I am grateful to the Lowy Institute for including me in your “Distinguished Speaker Series” on the topic “Papua New Guinea in the Asian Century”.

I want to commend the interest the Lowy Institute shows in Papua New Guinea.

I know at times you are critical, and you have expressed some robust views on Australia’s aid program and other aspects of the relationship with Papua New Guinea, as well as our own performance in some key areas.

I have no problem at all with that. We need, and we need to encourage and help facilitate, robust and constructive scrutiny and debate on aid and other areas.

Before I address the topic you have asked me to speak on, I want to make just a few observations on the Papua New Guinea-Australia relationship.
The Papua New Guinea Australia Relationship

I can say without hesitation that our bi-lateral relationship is in good shape.

As I said in Canberra yesterday, because it is in good shape, care must be taken not to take it for granted.

We need to always be looking at ways to add new dimensions to it, to make sure it bridges the generation gap, and we keep it relevant to the changing environment here, in Papua New Guinea, and the Asia Pacific Region.

I am hopeful that we can negotiate a significant change in the way Australia’s development assistance to Papua New Guinea is developed, and implemented.

I want your aid to us to strengthen the bi-lateral relationship, and to be widely supported in the Australian community, and widely appreciated in my own country.

As my government moves to significantly lift spending on key community services, services that improve living standards and opportunity, such as education and training, and health care, and on the essential infrastructure we need to enhance the opportunity for all our people to participate in our economic development, we would like the Australian development assistance program to closely align with our own funded priorities.

In general, my view is we are best served, and Australia is best served, by your aid supporting and strengthening our own
priorities – such as rebuilding our major highways and expanding roads and services that our rural majority need.

The budget we brought down just over a week ago increases spending on the key medium term social and human development priorities of health, education and law and order by around 50 per cent in just one year – from K5 billion this year to K7.5 billion next year.

The budget also commits K12.1 billion over the next five years for nation building infrastructure – that will enable us to repair run down roads and sea ports and airports, and build the new infrastructure we need if we are to grow agricultural production and maximise the development of our mining gas and other resources.

I hope we can discuss with our Australian counterparts how we can make sure the generous development assistance programme Australia provides aligns with, and adds to, our own priorities.

As I said, I want your aid to have to have a two-way benefit. I want it to add to our own key programs, programs we are now funding over the medium term not just the short term, and I want it to be widely supported in the Australia community for the constructive contribution it makes to help securing our future – and a secure and stable Papua New Guinea is overwhelmingly in Australia’s national interest as well.

Ladies and gentlemen, our relationship is in good shape. We strongly supported Australia’s successful bid for a seat on the UN Security Council, we work together to address regional issues such as a return to democracy in Fiji, and we engage
constructively in forums such as APEC where we share membership.

But we are an independent nation. We differ from time to time, but that is healthy, and it is hardly surprising.

My one final comment is one I have made already, but it bears repeating – we must never take our relationship for granted.

**Papua New Guinea in the Asian Century**

That brings me to the central theme of my speech to you today – Papua New Guinea in the Asian Century.

The Australian Government recently released a comprehensive White Paper titled Australia in the Asian Century. Interestingly, it makes no mention of Papua New Guinea.

Even though, like Australia, we are by way of geography a Pacific Island nation, or a Pacific nation, increasingly we are being drawn towards Asia, just as Australia is and New Zealand is.

For Papua New Guinea, our proximity to Asia, and our strong and growing relations with the countries of the region mean that we are very well placed to benefit widely from the growth occurring in the Asian region.

The opportunities for Papua New Guinea clearly differ significantly from those Australia can take advantage of. Australia is obviously well placed to benefit from the growth of the middle class in the region, especially China, in areas such as tertiary education, professional services and so on.
For Papua New Guinea, I see the opportunities being an extension of our existing relationships with the region – trade and investment in particular. But there are also new opportunities that will unfold as sections of our economy develop, and we need to be preparing our businesses and our economy generally, for them.

As you are no doubt aware, we will soon be a major exporter of LNG to the World, and to Asia in particular.

We have just approved the development of a second LNG project, and there will be further development of our vast gas reserves, and hopefully oil reserves, in the medium term.

Clearly, we are well placed to help meet the growing energy needs of the Asian region. But that is not going to be without significant challenges as I will outline in a minute.

We are also witnessing a significant expansion of our mining sector. The Ramu Nickel project will soon reach the production and export stage – and it is a joint venture between a Chinese entity and an Australian company.

Within three to four years, I believe Papua New Guinea will be a significantly greater exporter of nickel as well as gold and copper to the Asian region and beyond.

So our potential to help meet the energy and mineral needs brought about by Asia’s growth is considerable. In that regard we will be Australia’s competitors! Friendly competitors, that is!
The other really significant opportunity Asia’s growth, and our proximity to and our good relations with the growing economies of the region, offers Papua New Guinea is in helping to meet the region’s food needs.

Food security is clearly one of the key needs of the Asian region.

We currently make a negligible contribution to meeting it. We are struggling, I am sorry to say, to even meet our own food needs.

Papua New Guinea is a nation of seven million people. Eighty to eighty five per cent live in rural and coastal communities where they engage is subsistence farming or fishing, or cash crop production.

We have "urbanised", but nowhere to the extent Australia has or even nations in the Asian region have done.

Sadly, agricultural production in most sectors has declined in real terms since Independence. Palm oil is the notable exception.

But we have the human resources and the natural resources such as land, to quickly turn that around.

We can lift farm production, and align our farm production, with the food needs of the Asian region.

We can also develop our vast maritime resources in a sustainable way to help meet the food needs of the Asian region, and North America and Europe.
Helping to meet both the energy needs, and the food needs, of a rapidly growing region to our north and our west presents Papua New Guinea with a unique opportunity.

It is one opportunity we will not pass up, I assure you.

That brings me to perhaps the greatest challenge we as a nation face in focussing on the opportunities the Asian Century offers.

It is a challenge I am sure you will be familiar with.

Papua New Guinea has never really focussed on productivity, and especially on government measures that improve productivity.

We have been able to export our agricultural production with relative certainty under agreements we have as a developing country with the European Union in particular.

We have also had stabilisation funds that amount to a subsidy for our farm sector in times of low world commodity prices.

We have also been able to export the total quantum of our gold and copper production, and our oil, largely because they have been developed by major international mining companies with the capacity to negotiate secure long term contracts – and because the quality of our ore is high class and in demand.

We have been what Australians might call largely “relaxed and comfortable” when it comes to exporting minerals and other resources such as forestry. Some may argue we have become complacent.
What really brought this home to me was the revelation by the developers of our first LNP project that there has been a multi-million kina blow out in development cost of the PNG LNG Project, the partners in which are Exxon Mobil, Oil Search, Santos, Nippon Oil and Gas, and the National Government.

While currency fluctuations have been a factor, there is no doubt that actual construction costs have risen significantly.

As a shareholder, the national government, on behalf of the people, will have to meet our share of the additional cost.

What concerns me is that we have taken our eye off the main game when it comes to lifting productivity, and addressing rising cost factors impacting on the development of our resource sector.

I believe our resource sector investors and developers have done so as much as the government has done. And we are all paying the price.

Papua New Guinea is entering an exciting period of resource sector growth – in 2015 our projected GDP is 20 per cent, double this year’s growth of 9.2 per cent, because in 2015 we will begin exporting large volumes of LNG.

Much of our LNG will be exported to the growing economies of Asia, notably China. But we will also be exporting to Japan and Korea among other countries in the Asian region.

Our challenge is not going to the export of gas from our first project. Its contracts have been finalised.
The challenge is going to be from the second project – currently managed by Interoil – which we gave initial approval to recently, and numerous other oil and gas projects that are at the exploration and planning stages, or awaiting approval.

There are more than 70 PPL applications currently awaiting approval. A number of potential projects for both domestic gas and export are further advanced.

We are going to have to compete with other countries, such as Australia, the United States, Malaysia and countries in the Middle East on an increasingly crowded world LNG market.

That is going to require project developers, and the national government, 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.

Much of the future demand for LNG, and for our minerals, is going to come from Asia.

We cannot expect nations importing LNG and minerals, or any other product for that matter, to give us favoured treatment. We will have to compete, and compete in an increasingly competitive international environment.

There is no question the “Asian Century” offers tremendous opportunities for Papua New Guinea. It has done so already.

Asia’s sustained growth, and thirst for energy in particular, is underpinning the contracts for our first LNG project. It is also
benefiting our mining sector, and our forestry and our fisheries sectors.

The question is - how do we build on that, and maximise its opportunities and returns for our people.

Meeting the Challenges – The Role of Government and Investors

The budget we brought down last week makes a massive investment in two key sectors.

I have outlined our 50 per cent lift in spending on health, education and law and order.

That will help lift living standards, and it will expand the ability of our people to be better educated, and skilled, and play a role in a growing and diversifying economy.

It will also help maintain social cohesion and community and national harmony.

The second major lift in spending is in infrastructure.

We have committed an extra K12 billion to be spent in the next five years on nation building infrastructure.

Let me put that in context. The extra amount we are committing to infrastructure in five years is equal to our total national budget for one year!
It is a massive commitment, one that has never been even remotely equalled in our history.

What are we making that commitment to achieve?

The answer is two-fold.

Firstly, rebuilding roads and highways, and building new roads, and making our ports more efficient, and our airports safer and more accessible, will directly benefit our rural and coastal majority.

One of the reasons why our agricultural production has stagnated, and why our producers have seen their incomes fall in real terms, is that the poor state of our roads has made it difficult to get their produce to markets, and into the hands of exporters.

As a result, many have just given up, and simply grow enough food for the needs of their own families.

By making a massive commitment to roads we will help our farmers grow more, and grow and market it more efficiently.

This will lift the productivity of our agricultural sector. It will help the sector meet our own food needs, and the food security needs of the Asian region.

The second reason why we are making a massive investment in infrastructure is that it will help our growing resources sector gain the maximum possible benefit from the Asian Century.
One of the factors contributing to the blow out in the construction costs of our first LNG project has been the poor state of our key pieces of infrastructure, notably the Highlands Highway.

You simply cannot grow an economy in a first rate way with third rate infrastructure.

That is what we have been trying to do for too long.

We will make our contribution to improving the competitiveness of our resources sector, especially mining, by giving it the efficient and reliable infrastructure it needs.

By investing in people we are laying the foundations for higher living standards and greater opportunity to participate; by investing in infrastructure we are helping our farmers and small business across the nation, and helping ensure mining, oil and gas development occurs efficiently, and in a way that a more competitive region and world demand.

So those are the first contributions my government is committed to making so our nation takes advantage of the not just the Asian Century, but the world-wide demand for energy and for food security that I am sure will grow rapidly in the next few years.

As I have stressed today we cannot expect a free ride, and we won’t get one.

If we are to supply the energy food and other needs of the Asian region in particular we will have to lift our productivity and our reliability.
I am confident that the national government, our investors, and our business community are up to the challenge to work together.

Our budget for 2013 makes a substantial investment, or down payment, to do so.

**Regional Goodwill and Harmony**

Ladies and gentlemen, this brings me to the final point I would like to make today.

Our engagement with Asia pre-dates our Independence.

But since Independence it has been a priority of every government and every Prime Minister.

We share a common land border with Indonesia, so our relations with Indonesia have always been given a high priority. They are based on mutual trust and respect. We respect Indonesia's territorial integrity and Indonesia respects ours.

We have strong relations with Singapore and Malaysia – founded on trade and investment and good people to people links as well.

Our relations with the Philippines are also strong and date right back to Independence.

Japan has been a major trading and investment partner, and we have benefited from concessional loans and grants and a strong presence in our economy of Japanese companies – now including in the LNG sector.
We also have good links with South Korea, again through trade and investment.

Our fastest growing relationship is with the Peoples Republic of China. The PRC is today a major trading partner, and a growing one.

There is also PRC investment in our resources sector and in construction. The Ramu Nickel project, a partnership between a major PRC corporation and an Australian mining house, will be in full production in 2013.

We also benefit from donor and concessional funding support from the PRC, and I make no apology for encouraging and embracing it.

We are negotiating a substantial concessional loan, one of the beneficiaries of which will be the rebuilding of the Highlands Highway and other run down infrastructure.

It will add another dimension to an already strong and wide ranging relationship, one that will clearly benefit Papua New Guinea in The Asian Century.

We are also developing our links with India and Russia as part of our comprehensive regional and international engagement.

Papua New Guinea is enormously well placed to achieve strong long term GDP growth, and a sharing of the benefits of growth, because of the energy of our people, the abundance of our natural resources, our proximity to the world’s fastest growing region and the excellent relations we enjoy in the region.
I am excited at the opportunity we have, and privileged to be the Prime Minister at a time when we can maximise that opportunity.

We must maintain political stability and we will do so.

We must deliver investor certainty and a competitive taxation regime and we will do so.

We must maintain social cohesion and ensure our people enjoy higher living standards, good quality services, and greater opportunity, and we will do so.

And, finally, as I have stressed today, we must lift national and industry productivity, and I am committed to doing so.

Thank you again for the privilege of addressing the Lowy Institute, and thank you for your interest in Papua New Guinea today and tomorrow.