

Papua New Guinea PM pledges fealty to Australian government, mining investors

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Papua New Guinean Prime Minister Peter O'Neill recently made his first official visit to Australia since defeating rival Michael Somare in national elections in August. O'Neill's appearances in Canberra and Sydney demonstrated why the Australian government regards the prime minister as their man. He rejected any suggestion that Papua New Guinea (PNG) was in danger of developing close strategic and military ties with China, and assured Australian investors in the mining and energy sectors that their interests would be upheld.

On Monday, O'Neill participated in the PNG Mining and Petroleum Investment Conference in Sydney. The annual event was this year attended by a record 1,300 delegates, including executives from many of the major transnational giants including ExxonMobil, Rio Tinto, and Xstrata, as well as the multitude of smaller Australian, American, European, and Asian corporations now seeking to exploit PNG's vast reserves of oil and gas, gold, copper, nickel, and other minerals.

These development projects have heightened the country's geostrategic significance amid an increasingly tense rivalry between the US and China across East Asia and the South Pacific.

PNG is home to one of China's largest direct overseas investments, the Ramu nickel mine, being developed by the state-owned Metallurgical Group Corporation. The US also has a substantial stake in the country's resources. Secretary of State Hillary Clinton last year pointed to ExxonMobil's \$19 billion liquid natural gas (LNG) investment in PNG's Highlands, when she told the Senate Committee on Foreign Relations about the "Realpolitik" of Washington's "competition" with Beijing in the region. Exxon's LNG project is due to begin export production in 2014, shipping gas to China, Japan, Taiwan

and South Korea.

Chinese, Japanese, and Korean gas corporations are among those currently seeking to develop equity stakes in new LNG projects in PNG, as well as securing the purchasing rights to other gas operations. One of the key attractions of the country's energy resources, especially for China, the *Wall Street Journal* recently explained, is that "unlike rival LNG suppliers in the Middle East, shipments to Asia from Papua New Guinea won't pass through the Malacca Strait choke point near Singapore."

The Chinese government fears that in the event of a serious conflict with the US, it could face a crippling energy blockade, with American warships shutting down the Malacca Strait. Its expanded investment in PNG forms part of its wider strategy of reducing its dependence on resource imports from the Middle East. Beijing has offered to provide PNG with a low interest \$3 billion debt facility through the state-owned Export-Import Bank of China. While he was in Australia, O'Neill confirmed that PNG would draw another \$200 million from the account to fund pro-export infrastructure.

"China is basically trying to use their major state-owned enterprises to do the construction work for some of our major infrastructure projects," O'Neill told the *Wall Street Journal*. "We are working together with the Chinese companies which are in the Fortune 500 to develop many of the infrastructure [projects] for us."

Like all countries in the region, PNG is caught between its strong economic dependence on China, and its longstanding security relations with US ally Australia. These contradictions have become more acute as the Obama administration has stepped up its efforts to boost its dominance in the region at China's expense.

Last Thursday, O'Neill addressed the Lowy Institute for International Policy in Sydney and insisted that while PNG has developed a "very strong relationship with China", it was "only based on trade and investment." He continued: "We are aware of the competing interests that is coming from our partners, traditional partners, particularly the United States' increased interest in the Pacific region. We have continued to build that relationship on security, trust and investment over many, many years. But we feel that [the concern about] the security issues that have been expressed by many of our traditional partners is unnecessary. We are following the same path that Australia and New Zealand have taken by increasing our relationship with China on trade and investment."

O'Neill initially came to power in August 2011 after prime minister Michael Somare was unconstitutionally removed from office. Australia and the US backed O'Neill to the hilt in the subsequent standoff, which saw O'Neill and Somare head rival governments, each vying for control of the country's army, police, and state apparatus. Somare had promoted a "look north" foreign policy, based around much closer relations with China and an attempt to reduce the influence wielded by the Australian government in Port Moresby. Contrary to O'Neill's insistence that PNG's relationship with China is "only based on trade and investment", Somare worked to develop close ties between the two countries' armed forces and promoted a strategic relationship that cut across Australian and American interests.

As well as emphasising the centrality of PNG's relationship with Canberra and Washington, O'Neill used his Australian trip to curry favour with the mining and energy giants. He told executives at the PNG Mining and Petroleum Investment Conference not to worry about a forthcoming review into the country's taxation arrangements. "The undertaking I give you today is simply there will be no drastic or radical change to laws that exist today and there will be no immediate change," he pledged, adding that any changes would not "act as a significant disincentive to investment or international competitiveness."

O'Neill's mining minister, Byron Chan, also told the conference that he had junked his previous plan to transfer ownership of the country's minerals from the state to

tribal landowners. The proposed measure was a populist pitch to the widespread hostility among the PNG population towards the mining companies, which reap enormous profits while investing minimal resources to impoverished local communities. However, it drew the immediate ire of international investors. The head of the PNG Chamber of Mines and Petroleum, Greg Anderson, responded to Chan's initial plan by warning: "This is playing with fire."

O'Neill also promised the mining and energy companies that his government would do everything it could to slash costs and suppress any interference with their operations. "We need to focus on cutting development costs, streamlining processes, making sure our tax regime is competitive and ensuring there are no disruptions during the construction and operation phases," he insisted.

O'Neill has already militarised the Highlands region where the ExxonMobil-led LNG project is underway. Protests by local landowners over inadequate compensation, underinvestment in local schools and health facilities, and environmental damage have been violently suppressed. His promise to ensure "no disruptions" amounts to an ominous threat of further repressive measures.

The Australian government has made clear its continued support for the O'Neill government. Foreign Minister Bob Carr is currently in the country on a four-day visit. Carr was yesterday joined by Trade Minister Craig Emerson, Immigration Minister Chris Bowen, Home Affairs Minister Jason Clare and Parliamentary Secretary for Pacific Island Affairs Richard Marles in Port Moresby for the annual Australia-Papua New Guinea Ministerial Forum. One of the forum's goals is to negotiate a new "economic co-operation agreement", which the Department of Foreign Affairs and Trade explains, will cover "development assistance, trade, business and investment cooperation [and] reduce the emphasis on aid which has dominated the relationship since independence."



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