BOUGAINVILLE:
BUILDING A SUSTAINABLE ECONOMIC
FUTURE - “THE WAY FORWARD”
(EDITED AND REVISED)

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TO
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First, my thanks to Frank Yourn, Executive Director of the Australian Papua New Guinea Business Council, and the directors and members of the Council, for including this session in the program for this significant Forum.

In doing so, you are recognising the importance of the ongoing efforts in Bougainville to build and sustain peace. You are also recognising the importance of sustainable economic development to the prospects of the success of those efforts. For sustainable peace and sustainable economic development are inextricably linked.

While of course there are many other facets to the ongoing peace-building efforts, there is little prospect for success in peace-building without sustainable economic development. As I will explain to you, while we are certainly making some progress, at present we are a long way from achieving that vitally important goal.

As you all know, there are significant challenges in the way of Papua New Guinea, as a whole, finding its “way forward” towards a realistic path for “building a sustainable economic future”. For the Autonomous Region of Bougainville, we face additional challenges and constraints. At the same time, it’s not always realised that we also have some uniquely positive attributes and possibilities.

So my presentation today will outline in brief the complex and unique mixture of not only challenges and constraints, but also attributes and possibilities, found only in Bougainville. That will provide the background for a brief outline of some key steps that the Autonomous Bougainville Government (the ABG) is taking to chart a realistic path towards that sustainable economic future.

But first I must briefly address two significant issues relevant to those major themes – issues that I expect to be of considerable interest or concern to potential investors.

The first of those issues concerns what I see should be the limited direct role of government in future economic development in Bougainville.

The second concerns the fundamental importance of the National Government and the ABG together achieving complete implementation of the Bougainville Peace Agreement. It is, after all, their “joint creation”, directed to responding to both sources and impacts of the terrible nine year Bougainville conflict (1988-1997). In particular, I must discuss the importance of us jointly ensuring that the Referendum on the future political status of Bougainville provided for under the
Peace Agreement is held in the five year period, mid-2015 to mid-2020, as required by the Agreement.

GOVERNMENT ROLES IN BUSINESS ACTIVITIES

In my view, government should not be directly involved in economic activity. There is ample evidence from experience in Port Moresby – and some in Bougainville – of the grave risks associated with direct government involvement in business activities. We all know the kinds of problems here. They can include: corruption; mismanagement; conflicts of interests; and diversion of scarce resources actually needed to provide and improve the basic services and infrastructure needed to attract responsible investment in the first place.

Rather, government involvement should, as far as possible, be limited to three main areas of responsibility:

- First, necessary regulation setting broad parameters within which economic activity should occur;
- Second, provision of basic services needed for economic development;
- Third, provision of infrastructure and similar things needed to support sustainable economic development.

Under the constitutionally based autonomy arrangements under the Bougainville Peace Agreement, responsibility in Bougainville for regulation of business is at present divided between PNG and ABG laws. As the process of transfer of powers to the ABG continues, it will increasingly be a matter for Bougainville laws. We recognise that differences in regulatory regimes in the same country can be a factor that can cause concerns for investors. For example, aspects of the Bougainville Mining Act 2015 may give concerns to potential investors.

At the same time, I must emphasise that the ABG will sometimes be obliged to take a different regulatory approach from that of PNG. After all, the Bougainville Peace Agreement of 2001 states that the major purpose of the autonomy arrangements under which the ABG operates is to:

“… empower Bougainvilleans to solve their own problems, manage their own affairs and work to realize their aspirations ..”.

The impacts of the complex developments that Bougainville has experienced over the short 111 years since the first colonial administration was established there (as late as 1905) are such that Bougainville does have significant unique problems and needs. It also has some particular aspirations. Together they make it imperative for us to develop some key policies, and associated regulatory
approaches, quite different from those of PNG. I will mention some of these later in these remarks.

Concerning provision of **basic services** and **necessary infrastructure**, they are critically important to attracting responsible investment. The standards of schools, health services, electric power, water supplies, and law and justice services, are all vital factors for businesses and their employees. The standards of transport and power infrastructure are of critical importance to investors and their potential employees.

It is clear that the limited levels of basic services and infrastructure in Bougainville are major constraints, limiting our ability to attract responsible investment. They even limit the ABG’s ability to improve capacity in the Bougainville Public Service. For reasons I will outline later, the ABG finds itself in a deeply paradoxical situation in this regard.

When negotiating the Bougainville Peace Agreement (1999 to 2001), the National Government –then in fiscal crisis - promised to provide significant grant funding for Bougainville, once the fiscal crisis was over, for the particular purposes of restoration and development in post-conflict Bougainville. But it has largely failed to honour that promise in the years from 2005-06, even when the fiscal crisis was over and high commodity prices saw dramatic increases in National Government revenue.

Without the promised increased funding, through the Restoration and Development Grant, we have made some progress in lifting standards of services and restoration of infrastructure, but nowhere near enough. The limited extent of improvement has been a significant factor in our similarly limited success in attracting new investment.

In these circumstances, where we are still attracting only limited new investment, there is sometimes impatience, which results in pressure on the ABG to take a more active role in business activities. This pressure is understandable, but does, I think, need to be resisted in all but exceptional circumstances.

However, there will be some cases where it seems clear that important economic activities will not start without some ABG investment. Where that occurs, it will be essential that the business activities are kept completely separate from ABG politicians.

The ABG remains fully committed to meeting Bougainville’s desperate need for infrastructure development. However, the failure of the National Government to
meet its constitutionally based grant obligations means that infrastructure development is largely limited to what donors decide to do (much of it being very welcome, including Australia’s ongoing work on the main trunk road, and Japanese provision of a major bridge building project).

Since 2011, there has also been the National Government funded Special Intervention Fund (or SIF), which promised K100 million per year to major projects in Bougainville. But it has so far delivered only K310 million. While that has supported some significant projects, the SIF has become mired in controversy and disputes.

First, utterly unsubstantiated allegations of ABG misuse of some of the funds have been made. Second, endless difficulties have arisen in getting joint agreement between the governments on SIF priorities. And third, in recent months, despite prior agreement between the two governments that all SIF projects would be jointly approved, and tendered through the Bougainville Supply and Tenders Board, three significant (though welcome) major road projects were tendered, without ABG knowledge. For reasons never explained, this occurred through the National Government controlled Central Supply and Tenders Board.

Some K15 million in existing SIF funds received into the SIF trust account and allocated to already jointly-approved projects were then diverted to meeting mobilisation costs for two of these new projects. This was despite the absence of any National Government allocation of new SIF funding to meet the approximately K250 million costings of the three new projects.

One result is the loss of the funding for the previously-approved projects, meaning that their completion is now in doubt. Another is the absence of the funding needed to continue the three new projects that were somehow approved outside the agreed SIF guidelines.

The ABG is taking these and related issues to the Joint Supervisory Body meeting to be held in Port Moresby on Friday 20th. We trust that sensible ways can be agreed to deal with the deeply troubling situation facing us.

**BOUGAINVILLE PEACE AGREEMENT – INVESTOR CONCERNS?**

It is sometimes forgotten that the 2001 Bougainville Peace Agreement was entered into in order to end the worst, the most violent, divisive, and bloody conflict ever fought between Pacific Islanders. The Agreement was between the National Government and leaders of the major groups in the previously opposing Bougainville factions. But it was also witnessed by the international
community – including representatives of the UN, Australia, New Zealand, Solomon Islands, Fiji and Vanuatu.

In witnessing the Agreement, the international community was seen as committing to supporting the full implementation of the Agreement.

The extent of its implementation to date, though far from complete, has contributed to reducing tensions and divisions, and towards building sustainable peace. But divisions, tensions and suspicions remain.

Amongst other things, tensions and suspicions continue over the referendum on Bougainville’s political future. The referendum is a difficult issue, even for some in Bougainville. Many there see the referendum as essential to finally resolving a question that has festered since the 1950s. But there are also some who remain concerned that Bougainville is too divided to have a free and fair referendum.

But of course, for many in the National Government, few issues could be more sensitive and threatening than the possible separation of Bougainville from PNG. Some opposition to the referendum being held in accordance with the Agreement is still sometimes evident.

Of course, the provision for the referendum can also be a source of concern for potential investors. It could suggest uncertainty and tensions around Bougainville’s political future, which could undermine confidence of financiers and investors. It’s perhaps not surprising then that one or two potential investors have hinted at being interested to know if the referendum might be delayed for an extended period, or perhaps a decision made not to hold the referendum.

However, it’s essential to recognise that in circumstances where a long-term destructive and divisive conflict has been resolved by a solemn agreement, witnessed by the international community, that the referendum must be held. There are much graver risks of instability and uncertainty should that promise not be honoured.

I am far from certain what the outcome of the referendum will be. The vital thing, to me, is to ensure that there is a fair and honest process that helps us all resolve the question of Bougainville’s political future. If the process is handled in the right manner, with complete integrity and transparency, then whatever the outcome, all parties should be able to cooperate in working cooperatively together after the referendum, under mutually agreed arrangements.

‘POSITIVES’ & OPPORTUNITIES, CHALLENGES & CONSTRAINTS
In thinking about the most appropriate “way forward” towards a “sustainable economic future” for Bougainville, I see a complex mixture of positive attributes and opportunities, as well as some challenges and constraints.

‘Positive’ Attributes, and Opportunities
The positive attributes include:

- Bougainville’s remarkable beauty;
- the drive and energy of our people;
- that drive is evident in how, with donor and government support, Bougainvilleans have re-established the cocoa and copra industries destroyed by the conflict (1988-97), and in our development of an entirely new and extensive small-scale gold extraction industry since 1998;
- the fertility of so much of our land;
- the wealth of natural resources (both land and marine);
- significant sustainable energy resources, notably hydro-electric power;
- the peaceful state of Bougainville today (far more peaceful and relaxed than perhaps a large proportion of the rest of PNG).

Opportunities for significant economic development are numerous and diverse. A few of the main ones include:

- The fact that Bougainville already produces more cocoa than any of the PNG provinces, and has the potential to expand cocoa production on existing land by 300 per cent just by more efficient and intensive farming (as determined by a recent report by highly qualified American agriculture expert, David Anderson);
- the potential use of our numerous fast-flowing rivers as the basis for developing a hydro-electric grid to provide cheap and sustainable power not only to all Bougainvilleans (both rural and urban), but also to a range of new businesses;
- so we envisage the first steps in developing that proposed grid being already underway in the form of two hydro-electric projects under development:
  - one at Togerau, in the Wakunai District, organised by former Central Bougainville MP Sam Akoitai, and funded by the PNG Sustainable Development Program that was about two thirds complete when recent problems closed down the SDP;
  - the other, just beginning on the Ramazon River in Tinputz, being organised jointly by the ABG and PNG Power, with ADB funding,
and there is also a proposal by a project developer at Toniva, near Arawa, to establish another small hydro-electric project which should also ultimately feed into the proposed grid;

- with significantly expanded cocoa production and cheap power, we will be seeking developers interested in downstream cocoa processing;
- our fertile land and energetic people, combined with the promise of cheap power, offers the prospects of all kinds of diversification and development of other kinds of down-stream processing in agriculture, as well as support for other industries;
- the extensive tuna resources accessible in waters associated with Bougainville;
- what is generally believed to be the remarkably prospective situation in relation to minerals, in many parts of Bougainville where no exploration has been permitted since 1971 – with ample new evidence of prospectivity emerging regularly as rich new small-scale mining sites are discovered in various parts of Bougainville.

**Challenges and Constraints**

We also face, of course, a range of challenges and constraints as we explore the way ahead. Many – though not all – originate in, or have in important ways been influenced by, the nine years of bloody conflict (1988-1997).

In addition to the unknown numbers of death and physical injuries, we experienced mass trauma and significant levels of mental illnesses. A large proportion of school age children in many areas missed all or much of their schooling, many suffering long-term disadvantage as a result.

Virtually all business activity, and commercial agriculture, ceased. Government services shut down. Almost all business property was destroyed, as was the case with public infrastructure (including buildings for basic government health, education and other services). Most transport infrastructure was also destroyed, or badly damaged (many bridges, wharves, airstrips), or grossly deteriorated due to lack of any form of maintenance (all roads, and many bridges, wharves and airstrips).

Impacts on our people, and on the business and the government sectors, were incalculable. Partial recovery has occurred, particularly in the agriculture and small business sectors, and in provision of basic education, health, and law and justice services. Donor support to both farmers and to the public sector has been critically important to achieving improvements.

While much has been achieved, far more remains to be done. As experience elsewhere in the world shows, it is extremely difficult to rebuild both private
and public sector capacities once they have been largely destroyed by violent conflict. Amongst other things, Bougainville’s experience shows how rapidly even an efficient, well managed, and highly accountable system of administration and planning can be virtually wiped out. That was the impact of the conflict on the previous North Solomons Provincial Government.

A culture of short cuts and expediencies emerged as government services were haltingly restored to some areas, beginning with Buka in late 1990. While shortcuts were sometimes necessary, especially in the early days, they also opened opportunities for development of what has become an entrenched culture of corruption in key parts of the Bougainville public sector. This has occurred despite public sector corruption having been almost completely absent prior to the conflict. Corruption and mismanagement remain serious problems.

We are actively tackling corruption, as well as capacity deficits. Amongst other measures, we are advertising vacancies for all positions in the new Bougainville Public Service. We have also established a tough internal audit function that is already producing results.

There is much more I could say about the challenges and constraints that we face. But recognising the limited time available today, I will instead refer you to the thoughtful analysis by my Vice President, Patrick Nisira. He presented this at The Australian National University on 28 April 2016, and I provide links to it at the end of this presentation.

A WAY FORWARD: A SUSTAINABLE DEVELOPMENT PATH

In the almost 11 years since the ABG was established (June 2005), we have had several strategic plans. But to be honest, so far there has been little evidence of such plans having had much impact. I presume that reflects a failure in the realism of the planners. So rather than refer you to them, I endeavour to provide what I hope is a more realistic assessment of what might be possible.

Towards Fiscal Self-Reliance – and Realistic Budgetting

Bougainvilleans are serious about meeting the goals of autonomy set out in the Peace Agreement – in terms of solving own problems, managing our own affairs and realizing our own aspirations. To do that, amongst other things, we must achieve fiscal self-reliance. We cannot continue to rely almost completely on donors, or on grants from the National Government. Of particular concern is the failure of the National Government to yet come anywhere near to honouring the goal of the Peace Agreement of providing “sufficient personnel and financial resources for the autonomous Bougainville Government to exercise its powers and functions effectively”.

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The biggest failure has been with the main grant under the Peace Agreement directed to enabling the ABG to fund restoration and development – including restoration of services and infrastructure destroyed by the conflict. As already mentioned, PNG was in fiscal crisis when the Agreement was negotiated. For that reason it pleaded inability to provide generous guaranteed funding to help Bougainville lift levels of services to pre-conflict standards and achieve broader post-conflict restoration and development. The one promise made of reasonably generous future funding was with the Restoration and Development Grant (or RDG).

The Agreement promised that the ABG would receive a guaranteed share of PNG capital expenditure under the National Public Investment Plan (or National PIP). Bougainville’s share in the National PIP in 2001 was K10.1 million, which was about 2.59 per cent of the National PIP. The Bougainvillean negotiators saw that percentage as reasonable, though it was far from generous, bearing in mind that Bougainville’s population comprises a little over four per cent of the total PNG population.

The formula for the RDG in the Peace Agreement, and carried across into the Organic Law on Peace-building, was designed to ensure that the same percentage share of National PIP would be broadly maintained. It took the amount of National PIP paid to Bougainville in 2001 as a base. It required annual increase to the base by reference to the five year rolling average to the year of grant of the percentage change in the total National PIP.

Of course, the fiscal crisis did ease from around 2005-06. Increased commodity prices, new resource projects and loans to the National Government obtained in expectation of LNG revenue were the key factors. As a result, revenue allocated to the National PIP increased rapidly.

Implementing the RDG formula would have seen annual RDG payments to the rising equally rapidly. Only in that way could the ABG share of the National PIP be maintained. But no such increases occurred. Instead, the National Budget RDG allocations were limited to an annual payment of a maximum of K15 million in most years. In 2011, no RDG payment at all was allocated.

At that point the ABG lost patience. For the first time we belatedly did what the National Departments of Treasury, Finance and Planning had shown no interest in doing. We gathered our own data on the annual increases in the National PIP going back to five years before 2001. Our calculations confirmed our position that the RDG payments were far lower than they should have been.
By then revenue allocated to the National PIP was rising dramatically each year, but RDG payments were simply stagnating, as if the National PIP had not increased at all.

In 2011, the arrears were already significant. But by 2016 our calculations showed arrears to the end of 2015 of over K500 million, and an annual RDG payable in 2016 of K164 million. But what has the National Government actually budgeted for 2016?

It’s just K10 million. In 2014 the National Government produced two sets of its own calculations of RDG arrears and annual payments made. It offered to make interim payments of RDG arrears based on the lower of the two sets of figures generated by its two calculations. At the same time it was agreed between the two governments that their dispute over the correct calculation method would be referred to legal interpretation.

That interim offer was for payment of arrears of K96 million, by annual payments over three years, beginning in 2015. Those calculations also involved annual RDG payments of at least K29.5 million from 2014.

What happened to the 2014 offer? Well – a payment of arrears of K30 million was included in the 2015 National Budget. But it was never paid. To make matters worse, the 2015 annual RDG appropriation was just K10 million – about K20 million less than the minimum National Government calculation for the annual grant figure. But even that K10 million was not paid in 2015 – the ABG eventually received it in 2016.

The RDG appropriation for 2016 is again just K10 million. But this time there has been no appropriation at all for back-payment of arrears of K30 million, despite the promise made in the 2014 Joint Supervisory Body meeting.

The main results of these ‘developments’ since 2014 are:
- first, a significant increase in the arrears of RDG owing to the ABG;
- second, a reducing capacity of the ABG’s ability to fund restoration and development in Bougainville; and
- third, a highly regrettable steady decline in the credibility of the autonomy arrangements provided for under the Peace Agreement.

Let me make it clear: the ABG does not accept the National Government 2014 calculations for the RDG. They would result in an even more dramatic fall in the percentage of National PIP payable to the ABG than has resulted from the stagnating actual RDG payments.
Rather, we welcomed what we assumed was a good faith interim offer of payments according to the lower of the two sets of National Government calculations. But not only has the obtaining of legal interpretations failed to resolve the main disputes, but also the promised interim payments have not been forthcoming.

The ABG must now pin its hopes on new steps being made towards resolving the RDG problems at the Joint Supervisory Body meeting on Friday 20 May.

These and other problems with grants have underlined for the ABG how important it is to achieve fiscal self-reliance as soon as possible.

Of course, fiscal self-reliance will only be possible through sustainable economic development that generates economic activity. That is essential if the ABG is to achieve the sustainable taxation base needed to generate the revenues for funding the services that our people need. And such developments are critically important not just in terms of providing tax revenue to our people. Even more important, it will contribute to our people providing for their own livelihoods.

Where is the ABG placed now in relation to achieving fiscal-self-reliance?

Our budgeted revenue and expenditure for 2016 is almost K351 million. Yet our revenue derived from Bougainville is estimated at almost K20 million. The balance of the budget revenue involves various sources of National Government grant funding, and some donor funding.

Only K20 million out of K350 million locally derived could suggest that the possibilities of fiscal self-reliance must be very bleak indeed. But in fact, the position is not quite as bleak as it might appear.

Strangely enough, a key reason for some optimism lies in what might be described as the ‘inappropriate’ budget structure that the ABG inherited from the previous Bougainville Interim Provincial Government. Amounts of budgeted National Government grants not received in previous years were carried forward to the current year, in the hope they would be paid - and they often were. While that worked for the Interim Provincial Government, the ABG experience has been different.

In the 2016 budget, well over K100 million in unpaid amounts back to 2011 has been included (an indictment of a number of failures by the National Government to provide promised funding). In addition, the 2016 ABG budget includes K40 million in DSIP and PSIP, paid to the four Bougainville MPs in
the National Parliament. Yet that money is not controlled by the ABG in any way. It should not be included in our budget.

If we were to deduct the unpaid amounts from previous years, and the DSIP and PSIP, we would have a realistic ABG budget. It would show our actual revenue for the year in question. For 2016 that would probably amount to about K184 million – almost K170 million less than the current 2016 budget of nearly K351 million.

There are many good reasons for us to restructure our annual budget in this way. The current unrealistic budget causes or contributes to a number of serious problems. They include expenditure expectations that cannot be met. In particular, people expect that the inclusion in the budget of ‘notional’ funding from past years (originally intended to fund a project not completed because the funding never came) nevertheless means that funding for the project in question is actually available in the current year. But almost invariably it is not.

Yet that lack of actual funding then causes misunderstandings and frustration. It generates pressure on ABG ministers and officers. Finance Department staff come are pressured to release funds for such projects. If they do, they are of course using funds actually allocated to fund current year projects. The result is frustration for supporters of the latter projects. Such projects are in turn likely to be carried forward to subsequent years, in the vague hope that additional funds will be found, thereby continuing the same cycle of problems.

The grossly inflated budget figure – e.g. 2016’s utterly misleading K351 million as opposed to a more realistic K184 million – gives the impression that the ABG has much higher funding each year than it actually has. That impression in turn fuels concerns and allegations of waste and corruption.

Ironically, because the actual financial resources available to the ABG are much less than our budget has been telling us, our target for achieving a measure of fiscal self-reliance is still significant, but much lower than it appears now, and much more realistic.

So, a first, and perhaps small, but certainly important step towards a sustainable economic future will be much more realistic ABG budgeting. I am committed to the ABG doing just that.

The Agriculture Sector
Agriculture is undoubtedly the backbone of the post-conflict Bougainville economy. Such activities as subsistence agriculture, local marketing of fruits
and vegetables, and small-holder cocoa and copra production together make up the biggest sector of the economy.

The ABG is committed to expansion of agriculture. We are pursuing the intensification of production of cocoa, in particular, recommended by David Anderson.

We are also actively pursuing significant diversification of the agriculture sector. Two major ‘integrated forestry and oil palm projects’ are proposed in sparsely populated and remote areas, one at Torokina (West coast) and the other at Tonolei (South-east coast). We are also examining a major poultry project.

**Fisheries**
We are examining a coastal fisheries project. We also seek assistance in examining economic activities involving the very valuable migratory tuna stocks now accessed by foreign vessels in EEZ and continental shelf waters associated with Bougainville.

Further, in terms of revenues payable to the ABG under the Peace Agreement, the ABG is entitled to all revenue that the National Government derives from fishing in waters beyond Bougainville’s three nautical mile territorial limit, and within the EEZ and the continental shelf associated with Bougainville, less only costs for the National Fisheries Authority (NFA) of collecting licence fees from the regional organisations that administer such licences.

The ABG has for several years been seeking from the NFA full accounting for that revenue. So far the NFA has resisted providing that information.

In 2014 they offered to pay the ABG K5 million a year as a ‘good-faith’ payment against the actual fisheries revenue derived from Bougainville associated waters. Yet here we are, in 2016, and the MOU committing them to that payment has still not been signed. When the time comes for finalising that MOU, the ABG will of course insist that the NFA pay K5 million per year from 2014 onwards.

Further, we continue to insist on receiving the complete data on license revenues received, and collection costs incurred, for every year since 2005. The ABG will then seek reimbursement of the full amount of revenue from 2005 onwards.

Again, we expect to see progress on resolving these long outstanding issues in the Joint Supervisory Body meeting on Friday 20th May.
The Small-scale Gold-Mining Sector
Most news media stories about Bougainville mining still concern the giant Panguna copper and gold mine operated by London-based Rio Tinto’s majority-owned subsidiary Bougainville Copper Ltd (BCL) from 1972 to 1989. In fact the most significant current story is quite different.

Since 1998, an entirely new and major ‘indigenous’ small-scale Bougainville gold mining industry has developed. Perhaps 10,000 Bougainvillians are now involved in this industry, on either a full-time or a part time basis. Estimates of revenue derived suggest gold sales bring well over K100 million per year into those people’s hands.

While grades of gold recovered are declining in some of the areas first exploited, every few months new sites are found. For example, rich new veins in rocky cliffs on the western slopes of the active volcano, Mount Bagana, were discovered only in February-March. They are already being exploited by several hundred people.

This new gold industry brings with it both benefits and problems. Benefits include income to miners and landowners, and a wide range of new business activities (gold buying and smelting, businesses supplying mining inputs, small trade stores in new mining areas and so on). Problems include extensive unsafe use of mercury, safety issues, damage to water courses and land, social problems of various kinds, and so on.

In an effort both encourage benefits and respond to problems, the ABG Mining Act 2015 provides an innovative scheme for locally administered licensing of small-scale mining. But the Bougainville Mining Department has not yet given any priority to small-scale mining, and so has no capacity to administer the sector. This is a matter of growing concern, and urgent action by the Department is essential.

The sector is already changing, and is very likely to keep expanding. Change includes the declining grades in some areas, likely to generate a move away from small scale mining (without machinery). The shift is expected to be towards ‘artisanal leases’ of up to 5 hectares and mining to a depth of no more than 10 metres (without tunnelling or open cut mining methods), and using relatively expensive machinery. But with new sites being discovered regularly, we can expect large numbers of small-scale miners to remain involved in our local industry.

This is a sector which the ABG is examining with a view to introducing taxation, thereby contributing to achieving the goal of fiscal self-reliance.
The Large-scale Mining Sector

Bougainville’s experience of large-scale mining began far earlier than anywhere else in PNG and was particularly traumatic. The main problems related to resentment about the grave injustices of the Bougainville Copper Agreement negotiated by the Australian colonial regime in 1976 – injustices that continued after the Agreement was reviewed in 1974.

Despite these grave problems, the Bougainville conflict did not originate in generalised determination to end mining. Rather, it originated in rejection by many Bougainvilleans of the gross injustices of the situation. The focus was on achieving a fair distribution of mining revenue and mining-related economic opportunities, taking account of the varied impact of mining on landowners, and ensuring that Bougainville as a whole received a fair share of revenues. To a large extent, Bougainvilleans were seeking the kind of distribution of mine revenues and economic opportunities that has since become standard with large projects elsewhere in PNG.

For that reason, the Bougainville Mining Act 2015 builds in a strong and clear legal basis to ensure that those kinds of arrangements must always be applied to any large mining project in Bougainville.

But in addition, the deep connections between land and clan groups, together with the impacts of the conflict between 1988 and 1997, made it essential to give clear recognition to ownership of minerals by the customary owners of land.

So under our new law, ownership of minerals brings with it veto rights over either or both intensive exploration on the owner’s land, or mining development of that land. However, subject to those veto powers, it is the ABG that has the authority to grant tenements.

Further, royalty revenues and business and employment opportunities from mining must be distributed in proportions specified in the Act amongst mining lease landowners, associated tenement landowners, adjoining area landowners, and the broader population of Bougainville.

I am aware of some concerns in parts of the PNG mining industry that the approach enshrined in the Bougainville law might be unmanageable. There is particular concern with ownership of minerals by, and the associated veto vested in, customary landowners. However, the indications are that communities in many areas have strong interest in allowing exploration. Further, the ABG is committed to ensuring that our new approach meets the
interests of all stakeholders – not just landowners. For of course, if landowners are to receive the benefits that they expect, project conditions must also be such as will attract responsible investors.

On the other hand, we are not rushing to open Bougainville to unrestricted exploration and mining. For that reason, we decided that the Bougainville Mining Act 2015 must initially continue in operation the 1971 ‘reservation’ (or ‘moratorium) over mining exploration or development of all land other than that covered by BCL tenements. Small-scale mining is also exempt from the ‘moratorium’.

Instead of rushing to lift the ‘moratorium’, in April this year the ABG used a debate in the Bougainville legislature on the issues involved. A key aim was to initiate a wider public debate amongst Bougainvillean about whether or not to lift the moratorium, and if it’s lifted, whether it should be lifted wholly or partially.

Some Bougainvillean groups (and small foreign investors) are keen to see unrestricted exploration immediately, and so advocate complete lifting of the ‘moratorium’ in all parts of Bougainville. But many others remain suspicious or uncertain about, or opposed to, unrestricted exploration and mining development.

My own view is that the ‘moratorium’ should be lifted only partially. That might involve allowing Bougainville-wide granting of ‘artisanal’ leases (i.e. for areas up to 5 hectares). But grant of exploration licences more generally might initially be limited to just a few areas. That would allow us time to put in place our new small-scale licensing regime, and also to develop arrangements for putting areas for exploration licences out to international tender (made possible under the Act). Further, partial lifting would allow us time to assess the capacity of the new ABG Mining Department to handle administration of the new system of tenements, and permit adjustment of the regulatory regime.

These and other issues and options will be explored further when the ABG legislature resumes debate on the ‘moratorium’ at its next meeting, in the first half of June.

This approach of careful consideration of the issues, and of seeking the views of our people, is something that must characterise the ABG’s approach to achieving sustainable economic development.

A final point about large-scale mining concerns the future of the Panguna mine. You will be aware that for almost two years now, the ABG’s previous efforts to
examine, jointly with Panguna lease landowners and BCL, the possible reopening of Panguna, have been on hold. The reason is that since August 2014, Rio Tinto has been reviewing the future of its 53.6 per cent equity in BCL. I have met with representatives of Rio twice to discuss the issues involved. I have sought an explanation as to what seems to the ABG the inordinate length of time taken to conduct the review. I am yet to receive any plausible explanation - other than claims of complexity of the issues involved.

More important, I have spelt out to the Rio Tinto representatives our positions on three main issues. The first is that the ABG and most landowners remain open to negotiating resumption of mining by BCL, subject to that being on the basis of an entirely new and fair mining agreement.

The second relates to the fact that while the possibility of BCL reopening Panguna remains on the table, the indications are that Rio Tinto may well decide to relinquish its equity in BCL. Were that to happen, Rio can be under no illusions that justice demands that the company must take full responsibility for mine legacy issues before it departs.

This might involve Rio establishing a trust fund providing the resources needed to meet the costs of such key things as:

- cleaning up chemicals in the extensive mine lease areas;
- stabilising the huge tailings dumps near the mine pit;
- stabilising and maintaining the long levy banks intended to contain the tailings in the Jaba River flood plain areas that are now seriously degraded, resulting in extensive term flooding of large areas of adjoining forest and garden lands that has been occurring for well over 10 years;
- restoration of the seriously degraded extensive tailings areas in both the Kawerong and Jaba rivers;
- making adequate provision for the people of the several villages and communities re-located as a result of the mine pit and the tailings (people who have suffered from mining more than anyone else as a result of the loss of all or most of their land due to the mine);
- providing adequate compensation to the mine lease communities generally, who received remarkably little under the unfair Bougainville Copper Agreement.

Third, if Rio does divest of its equity in BCL, then that equity must not be sold (to the National Government, or any other party), but instead should be transferred, free of cost, to the ABG, and landowners. Bougainville would then be in a position to seek other possible equity or management partners.
**Diversification**
As indicated in my comments about agriculture and fisheries, the ABG wishes to diversify economic activity as much as possible. We also seek opportunities in hotel construction, tourism and other sectors, though we recognise that opportunities are initially likely to be limited.

**Preference for Bougainvilleans in Particular Sectors**
The ABG believes that significant sectors of economic activity should be reserved for Bougainvilleans. For example, the Bougainville Mining Act reserves licences for both small-scale mining and artisanal tenements for Bougainvilleans only.

There are other areas that should similarly be reserved. For example, the ABG has encouraged Chinese investors to establish wholesale stores. The aim was to diversify both sources for, and the kinds of supplies available to, Bougainvillean retail traders. But the ABG is very concerned that some such investors have set up retail stores, in unfair competition with small Bougainvillean traders.

Under the Bougainville Peace Agreement, the ABG has authority to submit to the National Government ‘lists of occupations and industries for which work permits and employment visas should not be issued for Bougainville’. When we meet the National Government at the Joint Supervisory Body meeting on Friday 20 May, we will take up the issues involved in establishing a mechanism for the management of such requests. Once that mechanism is in place, the ABG will ensure that retail sales of goods in Bougainville becomes restricted to Bougainvilleans.

**Towards Sustainable Cheap Power for All**
I have already mentioned the hydro-electric projects initiated or planned. The ABG sees them as just the beginning of the efforts needed to develop a hydro-power grid that supplies cheap power to all.

To my mind, that is a critical piece of the puzzle of the steps involved in achieving sustainable economic development in Bougainville. Diversification and downstream processing and economic mining all become far more feasible with cheap and clean power.

**Taxation for Fiscal Self-reliance**
At the same time as we expand Bougainville’s economic base, we need to develop a culture of payment of tax by all Bougainvilleans. At the same time we need to extend the economic activities to which taxation is applied.
At present Bougainvillean businesses exhibit strong reluctance to pay tax. This includes GST under National Government laws, and sales tax on alcoholic liquor and tobacco products under Bougainville laws. The ABG is now working to develop the till recently limited capacity in its Tax Office, and is seeking IRC support in that regard. This will need extensive public awareness and consultation to build a Bougainvillean nation-building tax-paying culture.

CONCLUSIONS

Much more could be said about many related subjects. They include the significant and impressive steps being made by the new head and deputy head of the Bougainville Police Service in the past six months, towards finding a path to develop the capacity of the Bougainville police to improve law and order through much improved policing and other law and justice policies appropriate to the special needs of Bougainville.

I could also say much on improving health and education services so that the ABG is better able to meet the needs of its people, attract the applicants into the Bougainville Public Service, and provide incentives to investors. These and many related issues and programs need to be taken fully into account in charting a realistic way ahead.

But my aim here is not to set out every aspect of a comprehensive plan for sustainable economic development. Rather, it’s to provide insights into not only the complexity of the so-called “post conflict” situation in which we work, but also the progress that we are making, and to point to some available opportunities, as we work together to achieve sustainable peace linked to a sustainable economic future.

Thank you all for listening. I would welcome visits to Bougainville by prospective, and responsible, investors, so that you can make your own assessments of our situation and of the opportunities that it presents.
NOTE:
The full text of the speech delivered by ABG Vice President, Patrick Nisira on 28 April 2016, on the subject of the Leadership Challenges facing the ABG, can be found through the following links:

http://asopa.typepad.com/asopa_people/2016/05/the-leadership-challenges-facing-a-recovering-bougainville.html

or