15, all districts of the country were visited by a Minister. Ministers spoke of the growing unity of the country and the continuing need to work for unity. The Chief Minister said in a national broadcast:

"The national aim of your Government is to guide a rapidly developing Papua New Guinea towards self-government and ultimate independence and to win for its people a peaceful prosperous and happy nation in which to live. Such an aim requires the hard work and co-operation of every man, woman and child of this country...

Unity is a word that we now hear almost every day. Unity of the people of Papua New Guinea is the stated intention of your Government, for I believe that without such unity we can never hope to win for ourselves and our country a strong and respected position among the nations of the world...

"The unity is there and it will continue to grow. Unity is a far-sighted and progressive policy - disunity is short-sighted and is based on fear, selfishness and pride. Let us put aside our pride, our selfishness and our fears and go forward together as one people with courage and faith in the future of our country."

In Rabaul in East New Britain the Deputy Chief Minister, Dr Guise said:

"Your government, of which I am a member, believes that if all people co-operate in the task of building the country into a nation, our country will be strong, secure and prosperous in the future. I sincerely believe that co-operation, togetherness and tolerance of each other's points of view, are some of the main criteria for the development of a strong, secure and prosperous Papua New Guinea of the future.

The aim of your Government is to advance Papua New Guinea to full internal self-government and eventual independence as one country. Your Government believes that only in this way can the country prosper and grow strong."

At Kerema in the Gulf District, the Minister for Lands and Environment, Mr Thomas Kavali said:

"A nation does not consist of people who are all alike. Papua New Guineans can retain their cultural identities and hold on to their customs and traditions, but all must work together as a team on those matters that concern the nation as a whole.

People must work for national unity and this will come about only after sharing experiences and ideas together."

On 7 March 1974 a motion was passed (32 votes to 28) in the House of Assembly seeking a referendum throughout Papua New Guinea and Australia on whether Papua New Guinea should be a united country. In addition the motion stated that if the people, including a majority of New Guineans and a majority of Papuans, were to vote for continued unity the Australian Government should be asked to give Papua \$1,000 million "to compensate the people of New Guinea for having to help Papua where the Australian Government had not spent enough money."

The next day the Chief Minister put a motion to rescind this motion. Mr Somare said:

"...the foreigners have come to develop this country and have developed some areas more than others. But this is not our fault. It is now our responsibility to see that this country is equally developed...."

In speaking in the debate the Leader of the Opposition, Mr Tei Abal said the United Party supported the idea of a united Papua New Guinea.

The original motion was rescinded by a vote with a substantial majority (65 votes to 10).

(3) TRANSFER OF POWERS

On 3 July 1973 the Chief Minister sought from the House of Assembly endorsement of transfer of powers over a range of further matters. The endorsement was given by the House of Assembly on 28 August and transfer of a number of matters including the Improvement Programme, major projects, higher education, tariff matters and the Electricity Commission became fully effective on the following day when the Minister for External Territories signed new instruments allocating ministerial portfolios and responsibilities.

On 20 November the Chief Minister listed the outstanding matters to be transferred to the Papua New Guinea Government at self-government. These included the Development Bank and the Investment Corporation, the police, internal security, and the public service. The House of Assembly endorsed their transfer on 23 November and outstanding administrative and legislative action was completed before the end of November.

Thus by 1 December 1972 Papua New Guinea had full control over most of its internal affairs together with a considerable degree of policy control in the areas of defence and foreign relations, still reserved to the Australian Government. Some of the more notable new national institutions and organisations included the Bank of Papua New Guinea, Air Niugini and the National Broadcasting Commission.

The Bank of Papua New Guinea (taking over the operations of the Reserve Bank of Australia in Papua New Guinea) commenced its operations on 1 November 1973. In a speech to mark the Bank's opening the Minister for Finance, Mr Julius Chan, said:

"I feel the successful birth of this bank is an example of how to set about the difficult business of transferring power. I only wish that all cur

future transactions, whether in banking or any other field, could be handled on both sides in the same spirit of co-operation and with the same care for detailed planning.

The establishment of our own Central Bank is a step which is full of meaning for the future progress and development of the country...

We have a Central Bank, it has a job to do and I will give it full support in doing that job. The Bank is and must continue to be an expert institution. It must not, however, become an elite institution removed from, and out of touch with, the needs and aspirations of the people it is ultimately set up to serve".

Speaking on the occasion of the inauguration of Air Niugini on 1 November, the Chief Minister said:

"It is fitting that Papua New Guinea should have its own national airline as it moves towards self government and independence, because civil aviation has played such a major role in the development of this country. In most countries, the development of a sense of unity has come with roads and railways as the main forms of transport and communication. But in Papua New Guinea it has been the aircraft and air transport which has been the basic form of transport and which has brought our people together since the first aircraft landed in Papua New Guinea almost 50 years ago...

Air Niugini is a symbol of unity. It will carry its emblem and the emblem of Papua New Guinea, throughout the whole country, from Daru to Kavieng,

from Vanimo to Milne Bay. It will link district with district, town with town, and people with people. Air Niugini is a unifying force in itself. Its staff are drawn from all parts of Papua New Guinea, working together in offices scattered throughout Papua New Guinea."

The National Broadcasting Commission began operations on 1 December 1973. Its chairman, who is in effect its general manager, is Mr Sam Piniau (from the Gazelle Peninsula). The Board of the Commission consists of Rev. Kingsley Gegeyo (from Popondetta), Mr Gabriel Masket Iangalio (from the Highlands), Mr Kubalan Los (from Madang), and Mr Malcolm Naylor, the Papua New Guinea manager of the Australian Broadcasting Commission. The functions of the Commission are defined in the Broadcasting Commission Ordinance as:

- "(1) to provide balanced, objective and impartial broadcasting services within, and if so directed by the High Commissioner in Council, outside Papua New Guinea, and in so doing to take, in the interests of the community, all such measures as, in the opinion of the Commission, are conducive to the full development of suitable broadcasting programs.
- (2) In particular, the Commission-
 - (a) shall ensure that the services that it provides, when considered as a whole, reflect the drive for national unity and at the same time give adequate expression to the culture, characteristics, affairs, opinions and needs of the people of the various parts of Papua New Guinea and in particular of rural areas; and

- (b) shall do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of Papua New Guinea; and
- (c) shall take extreme care in broadcasting material that could inflame racial or sectional feelings; and
- (d) shall co-operate with the Government in broadcasting social, political and economic extension programs and educational programs...."

In keeping with its policy of consulting fully with Papua New Guinea in the reserved matters of foreign relations and defence, the administering authority is encouraging Papua New Guinea to develop its own policy in these areas. Transfer arrangements are proceeding in matters which have international ramifications, e.g. in fisheries. On 1 March 1974 the House of Assembly passed a Fisheries Bill and related legislation, and the Australian Government has passed legislation defining Papua New Guinea fishing vessels as "Foreign Boats" under the Australian Fisheries Act. Thus Papua New Guinea now has full control over its fishing industry, and has legislation to control the operations of Papua New Guinea fishing vessels operating from Papua New Guinea ports, and the harvesting of all marine products within a twelve mile declared fishing zone. (See also Part B, section.29).

Papua New Guinea legislation on offshore mineral resources is planned for introduction in the House of Assembly. Australia is in the process of making amendments to its Petroleum (Submerged Lands) Act and to the Papua New Guinea Act to transfer authority to Papua New Guinea to legislate for offshore petroleum and minerals in its adjacent area. At the moment PNG exercises authority in its adjacent area under delegation from Australia.

A number of Australian enactments have for many years applied to Papua New Guinea and form part of that country's internal law. Recognising that the continued application of these laws would be inconsistent with Papua New Guinea's constitutional development towards self-government and independence, the Australian Parliament in 1973 legislated to provide a convenient and simple means of ceasing the application of Australian laws to Papua New Guinea.

Close consultation with Papua New Guinea authorities has enabled Australia to disapply a number of laws to date and has made it possible to reach mutual agreement on a programme for the disapplication of all relevant Australian laws.

Because of the continuing process of transfer of powers, Papua New Guinea is operating de facto as virtually independent. The formal attainment of independence will thus not mean a sudden major change in the powers of the Papua New Guinea Government.

(4) THE CONSTITUTIONAL PLANNING COMMITTEE

Between May and September 1973 the Constitutional Planning Committee made an extensive tour of Papua New Guinea visiting every district and holding over 100 public meetings.

During its tour the Committee was able to gauge some clear majority views, which were outlined in its first and second interim reports, tabled in the House of Assembly in September and November 1973 respectively.

By November 1973, the Committee had made public some of its interim recommendations, covering social goals, of the nation, citizenship, provincial government and the legislature.

Interim Recommendations of the Committee on the above subjects include:

(a) Social Goals of the Nation

. If the Constitution is to be truly the fundamental charter of our society and the basis of legitimate authority, it should be an instrument which helps to achieve the fundamental social goals of our people and not one which obstructs. The Constitution should look towards the future and be related to these goals.

. The Constitution should incorporate the fundamental social goals of Papua New Guinea.

. These fundamental social goals should take into account the principles of the Eight Point Programme approved by the House of Assembly.

. Prominence should be given in the fundamental goals to the necessity that

Papua New Guinea should make its own decisions and that its sovereignty should not be reduced by external political, economic or military dependence; that national leaders should always be free to make national decisions ...

(b) Citizenship

. In principle, citizens of Papua New Guinea should not be allowed to hold concurrently the citizenship of another country.

(c) Provincial Government

. A system of district-level governments should be established (known as provincial governments).

. The members of the provincial assembly should be elected directly by the people of the province.

. The provincial assemblies should consist of a minimum of 15 members, with an additional member for every 10,000 people in the province in excess of 150,000.

. The executive body of the provincial government should be called the "provincial council".

. The provincial assemblies should be empowered to choose either an executive committee system or a portfolio system for the provincial council.

. Certain powers should be vested by law in provincial governments.

(d) The Legislature

- . The normal term of the legislature should be four years.
- . The voting system should be a "first-past-the-post" system.
- . There should be an independent electoral commission which, for the purposes of conducting national and provincial elections, should comprise a single commissioner and should be responsible to the legislature.

The final report of the Committee is currently in preparation. Proposals of the Constitutional Planning Committee were discussed with the Cabinet in a series of meetings during late March and April. The final report will cover a considerable range of subjects, including the executive, legislature, judiciary, central/regional government relations, the public service, the police and defence forces and citizenship.

The report of the Constitutional Planning Committee was originally scheduled to be presented to the House of Assembly in February 1974. Father John Momis, the Deputy Chairman of the Committee, explained its delay in a statement to the House on 23 February:

"We have found the task too great and too important for the report to be rushed in order to present it by the original date.

It is clear from our work that the report will be a substantial document dealing with many issues fundamental to the political system of Papua New Guinea and to the future development of our society. In our deliberations we have also been conscious of the need to reconcile the diverse interests in Papua New Guinean society. In accordance with our charter

to produce a home grown constitution, we have explored new parts, we have accepted established constitutional precedents only when we have been sure that they are relevant to Papua New Guinea. This task has not been an easy one..."

The report of the Committee will be presented to the House of Assembly for debate at its session in June 1974.

(5) DISTRICT GOVERNMENT

One of the aims of the Eight Point Program is the decentralisation of planning, economic and government activity at the district level. The Papua New Guinea Government intends that more local initiative should be taken by the people and the organisations in the district in decisions on district development. Area authorities based on the local government council structure have been established in many districts, their role being essentially advisory.

In some districts there has been a good deal of pressure for more powers and autonomy to be centred on the districts, the most vocal in its demands being Bougainville. A Special Political Committee on Bougainville formulated proposals for District Government for Bougainville, which they pressed for from the central government by 1 November 1973. The Government and the Constitutional Planning Committee held a series of meetings with the Bougainville Special Political Committee in the latter part of 1973 and agreed on an interim arrangement of a special purpose authority.

Before making a firm decision on the establishment of district government, the Government is awaiting the recommendations of the Constitutional Planning Committee on the matter. In touring the country, that Committee has reported widespread popular feeling in favour of district level government.

The Government has given consideration to the introduction of "pilot" district government projects in advance of finalising the Constitutional Planning Committee's recommendations and their implementation in a Constitution. These pilot projects would be an interim arrangement and might be set up in Bougainville, a Papuan district and one other district. As yet, the necessary legislation for such an interim arrangement has not been submitted to the House of Assembly.

(6) ELECTIONS

A by-election in the Yangoru-Saussia electorate was held on 25 August 1973 following resignation of the sitting member, Mr Matthias Yaliwan. Mr Lainus Hepau Jinguan, a subsistence farmer and member of the Seven Association (one of the groups formed from the Peli Association which was led by Mr Yaliwan) was declared elected from among 8 candidates on 3 September.

In August the member for Henganofi, Mr Atihemi Kimi was killed in a motor vehicle accident. A by-election for the electorate was held on 27 October 1973 with 11 candidates standing. Mr Bono Azanifa, who was first elected to the House of Assembly in a by-election in 1966 and was re-elected in the 1968 national elections was again successful in the October by-election.

In the last months of 1973 Papua New Guinea suffered the loss of two figures of national importance in the deaths of Mr Matthias Toliman (in September) then Leader of the Opposition and Mr Paulus Arek (in November), then Minister for Information. Tributes paid to both men stressed the efforts they had made in promoting national unity in Papua New Guinea.

The Chief Minister, Mr Michael Somare, in his tribute to Mr Toliman said that it was a tragedy and shock to a new nation to lose a distinguished statesman such as Matthias Toliman:

"He was a distinguished leader among his people and a man who had Papua New Guinea at heart."

The Speaker of the House said:

"Through his leadership of the Opposition and the respect he got from the Coalition Government he gave every one hope for unity in this country. His opposition was constructive. He wanted to give constructive opposition and work towards helping

the Coalition Government into self-government with the least problems possible."

Speaking after the death of Mr Arek, the Chief Minister said:

"Paulus Arek was a true nationalist of Papua New Guinea ... I served under him as a member of the Second Select Committee on Constitutional Development, of which he was chairman ... His work for our progress towards full nationhood will always be remembered by our people."

The Chairman of the National Broadcasting Commission paid tribute to Mr Arek's work as Minister for Information, saying:

"He was a man who fought to see his aims realised and the Broadcasting Commission is one of the main achievements which will stand as a monument to his memory. It is a pity that Mr Arek did not live to see the formalisation of self-government and the actual establishment of the Broadcasting Commission on December 1."

In the by-election held on 24 November 1973 for Mr Toliman's former seat of Gazelle Open, a United Party candidate, Mr Martin ToVadek, was returned. The by-election for Mr Arek's seat of Ijivitari Open on 16 February resulted in the election of his brother, Mr Sergius Arek.

(7) THE MINISTRY

Early in August 1973 there was some reallocation of portfolios among the Ministry, the most significant change being that for the first time a Ministry for Defence and Foreign Relations was created. This reflected the increasing involvement of the Papua New Guinea Government in policy decisions in reserved matters.

On 29 August the ministry was increased in size from seventeen to twenty, and a Ministry for Justice created for the first time.

Late in February 1974 the Chief Minister again reallocated portfolios, and an additional minister (owing to the death of the Minister for Information Mr Paulus Arek in November 1973) was appointed. The effect of this reshuffle was to give more prominence to developmental aspects of the ministry's responsibilities. The current list of Ministers and their portfolios was then:

Chief Minister	Mr Michael Somare
Minister for State assisting the Chief Minister (Local Government and Development Administration)	Mr Boyamo Sali
Minister for State Assisting the Chief Minister (Police)	Mr Pita Lus
Minister for Communications	Mr Kaibelt Diria
Minister for Culture and Recreation	Mr Moses Sasakila
Minister for Defence, Foreign Relations and Trade	Mr Albert Maori Kiki
Minister for Education	Dr Reuben Taureka
Minister for Finance	Mr Julius Chan
Minister for Health	Mr Donatus Mola
Minister for Interior	Mr John Poe
Minister for Justice	Mr John Kaputin
Minister for Lands and Environment	Mr Thomas Kavali
Minister for Mines and Energy	Mr Paul Lapun
Minister for National Development	Mr Gavera Rea

Minister for State assisting the Minister for National Development	Mr Stephen Tago
Minister for Commerce	Mr Ebia Olewale
Minister for Agriculture (and Deputy Chief Minister)	Dr John Guise
Minister for Natural Resources (Forests and Fisheries)	Mr Bruce Jephcott
Minister for Transport and Civil Aviation	Mr Iambakey Okuk
Minister for Works	Mr Yano Belo

On 24 April 1974 the Chief Minister announced that the ministerial office of Minister for Lands and Environment had been redesignated to that of Minister for Lands, and that Mr. Stephen Tago had been appointed to the office of Minister for the Environment and Conservation.

The Papua New Guinea Act 1949-1973 provides for an Executive Council (consisting of the High Commissioner, Chief Minister plus not less than nine, nor more than twelve other ministers). At present there are 11 members of the Executive Council other than the High Commissioner and Chief Minister. Formal approval of the Executive Council is required for a large range of matters under Papua New Guinea legislation. The Chief Minister has however made it clear in public statements that while the Council is constituted for formal executive acts, the full ministry takes part in joint policy making and review and constitutes a "cabinet".

(8) THE PUBLIC SERVICE

A certain amount of re-organisation in the Papua New Guinea Public Service has taken place in the last 9 months or so to re-orient it more towards effectively promoting national, but decentralised development. A Central Planning Office was established in August 1973, responsible directly to the Cabinet Committee on Planning. The Office is the principal government agency for development planning and co-ordination, and works in liaison with the district administration, community development and welfare areas of the Department of the Chief Minister and Development Administration. A Minister for National Development was appointed in February 1974, together with a Minister for State assisting on National Development. Their area of responsibility embraces industrial development, labour and industrial relations, the Investment Corporation and the National Investment and Development Authority. New arrangements have been made for better co-ordination at district level, primary responsibility for this resting with District Commissioners who are answerable directly to the Chief Minister.

Localisation has continued at as rapid a pace as possible, and many of the senior policy positions are now filled with Papua New Guineans, although a shortage of skilled trained manpower is still apparent.

The majority of District Commissioners are now Papua New Guineans. Of the 19 Districts, the following have Papua New Guinean District Commissioners:

East Sepik	A. Bais
West Sepik	J.M. Apini
Madang	B. Gegeyo
Eastern Highlands	B. Borok
Chimbu	J. Nalau
Southern Highlands	J. Nombri
Milne Bay	G. Buanam

Northern	J. Karukuru
East New Britain	J. Bagita
Bougainville	A. Sarei
Manus	A. Vele

In addition 3 Papua New Guineans have been appointed to positions of associate District Commissioner in the East Sepik, Western Highlands and Central Districts.

Many departmental head positions are now localised. These include:

Chief Minister & Development Administration	P. Bouraga
Agriculture	J. Natera
Business Development	P. Matane
Education	A. Tololo
Finance	M. Morauta
Information & Extension Services	V. Eri
Interior	S. Kaumi
Labour	K. Uiari
Lands	A. Tavai
Public Health	Dr A. Toua
Works	R. Safitua

Other senior appointments include the Chairman of the Public Service Board Mr S. Pitoi, the Chairman of the National Broadcasting Commission, Mr S. Piniau, the Chief Electoral Officer, Mr J. Mileng, the Commissioner of the Teaching Service Commission, Mr T. Boga, the Director of the Bureau of Industrial Organisations, Mr C. Lepani. In February 1974 two officers in the Papua New Guinea Defence Force were promoted to lieutenant colonel. Majors T. Diro and P. Lowa.

On 1 December 1973 control of the Public Service was transferred from the Australian Government to the Papua New Guinea Government. Expatriates, mainly Australian,

whose expertise is still required by the Papua New Guinea Government are employed within the Australian Staffing Assistance Group, the salaries and allowances of which are funded by the Australian Government. Australia has pledged Papua New Guinea continued aid in terms of manpower as long as it is required.

(9) PUBLIC ORDER

There have been no serious civil disturbances during the period under review. While tribal disputes over land have continued to result in some violence, it has been at a decreasing level. The Royal Papua New Guinea Constabulary has successfully contained these and other minor disturbances.

In July 1973, the House of Assembly took note of the Report of the Committee investigating Tribal Fighting in the Highlands. Many recommendations contained in the Report aimed at reducing the incidence of fighting and at dealing with outbreaks more effectively have been accepted and are being implemented by the Papua New Guinea Government.

The Government's new liquor licensing policy of curtailing the sale and consumption of alcoholic beverages has greatly reduced the incidence of crime and public disorder attributable to drinking. (See Part C Section 34).

(10) THE LEGAL SYSTEM

Government policy as enunciated in important speeches by the Chief Minister and by the Minister for Justice late in 1973 is for law reform aimed at ensuring social justice and development of the nation.

The Village Courts Ordinance 1973, passed by the House of Assembly in November 1973, reflects the Government's intention to reshape the legal system to better suit the local environment and to resolve problems in a manner capable of better understanding by the people.

The Constitutional Planning Committee's report is expected to contain recommendations concerning the administration of justice.

(11) FOREIGN RELATIONS AND DEFENCE

Although the foreign relations and defence powers remain reserved to the administering authority until independence, Australia has encouraged Papua New Guinea to develop its own policies and to take its own place in the international community. It is the Australian Government's expressed policy to involve closely and fully PNG Ministers in reserved matters and only exercise its responsibility after the fullest consultation with and advice from the Papua New Guinean Government. Papua New Guinea is increasingly becoming known in an international context.

Papua New Guinea Representation Overseas

Papua New Guinea has set up offices of a Government Commission in both Canberra and Sydney in Australia. These were opened in December 1973, and herald the approaching change in the status of relations between Australia and Papua New Guinea when the relationship of metropolitan power and dependency will no longer apply.

Papua New Guinea plans to open offices during 1974 in Jakarta, Washington, Wellington and Suva.

In recent years Papua New Guinean foreign service trainees have been attached to Australian missions including New York, Washington, Geneva, Brussels (EEC), Jakarta, Manila, Tokyo, Bangkok, Suva, Wellington, Lagos and Nairobi.

Foreign Representation in Papua New Guinea

During 1973 an Indonesian Consulate-General and a British Consulate were set up in Papua New Guinea, both with offices in Port Moresby. The Indonesian Consul-General is Brigadier-General Rujito; the British Consul Mr G.S. Slater.

In March 1974 the Federal Republic of Germany appointed an Honorary Consul in Port Moresby.

The New Zealand Government has announced that it will open a mission in Papua New Guinea in July 1974, headed by Brigadier Brian Poananga as Consul-General.

During a visit by the United States Deputy Secretary of State in late February 1974 it was announced that the United States of America planned to establish a Consulate-General in Port Moresby.

At the beginning of April 1974 it was announced that the Japanese Government plans to open a Consulate in Papua New Guinea early in 1975.

Papua New Guinea and International Organisations

ECAFE: Papua New Guinea is an associate member of ECAFE. Papua New Guinea officials attended in January 1974 meetings of the 17th session of the ECAFE Committee on Trade and the fourth session of the ECAFE Trade Negotiations group in Bangkok. Papua New Guinea's delegation to the 30th Session of ECAFE in March 1974 (in Colombo) was led by the Minister for Commerce Mr E. Olewale.

Colombo Plan: In early December 1973 Papua New Guinea was admitted to full membership of the Colombo Plan. The nomination (made by Australia, and supported by Indonesia, the Philippines, Bangladesh and South Vietnam) was carried unanimously at the opening session of 23rd meeting of the Colombo Plan consultative committee in Wellington. Papua New Guinea's representative at the meeting, Minister for State Mr Boyamo Sali expressed the pleasure of the Government of PNG at being admitted to the Colombo Plan and said:

"In the past we have looked almost exclusively to Australia as the major source of capital aid and

technical expertise and have always evoked a generous response, but it is evident at this stage of our development that we must cultivate a wider perspective in our desire to seek to diversify our aid sources... We would hope to find a fruitful avenue of exchange through opening the doors of our training and educational institutions to students of South and South East Asia..."

PNG was admitted to membership of the Colombo Plan Council at its 122nd policy meeting in Colombo on 11 April 1974.

Papua New Guinea and the South Pacific

The Government of Papua New Guinea has given some priority in its developing foreign policy to its relations with other South Pacific countries. Papua New Guinea's delegation to the 13th South Pacific Commission Conference in Guam in September 1973, was led by the Minister for Defence and Foreign Relations, Mr Albert Maori Kiki. In March 1974 Papua New Guinea attended the South Pacific Forum as a full member for the first time. The delegation to the Forum meeting in Rarotonga in the Cook Islands was led by the Chief Minister, who said at the meeting:

"This forum-providing as it does the opportunity for developing greater regional co-operation and understanding - gives me an opportunity of offering the training and educational facilities of our technical institutions to all member countries of the forum..."

In January 1974 President Hammer DeRoburt of Nauru visited Papua New Guinea, and discussed with the Chief Minister co-operation on aspects of communication between the two countries, particularly in shipping and air transport. Co-operation in other areas was discussed e.g. an increase in the number of Nauruan students in Papua New Guinea universities and other higher education establishments.

Relations with New Zealand continued to develop. The Chief Minister visited New Zealand at the invitation of the New Zealand Prime Minister in January 1974. Under its bilateral aid programme for the 3 year period 1974-1977 the New Zealand Government is planning to disperse \$NZ4.5m on development assistance projects in Papua New Guinea. In the same period it is expected that around \$NZ100,000 will be spent on training Papua New Guineans in New Zealand.

Papua New Guinea and the Commonwealth

Her Majesty the Queen visited Papua New Guinea in February 1974 for the first time. During her visit the Chief Minister stressed Papua New Guinea's existing links with member countries of the Commonwealth and indicated the likelihood of PNG joining the Commonwealth at independence.

Relations with Indonesia

In November 1973 the Indonesian Foreign Minister Mr Adam Malik visited Papua New Guinea. During his visit an agreement on border arrangements between the two countries was signed. Speaking on this occasion the Chief Minister said:

"Last February when I was in Jakarta, I signed the Border Delineation Agreement, clarifying the exact location of our boundary with Indonesia.

In this case I shall be signing an agreement which gives recognition to the need for close liaison, exchanges and co-operative understandings for the convenience of the people who live in the proximity of the border, while recognising the need for Governmental controls to protect national sovereignty and national interests...

I should explain that this agreement is technically and legally between Australia and Indonesia. This is so because PNG is not yet an independent country and does not have the status to enter into international agreements in its own right. I am, therefore, signing this agreement with full powers authorised by the Governor-General of Australia."

And speaking at a dinner in honour of the Foreign Minister on 13 November, the Chief Minister outlined PNG's attitude thus:

"We look upon close and fruitful relationships with our nearest neighbours as being of the utmost significance as we approach independence and promote national unity; we shall closely study any proposals you put forward for bringing us closer together, whether at a multi-nation conference table or on a bilateral basis."

In December 1973 the Minister for Defence and Foreign Relations, Mr A. Maori Kiki paid a courtesy visit to Indonesia.

Relations with Japan

In October 1973 the Minister for Defence and Foreign Relations visited Japan to attend the Australia/Japan Ministerial Committee Meetings and to establish contacts with Japanese ministers and officials.

There has been considerable Japanese economic and technical participation in fisheries and timber ventures, and there is Japanese interest in many other areas of the PNG economy. In March 1974 a team of leading Japanese business experts, sponsored by the Japanese Government, visited PNG to study the potential for industrial development, including progress on the Purari River development project.

Police and Defence Forces

The Papua New Guinea Minister for Defence and Foreign Relations presented Papua New Guinea's defence arrangements in a statement to the House of Assembly on 25 April 1974. The following Papua New Guinea Government press statement outlines the proposed arrangements:

The Police and Defence Forces would remain separate in an independent Papua New Guinea, the Minister for Defence and Foreign Relations, Mr Albert Maori Kiki, told the House of Assembly. The Defence Force would have a strength of 3500 uniformed men, with 2 battalions, an engineer company, patrol boat squadron and landing-craft squadron. Initially the cost of the force would be shared by Papua New Guinea and Australia.

Its main responsibilities would be:

- . defence against external attack.
- . assistance to the police as a last resort in maintaining public order and security internally.
- . contribution to economic development and promotion of national administration and unity.

In the Government's first major policy statement on defence Mr Kiki said the first question had been whether to maintain the police and Defence Force as separate units or to combine them as a single security force.

'The Government decided that the roles of the 2 forces, their organisation, equipment and training and outlook were so different that the nation would be best served by keeping the 2 forces separate.

'We did not want policemen acting like soldiers or sailors, or vice versa.'

'The Defence Force would only be used in the unlikely event of 'extreme situations' to maintain public order, he said.

'The Government's main responsibility is to prevent these unlikely events ever happening.

'It can be helpful in this task if would-be trouble makers know that the result of pushing the Government to the last resort would be the use of the Defence Force,' Mr Kiki said.

Mr Kiki told members that a major invasion of the country on the scale of World War II was highly unlikely in the foreseeable future.

'If such attacks did occur, we would count on the fact that our more powerful neighbours could not avoid being concerned in the interests of their own security.

'We are, however, concerned at the need to deter possibilities of small-scale infringements of our sovereignty which could disturb the peaceful lives of our people or involve external pressure on the country to abandon the pursuit of its national aims and interests.

'These are things which we should be able to cope with ourselves.

'We do not want to be led with no alternative but to invite, or permit, foreign forces to come in and deal with the situation,' he said.

Mr Kiki said the Government was determined to use Defence Force resources to further its nation-building resources. This would include the sharing of expensive support facilities and services with other Government agencies, the use of field engineering units on development projects in remote areas, search and rescue and national disaster work, maritime surveillance and border patrolling.

Mr Kiki said that a Defence Force of 3500 men involved a reduction from the peak strength of 4100 a year ago. The reduction was being achieved without retrenchment and the force now stood at 3800, of which 3100 were Papua New Guineans.

Mr Kiki said the Government recognised that the force would need air support. The Australian Government had offered Papua New Guinea 4 former military DC3 aircraft and this offer would be considered by Cabinet, he said. The training of pilots and ground crew for the Defence Force would continue.

The Government had also decided to restructure civil and military control over the Defence Force. In future the Minister would be advised by both the Force commander and the senior civilian defence administrator who would be equal in status. Mr Kiki said the Australian Defence Act was unsuitable for Papua New Guinea. New legislation would be drafted and he hoped to introduce this in the House of Assembly during the Budget session in September.

Mr Kiki emphasised that assuming responsibility for defence would be costly. He said an arrangement for

the financial year in which independence occurred had been worked out with Australia. This was that the Australian Government would meet the costs of Australian personnel attached to the Defence Force, and the cost of selected capital projects. Normal running costs would be met in the Papua New Guinea Budget defence vote. Half this would be provided by the Papua New Guinea Government and the other half by financial assistance from the Australian Government. This arrangement would be reviewed during the year of independence.

Mr Kiki said the 2 Governments would further consider defence relations between the 2 countries.

'Independent Papua New Guinea and Australia will still be very close neighbours and we will be looking to Australia for defence aid for some years yet,' he said.

Mr Kiki said the task of transferring responsibility for defence was not complete but was well underway.

Other

In late January 1974 the USSR Ambassador to Australia, H.E. Mr Musin, made a visit to Papua New Guinea, the first by a senior envoy of the Soviet Union.

In late February the United States Deputy Secretary of State Mr Kenneth Rush, made a short visit to Papua New Guinea. Mr Rush announced the U.S. Government's intention to provide exchange grants for Papua New Guineans to study in and visit the United States.

In February 1974 the Minister for Defence and Foreign Relations visited Kuwait to discuss the effects of the oil supply situation on Papua New Guinea, and to stress to the Kuwait Government Papua New Guinea's status as a developing country and its need for special consideration.

In March 1974 the Minister for Finance visited Europe for completion of negotiations on a loan from the Swiss Bank Corporation and the signing of Papua New Guinea's Swiss Loan Agreement.

(12) PAPUA NEW GUINEA/AUSTRALIAN BORDER

Since June 1973 there have been further officials' discussions between the Australian and Papua New Guinea Governments on the question of the Australia/Papua New Guinea boundary in the Torres Strait. There have also been further consultations with the Torres Strait Islanders, and discussions have been arranged with the Islanders and the coastal people of Papua New Guinea.

The Australian Government is hopeful that the concept of an environmentally protected area can contribute to a satisfactory settlement, and that this complex question can be resolved before independence.

PART B - ECONOMIC ADVANCEMENT

(13) AUSTRALIAN AID TO PAPUA NEW GUINEA

Australian aid during the year 1973-1974 is of two kinds - aid of the kind given in previous years, that is a grant-in-aid and a development grant, and special aid associated with the transfer of functions and the establishment of new government instrumentalities.

Grant-in-aid and the development grant totalled \$77.1m, and special a \$63.35m which included \$17m for the establishment of a central bank and a Government commercial bank. The Australian Government also provided \$49.9m to meet the cost of salaries and allowances of all overseas permanent and contract officers serving with the Papua New Guinea Public Service. Australian aid (\$190.35m) is estimated to make up just over 50% of Papua New Guinea's receipts for the year 1973-1974.

The administering authority has given assurances of continuing aid to Papua New Guinea. Speaking in the Estimates Debate in the House of Representatives on 23 October 1973 the Minister for External Territories said:

"It has always been Australia's aim that Papua New Guinea should as soon as possible achieve a much greater degree of financial and economic viability than it now has, but the Australian Government has given the Papua New Guinea Government an assurance that it is prepared to continue providing substantial aid not only up to independence but beyond."

On 1 March 1974, the Chief Minister announced to the House of Assembly a firm commitment by the Australian Government to aid of the order of \$500m over the next three years. In his speech, the Chief Minister said:

"I have received a letter from the Australian Prime Minister outlining his Government's position. Firstly, the Prime Minister restates past assurances and I quote

from his letter: 'I wish to confirm that from independence, a united Papua New Guinea will continue to have first call on Australia's expanding external aid program in future, and in particular, that Papua New Guinea can count on continuing to receive substantial amounts of aid from Australia over the next three years to underpin its new Improvement Program and to assist Papua New Guinea in the early years of independence.'

Then the Prime Minister deals with the quantification of these assurances. He writes: 'In view of the imminence of independence, I am writing now, on behalf of the Australian Government, to inform you that on the basis of present indications a united Papua New Guinea can proceed on the assumption that Australia will provide a total of at least \$500 million for expenditure on economic and social aid in one form or another over the three year period commencing 1974-1975. I would stress that this figure merely reflects an assessment of what it is possible to anticipate at the present time. As in the past, the actual amounts of aid to be provided to Papua New Guinea in each financial year will continue to be determined on an annual basis in the light of prevailing circumstances in Papua New Guinea.'

Mr Speaker, two major points stand out in the Prime Minister's letter. Firstly, Australia will definitely support us through independence and the early years after independence with a sufficient level of aid; sufficient to maintain and extend existing Government activities and sufficient to support the recasting of our programs and policies towards the achievement of the Eight Point Plan. Secondly, Australia's assurance of aid is directed towards a united Papua New Guinea."

(14) TRADE RELATIONS WITH AUSTRALIA AND EUROPEAN ECONOMIC COMMUNITY

(a) Interim Trade Arrangement with Australia

A Memorandum of Understanding between PNG and Australia covering the period between PNG self-government and independence was signed on 20 December 1973. This formalised existing trade relations, provided for consultations on Australian investment in PNG and opened the way for negotiations on post-independence arrangements to operate between the two countries. A standing joint committee of Australian and PNG officials was established to consider matters of mutual interest. The PNG House of Assembly accepted the memorandum on 22 April 1974.

(b) Post-Independence Trade Relationship with Australia

Broad agreement was reached by officials in January 1974 on the objectives and form of the future trade relationship with Australia within the agreed background of the need for Papua New Guinea's continuing expansion of trade and economic development, and Australia's special interest in participating in this development. The first formal session of negotiations took place in April 1974. The objective is to conclude before independence an agreement which would be ready for signature and ratification after independence.

(c) Association with the European Economic Community

The United Kingdom's accession treaty with the EEC provides for continued free access for PNG products to the United Kingdom market until 31 December 1977. These arrangements are subject to review, particularly if PNG becomes independent before 1 January 1978. The Australian Government is keeping the PNG Government informed about developments in the context of negotiations between the EEC, associated countries and the "associables" so that PNG will be best able to decide on the question of its own possible association with the enlarged EEC.

(15) INTERNATIONAL LOANS

During the early part of 1973 the Papua New Guinea Government requested the Australian Government to guarantee its first public overseas borrowing which it wished to arrange before June 1973. Papua New Guinea is anxious to establish contacts on the international capital markets before it becomes independent.

Three loans have been negotiated overseas by Papua New Guinea to date -

German Loan, June 1973

- . Public
- . DM50 million (about \$A13.5 million)
- . 6.75 per cent
- . Issued at 98.50 per cent
- . matures 1988 - optionally redeemable by PNG at various prices from 1 July 1979 onwards
- . Payment of interest and repayment of principal unconditionally guaranteed by the Australian Government.

Japanese Loan, November 1973

- . Private Placement
- . 5 Billion Yen (about \$12.5 million)
- . 8.2 per cent
- . Issued at par
- . Matures 1985 - optionally redeemable by PNG at various prices from 10 December 1979 onwards
- . Payment of interest and repayment of principal unconditionally guaranteed by the Australian Government.

Swiss Loan, March 1974

- . Public
- . SF 50 million (about \$A10.7 million)
- . 7.25 per cent
- . Issued at 98
- . Matures 1989 - optionally redeemable by PNG at various prices from 19 April 1980 Onwards

Payment of interest and repayment of principal unconditionally guaranteed by the Australian Government.

(16) THE BUDGET

The PNG Minister for Finance, Mr Julius Chan, introducing the 1973-1974 Budget on 28 August 1973 outlined its nature thus:

"We are still in the process of completing our national framework for the future. The structure of the budget is a crucial element in this framework, for the Budget expresses the Government's overall activities in the economy to the extent that they require the spending of money - which most activities of any significance do.

This, then, is a 'framework' Budget. It seeks to give fiscal expression to our national aims and to lay the basis for continuing and, indeed, accelerating progress towards achieving them."

Expenditure was estimated to include:

	\$m
Departmental expenditure	\$127.542
Capital works and services	35.000
Other Institutions	61.824
Investments	1.219
Capital expenditure on transferred functions	35.469

Estimated receipts apart from Australian aid included a loan programme of \$33.25m., expected international agency loan drawings being \$21.3m.; and internal revenue of \$109.5m New revenue measures were proposed:

- an increase in the import duty on soft drinks of 50 cents per gallon from 25 to 75 cents per gallon.
- the imposition of an excise duty of 10 cents per gallon on locally produced soft drinks.

- imposition of a tax of \$2 per person on outgoing international air passengers, including those going to Australia.
- an increase in the fee for new drivers' licences by \$2 per year to \$5.
- an increase averaging 4.5% in the rates of personal tax on incomes of \$15,000 a year or more.

On 3 March 1974 the Minister for Finance presented a second Appropriation Bill to the House of Assembly following the half yearly review of receipts and expenditures. Presenting the Bill, the Minister said:

"Receipts are now estimated to be some \$10.876m more than in the original estimates. This figure is made up of \$16.635m increase in internal revenue and \$.981m increase in special Australian Grant for transferred functions, offset by decreased loan drawings from International Agencies of \$6.650m. Internal revenue rose mainly because of the unexpectedly high revenues received as a result of Bougainville Copper Pty Ltd's exceptionally profitable trading activities in 1973 ... When it is realised, however, that the increase in the Australian Special Grant and the decrease in the International Agency loan drawings are reflected immediately in changes on the expenditure side of the Budget, the effective sum available to cover increased expenditure is \$16.635 million..."

As a result of the additional receipts, the Papua New Guinea Government is in a position for the first time to establish a reserve fund to meet emergency expenditures and shortfalls in receipts, and \$3m has been set aside for that purpose. \$5.5m extra has been transferred to the Sinking Fund. An additional \$.502m has been added to the Rural Improvement Fund, bringing the total allocation for the Rural Improvement

Program to \$3.802m. for 1973-1974. The significance of additional money for expenditure in rural areas was outlined by the Minister for Finance:

"This sum (i.e. \$.502m.) will enable all the demands put forward by every district, supplementary as well as original, to be met. It also provides an additional \$1m. in untied grants to Area Authorities and their equivalents, on top of the \$.2m. previously allocated for this purpose. This sum, totalling \$.3m., can be spent by Area Authorities as they see fit, without any obligation to clear projects with the Government.."

Output and Prices

As at September last year, official estimates were that monetary sector output in 1973-1974 (after allowing for the payment of property income overseas) would expand by about 16% compared with 1972-1973. Increased primary exports receipts and increased public sector spending were expected to be the main factors underpinning the higher level of activity.

In the first half of 1973-1974, proceeds from exports, particularly gold and copper, exceeded expectations with total exports more than 100 per cent above the 1972-1973 level. Government spending in the first half of 1973-1974 was only 3 per cent above the corresponding period of the previous year. To maintain the overall expected 18% increase in government spending there will need to be a marked increase in the level of spending in the second half of 1973-1974.

After showing some decline in 1972-1973, it has been estimated that manufacturing output would expand by around 12% in 1973-1974.

The rate of price increases accelerated strongly in the first half of 1973-1974: in the September and December quarters the consumer price index rose by 4.4% and 6.1%, respectively.

Expenditure

Personal consumption in real terms could rise moderately in 1973-1974. The recently increased income levels associated with higher than expected export receipts, and likely increased Government expenditure in the second half of this year, should give support to increasing consumer spending, particularly in the area of basic consumer items.

Private investment spending has remained subdued: according to manufacturers, spending on plant and equipment in the first half of the year was no greater than the low levels of 1972-1973. Building approvals fell markedly in the September 1973 quarter.

Balance of Payments

The value of exports increased markedly from \$93.4m in 1971-1972 to \$229.1m in 1972-1973. The value of imports decreased slightly from \$218.5m in 1971-1972 to \$209.8m in 1972-1973. These movements produced in 1972-1973 the first surplus on the balance of trade ever recorded for Papua New Guinea.

Large payments of factor incomes to the rest of the world, mainly consisting of repatriated profits and repayments of loans, associated with the Bougainville Copper Project, produced a deficit on current account of \$165.5m in 1972-1973. This deficit was the smallest recorded since 1968-1969.

Present indications are that the balance of trade in 1973-1974 will be in surplus and that deficit of balance of payments on current account will be considerably reduced.

Private Finance

(a) Banks: Commercial bank deposits rose strongly in the six months to November 1973. During November the average weekly level of deposits reached a record \$171.6m, 3.5 times the average weekly level in November 1972. Although total deposits declined to an average weekly level of \$164.0m, during December they were 72.6% above the level 12 months earlier.

The average weekly level of commercial bank advances has been steady in recent months and in December reached \$116.0m, slightly higher than in the corresponding month of the previous year:

After declining during the last quarter of 1972-1973 the average weekly level of Papua New Guinea Development Bank advances increased each successive month during the first half of 1973-1974 to reach \$19.6m during December 1973, 3.1% above the level 12 months earlier.

On 22 April 1974, the PNG Minister for Finance, Mr Chan, announced the opening of the PNG Banking Corporation. The new bank will take over Commonwealth Bank assets in PNG of

about \$65 m: 13 full branches, 2 sub-branches, 200 agencies and a staff of more than 500. This follows acceptance by the Australian Treasurer and the Australian Minister Assisting the Minister for Foreign Affairs in Papua New Guinea. Matters of the draft agreement negotiated between representatives of the Australian Government, the Commonwealth Banking Corporation and the PNG Banking Corporation in Port Moresby on 21 and 22 March 1973. The Australian Government has made a \$10m grant which will be the capital of the new bank.

(b) Other private finance: The total sum insured by new life assurance policies written in Papua New Guinea during the first four months of 1973-1974 (\$7.8m) was almost half the level of business written in the same period of the previous year.

The rapid growth of savings and loan societies during 1973-1974 continued during the first half of the current financial year. At end-December the level of funds lodged with savings and loan societies reached \$3.3m about 50.0% above the level twelve months earlier. Loans outstanding at end-December 1973, \$2.3m, exceeded December 1972 levels by over 60.0%.

Export Commodities

Cocoa

The PNG 1973-1974 cocoa crop is estimated at 33,000 metric tons, compared with about 23,000 tons in 1972-1973. Exports in the first 6 months of 1973-1974 (October-March) at 12,575 tons were some 27% above the corresponding period of the previous year; but record prices on world markets have meant that the value of exports was some 100% higher. In Mid April 1974, the average price paid for Papua New Guinea cocoa reached a record \$1,315 per ton, which was almost 100 per cent higher than prices obtained over the same period in 1973.

Coffee

The 1973-1974 coffee crop for Papua New Guinea is officially estimated at 646,000 bags, compared with 560,000 bags, in 1972-1973. Exports in the first 6 months of 1973-1974

(October-March) at 11,442 tons were some 36% lower than in the corresponding period last year, when the collapse of the International Coffee Agreement enabled the disposal of a considerable carryover from the previous year.

In the first half of 1973-1974 prices for Papua New Guinea coffee strengthened in line with rising overseas prices, and the value of exports was only 25% lower than during the same period in the previous year.

On 13 March 1974 two bills were passed in the PNG House of Assembly making changes in the buying and selling of coffee, which provide Papua New Guineans with a greater share in this section of the industry. The Coffee Dealing (Control) Bill provided for the exclusion of all but indigenous Papua New Guineans from dealing in unprocessed coffee and prohibiting certain financial arrangements (i.e. all except at the processing factory) affecting the disposal of unprocessed coffee. The Coffee Marketing Board (Amendment) Bill abolishes the previous rule that persons have to be registered by the board as coffee dealers before they can buy coffee. The PNG Minister for Agriculture, Dr Guise, who introduced the bills into the House of Assembly, expressed the hope that the competition among buyers thereby engendered should give the growers higher prices.

Copra

Receivals by the Copra Marketing Board in the first 6 months of 1973-1974 totalled 54,420 tons, some 12% below receivals during the corresponding period of 1972-1973. Prices, however, rose sharply in the same period and the value of exports was more than double the value in the previous year. Prices have risen even further recently and are now about 5 times higher than a year ago. In April, the Copra Marketing Board raised its tentative prices to growers by \$37 per metric ton to give a price for hot air grade of \$377 per ton, almost three times the level being paid during April 1973. On 13 March 1974 the House of Assembly passed a Copra Marketing Board Ordinance which enables the Board to assist the industry in times of falling world prices by the imposition of a levy on the industry when prices are high.

Rubber

Total rubber exports during the first 9 months of 1973-1974 totalled 4,521 tons, compared with 4,464 tons in the corresponding period of the previous year. In March 1974 Papuan Rubber Pool prices for R.S.S.1 were 32.59 cents per lb, compared with 21.33 cents in the previous year. As a result the value of exports at \$2.7 million during the nine months under review, was nearly twice as much as in the same period of the previous year.

Tea

Tea exports in the first 9 months of 1973-1974 amounted to 1,130 tons, a rise of more than 50% over the corresponding period of 1972-1973. Export receipts, at \$751,580 were only 25% higher and reflected the rather slow improvement in tea prices.

(18) EIGHT POINT PROGRAM AND IMPROVEMENT PLAN 1973-1974

The Improvement Plan 1973-1974 was tabled in the House of Assembly on 28 August 1973. It was based closely on the aims of the Eight Point Program already adopted by the House of Assembly and provided the guiding principles for the 1973-1974 Budget. The budget sought to give effect to the proposals of the Improvement Plan. (See Section 16)

The Improvement Plan elaborated the meaning of the eight improvement aims:

- (a) Greater Papua New Guinean control of the Economy: certain businesses will be set aside for Papua New Guineans, and assistance given for the buying of businesses owned by expatriates. A National Investment and Development Authority will be set up to ensure that foreign investment is directed at improving the lives of Papua New Guineans. The Government will also favour PNG owned businesses in letting contracts.
- (b) Greater Equality: the Government will work towards lessening the gap between rich and poor. It will direct money to equalising services among all areas of the country and will start a program to build up small towns around the country as servicing centres for areas' growth and development.
- (c) Decentralisation: more planning and decision-making will be done by people in the rural areas. New efforts will be made to build up rural industries such as timber and small scale mining.
- (d) Small Businesses: legislation governing business enterprise is to be modified to make it easier for businesses to be set up by Papua New Guineans.
- (e) Self-Reliance: the Government is to take steps to promote and help locally made goods and to cut down on the amount of goods imported.

- (f) Financial Independence: more work is to be done on building a tax system which can in the long term supply the money that the country needs.
- (g) Participation of Women: the number of training courses for women and the number of women in higher education and technical training are to be increased.
- (h) Government Control: in order to serve the nation's needs, the Government aims to own a majority share in industries such as airlines, banking and possibly shipping.
- (i) Land: some basic policies are that waste and vacant land will be returned by the Government to the people where it is needed; new laws will be introduced to allow a clan to hold land as a group; and more use will be made of customary land for development projects.

(19) PLANNING AND NATIONAL DEVELOPMENT

(See also Section 8: The Public Service)

A key role in national planning is being played by the Central Planning Office, which has an important co-ordinating role. The Government's aim of decentralisation of both planning and implementation of development makes co-ordination of particular importance. The Central Planning Office by the authority of the Cabinet Committee on Planning was responsible for preparation of the Improvement Plan. It is through such plans that the direction is given to the activities of all government agencies, and re-orientation towards national goals is fostered.

The Central Planning Office is sponsoring planning projects in some districts (e.g. the Morobe District) which are focusing on the organisation of planning and administration at the district level.

The Government is fostering some re-orientation in the operations of the Public Service, particularly its administrative organisation in the field. Stress is being put on a co-ordinated approach and the need to foster popular participation and initiative. Greater co-ordination and co-operation has also been fostered between district administration staff and the police force.

The appointment of a Minister for National Development (and a Minister assisting the Minister for National Development) is further evidence of the Government's concern for a co-ordinated approach to implementing its development goals. The responsibilities of the Minister for National Development include the Investment Corporation and the National Investment and Development Authority.

(20) LAND

The Commission of Inquiry into Land, set up by the Papua New Guinea Government early in 1973, completed its Report in October 1973. The House of Assembly, in November 1973, noted the Report which contained wide-ranging recommendations aimed at providing a sound basis for the formulation of Government policies in relation to land problems.

The Report is receiving consideration by the PNG Cabinet. Meanwhile the Minister for Lands has announced the formation of a special policy and research group within his Department to facilitate the implementation of land policy decisions made by the Government. As an interim measure, the Cabinet has placed an embargo on land transfers unless they make satisfactory provision for indigenous participation, or they are in the national interest in the context of economic or technological development. It has also approved the introduction of a bill into the House of Assembly to give the Papua New Guinea Government power to compulsorily acquire land for resettlement purposes.

Proposals to obtain financial assistance from the Australian Government in resolving the problem of alienated land are being formulated by the Papua New Guinea Government.

(21) FOREIGN INVESTMENT

On 27 November 1973, the Chief Minister announced to the House of Assembly his Government's guidelines on foreign investment. In his statement he said :

"In order to ensure that the Government retains flexibility and to ensure that investment contributes towards the achievement of the government's aims, it is proposed to establish a National Investment and Development Authority (NIDA).

NIDA will be a statutory authority with control over its policy by a Cabinet Committee chaired by the Minister for Finance. It will be established by ordinance and have a board of directors with a full-time secretariat.

Investment Guidelines. The government has approved guidelines for foreign investment which will be incorporated in the legislation which creates NIDA as the purposes of NIDA and will cover the following areas:

Emphasis and encouragement of small-scale business.

NIDA will appraise investment proposals to ensure the maximum use is made of existing businesses owned and controlled by Papua New Guineans and encouragement given for the creation of new enterprises.

Equity Participation. The government reserves the right to acquire equity in any new venture where it considers such action is necessary to achieve its stated aims.

Localisation. It is the government's aim to ensure that no expatriate occupies a position for which a suitably qualified Papua New Guinean is available, and that, where no Papua New Guinean is available suitable training is undertaken with a view to filling such a position with a Papua New Guinean within a reasonable time.

Employment Creation. The Government expects investment to make maximum use of Papua New Guinea labour and to help increase the skills of the local workforce. The Government also desires to see greater provision for the employment of women.

Decentralisation. The Government strongly desires more investment to take place in rural and lesser-developed areas.

Use of Raw Materials and Further Processing. The Government welcomes and encourages the maximum possible processing of traditional exports and use of local raw materials in manufacturing activity.

Increased Self-Reliance. The Government desires a broadening of the industrial base through investment in areas which reduce reliance on imported goods and which reduce reliance on traditional exports.

Infrastructure. As a general rule any new infrastructure requirements of an enterprise will be provided by the enterprise. In instances where the Government provides infrastructure specifically for a project, it reserves the right to equity equivalent to the value of infrastructure provided."

Speaking to the Australian Institute of Directors on 14 March 1974, the Chief Minister elaborated on the concepts behind Papua New Guinea's investment policy:

"The cornerstone of our policy is that the rules of investment should be based on Papua New Guinean concepts that have evolved within our own culture...

There are various Papua New Guinean concepts which may make our investment rules different. Firstly there is the concept of property rights. In Western society, the individual's absolute right to the use of his own property is a very important value. But in our society there may be other values that are more important. For example, a clan or village group often holds land rights collectively. Much of the Western Law we have inherited from the Australian Government is based on the value of individualism. It supports what you call

the 'atomic family' or what I call the separate, lonely family.

Let me put it this way. It makes good business sense for the investor to keep his workers happy.

Therefore in order to protect you from us, and us from you, the Government has to provide for any possible 'culture clash' in its investment policy.

It may be necessary, for instance, to insist that the investor does not build single accommodation, but rather supplies accommodation adequate for extended families...

Similarly, much of western business practice is based on the objective of receiving a return on capital investment. This is one of the characteristics that defines a Western industrial society. But in Papua New Guinea, return on capital is not as important as some of the other results of business activity.

For example, a business can provide services to the members of one's own kin group, or it can make new goods available in a region...

One consequence is that our investment priorities will differ from those that would be determined by purely profit considerations. Another is that our evaluation of investment proposals will be guided by the benefits that we expect from them in terms of our national objectives...

We cannot afford to turn our back on foreign investment and loans if we are to meet our commitment to our own people for more schools, more health services and other development. We accept that foreign investment will be needed to help for these things, but we are resolved to channel that investment for the greatest possible benefit to the people of Papua New Guinea."

The role of the National Investment and Development Authority (NIDA) was indicated by the Minister for Finance in an address to an industrial survey team sponsored by the Japanese Ministry of International Trade and Industry on 18 March 1974:

"Between them, NIDA and the Cabinet Committee will be putting flesh on what are still the bare bones of the Government's investment policy. At an early stage, in fact within the next few weeks, they will be setting out the priority areas of the Government in relation to foreign investment.

In certain fields, including some areas of natural resource development, it will be encouraged, but in all areas it will be controlled.

NIDA will be determining the qualifications of potential investment proposals and their pre-registration. It will have a co-ordinating role in each of the subsequent steps of the process, including the evaluation of proposals from the national point of view, the possible granting of suitable incentives to investors, the negotiation of agreements and the laying down of guidelines as to appropriate terms and conditions.

Once agreements have been entered into, NIDA will have an equally important role in monitoring and supervision. It will also be actively engaged in identifying particular investment opportunities and promoting them."

(22) CURRENCY

In a speech to the House of Assembly on 6 July 1973, the Minister for Finance made a statement on the Government's thinking on the introduction of a Papua New Guinea currency:

"While the arguments are many, involving complex technical and policy issues, two points emerge clearly.

The first is that under the existing common currency arrangements there are limitations on the Papua New Guinea Government's ability to implement policies in certain areas which it may consider are appropriate to the needs of the country. It is clearly undesirable that this situation should persist any longer than necessary. It is important that the Government should have the fullest possible flexibility in this regard. It should have available to it all possible options for policy making so that it can choose the best policies for Papua New Guinea. The second consideration, and this is related to the previous one, is that so long as Papua New Guinea remains a part of the Australian currency area, there is always the possibility that it will be subject to policy decisions taken in Australia to suit Australia's situation, but which may be contrary to the best interests of this country.

The Government is well aware that any action taken to provide greater scope for independent economic management carries with it an obligation for Papua New Guinea to assume greater responsibility, since this is part of determining how this country will progress in the future.

In the light of these and other considerations, Cabinet has decided that Papua New Guinea should have its own currency as soon as practicable."

On 8 March 1974, the Minister for Finance made a further statement to the Papua New Guinea House of Assembly on currency, setting out clearly the decision to introduce a separate currency for Papua New Guinea:

"Since my statement in July last year that the Government had decided to introduce a Papua New Guinea currency as soon as practicable, substantial progress has been made by the Currency Working Group, comprising representatives from the Department of Finance and the Bank of Papua New Guinea, in the preparation and planning for our currency. Initially I assumed the role of the Chairman until Mr Henry ToRobert was appointed Governor of our Central Bank, and he is now the Chairman of the Group.

Although most of the decisions made by the Government on currency matters have been made public I think it may be useful for members if I outlined some of the important matters that have already been decided, not only to clear the air but to stop any further speculation by the media, groups or individuals. I will also announce the new names proposed for the currency.

(1) Banknotes of 3 denominations will be issued in Papua New Guinea to replace the existing Australian \$2, \$5 and \$10 banknotes...

(2) Coins of 6 denominations will be issued to replace the Australian 1, 2, 5, 10, and 20 cent coins and the Australian \$1 banknote. The Government accepted the Currency Working Group's recommendation to issue a \$1 coin in Papua New Guinea because a coin has a substantially longer 'life' than a banknote...

(3) In August 1973 an invitation was extended to all persons and institutions in Papua New Guinea to submit designs for banknotes and coins...

(4) The Bank of Papua New Guinea, which under the Central Banking Act, has the responsibility for issuing currency in Papua New Guinea, invited tenders for the production of banknotes and coins from several overseas banknote printers and mints. The Reserve Bank of Australia was awarded a contract to print a 3 years issue of Papua New Guinea banknotes; a contract to mint Papua New Guinea coinage has not yet been finalised.

Sir, I turn now to the names proposed for the new currency. The Chief Minister and I were charged by Cabinet with the responsibility of choosing suitable names. The main question was whether to retain the existing dollar and cent, or to select distinctively Papua New Guinean names. The Government felt that it would be right to choose indigenous Papua New Guinean terms, which would have a cultural value in emphasising continuity between traditional and modern currencies, and also a national value by comparison with the use of imported terms.

I therefore propose that the name of the dollar equivalent should be Kina, and the name of the cent equivalent should be Toea...

I have previously stated that the new currency would not be introduced before December 1973. Until the designs for both banknotes and coins are finalised it is difficult to specify a date for the completion of the production of currency. However, it is unlikely that the production of banknotes or coins will be completed before March 1975. The Government is anxious to announce the precise date for the introduction of the new currency as soon as possible and I hope to be able to inform members of this date shortly.

I would like to repeat my earlier assurance that for some time after the introduction of the new currency, both currencies will be legal tender in Papua New Guinea and both currencies will be equally acceptable in exchange. It is not possible, at this stage, to be precise as to the period during which the two currencies will be interchangeable but as soon as the period of dual currency circulation can be specified I shall inform members.

Furthermore, I wish to emphasise that the Government has decided that the Papua New Guinea currency, when introduced, will be of the same value as Australian currency. That is, the Papua New Guinea currency will exchange with Australian currency on a one-for-one basis...

Introduction of our own currency is essential if Papua New Guinea is to effectively control its own economic destiny. I therefore hope that all members will recognise this fact and give the Government their full support in ensuring that the replacement of Australian currency by Papua New Guinea's own currency will occur with the minimum of disruption to the Papua New Guinea economy."

(23) BANKING

A Central Banking Bill was passed by the House of Assembly in September 1973. Introducing the Bill on 31 August Mr Julius Chan, the Minister for Finance, spoke of the reasons for establishing a national central bank, and outlined its functions:

"An indispensable aspect of self-government is that the country should exercise control over the normal central banking functions, which include the issue of currency, the supervision of banks and financial institutions, the provision of banking services to the Government, the conduct of monetary and credit policy and the regulation of foreign exchange transactions. These functions are performed at present by the Reserve Bank of Australia through its Port Moresby office. The Government has decided that the new central bank should be established on the basis of the Reserve Bank's Port Moresby office, and that it should be endowed with a full range of powers to act as the central monetary authority for a separate banking system in this country...

The proposed central bank, to be known as the Bank of Papua New Guinea, is charged, within the limits of its powers, to:

- (a) ensure that its monetary and banking policy is directed to the greatest advantage of the people of Papua New Guinea; and
- (b) direct its efforts to promoting monetary stability and a sound and efficient financial structure.

The Bank is to be endowed with a full range of central banking functions including the power to:

- (a) issue currency in Papua New Guinea;
- (b) act as banker to and financial agent of the Government;
- (c) regulate banking and credit in Papua New Guinea; and
- (d) control foreign exchange transactions and manage the international reserves of Papua New Guinea."

The Bank of Papua New Guinea commenced operations on 1 November 1973. Its Governor is Mr Henry ToRobert, from the Gazelle Peninsula (see also Part A Section 3).

The Committee which had recommended the setting up of the Bank of Papua New Guinea had also suggested that a government commercial bank should be established on the basis of the Papua New Guinea operations of the Commonwealth Banking Corporation of Australia. Legislation to establish the Papua New Guinea Banking Corporation as a government-owned commercial bank was passed in November 1973. The Minister for Finance speaking of the legislation in the House of Assembly on 20 November 1973 said:

"What we are seeking to have is a government commercial bank in active competition with other banks. Under these conditions the Papua New Guinea Banking Corporation would be able to play a significant note in the development of the banking system to meet more appropriately the needs of Papua New Guineans. The Bill which is now before you is designed to establish the bank in such a way that it will be able to carry out the full range of commercial banking activities..."

On 9 April 1974, the Minister for Finance, Mr Julius Chan, announced that the new commercial bank would take over

the Commonwealth Bank network in PNG with assets of about \$65m., 13 full branches, 2 sub-branches, 200 agencies and a staff of more than 500. When addressing the first board meeting, Mr Chan said the setting up of the bank was a major operation, destined to play a central role in the development of the country's whole economy; that the board would have a 2 fold task of bringing into being a sound and prosperous bank and one suited to the country and responsible to the needs of the people; that the corporation would be expected to take the lead and to innovate; and that it was expected that the bank would work closely with the country's other financial institutions - the Bank of Papua New Guinea, the PNG Development Bank, the Investment Corporation, and the savings and loan societies.

The Papua New Guinea Banking Corporation commenced operations on 22 April 1974. Its Board comprises the Managing Director, Mr William Clark as chairman, Mrs A. Taureka as Deputy Chairman, the Secretary for Finance Mr Mekere Maurata and Messrs Inu Dai, Jeebang Sifuyu, John Dowling, Anthony Fong, Steven Homate, Henry Klink and Ilias Mora.

On 16 April 1974 the Australian Treasurer, Mr Frank Crean, made a statement regarding the transfer of Papua New Guinea business of the Commonwealth Banking Corporation to the Papua New Guinea Banking Corporation as follows:-

"By a notice published in the Gazette on 11 April, the Australian Treasurer, Mr Frank Crean, declared that, on 22 April 1974 the Commonwealth Banks Act 1959-1973 shall cease to extend to Papua New Guinea. The Papua New Guinea (Transfer of Banking Business) Regulations were promulgated in the same Gazette.

Mr Crean explained that the principal effect of these legal formalities is to provide for the transfer on 22 April 1974 of the bulk of the Commonwealth Banking

Corporation's assets and liabilities in Papua New Guinea to the new Papua New Guinea Banking Corporation established by the Papua New Guinea Government. The only business of the Commonwealth Banking Corporation in Papua New Guinea that will not be so transferred is certain accounts that give rise to special contractual problems. These accounts will continue to be conducted by the Commonwealth Trading Bank through a branch at ANG House in Port Moresby. The Commonwealth Savings Bank will cease operations in Papua New Guinea on 20 April.

The difference between the amount of the Papua New Guinea assets and liabilities of the Commonwealth Banking Corporation transferred to the new Papua New Guinea Banking Corporation will be settled between the banks concerned. Mr Crean said that the Australian Government has agreed to provide a special grant of \$10m. to the Papua New Guinea Government to be applied as the initial capital of the Papua New Guinea Banking Corporation.

Mr Crean added that the Australian Government has extended to the Papua New Guinea Government its good wishes for the opening of Papua New Guinea's own commercial bank on 22 April and for the future success of the bank."

(24.) DEVELOPMENT BANK

The operation of the Development Bank is of great importance in national development, particularly in fostering increased participation in economic ventures by Papua New Guineans. Members of the House of Assembly have expressed concern that the Bank's operations effectively assist Papua New Guineans, and arrangements have been made for regular communication between MHAs and the Development Bank Board so that the bank has some popular "feed-back" of criticisms and suggestions on its operating policies.

The Minister for Finance said in the House of Assembly on 5 March 1974:

"I myself had the opportunity of addressing the Board of the Development Bank at its meeting last month. On that occasion I stressed in strong terms the need for the bank to keep its policy and procedures in tune with the Government's aims, in particular the aim of increasing the proportion of the economy controlled by Papua New Guineans, the aim of more equal distribution benefits, and the aim of decentralisation. I urged the bank to make special and systematic efforts in areas which have lagged behind, and to make sure that its procedures in respect of loan applications are sufficiently flexible...

There are many areas of the economy where we are not making progress we consider essential and where the Development Bank can take the lead. In particular I have in mind local production of fruit, vegetables and foodstuffs generally. I believe there is considerable scope for the bank to initiate coordinated projects on a fairly large scale in such fields, which are of strategic importance to our national economic development. The Government would be prepared to provide the bank with the necessary capital to undertake such an expansion of its business..."

The first Papua New Guinean bank manager was appointed by the Development Bank in March 1974. Mr Egi Trudi, who has worked for the Bank since 1967 is, in June 1974, to open and manage a new branch for the Development Bank at Pongodette

(25) THE INVESTMENT CORPORATION

The Investment Corporation has continued its work of increasing local ownership of business enterprises. The Minister for National Development, Mr Gavera Rea, on 19 March 1974, described the Corporation's role thus:

"Firstly, the corporation has a job to do at village level in mobilising savings and in channelling those savings into productive enterprise. It is doing this by selling shares to Papua New Guineans in the Investment Corporation Fund. Hoarded money benefits no one and shares in the corporation fund provide a worthwhile investment until village enterprises can be organised.

Secondly, the corporation is able to exert an influence on the policies of the companies in which it invests. In this regard its activities can have a real impact on the life styles of the Papua New Guineans working for or otherwise dealing with the companies concerned...

Thirdly, a major part of the funds used by the corporation have been raised in the form of overseas loans. The corporation is in this way substituting overseas loans for overseas ownership of businesses. The loans are being repaid out of profits earned by the corporation from its investments."

The Investment Corporation began in February 1972 with assets of \$0.5m. At the end of March 1974, its assets were approximately \$12m, with equity being held in 16 companies. A profit in excess of \$1m has been foreshadowed for the year 1973-1974.

On 1 September 1973 the Investment Corporation Fund was set up. The Fund operates as a type of unit trust, holding a package of a number of investments that the Corporation has acquired. Shares in the Fund are sold to Papua New Guineans who thus become entitled to a share in the income from the package of investments.

(26) BOUGAINVILLE COPPER PTY LTD

Following pressure for renegotiation of the Copper Agreement the Papua New Guinea Minister for Mines and Energy, Mr Paul Lapun, on 2 August 1973 announced the appointment of a consultant to advise the Papua New Guinea Government on the Bougainville Copper Agreement. The consultant chosen was Professor Louis Wells of the Harvard University Development Advisory Service.

Professor Wells presented his report in October 1973, recommending methods of securing additional benefits from the Bougainville Copper Project. At the time his report was released, the Government pointed out that other proposals (including forms of taxation based on the profitability of resource-based industries) were under active consideration within the Government and that no decision had been taken.

Early in February 1974 Bougainville Copper Pty Ltd announced its profit for 1973 as \$158.4m. The profit, which was a good deal higher than predicted, was attributed by directors of the company to the "unprecedented levels" that metal prices reached in 1973. The Papua New Guinea Government's revenue from the profit was approximately \$28 million, increasing its internal revenue for 1973-1974 over that estimated. (See Part B Section 16).

Following the announcement of the profit, calls for re-negotiation of the Bougainville Copper Agreement were widespread. On 4 March 1974, the Chief Minister made a

statement to the House of Assembly on re-negotiation of the Bougainville Copper Agreement, saying that a first round of discussions with company officials would be held during March. The Chief Minister would personally take responsibility for the re-negotiation, and said that he had appointed a committee which would be aided by consultants with long experience in negotiating agreements between developing countries and large multinational corporations." He indicated the basic principles which would guide the Government in re-negotiation:

"First, copper and other minerals belong to the people of Papua New Guinea. They do not belong to any foreign corporations. Secondly, it is up to us to choose how and when to develop those great resources. We may not yet have the skilled people to do all the work of building and operating a mine and so we may choose to have foreign companies come in and do this work for us, but we must keep control of the way in which the resources are developed and we must be careful how high a price we pay for this development and that the development does not destroy our society. Finally, we must ensure that whenever conditions beyond the control of either the company or the Government, produce spectacular windfall profits, the lion's share of these gains must be kept by Papua New Guinea. This follows logically from the first point, namely that it is our copper."

(27) KENNECOTT/OK TEDI PROJECT

The Kennecott Copper Company has been exploring the feasibility of mining a copper deposit at Ok Tedi in the Star Mountains of the Western District of Papua New Guinea. Negotiations with the Government of Papua New Guinea have also been underway for some time seeking agreement on the basis on which the project might proceed.

A news release was issued on 2 November 1973 by the Acting Director of Lands, Surveys and Mines, Mr Aisea Taviai, outlining the state of negotiations between the Government and the Company. The following is an excerpt from the news release:

"The Ok Tedi project was a very large and complex one and discussions on it were, as yet, at an early stage. The purpose of the negotiations was to arrive at an arrangement which distributed fairly between the two parties involved, the costs and benefits from Ok Tedi project.

Mr Taviai said that a great deal of discussion was needed about the facts of the actual project and possible methods of securing finance of the order of \$300m required for the project.

He said discussions would need to continue for some time and that in the light of the best advice available to it, the Papua New Guinea Government would press for a deal to yield maximum benefit to Papua New Guinea, while at the same time being fair to Kennecott."

The Government's basic principles on mining policy (announced on 19 May 1973) and the outcome of renegotiations of the Bougainville Copper Agreement can be expected to influence any agreement reached with Kennecott. The mining policy principles included:

"Taxation: the government will obtain approximately 50 per cent of profits from large mines in the form of taxes. Legal changes will be made to eliminate

long tax-free periods.

Changing circumstances: major mining agreements will include provisions for review by the government and the company every 10 years, in addition to tax provisions of mining agreements that will guarantee the government a fair share of any high profits resulting from rises in the world market price of metals or other factors.

(28) PURARI HYDRO-ELECTRIC PROJECT

In the past year investigations have continued into the development of a major hydro-electric power scheme on the Purari River in the Gulf District of Papua New Guinea. The potential of this scheme is assessed to be in excess of total power generation in Australia at the present time. Another aspect of the project being investigated is the setting up of smelting facilities on an entrepot basis for materials such as bauxite, iron and copper ore, and the development of other manufacturing industries.

The Minister for Defence and Foreign Relations Mr Albert Maori Kiki, in a message to mark self-government day said that he was particularly pleased with recent indications of Australian and Japanese Government interest in the long term development of the Purari project, especially as this would carry significant benefits for the people of an area of Papua New Guinea which to date had little to show by way of economic development. He said that there was still a long way to go on preliminary work and inter-governmental negotiations before work could commence on development of the Purari Basin as a source of cheap hydro-electric power and its use for industrial purposes, but that there was definite interest overseas in the potential of the basin and for use of its products.

Preliminary feasibility studies to date have been undertaken by the Japanese company Nippon Koei. The Snowy Mountains Engineering Corporation has completed a review of the Nippon Koei pre-feasibility study.

The Australian Government is presently examining the SMEC Review, with a view to determining whether Australian technical assistance will be provided for the full scale feasibility study required to determine the economic potential of the Purari power resource.

(29) FISHERIES

(a) Australia/PNG Fisheries Arrangements
(See also Part A, Section 3)

Discussions have taken place between Australian and Papua New Guinea Government officials concerning the transfer of full legislative powers over fisheries matters to the Papua New Guinea Government, and the conclusion of a fisheries agreement between the two countries to apply after Papua New Guinea independence. It is expected that such an agreement would have interim application in the form of understandings to apply between the conclusion of the agreement and independence.

The agreement will provide for joint management of common fisheries resources, and for the exchange of technical information concerning fisheries resources. Management measures will pay due regard to conservation requirements and rational utilisation of fisheries resources, and be designed to create favourable and orderly conditions for the conduct of fishing operations by vessels under the jurisdiction of Australia and Papua New Guinea. Further discussions on this matter are planned.

(b) Papua New Guinea/Japanese Fisheries Arrangements

The Australia/Japan Fisheries Agreement of 1968 includes agreed minutes relating to Papua New Guinea. Further agreed minutes and understandings relating to PNG/Japan fisheries relations were negotiated by Australian and Papua New Guinea officials in 1970, 1972 and again in 1973 (the last remaining unsigned to date).

Briefly the agreed minutes and understandings relate to arrangements for co-operation between Papua New Guinea and Japan in joint fisheries ventures, resource management and research, and for feasibility studies into

the construction of a fish cannery. In return specified Japanese longliners may fish within the Declared Fishing Zone (12 miles) and enter the ports of Rabaul, Madang and Kavieng for fuel and provisions until December 1975.

In accordance with agreed minutes and understandings three Japanese fishing companies have been carrying out surveys into the skipjack tuna resources of the Bismarck and Solomon Seas, and negotiations have proceeded on the question of establishment of a cannery.

Indications are that the fisheries resources of the Bismarck and Solomon Seas are substantial and provide a firm basis for establishment of an economically viable fishing industry in the area based on Papua New Guinea ports.

PART C : SOCIAL ADVANCEMENT(30) EDUCATIONTertiary

In April 1973 a working party was established by the Vice-Chancellor of the University of Papua New Guinea to look into future development of the University. Its report was presented in October 1973. The report identified the Committee's views on the major aims and responsibilities of the University. Some of these were to:

- Provide, for the service of Papua New Guinea, suitably qualified people with appropriate outlooks, skills and attitudes to life.
- co-ordinate its efforts with those of other institutions so that the national resources for education and those of neighbouring countries can be distributed most rationally.
- provide as a corporate body, through groups and through individuals, independent comment and advice which will be critical, constructive, objective and responsible on all aspects of life in Papua New Guinea.
- give priority to and foster research appropriate to Papua New Guinea, related to plans for national improvement and made freely accessible.
- contribute to the understanding, enjoyment and development of Papua New Guinea cultures and traditions within the context of a wider world.

In December 1973, Dr Gabriel Gris (from the Manus District) was appointed as Deputy Vice-Chancellor of the University of Papua New Guinea. Dr Gris has previously had extensive experience in the administrative, community, educational and international fields.

Papua New Guinea now has a second university. The change from Institute to University of Technology (at Lae) was gazetted on 30 August 1973 - to take effect from 23 August 1973.

Supply of Teachers

In 1974 there are over 2,000 students enrolled in teacher training courses throughout Papua New Guinea.

Papua New Guinea has suffered some teacher shortage and efforts are being made to recruit from several sources. The Commonwealth Secretariat has given assistance, and through that organisation it is expected that about 70 British educationists (60 senior secondary teachers and 10 other officers for teacher training, planning and technical posts) will be posted to Papua New Guinea in 1974. The Government is also conducting a recruiting campaign to fill staff shortages in essential services in the Philippines. The initial emphasis of this recruitment is on teachers.

Conferences

The Papua New Guinea Government is concerned to take part in regional educational plans and development. In late June/July 1973 Mr Vincent Eri, then First Assistant Director of the Education Department attended a South Pacific conference of directors of education held in Raratonga in the Cook Islands. The Department of Education also sent representatives to the South Pacific Commission's sixth regional education seminar in Honiara in March 1974. In May 1974 the Australian College of Education will hold its annual conference in Port Moresby.

General

Attention is being directed to the problem of primary school leavers who are unable to go on to high

school. A post-primary course on a self-help basis has been organised jointly by the Department of Education and the Department of Social Development and Home Affairs (now Department of the Interior).

At the end of March, the Minister for Education, Dr Reuben Taureka, announced the appointment of a committee, headed by Mr Alkan Tololo, the Director of Education, to formulate a 5-year education plan for Papua New Guinea. In particular, the committee will be looking into:

- the feasibility of introducing universal primary education at an early date.
- the progress of community-oriented education and ways to integrate it with primary curriculum.
- a work-oriented secondary education and ways to increase secondary education intake.
- ways to streamline the structure and functions of various vocational and technical institutions and to expand their intake.

(31) CULTURE

A National Cultural Council is currently being set up in Papua New Guinea, responsible to the Chief Minister. The cultural program is to be based on 3 national cultural institutions, (a museum, a centre for creative arts and an Institute of Papua New Guinea Culture) regional and local cultural centres, and a system of grants for cultural activities.

The Australian Government has provided a grant of \$5m. for cultural purposes over the next 5 years.

A Niugini Arts Festival was held in September 1973 with performances of traditional dancing, music, drama and poetry and showings of films from Asian, Pacific and South East Asian countries. The fourth Niugini Arts Festival is planned for September 1974.

The Papua New Guinea Government has expressed its desire to preserve the cultural heritage of the country and has taken action to prevent exploitation or destruction of cultural traditions and artifacts. In March 1974 the Government restricted the acquisition and transfer of artifacts and cultural objects made in Papua New Guinea before 31 December 1960. The restriction is to ensure that such artifacts remain within Papua New Guinea.

(32) HEALTHCourses and Conferences

In August/September 1973 the World Health Organisation conducted in Port Moresby a 4-week training course on national health planning. Eighteen doctors from 7 Pacific countries attended.

The South Pacific Commission held its fifth conference for directors of territorial health services in Port Moresby from 11 to 15 February 1974. Main topics under consideration were the review of special long-term projects in the field of nutrition, dengue fever and fish poisoning. Training facilities within and outside the region were also reviewed.

A National Health Plan for Papua New Guinea is currently in preparation. One of the objectives being observed by the Planning Committee which is formulating the National Health Plan is that cultural and traditional values important for the maintenance of health should be preserved and utilised and that wherever possible the useful elements of traditional medicine should be integrated within the health care system. In order to ensure that the Health Service reaches as many people as possible, the Plan is likely to advocate some form of control over private medical and dental practitioners.

(33) EMPLOYMENT

During the period under review additional categories of employment were declared prohibited or restricted to immigrant persons, including Australians, seeking employment in Papua New Guinea. The scheme, known as the Selective Entry for Employment Scheme, ensures that employment opportunities for Papua New Guineans are not prejudiced by the entry of people from other countries, and thus fosters localisation.

In August 1973 the list of occupations gazetted as prohibited and restricted included:

(a) Prohibited Occupations

Medical Assistant
 Dental Assistant
 Auxiliary Nurse
 Fire Fighter
 Travel Guide
 Fitters, Machine Assemblers and Precision
 Instrument Makers (except electrical)
 Printer
 Photograph Printer
 Building Painter
 Building Insulator
 Turbine Operator (power station)
 Pumping station operator
 Aircraft loader

(b) Restricted Occupations Part 1 (in which an immigrant may be employed provided the employer provides on-the-job and/or formal institutional training for a Papua New Guinean to replace the immigrant within one year of the immigrant's engagement)

Wood-treating worker
 Precision Sawyer
 Wood turner
 Stonemason (construction)
 Boiler-pipe insulator
 Refrigeration and Airconditioning

- (c) Restricted Occupations Part Two (in which an immigrant may be employed provided the employer provides on-the-job and/or formal institutional training for a Papua New Guinean to replace the immigrant within 2 years of the immigrant's engagement).

Card and Tape-punching Machine Operators
 Road Passenger Transport Service Inspector
 Stock Records Clerk
 Personnel Clerk
 Filing Clerk
 Proof Reader
 Head Waiter (including Dining Room Supervisor)
 Wine Waiter
 Nursing Aid
 Meat Cutter
 Electrical Repairman
 Electric Cable Jointer
 Oil and Gas well drilling rigger.

- (d) Restricted Occupations Part Three (in which an immigrant may be employed provided the employer provides on-the-job and/or formal institutional training for a Papua New Guinean to replace the immigrant within 3 years of the immigrant's engagement).

Journalist
 Reporter
 Radio Journalist
 Transport and Communications Supervisors
 Telephone and Telegraph Mechanic
 Vehicle Sheet metal worker
 Sign Painter
 Bricklayer
 Plasterer
 Glazier.

- (e) Restricted Occupations Part Four (in which an immigrant may be employed provided the employer provides on-the-job and/or formal institutional training to a Papua New Guinean to replace the immigrant within 4 years of the immigrant's engagement).

Head Cook
 Cabinet Maker
 Woodworking Machine Setter
 Metalworking Machine Setter
 Lathe Setter-Operator
 Milling Machine Setter-Operator
 Automobile Mechanic
 Machinery Mechanic (General)
 Electrical Fitter (General)
 Electrician (General)
 Plumber (General)
 Gas and Electric Welder
 Sheet-Metal Worker (General)
 Hand Compositor
 Linotype Operator
 Carpenter (General)
 Construction Carpenter
 Ship Joiner
 Housebuilder (General)
 Building Maintenance Man
 Pipe Layer.

A closer check is being made on immigrants. On 20 March, the Minister for Defence, Foreign Relations and Trade announced that he had refused extensions of stay to a number of people who had entered Papua New Guinea on short term visitor permits and had then remained to take up employment; Mr Kiki said:

"Immigrants who continue to arrive under these circumstances by circumventing immigration and labour requirements can expect little sympathy when seeking extensions of stay."

(34) LIQUOR LICENSING

On 20 November 1973 the House of Assembly passed the Liquor Licensing and the Liquor Licensing (Miscellaneous Provisions) Bills which together gave effect to the recommendations of the Commission of Inquiry into Alcoholic Drink. The legislation came into force in late January 1974. Apart from reducing trading hours for the sale of liquor, the legislation made several social welfare provisions. These included

- . greater participation by the community in that the granting of a publican's licence, tavern licence, storekeeper or club licence would be dependent on public feeling in the area.
- . provision for a District or Local Court to order part of the wages of a habitual drunkard to be paid to his wife or his children's guardian;
- . power to the Liquor Licensing Commission to change the trading hours in any Licensing District after consulting regional, district and local government bodies.
- . Power to the High Commissioner to make a rural area a "declared area" where only the government can supply liquor to retailers.
- . banning of the advertising of all spirits and wines except on licensed premises or vehicles owned by a licensee.

Trading hours were reduced to 7 hours each day Monday to Friday; 8 hours on Saturday and 4 hours on Sunday. The Minister for the Interior described the new legislation as being designed "to stop the growth of a problem which many believe could sap the country's vitality at this important stage of development unless checked now".

Throughout the period under review, the government

has continued its practice of banning or severly restricting the sale of liquor during holiday periods e.g. National Day, the self-government period, Christmas and New Year and Easter. This has had the effect of reducing markedly the number of offences associated with the consumption of alcohol, and has contributed to the maintenance of law and order.