Outcome of Inquiry

COMMISSIONER
MR. JUSTICE ANDREW, C.B.E.

COMMISSION OF INQUIRY INTO

THE ENGAGEMENT OF SANDLINE INTERNATIONAL

THE SECRETARY
P. O. BOX 7018
BOROKO
N.C.D.

DATE: 29 MAY 1997

THE HON. JOHN GIHENO, C.M.G., MP.,
ACTING PRIME MINISTER,
WAIGANI.

Dear Acting Prime Minister,

I have the honour of submitting my report to you under the COMMISSIONS OF INQUIRY ACT (Chapter 31) on the terms of reference dated 21st March

Yours sincerely,

W. J. Andrew
Commissioner

INDEPENDENT STATE OF PAPUA NEW GUINEA

COMMISSIONS OF INQUIRY ACT (CHAPTER 31)

TO: WARWICK JOHN ANDREW

Know you that I, Julius Chan, Prime Minister, reposing confidence in your integrity and ability do, by virtue of the powers conferred by Section 2 of the COMMISSIONS OF INQUIRY ACT (CHAPTER 31) and all the powers me enabling, by this my Commission appoint you, the said WARWICK JOHN

ANDREW to be a Commissioner under that Act, and authorise you to inquire into and report on matters in which inquiry would be, in my opinion, for the public welfare, that is to say to inquire into the following matters:-

1. The process (including negotiations and procedures) which resulted in the Independent State of Papua New Guinea entering into contractual or other arrangements with a body called Sandline International whereby overseas personnel were engaged to assist the Papua New Guinea Defence Force in dealing with the actions of the Bougainville Revolutionary Army on Bougainville Island.

2. The terms of the contractual or other arrangements made with Sandline International.

AND I direct that the Inquiry shall be held in the National Capital District or at such other place or places in Papua New Guinea or elsewhere as to you may appear necessary or expedient.

AND I further direct that the Inquiry shall be held in public, but I approve that you permit to be given in private any evidence that in the course of your inquiry you, in your absolute discretion, consider appropriate to be given in private in accordance with Section 2 (5) of the Act.

AND I further direct that you shall commence the Inquiry without delay and proceed therein with all dispatch and render to me your report on or before 18th April 1997.

DATED this 21st day of March 1997.

(Sgd) JULIUS CHAN
PRIME MINISTER

Statement of Case Accompanying Instrument appointing a Commission of Inquiry into the Engagement by the State of Sandline International.

There being much public discussion, disquiet and controversy concerning the engagement of overseas personnel to assist the Papua New Guinea Defence Force on Bougainville Island a Commission of Inquiry is appointed to inquire into the circumstances of such engagement.

ACKNOWLEDGEMENTS

The Commission especially acknowledges counsel assisting the Inquiry, MR. IAN MOLLOY, for his outstanding ability and professionalism in the conduct of the hearing and in the preparation of the report.

The Commission would also like to thank all counsel who appeared and acknowledges the assistance of Mr. Dean Henderson of AUSCRIPT (AUSTRALIA) and all the staff of the Transcription Unit who produced a daily transcript without fail.

We also acknowledge the assistance of the HONG KONG INDEPENDENT COMMISSION AGAINST CORRUPTION, who have done everything possible in enabling the Commission to seek the truth of the events surrounding our inquiry.

We also thank the HONG KONG SECURITIES AND FUTURES COMMISSION.

Outcome of Commission of Enquiry

PREFACE

The COMMISSIONS OF INQUIRY ACT (CHAPTER 31) enables the Prime Minister, whenever he deems it advisable, by instrument, to appoint a Commission of Inquiry consisting of a Commissioner, authorising him to inquire into any matter in which the inquiry would, in the opinion of the Prime Minister, be for the public welfare

Pursuant to the Instrument of Appointment dated the 21st March 1997, the Commission was to render its report on or before the 18th April

1997. It was not possible to report within that time due to the volume and nature of the evidence, both within Papua New Guinea and overseas. An extension of time in which to complete the final report was sought and granted by further instrument dated the 17th April 1997 signed by the Acting Prime Minister extending the time for rendering the report to on or before the 30th May 1997.

The public were given notice of a preliminary hearing, which preliminary hearing was held on the 25th March 1997. The Notice, inter alia, indicated the terms of reference and requested that all persons having a bona fide interest or having knowledge of facts or being in possession of documents relevant to the Inquiry attend at the hearing or fax details of their interest or knowledge of the facts. There has been a wide response from the public.

On the 25th March 1997 the preliminary hearing commenced and determined the dates for the hearing and matters of procedure relating to the conduct of the Inquiry. Under S.8 of the COMMISSIONS OF INQUIRY ACT a person who satisfies the Commission that he has a bona fide interest in the subject matter of the Inquiry, may attend the Inquiry and may be represented by counsel. The

Commission indicated that the following persons had such a bona fide interest in the Inquiry and could be so represented:

Outcome of Inquiry

. Sir Julius Chan, G.C.M.G., K.B.E., M.P.
. Brigadier General Singirok, M.B.E.
. Mr Chris Haiveta, M.P.
. Mr Matthias Ijape, M.P.
. Mr Timothy Spicer, O.B.E.
. The Independent State of Papua New Guinea

The hearing of evidence commenced on Tuesday 1st April 1997. Mr Ian Molloy was appointed as counsel assisting the Commission of Inquiry. At the preliminary hearing on the 25th March 1997 and again on the commencement of the hearing, it was made clear that any person who desired to appear before the Commission on any matter that was relevant to the terms of reference could'

furnish a signed statement to the Secretary of the Commission setting out the substance of the material which they desired to put to the Commission. The

establishment of the Inquiry has been widely publicised throughout Papua New Guinea and internationally. The Commission is satisfied that the public has ; accordingly been given every opportunity to present facts relevant to the terms of reference and that the Inquiry has been conducted in a full and open manner.

The hearings concluded on the 15th May 1997.

The Inquiry heard oral evidence from 19 witnesses and received a vast amount of documentary evidence. The transcript of the proceedings extends to 2161 pages.

Outcome of Commission of Enquiry

CHAPTER 1

INTRODUCTION

This Commission was appointed on the 21st March 1997 under the laws of Papua New Guinea, namely the COMMISSIONS OF INQUIRY ACT (CHAPTER 31). By S.2 of the Act, the Commission is appointed by way of instrument by the Minister (who is defined as the Prime Minister) specifying the subject of the Inquiry, accompanied by a statement of the case on which the Inquiry was ordered.

The statement of the case is as follows:

"There being much public discussion, disquiet and controversy concerning the engagement of overseas personnel to assist the Papua New Guinea Defence Force on Bougainville Island, a Commission of Inquiry is appointed to inquire into the circumstances of such engagement."

For an understanding of the nature and circumstances surrounding this Inquiry it is necessary to have some understanding of the events which led to the Inquiry being established and of the "discussion, disquiet and

controversy"
concerning
the engagement of Sandline International. Some of those matters were:

* On the 22nd February 1997 certain newspaper reports revealed that the Papua New Guinea Government had hired Sandline International to provide overseas personnel (described as mercenaries) to assist the Papua New Guinea Defence Force (P.N.G.D.F.) on Bougainville Island. It was later revealed that this operation had been in progress for several weeks.

* On 24th February 1997 the Australian Government described the use of "mercenaries" as "totally unacceptable". Other countries expressed similar objections.

* On 9th March 1997 the Prime Minister Sir Julius Chan held talks with the Australian Prime Minister concerning objections to the use of foreign personnel in this way.

* In late February or early March 1997 it was revealed that Sandline International were conducting a training camp with P.N.G.D.F. soldiers.

* On 12th March 1997 the World Bank and Asian Development Bank were said to be reviewing financial assistance to Papua New Guinea if "mercenaries" were used.

* On 13th March 1997 the Prime Minister confirmed that the engagement of Sandline International would proceed.

* On 17th March 1997 the P.N.G.D.F. Commander, Brigadier General Singirok called on the Prime Minister to resign. This was described as a revolt on the part of the Commander and by elements of the P.N.G.D.F. The Prime Minister dismissed Brigadier General Singirok as Commander of the P.N.G.D.F.

The "Address to the Nation" by Brigadier General Singirok on the 17th March 1997 in which he called upon the Prime Minister to resign is as follows:

OFFICE OF THE COMMANDER
ADDRESS TO THE NATION
by
Brigadier General Jerry SINGIROK, MBE,
COMMANDER PAPUA NEW GUINEA DEFENCE FORCE

ENGAGEMENT OF SANDLINE INTERNATIONAL AND GOVERNMENT OF PAPUA NEW GUINEA MILITARY OPERATIONS BOUGAINVILLE

I, 86506 Brigadier General, Jerry SINGIROK MBE, the Commander of the Papua New Guinea Defence Force, duly appointed by the National Government and given the constitutional responsibility to provide and guarantee security and safety of the well being of our people and resources wish to address the nation about this government's engagement of Sandline International.

2. As a professional military officer I have kept quiet and followed orders from this government as I would for any serving government of the day

without questioning their orders and directives. And this included the Sandline International Project which has brought into question the credibility of the PNG Defence Force and my own professionalism which the government has greatly undermined.

3. I cannot remain silent for long as there have been many false and misleading statements made both by the Prime Minister, his Deputy and Defence Minister to the public about the engagement of Sandline and

furthermore I have detected long term implications to the nation if we allow this government to continue to be engaged with Sandline International. Our own Defence Force's credibility has been seriously undermined while the expected backlash as a result of any operation on Bougainville will forever remain with us for many years.

4. I have now decided to speak out publicly and this morning I officially informed the Prime Minister of Papua New Guinea, his Deputy and Minister for Defence that as the Commander of the Defence Force, I have cancelled all further activities involving the PNG Defence Force with the Sandline International under the contract between the Papua New Guinea Government and Sandline International. At the same time I have called on the Prime Minister, his Deputy and the Defence Minister to resign immediately.

5. It is my professional and ethical opinion that it is wrong to hire Sandline' International to carry out the operations on Bougainville at a price which could re-equip and boost the morale of our Security Forces who for the past nine years have managed to contain the uprising given the depleted resources, personal sacrifices and lack of funding for vital allowances and supplies from successive governments.

6. The operations will be counter productive as the arsenal that

is intended!
to be used are totally destructive against human lives, the environment and
not relative to the threat on the ground. This will inevitably result in people
not only on Bougainville and throughout PNG turning against the
government and the Defence Force if innocent civilians are killed as a
result of the operation. They will no longer trust the government of the day
and the Defence Force which has the obligation of protecting them. Instead,
foreigners who have no value or appreciation of our culture and
background are used for this terrible cause.

The Sandline contract which includes equipping the PNG Defence Force
does not cater for the long term transfer of technology and not specific to
what was highlighted in our Defence White Paper. The PNGDF will have
difficulties in continuing to sustain the newly acquired equipment and
capabilities if the government does not extend the contractual commitment
with Sandline whose monthly contractual costs total one third of the
PNGDF annual budget.

. The amount of money spent on hiring Sandline should be used to buy
much needed logistical support and capability to sustain current efforts on
Bougainville and the other roles of the Defence Force within the country.

. By engaging Sandline, the government has shown it undermines the
potential of its own Defence Force. This project will demoralise the
members of the Defence Force who will still be here even after Sandline
departs.

. I still maintain that we should build up the Defence

Force's capabilities
based on professional planning and schedules drawn up by the Force.
While I welcome the move by the government to acquire military hardware,
it would have been proper to negotiate between governments which
provide for long term training and sustainment at shared costs.

The government's direction to engage Sandline could not be stopped
despite attempts by government advisors to stop it. Those who assisted me
in the final stages of the Contract, still maintained that the contract had
major flaws and could not be accepted by us. Our concerns were short
lived as the political direction was to get on with it and get the contract
ready to be signed the following morning.

Sandline Executives however have direct access to the Prime Minister,
Minister for Finance and Defence. Decisions are made between themselves
and directions are then given to Departmental Heads by the Ministers
concerned to comply. The checks and balances in our decision making
process and committee system have become mere rubber stamps in this
exercise resulting in a very expensive contract which has serious social,
security, economic and political implications.

13. Most of the items supplied are from Eastern Block nations (ex Soviet
Stock) which are now either obsolete or lack the demand, thus were sold
or very little to Sandline. Sandline has now sold them to the national
government for exorbitant prices allowing the potential for sizeable
percentage for commissions.

Also on the week of the first transfer of funds ($US18m) to Hong Kong,
the Deputy Prime Minister and Minister for Defence were in Hong Kong
with Mr Tim Spicer from Sandline International between 12-14 February
1997. What a coincidence? They have to explain to Papua New Guineans

what they were doing at Hong Kong with Tim Spicer at the time?

The issue of moving away from our traditional partners to seek military assistance is good. We are a sovereign country making independent decisions to develop our strategic capabilities according to our specific needs. However, this must be based on PNG Defence Forces own schedules, funding and limitations based on the Defence White Paper. In act the suspicious deal by the government and Sandline is now basing the purchase on the White Paper which is totally wrong. The move by the government appears to be calculated in a poor attempt to justify the

operations which has now drawn a wide criticism both internally and abroad.

. The strengths of government to government arrangements are more lasting and a strong spirit of friendship and are with concessions and many times cheaper. At least the military hardware are done through proper means. While what we are stuck with right now with Sandline is one that is not formalised through government to government and lacks major sustainment flaws in it.

I am somewhat dismayed that the media statements by at least two of our senior politicians have suggested that I was in Singapore negotiating to buy helicopters and other military hardware. I was never on a shopping trip. The purpose of my trip abroad was to visit the Republic of Philippines between 18-23 February at the invitation of the Philippines Armed Forces Commander to establish for the first time military relations with them and

find ways where both countries can exchange military skills and knowledge.

BOUGAINVILLE

On the Bougainville conflict, I still maintain the public statement I made in November 1995 after my appointment as the newly appointed Commander, that there is no military solution to the Bougainville conflict. I still maintain that the military is part of the total strategy to solving the Bougainville crisis which requires winning the trust of the people and restoring government services and rehabilitation.

Papua New Guineans must not forget that the basis of the Bougainville crisis stems around the following:

.1 Lack of review of resource rich packages with the land owners by the government and the developer;
.2 Mining and environmental issues;
.3 Broken promises by the government and the developer;
.4 Landowners seeking equal partnership in the development of the mine;
.5 Development of the province;
.6 Equal distribution of the earnings.

. The crisis has been prolonged as a result of lack of firm directions and commitment from successive governments to the Security Forces and Bougainville Province. A revised strategy to effectively counter rebel activities as part of the overall peace plan on Bougainville has been ignored by the government who have instead hired Sandline International on a much more expensive contract.

. I believe the Bougainville conflict can be resolved through winning the hearts and minds of the people, especially the conflicting sides who must be

brought together to negotiate. The Security Forces on the ground now are working on that and have pacified many areas on the island. We have not

exhausted all avenues available for negotiation and there is a need to rebuild trust among the conflicting sides. Any further destructive act will only further prolong the conflict.

This Defence Force has a very proud history and we can still uphold that if equipped and funded adequately and given firm government directives.

The continuous deployment of the same members of the Force with diminishing logistical support has resulted in a drastic drop in morale affecting the standard of discipline, morale and the will to fight.

. The government initiatives to finding a peaceful settlement with the extension of the term of the BTG and the government's statement to re-look at past peace initiatives with the view to finding a solution to the long running conflict has brought positive response from the warring factions on the island. This indicates a hope for peace but it will take time,. However, to conduct a major military operation especially if it involves an outside force, will only further set back the progress made so far.

The key to Bougainville is a Civil Affairs Programme using hearts and mind exercise while conducting limited military operations where and when required. However our military efforts must be complemented with visible, social and economic activities that provide incentives to individuals and families in Bougainville.

PM STEP DOWN

. As a matter of principal, I have informed the Prime Minister and the government on my decision to cancel all activities and operations with Sandline including joint operations on Bougainville.

. This is because the motive of this government in using Sandline is to open up the Panguna mine at the expense of more lives and the economic reasons do not seem to consider the long term implications of re-opening the mine if the conflict which stemmed from the people's protest over the mine is not resolved amicably.

. Rather than allow our politicians to sell this country to foreigners for economic gain at the expense of the lives of Papua New Guineans and at the same time seriously undermine our Security Forces, I have decided to call off these operations and ask the Prime Minister and his Deputy and the Defence Minister to resign to make way for a Commission of Inquiry into the contract with Sandline International.

. The action I am taking may be interpreted by some as defiance to government directions but I as a senior citizen and a responsible Departmental Head have in good faith as provided by our constitution identified serious errors and defects in this government's devious actions and am making a public statement. In fact the government's own actions alone have produced feelings of discrimination, division of classes of citizens and disunity amongst ourselves and Bougainvillians who are also part of us.

. I strongly believe that the people of this nation deserve an honest government that is concerned about bringing basic services to its people which have deteriorated over the years because of neglect in funding and the delivery of services by the public servants.

. It is time all Papua New Guineans with the vision must re-direct this nation for the better, come together and sacrifice from their own comforts they now enjoy and serve the people of this nation.

. Although I make this statement towards this government, I have loyalty and respect for the Independent State of Papua New Guinea, my men and their families and for the future generation of Papua New Guinea.

Our Defence Force is still a cohesive and a loyal Force and we all believe in a democratic government which is free from dishonesty and extortion.

. I am now also calling for those individuals and organisations who have been unjustly treated by this government to come forward openly and expose the actions of dishonest leaders so we can retain our country's integrity and name for the sake of all Papua New Guineans.

. Lastly I call on the Governor General and the Chief Justice to appoint a caretaker government or a Transitional Ruling Council to ensure the continued running of the country's affairs and set up an independent Commission of Inquiry to investigate this government's dealing with Sandline International.
God Bless Papua New Guinea.

Sign
Jerry SINGIROK, MBE
Papua New Guinean Citizen
Brigadier General and Commander of Papua New Guinea Defence Force March 1997

* 18th March 1997: The Prime Minister reiterated that Sandline International would be used on Bougainville. The Australian Prime Minister warned of "serious consequences" and several Australian Government Officials were sent to Port Moresby.

* 19th March 1997: Civil unrest involving the looting of shops occurred in Port Moresby. The Prime Minister was reported as saying that the Sandline Operation may have been a mistake.

* 20th March 1997: The Prime Minister suspended the Sandline contract and announced an Inquiry.

* 21st March 1997: The Inquiry was appointed. The personnel of Sandline International departed Papua New Guinea with the exception of Lt/Col Tim Spicer. The details of the Sandline contract were revealed. Brigadier General Singirok again demanded that the Prime Minister resign.

* 24th March 1997: The Governor General was reported as calling for the Prime Minister to step aside pending the Inquiry. Five Government Ministers resigned.

* 25th March 1997: The Prime Minister survived a Parliamentary motion (58-39) to stand down pending the Inquiry. Elements of the P.N.G.D.F. who were armed surrounded Parliament, and some entered the Parliament building.

* 26th March 1997: The Prime Minister stood aside, as well as Ministers Haiveta and Ijape, and the Hon. John Giheno was subsequently appointed Acting Prime Minister.

The terms of the contractual arrangements between the Independent State of Papua New Guinea and Sandline International are all contained in the written contract dated the 31st January 1997 (SEE APPENDIX A). There are no other collateral arrangements.

Commissions of Inquiry by the terms of their appointment have a wide discretion as to the manner in which their inquiries are to be conducted. In

the course of the Inquiry the Commission obtained further evidence in Hong Kong and Australia. In accordance with the principle established in MAHON v AIR NEW ZEALAND AND OTHERS 1984 1 A.C. 808 where that further evidence had some probative value, natural justice required that any person represented at the Inquiry who could be adversely affected by a finding should know of the risk of such a finding being made and be given an opportunity to adduce additional evidence. This was done.

This inquiry might be seen to be one which is protaganist driven in the sense that Brigadier General Singirok has made numerous allegations which led to the establishment of the Inquiry and he could be described as the accuser with the three Ministers of the State being seen as the accused. But the aim of this

CHAPTER 2
BOUGAINVILLE

2.1 The engagement by the Government of Sandline International arose from a proposal to examine the military options "for the resolution of the Bougainville problem" OR "to examine the military problem in Bougainville and provide military options for the resolution of the crisis."

2.2 The conflict or crisis or war or however it is described is now in its ninth year. Some appreciation of the Bougainville situation is necessary to understand the events surrounding this inquiry. Briefly stated:

2.3 The problems in Bougainville began some time in late 1988 over a dispute between Government and landowners regarding revenue from the Panguna Copper Mine. It gained momentum in the following year when disgruntled landowners blew up power pylons, cutting off power to the giant copper mine, and subsequently developed into a revolutionary crisis, no longer confined to the landowners, relating to the seccession of Bougainville from Papua New Guinea to form an independent island, or for more autonomy or possibly union with Solomon Islands. It has since degenerated into a bitter conflict involving different factions and criminal elements with conflicting interests.

2.4 In the beginning of the conflict the police mobile squad was sent in, then the so-called FORCE 10 and subsequently the Papua New Guinea Defence Force (P.N.G.D.F.) Successive Governments have

sought
solutions to these intractable problems and several attempts have been
made to find a peaceful resolution, including:

* March 1990: A cease fire was signed by Bougainville Revolutionary
Army (B.R.A.) member Sam Kauna and Colonel Leo Nuia of the
P.N.G.D.F.

* August 1990: An MOU was signed between Buka community leaders
and a National Government delegation.

* January 1991: The Honiara declaration on peace, reconciliation and
rehabilitation on Bougainville was signed between the P.N.G. delegation's
Sir Michael Somare and B.R.A. leader Joseph Kabui.

* September 1994: The Honiara Declaration was signed by the Prime
Minister Sir Julius Chan and Sam Kauna of the B.R.A. A cease fire
agreement was signed. The South Pacific Peace keeping Force (S.P.P.K.F.)
was deployed on the island and a demilitarised zone was established to
enable peace talks to take place.

* October 1994: The Bougainville Peace Conference was held at Arawa.

* November 1994: The Mirigini Charter was signed to establish peace talks'
and negotiations in the future.

* 8th March 1995: The Government established the Bougainville
Transitional Government, one of whose purposes was to reconcile the
'warring factions and establish common ground for a lasting peace on
!Bougainville.

May 1995: Waigani Communique was issued declaring an amnesty

for people on Bougainville.

* August 1995: Sir Julius Chan entered into the Honiara Record of Understanding.

* September 1995: Bougainville Pan Leaders meeting in Cairns conducted peace talks.

16th September 1995:The framework for a treaty between Papua New Guinea and the Solomon Islands was signed.

* December 1995: Further peace talks were held in Cairns. These were unsuccessful and on the 7th March 1996 the cease fire was lifted.

2.5 The crisis is said to have cost the Government in terms of expenditure and lost revenue from the Panguna Mine approximately U.S. $1 billion. The mine employed some 4,000 people and provided 17% of the country's revenue.

2.6 The financial cost however is insignificant in comparison to the human cost and the misery and suffering which have been inflicted.

2.7 The island of Bougainville is one of the most beautiful in the world, populated by around 180,000 who are a fine and distinctive people. The tragedy of this conflict for the people of Bougainville and for all Papua New Guinea is that thousands have died. The infrastructure such as schools, hospitals, airports and roads has been mostly ruined or destroyed. A generation has now gone uneducated, and has grown up knowing only war and violence. The island has been isolated. Many have fled the island and communication with their families is usually impossible, and there is uncertainty if they will ever see them again. This has been a small but nasty war with atrocities committed by many sides. All of the miseries and

wretchedness and suffering of war have been inflicted upon the people of

CHAPTER 3
ENGAGEMENT OF SANDLINE

3.1 The engagement of Sandline starts with the Minister for Defence Mathias Ijape. Mr Ijape had been Minister for Police in the Namaliu Government from July 1988 until July 1992. In that capacity he had looked at engaging an English company, Defence Systems Limited, to provide training and assistance to a then to be formed Rapid Deployment Unit of the PNG Police Constabulary. That engagement did not proceed. The National election in PNG saw a change in government, and Mr Ijape ceased: to hold the police portfolio. In 1992 the then Wingti Government lost office and soon after Mr Ijape was appointed the Minister for Defence in the Chan, Government.

3.2 As Minister for Defence Mr Ijape believed that outside help could provide the answer to the Bougainville problem. As he saw it Julius Chan's peace initiatives were not going to resolve the claims of the BRA. He said:

• The National Government must be in a position of strength to force BRA members to discuss?
• I noticed the Prime Minister's efforts to bring peace on the island was not supported by the BRA members?
• BRA leadership who show very little concern for the people's welfare, continue to demand political independence and was a thorn in the back (sic.)

3.3 Attempts to crush the BRA leadership with military power had also failed. According to Mr Ijape this brought him under enormous

pressure
from Cabinet and the public. He was told by successive Commanders of
the PNG Defence Force that they lacked the requisite military equipment.
In particular they lacked helicopter gunships, helicopter troop carriers and
modern electronic warfare equipment.

3.4 On several occasions in early 1996 Mr Ijape raised with Brigadier
General Singirok (also referred to as the Commander) and the Secretary of
the Department of Defence the possibility of engaging what he described as
"private security personnel" to assist in the acquisition and use of military
hardware and the training of PNG troops. His interest in "private"
assistance was explained as follows:
"I said because Australia and New Zealand would not provide the
capabilities that the Defence Force want through the normal government
process - government to government arrangement, - I suggested to the

Commander and the Secretary of Defence that we should now consider
private military personnel in private business to help us?

Only when Australia and New Zealand did not want to help us with the
helicopters and the type of equipment that we want, the listening devices
and the electronic stuff that was necessary for any operation on the island
to fix the problem. When that was not forthcoming, I raised the matter with
the General and said we must look elsewhere."

3.5 In March 1996 Mr 'jape decided that he, the Secretary of Defence and
the Commander should travel to the United Kingdom. The Minister
intended that the visit should include a meeting with Defence Systems
Limited. He thought the trip might also include an inspection

of DSL's
operations in Africa. He advised DSL's representatives that he intended to
meet with them in London. Tentative arrangements for the meeting were
apparently put in place. However, on 11th and 14th March 1996 DSL faxed;
the Commander to advise that its Chairman would be in Hong Kong
"during your intended visit to London" and suggested that a meeting could
be convened in Hong Kong. In the meantime the Minister's party were
encountering other problems. They were recalled to Papua New Guinea
when they had travelled no further than Malaysia. The recall came from the
Prime Minister who said, in a letter dated 14th March 1996, that he had
expressly refused Mr Ijape permission to travel in his Ministerial capacity
and that the Minister would have to be personally responsible for all the
costs. The Ministerial party returned to Papua New Guinea.

3.6 Mr Ijape had further telephone contact with DSL, which led DSL to
inform him that they were not able to fulfil his requirements for military
equipment. They referred him to another UK registered company, Plaza
107 Limited.

3.7 Not long after that Mr Ijape had his first communication with Plaza 107,
a telephone call from Tim Spicer who had been alerted to Papua New
Guinea's interests by Alastair Morrison, Chairman of DSL. After speaking
together Spicer and Mr Ijape thought it would be worthwhile that they
meet. The initial plan, that they meet in Papua New Guinea, was changed
by Mr Ijape because the Commander was going to be away in the United
States and he wanted him to be present. The venue was then altered to
Cairns, in northern Australia.

3.8 On 7th April 1996, Easter Sunday, a meeting occurred in the coffee
lounge of the Cairns Hilton. Those at the meeting were Mr Ijape, Mr
Melegepa and the Commander (the Papua New Guinea Defence Council)

and Mr Spicer and Anthony Buckingham. Spicer and Buckingham gave out

business cards. Spicer's simply stated his name and his business address, 535 Kings Road, London. Buckingham's card indicated he represented a company, Branch Energy Limited. The meeting took about one hour. The conversation was concerned with establishing what Papua New Guinea wanted that Spicer and Buckingham could provide.

The focus was on Bougainville and the belief, in particular on the part of Mr Ijape and the Commander, that there was a need for sophisticated military equipment including attack helicopters. Mr Melegepa remembers Buckingham or Spicer made some mention of mining interests in Africa. The name Executive Outcomes was also mentioned.

A promotional video tape and Executive Outcomes brochure were left with the Commander. The Commander says he was left with the impression that the people he had met represented Executive Outcomes. The meeting concluded on the understanding that Spicer would prepare a written proposal.

3.9 Later in April 1996 the Commander travelled to the United Kingdom. He was accompanied by Vele Iamo, a Deputy Secretary of the Department of Finance. The purpose of the trip was to meet with some of Papua New Guinea's more traditional suppliers to inspect military equipment. The Commander also intended to meet with Mr Spicer, something he did not see it necessary for Mr Iamo to know. The meeting was at the hotel in London at which the Commander was staying. Those at the meeting were the Commander, Mr Spicer and Michael Grunberg. The Commander

was
given a proposal entitled "Project Contravene" prepared by Mr Spicer. A copy was couriered to Mr Ijape with an accompanying letter from Mr Spicer on the letter-head of Plaza 107 Limited. In the letter Spicer mentioned that he had given the proposal to the Commander "and he concurs with it." On his return to Papua New Guinea the Commander reported to Mr Ijape that the proposal "looked good."

3.10 Mr Ijape says that he mentioned the proposal to the Prime Minister who showed no enthusiasm for it. The Prime Minister says he had received other approaches from private companies seeking to be retained in respect of Bougainville. He says he had come to reject those approaches as a matter of course. Without the support of the Prime Minister, Mr Ijape did not see the proposal as having any prospect of being adopted. Furthermore, he did not see that there was any prospect of Papua New Guinea paying the quoted cost of US $30,000,000.

3.11 Mr Spicer followed up his proposal with communications with both the Commander and the Minister for Defence. He phoned and sent faxes. The Commander said that he told Mr Spicer that it was not within his power to make a decision on the proposal. He says the phone calls from Spicer to his home became a nuisance and, at his request, his wife would

tell Spicer that the Commander was away so as to avoid talking to him.
One of the Commander's complaints was that the calls to him (from London) would come in the middle of the night.

3.12 The fax communications from Mr Spicer were on Plaza 107 Limited

letterhead. He addressed Mr Ijape using his christian name Mathias. Mr
Spicer's approach was that of the salesman and Plaza's (and later Sandline's) on-going interest in mineral resources is apparent. Spicer's
letter of the 14th May 1996 is typical:

'Dear Mathias,

Following our telephone conversation of last Friday, I am writing to you in!
order to state our present position. We do understand your difficulties; at
the same time we are, of course, disappointed that the main contract is not
to go ahead in the way we all originally hoped. This disappointment is
underlined by the fact that we have positioned men, aircraft and equipment
on your behalf but at our expense.

Anyway - we do understand and we would like to therefore propose that
you immediately go ahead with the airborne electronic intelligence (FLINT) package part of the original proposal. This can be made immediately available at a cost of US$14M.

If you can get the above order for US$14M started immediately then we
believe that we will be able to match this commitment and help you find the
other US$16M. This will then allow the full project to go ahead. These
Ands could come from private sources and it may be possible to raise them
against oil and mineral concessions and production rights.

Please note, however, that the FLINT package is entirely viable, indeed
essential, on its own and without the other 'executive' elements.

We therefore propose a meeting at the earliest opportunity to discuss all of
the above. Such a meeting would best include the Prime Minister together
with the other relevant ministers.

Whilst you are considering these ideas, please feel free to contact me at
any time; either to have any questions answered or i f you want my help in
any other way.

Yours sincerely,

TIM SPICER OBE

3.13 When no progress was being achieved with Mr Ijape or the Commander,
Spicer tried approaching the Prime Minister direct. By fax dated 16th July

1996, he wrote to the Prime Minister:

Sir,
You may be aware that we have been in discussion with your Minister of
Defence. He has asked us to set our position in detail, and to that end I
enclose my latest communication with him.

My chairman and chief executive Tony Buckingham and I would like to
have the opportunity of coming to brief you in person about our abilities
and the possibility of helping your government and investing in your
country. If this was possible we would like to come sometime between the
12-18 September at your convenience. I would stress that our visit would
be low profile and of short duration.

I hope that we can come to see you as we feel we really can help.
Yours faithfully,
T. S. Spicer, OBE

3.14 The Prime Minister referred the matter to the Secretary of his
Department Mr Noel Levi. Mr Levi asked a lawyer whom he knew in
London to make enquiries about Plaza 107. The report he received could
not be described as favourable, and is reflected in Mr Levi's memorandum
to the Prime Minister of 19th September 1996:

"The abovementioned organisation which the Minister for Defence has
been corresponding with a view to assist Papua New Guinea on
Bougainville is a London based affiliate of HERITAGE OIL, registered and,
operating in SIERA LEONE, Africa.

It is part of an international network which specialises in exporting

military equipment together with mercenary soldiers.

The network is headed by a former South African Military officer by the name of EBEN BARLOW who runs the operation under the umbrella of a mining and petroleum Company called HERITAGE OIL. This company has extensive interest in SIERA LEONE after they were invited there by the Government to put down the rebel movement in that country.

As a mercenary outfit, Barlow's organisation is regarded as the best in the world. They are professional, efficient and are known for doing their job effectively. Their method of operation however leaves very little room for any meaningful dialogue between the host Government and the people whom they help to pacify. In another word, they are not concerned about the aftermath of their operation and very often have left long term ill feeling behind in countries where they have been engaged to put down rebellious opposition to the elected Government.

Their operation often leaves very little room for dialogue and negotiations.

The price a country pays for their services is substantial up front cash payment and participation in mining and petroleum industry as well as other investments.

The London operation is run by TIM SPICER and TONY BUCKINGHAM.

TIM SPICER is the military man but according to my contact, he is not highly regarded as a military strategist by his former military colleagues.

TONY BUCKINGHAM is an economist and is highly regarded as a financing and investment expert.

ASSESSMENT

Based on the foregoing and my conversation with my contact, I would suggest that the Government should consider this matter carefully with a view to rejecting it.

Our aim on Bougainville is not to completely alienate the people and therefore engaging this organisation would be contrary to our long term political and constitution interest.

Submitted for your consideration,
W.NOEL LEVI, CBE

3.15 The Prime Minister on receipt of the memorandum from Mr Levi expressed his then view of the Plaza 107 proposal by writing on the memorandum the word "REJECT". The faxes and telephone calls from Spicer continued, but to no avail. That is until Mr Spicer made contact with the Deputy Prime Minister Mr Haiveta. With Mr Haiveta the proposal for Project Contravene took on new life.

3.16 Mr Haiveta was visiting London in late 1996 as part of the "Oregon Roadshow". This was an international promotion by the Papua New Guinea! Government of the public float of a company which held the Government's resource assets. The lead underwriter of the float was Hong Kong based Jardine Fleming represented by Rupert McCowan. Mr McCowan came to

take on the role of intermediary between the Independent State of Papua New Guinea and the Sandline interests. In fact the first reference to the name Sandline appears in Mr McCowan's note of his first

conversation
with Mr Spicer which occurred on 20th September 1996. Mr Spicer, on
learning of the PNG Roadshow's visit to London, spoke to Mr McCowan
and explained to him his dealings with PNG officials to that time. He

mentioned their interest in helicopters and explained in some detail the
proposal he had prepared. Given the confidential nature of the proposal
prepared by Spicer, which expressly recognised in clause 6.1 "that security
is vital" it is a little surprising that he discussed it at all with Mr McCowan.
Mr Spicer also mentioned a change from Plaza 107 Limited to a new
structure headed by Sandline International.

3.17 Mr McCowan arranged a meeting between Mr Spicer and Mr Haiveta.
The meeting occurred on Friday 11th October 1996 at 535 Kings Road,
London. Mr McCowan accompanied Mr Haiveta to the meeting but both he'
and Mr Spicer say that McCowan waited outside. Spicer explained that
Sandline was a military consultancy firm. He explained the proposal he had
given to the Commander and gave a copy to Mr Haiveta. Mr Haiveta
expressed interest and invited Mr Spicer to visit Papua New Guinea. The
meeting took about twenty or thirty minutes.

3.18 Whether or not McCowan was at the initial meeting with Spicer, it is
clear that Mr Haiveta made him aware of what had been discussed and
gave him access to the proposal for Project Contravene. McCowan sent a
copy of the proposal (at Mr Haiveta's request) to Sir Peter de La Billiere for
his comments. McCowan records that Sir Peter described the proposal on
29th October 1996 as a "narrow package" and "quite expensive." He had
earlier described Mr Spicer to Mr McCowan as "very go" and "a

salesman."'
Apart from these, Mr Haiveta did not cause any further outside inquiries to
be made about the Sandline interests or their proposal. He was unaware of
the memorandum prepared by Mr Levi.

3.19 Given the invitation from Mr Haiveta to visit Papua New Guinea, Mr
Spicer contacted the Minister for Defence. On 19th November 1996 Mr
'jape received a fax from Mr Spicer but not on the by then familiar
letterhead of Plaza 107 Limited. The letterhead was simply Sandline
International. Reference was made to a phone conversation on the previous!
Friday and Spicer stated "I understand you now wish to talk to us again".
There was a request for an invitation from the PNG Government to come
and discuss the matter. The fax ended with this explanation:

"In case you are wondering - Sandline is the new name of our military
consultancy company."

Mr Ijape says he was surprised and a little suspicious of the change of
name.

3.20 On 3rd December 1996 Mr Spicer and Mr Buckingham arrived in
Papua New Guinea for the first time, Mr Buckingham travelling on a
Guernsey (Channel Islands) passport. They went that day to the office of
the National Executive Council (PNG's Cabinet) where they apparently
expected to meet with the Deputy Prime Minister and other high officials.
In the NEC waiting-room they ran into the Commander who was present, it

seems as a matter of course, in case the NEC meeting should want to hear
from him concerning matters within his domain. Apparently he had no idea
that these men he had met in Cairns at Easter time were coming to Papua
New Guinea. Buckingham and Spicer became upset about being kept
waiting and to the Commander's way of thinking were disrespectful

to
Papua New Guinea's leaders. He exchanged words with them and left.

3.21 Over the next few days Spicer and Buckingham met with Mr Ijape and
Mr Haiveta and senior public servants from their departments. The
discussions were of course about Project Contravene and particularly the
mine. It was decided that Sandline would be engaged to provide a detailed
report on the proposal. Sandline proposed a fee of US$350,000, and in a
fax dated 7th December 1996 said the fee (acknowledged to be a rate of
US $1,165 per hour) was justified, inter, alia by the nature of the project.

The price was still considered too high and Mr Melegepa, Secretary of the
Department of Defence, was delegated the task of negotiating with
Sandline. The fee was reduced to US$250,000 which was regarded as
acceptable. A written agreement entitled Terms of Reference for
Consultancy Agreement was signed by Mr Melegepa on behalf of the State
and Mr Spicer for Sandline International on 9th December 1996.

3.22 The fee was to be paid as to US$150,000 on Tuesday 10th December
1996 and the balance on Monday 6th January 1997. Under clause 11 each
payment was to be by bankers draft or electronic transfer to:
Sandline Holdings Limited, Account Number 600774426, Hong Kong and,
Shanghai Bank, 1 Queens Road, Central, Hong Kong.

3.23 Mr Spicer prepared the report in London and returned to Papua New
Guinea with twelve copies of it on 31st December 1996. Sandline had not
received the initial payment despite several requests from Mr Spicer
directed to Mr Melegepa and Mr Ijape. Despite this the report was
distributed. The Deputy Prime Minister passed a copy on to the Prime
Minister. Mr Spicer knew that to gain acceptance of his proposal it had to
have the backing of the Prime Minister. On 7th January 1997 he was
introduced to the Prime Minister at the Prime Ministerial Office by Mr
Ijape. The Prime Minister asked for a briefing on what was being offered
and was provided with a three page summary the following day. In the

briefing the cost was stated as"US$38.2 M. Fixed Price US$36.2". The
briefing concluded:

"Benefit for PNG:

20. Speedy resolution of problem.

21. Increase in government prestige - impact on election.
22. Improved standing & morale of armed forces.
23. Fully trained special forces unit.
24. National strategic intelligence capability.
25. Increased combat power giving power projection capability.
26. Costs recoverable from mine revenue - NB purchase of mine by Branch
Minerals."

3.24 Later that day, 8th January 1997, the Prime Minister met with Spicer
who answered questions regarding the proposal to recapture the mine and
defeat the BRA. At the Prime Minister's request Mr Spicer prepared
another summary that evening of what the Sandline proposal offered.
Spicer had aroused the Prime Minister's interest and was soon to win his
backing. His further briefing was no doubt calculated to dispel any
remaining reservations the Prime Minister might have, and concluded:

Why Before the Election?
Is this cynical electioneering? No. It is the Administration's duty to solve
this problem, particularly in view of the murder of the hostages. The
administration has one chance to complete what it set out to do.

3.25 Sandline had the support of the Minister for Defence, the Deputy
Prime
Minister and now the Prime Minister. At the request of the Minister for
Defence the Commander was requested to prepare a

submission to go to
the National Executive Council. The matter went before the NEC on 15th
'January 1997 and was accepted. The NEC resolved:

Decision No: 1/97 Meeting No: 1/97

Subject: PROJECT "CONTRAVENE" JOINT MILITARY OPERATIONS WITH SPECIAL TASK FORCES PNG AND SANDLINE INTERNATIONAL.

On 15th January, 1997, Council:-

1. approved the engagement of Sandline International to undertake Projec
"CONTRAVENE" with the government of Papua New Guinea;

2. approved the use of PNG Special Forces Unit with Sandline International
on operations in Bougainville;

3. directed the Commander PNGDF acting on instructions from NEC/NSC
to deal directly with Sandline International for all operational matters;

4. approved US$36m to engage Sandline International for the operations
with the initial 50% be paid and the remainder to be settled once
operations commences;

5. approved K6m for the sustainment of Special Forces Unit;

6. approved that all the funds be made available from the national
government contingencies funds, except for the K6m for the Special
Forces;

7. approved the national government to keep the extra military hardware
and arsenal that are supplied by Sandline International;

8. approved the engagement of foreigners as consultant, trainers and
technical officers to work along side the PNGDF members;

9. approved Sandline International members to gain entry visa's without undue delay;

10. directed the Minister for Finance to waiver the tender procedures; and

11. approved to exempt from tariff the importation of equipments for the use in the project and personal effects of consultants to the projects.

I certify the above to be a correct record of the Decision reached by National Security Council.

PETER M. EKA JULIUS CHAN
Secretary, N.S.C. Chairman

Date: 16TH JANUARY, 1997
Distribution: NIL.

3.26 The task of implementation of the decision was taken on enthusiastically by Mr Haiveta. He set about putting in place the means of paying the first instalment. Although NEC Resolution (4) was expressed in ambiguous terms it was seen as adopting that part of the submission which provided for a "50% down payment for the services". At the time of the NEC decision there was no draft contract and no instruction was given to the State Solicitor either to draft a contract or to look at any of the legal implications of what had been approved. The usual procedure of having the State Solicitor consider the NEC submission in advance had not been followed.

3.27 Mr Spicer was in England on 15th January, 1997 when the NEC decision was made. Mr Grunberg prepared a draft contract and he and Mr Spicer brought it with them to Papua New Guinea arriving on 19th January,

1997. As far as Mr Spicer recalls copies of the contract were given to Mr Haiveta, Mr Ijape and the Commander. Mr Spicer says he got the impression there was general acceptance of the draft agreement from the persons to whom copies had been given. The document which was eventually executed on behalf of the State did not differ significantly from the draft prepared by Sandline.

3.28 Mr Haiveta seems to have simply accepted the Sandline draft contract because he then set about attempting to arrange performance of its terms on behalf of the State. Principally this involved seeing that Sandline was paid fifty percent of the contract price. No-one, on receipt of the Sandline draft contract, seems to have given any thought to having its terms checked. There had still not been any investigation carried out to verify the prices Sandline had attributed to the equipment it was supplying. Under the draft contract the State was to make an immediate payment to Sandline, in Hong Kong, of US$18 million without receiving anything in return, and without any security or guarantee of performance on the part of Sandline.

3.29 Over the next few days following Spicer and Grunberg's arrival with the draft contract the Deputy Prime Minister and some of his staff were concerned with finding the means to pay Sandline. Meetings were held at the Central Bank and various avenues were explored. The manner in which the Sandline contract was funded will be dealt with later. Mr Haiveta showed a strong determination to have the first payment to Sandline made in preference to all else.

3.30 Vele Iamo, an Acting Deputy Secretary of the Finance Department, says he was summoned by Mr Haiveta to a meeting in his office between 8.30 and 9.00am on 23rd January. Also in attendance was Ila Temu, the Managing Director of Mineral Resources Development Company Pty Ltd

(MRDC), a State-owned trading company. Mr Haiveta told them that the State required to incur an immediate expenditure of US$18 million to finance part of the cost of a classified military project on Bougainville. MRDC was asked to finance this expenditure by transferring the funds to the National Intelligence Organisation. When Mr Temu explained the difficulties involved in following this course Mr Haiveta asked Mr Temu and Mr Iamo to meet with him again at 2.00pm "as he expected a bank draft that day if possible."

3.31 Shortly after the morning meeting Mr Iamo says he was joined by Rupert McCowan who said that Mr Haiveta had asked him to assist with the transfer of money overseas. That afternoon Mr Iamo and Mr Temu reiterated their advice that MRDC was an inappropriate source or vehicle for the payment Mr Haiveta had in mind. They advised that another Government-owned company known as Roadco could be an appropriate

alternative vehicle for payment. An agreement would need to be structured between the State and Roadco to deal with "the treatment and accountability of the funds."

3.32 On Friday 14th January 1997, Mr Spicer, Mr Grunberg and Mr Haiveta attended at the head office of the Papua New Guinea Banking Corporation (PNGBC). Mr Spicer says he and Mr Grunberg expected that the contract would be signed that day and the initial payment made. He says they spent the day waiting at the bank while problems with remittance of the funds were dealt with by others.

3.33 Although Mr Haiveta was determined to pay Sandline that day, it seems he was not at all concerned with having the contract signed. Mr

Iamo says
that at about 2.00pm he received a telephone call from Mr Haiveta to come
to the bank with the Secretary of the Department Mr Loko and "relevant
officers." Mr Iamo travelled to the bank with Mr McCowan, with Mr Loko
to follow later. At the bank Mr Iamo found Mr Haiveta, the Managing
Director of the PNGBC Rupa Mulina, the Chairman of the Investment
Corporation Eno Daera and the Deputy Managing Director to the PNGBC
Aho Baliki. They were all assembled in Mr Baliki's office. Mr Spicer and
Mr Grunberg were waiting in another room. Mr Iamo was also met at the
bank by Chris Burt, an accountant with Coopers & Lybrand and a signatory'
to the Roadco cheque account. Mr Iamo had taken the precaution of asking
him to attend and, at the bank, told him in broad terms that a cheque was I
required from Roadco to fund a confidential military operation.

3.34 Mr Burt says that at Mr Iamo's request he signed a cheque on
Roadco's
account for K24,657,534 (the equivalent of US$18 million). Rupa Mulina
says that Mr Haiveta impressed upon him the importance of having these
funds remitted to Hong Kong that day. He said the reason he gave was that
"if we did not do the payment, the government stood to lose the equipment
because there were other buyers for the same equipment." He says he was
not told what the equipment was because Mr Haiveta said it was "top secret
and the bank was not allowed to look at the documents or keep any copies
of those documents." Mr Mulina said the urgency of the situation was
impressed upon him. Upon the arrival of Mr Iamo and Mr McCowan, Mr
McCowan did most of the talking. Mr Haiveta, the officers from his
Department, Mr McCowan, Mr Spicer and Mr Mulina stayed at the bank
until 8.30pm. Mr Mulina said he was under a good deal of pressure to have
the payment completed that day. However, neither he, nor it seems the
Central Bank, had sufficient documentation for the transaction.

3.35 When it was apparent to all concerned that the money was not going to

'be transferred to Hong Kong that day, several letters were prepared. The purpose of the letters was to give some assurance to Sandline that the monies would be remitted on the following Monday. The letters were prepared by Rupert McCowan on the authority of Mr Haiveta. The first is a letter from James Loko, as Chairman of Roadco and Secretary for Finance, to Sandline attaching "a cheque for the sum of K24,657,534." The letter confirmed "the irrevocable instruction of this company (Roadco) to our :bankers, PNG Banking Corporation, against return of this cheque to their head office at 10.00am on Monday 27th January 1997 to make payment of US$18 million?" Another letter was from PNGBC to Sandline referring to Mr Loko's letter and the same cheque confirming "that at 10.00am on Monday 27th January 1997 against return of the cheque PNG Banking Corporation will transmit US$18 million, at the rate prevailing at that time, from the account of Roadco, to the account designated by Sandline Holdings Limited being account no. 600774426 at HongKong Bank, 1 Queen's Road, Central Hong Kong. The third letter from Mr Haiveta :confirming the arrangements set out in the aforesaid letters:

"In addition, I specifically confirmed the Independent State of Papua New Guinea irrevocably guarantees that payment will be made by its wholly owned company, Roadco, in accordance with the time schedule set out."

3.36 It was that these letters, and the payment to Mr Spicer of the cheque for K24,657,534, were to provide Sandline with some security. Why it was ;necessary to provide Sandline with any such assurance, when there was no contract in place and none of the terms of a proposed contract had been

'performed, is unclear.

3.37 On 27th January 1997, Mr Iamo, Mr Spicer and Mr McCowan again assembled at the offices of the PNGBC. By this date James Forrester, Executive Manager of the bank's Treasury and International Division, had returned from leave. Mr Mulina passed to Mr Forrester the task of dealing with the application of the transfer of funds. Mr Forrester, who had !extensive experience in respect of international transactions, considered there was insufficient documentation or information concerning the transaction. He saw that it required Central Bank approval. In a diary note dated 3rd February 1997 he recorded what he could only describe as "the lack of ethics, pushiness and generally overbearingness of McCowan and the unnamed party who appeared to be connected with the recipient of the funds (Mr Spicer) had to be seen to be believed. Their approach was disgusting and I have no doubt that they have cajoled, coerced and generally deceived all parties to this transaction."

3.38 In fairness, it should be said that whilst giving evidence Mr Forrester was not able to elaborate upon this description.

3.39 In fact the transfer did not occur on 27th January 1997 despite the

assurances contained in the letters dated 24th. It appears that Mr Spicer left Papua New Guinea on the 27th of January 1997, but not before obtaining from the Commander a number of end user certificates. These are certificates required for the purpose of purchasing armaments and were signed by the Commander and another officer on behalf of the State. Mr Spicer said in evidence that these certificates are both valuable, and in the wrong hands very valuable, documents. Again, it is surprising that these

end user certificates should be given to Mr Spicer before the State and Sandline had entered into a contract. Mr Spicer also retained the Roadco cheque he had received. On 28th January 1997 Mr McCowan also left Papua New Guinea, At that stage, the money had still not been remitted to Hong Kong, because of, as Mr Forrester saw it, a general lack of documentation concerning the transaction.

3.40 Attempts by Mr Haiveta and Mr Iamo to remit the monies to Hong Kong continued throughout the week of the 27th of January 1997. In the meantime, on Monday 27th, Mr Haiveta suggested to Mr Iamo that he should obtain a copy of the draft contract and, together with the Commander, the State's Solicitor Mr Gelu, and the Secretary of the Department for Defence, Mr Melegepa, consider its terms. Mr Iamo was unaware to that stage of whether there was a contract actually in place. On 27th Mr Iamo managed to obtain a copy of the draft contract (from the Commander) but did not meet with any of the others. Mr Haiveta then suggested that they all should meet (including himself) at Rupert McCowan's room at the Islander Hotel to "finalise" the contract that evening. Mr Iamo says that he and Mr Gelu met with Mr McCowan as arranged but that the Commander, Mr Haiveta and Mr Melegepa failed to turn up. After further unsuccessful attempts to see the Commander that night, the meeting was put off to the next day.

3.41 On 28th January 1997 Mr Gelu told Mr Iamo that he was not prepared to give legal clearance for the execution of the contract because he had not seen the NEC decision. That evening Mr Melegpa, the Commander, Mr Gelu and Mr Iamo met at the offices of the Finance Department. By this stage Mr McCowan had left Papua New Guinea for Hong Kong. The four members of the "negotiating team" called the author of the draft contract, Mr Grunberg, who was in London. Mr Gelu was team leader. Mr Gelu spoke to Mr Grunberg for between one and two hours. The negotiating team had some concerns about the contract. They had, on that day, received a copy of Mr Levi's memorandum of 19th September critical of the mercenary group with which they were dealing. The Commander had also raised some reservations about the equipment which was to be

provided,
particularly the helicopters. Other issues raised with Mr Grunberg were the
contract price of US$36 million, the cost of logistical support in particular
in respect of fuel, the long term sustainability of the equipment, and
whether the second payment of US$18 million should be dependant upon

the success of the operation.

3.42 Mr Grunberg made it clear that Sandline was not willing to negotiate
any of its terms. He took the view that the matters raised by Mr Gelu were
major variations and were, in his words "non negotiable." Mr Gelu responded angrily by advising Mr Grunberg that so far as he was concerned
the government should be advised against executing the contract in its
present form.

3.43 It was agreed by the negotiating team that the Commander should communicate directly with Sandline raising his concerns regarding the
helicopters and the fuel support.

3.44 The next day, the 29th of January 1997, the Commander wrote to Mr
Spicer and Mr Grunberg expressing his concerns about the sustainment of
the Mi-17 helicopters. He said that the P.N.G.D.F. was also purchasing two
Bell 212 helicopters from Hevi Lift, Mt Hagen. He suggested that Sandline
negotiate with Hevi Lift for the acquisition of these helicopters in substitution for the Mi-17's. He seems content with the other helicopters
which Sandline was proposing to supply: "the Mi-24's are important for the
operations."

3.45 Mr Spicer responded to the Commander's letter by fax dated 30th January 1997. He pointed out inter alia that the Mi-17 helicopters were "for
our personnel to conduct a specific operation" and that their availability to
the PNG Defence Force "after achieving the objectives is a bonus to the

State and not a critical element of our contractual arrangement with you."
He pointed out that to substitute the Bell helicopters would involve delay
and mean the sourcing of "additional pilots." "There will be a cost implication."

3.46 Mr Spicer also discussed the matter with the Commander. The Commander seemed satisfied with Mr Spicer's arguments.

3.47 In the meantime, on 29th January 1997 he again tried unsuccessfully to
"renegotiate" the contract in a further conversation with Mr Grunberg. He
and Mr Iamo only became aware that day that the matter had been the subject of a NEC/NSC decision. They met with Peter Eka, the Secretary of
the NEC, who showed them a signed copy of the NEC/NSC decision who allowed them to "sight the decision only and not to take notes." Mr Iamo
agreed in evidence that the procedure which was followed in respect of the
Sandline contract was in the reverse order of what could usually be

expected in respect of a State contract. Ordinarily, the negotiations would
come first, the draft contract (as negotiated) accompanied by comments
from the State Solicitor, would be the subject of a submission to the
NEC/NSC.

3.48 On 30th January 1997, Mr Iamo, Mr Melegepa, Mr Gelu and the
Commander felt that they had done as much as they could in negotiating
the terms of the contract. Mr Grunberg had agreed to minor changes but to
nothing of substance. The four members of the negotiating team drafted a
joint letter addressed to the Secretary of the Department of Finance. They
expressed their concerns in terms of Mr Levi's memorandum about the
background of Sandline.They referred to the NEC/NSC decision but noted
two deviations or possible deviations from that

decision, namely, in respect of funding. They expressed their concerns regarding the contract, namely, (a) that the three month period of the contract was far too short to justify the price the State was paying, and recommended an extension by an additional nine months; (b) the logistical support in terms of fuel, oil and lubricants and the fact that these items would have to be paid for by the State; (c) the practicalities of operating and maintaining the four helicopters! supplied by Sandline; and (d) that the second payment was not satisfactorily tied to the success of the military operation. The letter concluded:

"In view of the foregoing, we are not convinced in the advisability for the execution of the contract without at least some attempt at your level to secure further negotiation with Sandline for concessions on the concerns raised.

Having given our views and concerns, we recommend that this proposed arrangement as per NEC Decision No. !/97 is not implementable unless and until these concerns are addressed substantially."

3.49 On the same day, 30th January 1997, the Commander wrote to Mr Iamo, concerning the Sandline contract:

"In reference to the draft review, you are aware of the same issues we have raised with Sandline representatives, but they are obviously not prepared to negotiate nor accommodate.

Otherwise for those issues, the Secretary for Defence and the Commander are happy with the contents of the proposed Contract.

Please facilitate signing arrangements for the Deputy Prime Minister on behalf of the Independent State of Papua New

Guniea."

3.50 The Commander, in his evidence, said that he was under pressure from

officers of the Department of Defence to write the last-mentioned letter.
Contrary evidence was given by the Secretary for Defence, Mr Melegepa.
have elsewhere expressed my reasons for preferring Mr Melegepa's
evidence on this issue.

3.51 In any event, on the evening of 30th January 1997, Mr Iamo and Mr
Melegepa presented the jointly signed letter of 30th January to Mr Haiveta
at his home. The evidence plainly indicates that Mr Haiveta was not much
concerned with the matters raised in that letter. He listened to what was
said but seemed to be more concerned with signing a certificate purporting
to waive the requirements of the Public Finances (Management) Act. Mr
Haiveta did not pass the letter on to any other person.

3.52 On 31st January 1997, Mr Spicer returned to Papua New Guinea
armed with a draft contract containing the insubstantial changes agreed to
by Mr Grunberg. The contract was signed that day, Mr Haiveta signing on
behalf of the State, and his signature witnessed by Mr Iamo. The signed
contract was sighted at the Central Bank by the Managing Director of the
Papua New Guinea Banking Corporation. Mr Burt from Coopers and
Lybrand once again attended at the PNGBC to sign another Roadco cheque
for the equivalent of US$18 million. There was a need for a second cheque
because of changes in the exchange rate. In the meantime, no one thought
to recover the earlier cheque from Mr Spicer. Under what appears to be
considerable pressure placed upon officers of the Central Bank

and the
PNGBC, approval was finally given to the transfer of funds and US $18
million was transferred to the account of Sandline Holdings Limited in
Hong Kong.

Outcome of Commission of Enquiry

CHAPTER 4

SANDLINE INTERNATIONAL

4.1 The terms of reference require the Commission to inquire into the process (including negotiations and procedures) which resulted in the Independent State of Papua New Guinea entering into contractual or other arrangements with a body called Sandline International. It is not entirely clear on the evidence as to what is, or who is the body known as Sandline International.

4.2 In a Corporate Information Portfolio Sandline described itself as follows:
"Sandline is a 'stand alone' company established to offer military consultancy and related services. It sources personnel and equipment from its own resources and from sub-contractors such as Executive Outcomes

Sandline is incorporated in the British Virgin Islands (No. 89683). The company was originally registered as Castle Engineering on 2nd July 1993 and its name was changed to Sandline on 2nd December 1996.

Tim Spicer is authorised to act in the capacity of Chief Executive Officer (CEO) of the company. The term C.E.O. is a reference to a position and does not mean a "director" in the Company Law sense of a member of a Board of Directors. Tony Buckingham has provided advice but is not an

Officer of Sandline.

The company has a contract with Plaza 107 (a U.K. registered company No. 2941555) for the provision of representative services in the U.K. Sandline is one of several overseas companies who enjoy management and support services provided by Plaza 107. The owner of Plaza 107 is Michael Grunberg, who is also a director. Mr Grunberg also provides consulting services to client companies and for example assisted Sandline with the drafting and negotiation of the contract with P.N.G.

Heritage Oil & Gas is simply another of Plaza 107's clients. This is a Bahamian company engaged in oil exploration which is principally active in Africa but expanding internationally. Heritage's board includes Tony Buckingham. Heritage has no interest in P.N.G.

Plaza 107 has a number of other clients for which it provides representation services. This does not include Executive Outcomes or any of its affiliated or group companies. E.O. is based in South Africa. Its principals are LAFRAS LUITINGH and NICO PALM, who are both South African citizens. Eeben Barlow, also a South African citizen, is with his

wife the sole directors and shareholders of Executive Outcomes Ltd, which its registered in the U.K. and based in Hampshire.E. O. is entirely separate from Sandline, Heritage Oil & Gas and Plaza 107. Further, there are no (cross-holdings between Sandline, Heritage Oil & Gas and Plaza 107. In a nutshell, Sandline and Heritage are two distinct clients of Plaza 107 in the U.K., and E.O. is an arms length sub-contractor of Sandline. Tony Buckingham and Michael Grunberg have provided advice to Sandline

during the period that the company had begun to build up its own management team. None of Sandline's owners have any ties whatsoever with P.N.G., any P.N.G. citizens or companies or their representatives."

4.3 The directors are given as ADSON HOLDINGS, 100%. It was said that that was a nominee shareholder.

4.4 The information provided does not disclose from Sandline who are the beneficial shareholders of their company.

4.5 In respect of Executive Outcomes they give information in respect of two companies. One is incorporated in South Africa and its principal activity is said to be to provide military training, consultancy and other related services. The directors are LAFRAS LUITINGH and NICO PALM and its shareholders are the same persons, each holding 50% of the shares. The other Executive Outcomes is incorporated in England and Wales and its directors are LUTHER EEBEN BARLOW and SUSAN BARLOW, and Luther Eeben Barlow holds 70% of the shares, and Susan Barlow 30%.

4.6 Mr. Spicer in his evidence was reticent to say who were the beneficial owners or shareholders of Sandline. The controllers of Sandline International are obviously Mr. Buckingham, Mr Grunberg and at least to some extent Mr. Spicer.

4.7 Executive Outcomes appears as a significant sub-contractor of Sandline in the contract the subject of this Inquiry, and supplied a significant number of the personnel brought to P.N.G. by Sandline. Mr. Spicer said "we explained that Sandline was a consultancy organisation and were able to call on closely related, friendly but not corporately related organisations with whom we have worked in the past to assist in a number of military disciplines. I explained the relationship and that we had introduced Executive Outcomes to other governments and that we were thoroughly satisfied that they were professionally competent and were a good organisation to be associated with?We have previously worked with Executive Outcomes. Before my time we were instrumental in

introducing
them to the Government of Sierra Leone, where they provided military
assistance to the Government in the form of training, helicopters and
military forces integrated into the armed forces of Sierra Leone. Executive
Outcomes is incorporated in South Africa."

06/10/97

4.8 Mr Spicer described Executive Outcomes as the best outfit in the world
in relation to this type of military operation. He said that Sandline is not
part of Executive Outcomes.

4.9 The Commission inspected documents in Hong Kong including a Hong
Kong Bank account in the name of Sandline Holdings to which the
$U.S.18 million was remitted from P.N.G. and received on the 5th
February 1997. The signatories to that account are SIMON FRANCIS
MANN, LAFRAS LUITINGH, LUTHER EEBEN BARLOW, and
ANTHONY L. R. BUCKINGHAM.

4.10 That would indicate that MR. LUITINGH and MR BARLOW, who
are the principles of Executive Outcomes, have a direct interest in Sandline
Holdings Ltd. It would be an unusual case if a sub-contractor or contractor
somehow had access to one's own bank account and became a signatory of
that account. There is a strong inference that Sandline Holdings Limited
may be something of a joint venture between the interests of Mr.
Buckingham and the interests of Mr. Barlow and Executive Outcomes.

4.11 The information provided by Sandline Holdings that they are entirely
separate from Executive Outcomes cannot be correct, but the exact nature
of their relationship seems clouded behind a web of interlocking companies
whose ownership is difficult to trace.

4.12 Executive Outcomes offers a wide range of services. Its activities in
Angola and Sierra Leone have been well documented. From inquiries of

the Commission it has been said (although I stress that the following is not formally part of the evidence) that its success reveals how a small but highly effective force can bring order for a price. It has been described as the only incorporated private "mercenary" army on earth that will contract to move in and wage full-scale war on behalf of its clients, and also described as the best and biggest military consultancy in the world. It is known for promising to restore law and order in exchange for money or a share of a country's mineral wealth. It has also been said that in exchange for millions of dollars the company offers to do what the United Nations blue helmets cannot and will not do: Take sides, deploy overwhelming force and fire "pre-emptively" on its contractually designated enemy. A prospectus, which is in evidence, offers the following training service: air force, naval, special forces, command and staff, armour, artillery, mechanised infantry and medical capabilities.

4.13 There was little inquiry by the State to investigate the entity it was dealing with. The only inquiry that was undertaken in relation to the company was by Mr. Levi who, based on the information he received,

recommended against entering into a contract. As Mr. Spicer said, no one could have been in any doubt that the contract was for the provision of operational military services.

4.14 The Panguna mine owned by Bougainville Copper Limited is one of the richest copper mines in the world. It is apparent that the Sandline interests kept an eye on gaining an interest in the mine. The State, for its part, developed a plan to acquire CRA/RTZ's majority shareholding in Bougainville Copper Limited. How and to what extent

Sandline and the
 State's aims for the mine could both be accommodated is something which
cannot be stated with any degree of certainty.

4.15 From the Sandline side of things the interest in the mine was there from
the start and seems to have remained an important consideration. At the
Cairns meeting at Easter 1996 Mr Buckingham and Mr Spicer mentioned
their mining interests. Mr 'jape's recollection is that they said they were
from Branch Energy. Certainly Mr Buckingham gave out Branch Energy
Limited business cards. Mr Ijape also recalls they said that as well as being
concerned in the protection of mineral resources "they were involved in
diamonds and gas and oil and all these things."

4.16 Mr Melegepa's recollection is that they introduced themselves as
representatives of Executive Outcomes and Plaza 107. However, he also
was able to identify a Branch Energy business card that Buckingham gave
out. He says they spoke about their business involving world-wide
investments in mining and petroleum, especially in Africa. Mr Melegepa's
evidence included:

?they said they are not only in the line of military business but they are
also professional businessmen in the mining and petroleum area. Investors
in that area.

Q. Did they express any interest in the Panguna Mine?
A. Not in a direct way but they did say that they would prefer to
look at something along those lines.
Q. They would be prepared to look at something along those lines did you
say?
A. They would be prepared to look at investments in Papua New
Guinea, in the mining and petroleum, not specifically Panguna Mine.

4.17 When Mr Ijape informed the Sandline interests (then Plaza 107 Limited) that Papua New Guinea could not afford the price that they were asking in their initial proposal Mr Spicer was quick to explore other possibilities. In his letter to Mr Ijape of 14th May 1996, he suggested PNG go ahead with the "airborne electronic intelligence package part of the original proposal" at a cost of US 14 million. He offered the prospect of the Sandline interests funding the balance:

> These funds could come from private sources and it may be possible to raise them against oil and mineral concessions and production rights.

4.18 On 16th July 1996, Mr Spicer wrote to the Prime Minister referring to his communications with Mr Ijape:

> My chairman and chief executive Tony Buckingham and I would like to have the opportunity of coming to brief you in person about our abilities and the possibility of helping your government and investing in your country.

4.19 The cross-over between the mining and military assistance offered by the Sandline interests is illustrated by two further faxes on Plaza 107 letterhead to the Minister of Defence in August 1996. The first, dated 1st August, is from Mr Buckingham whose interests are primarily in resource acquisition. The second is from Mr Spicer whose focus is on the military engagement:

> Dear Mathias,
> I know you have been talking to Tim about the PM's view of the military situation and are trying to make an appointment for Tim to brief the PM

Coincidentally, I have today had a meeting with the financial institutions with whom we have invested into Angola, Sierra Leone and other clients.

To date these investments total some USD 200,000,000. All of this investment has been into the extraction of mineral resources (oil, copper, diamonds, gold) and all have involved high risk security/military situations.

These investments, and the military land, sea and air operations that have gone with them are, as you know, a matter of public record.

In the course of our meeting, and without any prompting from us, one of the senior financiers broached the subject to us of PNG. He asked if we were aware of the situation and of the immense economic potential. A discussion followed in which we basically agreed with their assessment.

At no point in the discussion did we state or hint that we had inside information: your confidentiality stayed strictly intact.

The point is this: the above institutions have large sums of money which

they say they are ready to invest in PNG if the government of PNG are interested. A further condition for their involvement would be the provision of our help with the operational security but I do not think that you will have a problem with that!

We need to talk about this as a matter of urgency since these funds have other potential projects and you and I want to see them firmly into the economy and interest of PNG and its present government.

Making these investments will not be straightforward given the fact that large western mining interest already hold the key concessions. In order

that we can urgently progress this I would like to visit you as soon as possible in Port Moresby. I am ready to travel now - can you please send a fax of invitation for visa purposes for myself Tim Spicer and Michael Grunberg (passport details attached). I will let you know my flight details.

With best regards,
A. L. R. Buckingham.

Dear Mathias,
Further to our conversation this morning and to Tony's letter to you of the 1st August, we would like to set out our position in detail:

1. In the first instance we responded to your request for a meeting and discussion concerning the current military problem. You gave us a budget to work to and produce a proposal for a quick low profile solution which would be precise, with little collateral damage and the minimum political risk.

2. This proposal was rejected due to lack of funds.

3. We then responded that we might be able to assist with funding and could come to some arrangement regarding part repayment with mineral concessions etc.

4. Coincidentally, our financial associates raised the issue of significant investment in your country as described in Tony's letter of the 1st August - (Copy attached).

5. Currently we are proposing the following:

a. That we come and brief you and the PM in detail on our history

capabilities and structure some time between 12-18 September.

b. That we assist you with the resolution of the Bougainville problem in a more modest way, and in any way that your government finds politically acceptable. We envisage the provision of some equipment and specialist operators together with training for your own personnel. You would have to fund the cost of this to approximately US$3-5 million depending on specific requirements and as agreed.

c. That we form a joint venture with your government, ourselves and RTZ to reopen and operate the Bougainville mine once recovered. It may be that' RTZ may be prepared to fund some of the costs of military operations to recover the mine.

You are aware of our track record and the fact that we can provide effective low key security assistance together with a high level of investment with governments in the oil and mineral areas. This can only be healthy for the country concerned.

What we are asking for is the opportunity to come and discuss this in detail in mid September. I hope this sets out our position clearly, and I look forward to hearing from you.

Yours Sincerely,
T.S. Spicer, OBE.

4.20 On 19th September 1996, the Secretary of the Prime Minister's Department wrote a memorandum to the Prime Minister dealing with Plaza 107 Limited, referring to its links with Executive Outcomes. The memorandum said in part:

Their operation often leaves very little room for dialogue and negotiations. The price a country pays for their service is substantial up front cash payment and participation in mining and petroleum industry

as well as
other investments.

4.21 Mr Spicer, the only Sandline representative who gave evidence, said
that he had very little knowledge of these points so far as Executive
Outcomes was concerned. He also said the description did not accurately
reflect the negotiations for the Sandline contract.

4.22 However, the evidence on the whole does tend to support this
description in respect of the entity with which the State was dealing.
Sandline left very little room for negotiation of the terms of the draft that it
prepared and which became the Sandline contract. Under the terms of that

contract the State was required to make an immediate payment of half the
agreed price, US$18 million. (The contract to provide a report required
immediate payment of US$150,000, more than half the agreed price.) I am
also satisfied that it was part of Sandline's agenda to obtain an interest in
the Panguna Mine. This seems apparent from Sandline's display of
on-going interest in the mine to which I will now return.

4.23 When Sandline was not making any progress with either the Prime
Minister or Mr Ijape, Mr Spicer approached Mr Haiveta through the
co-ordinator of the Oregon Roadshow, Mr McCowan. McCowan's
!handwritten notes of 9th October 1996, two days before the first meeting
between Mr Haiveta and Mr Spicer, refer to Mr Buckingham, Angola and
!Sierra Leone and, apparently in the context of the provision of military
,services, "exchange for concessions".

4.24 At the time of his first direct contact with the Prime Minister, Mr Spicer
continued to press the claim for an interest in the mine itself. Thus the final
benefit to the PNG Government, as expressed in Mr Spicer's briefing paper

to the Prime Minister of 8th January 1997, was:

Costs recoverable from mine revenue – NB Purchase of the mine by Branch Minerals.

14.25 The Prime Minister said this was a subject which was not even touched upon in his discussions with Mr Spicer. On behalf of the State, however, Mr Haiveta had plans to acquire CRA's interest in the mine. How this fits in with Sandline's aims is not clear. It is apparent that to the State's advisor, Rupert McCowan of Jardine Fleming, Sandline's and the State's interests concerning CRA's interest in the Panguna mine could be compatible.

4.26 Mr Haiveta had a high regard for Mr McCowan. Between them they nurtured the notion of the State acquiring all the shares in Bougainville Copper Limited. The Prime Minister said the first he heard of that was when the idea was raised with him by Mr Haiveta and Mr McCowan after the Sandline contract had been signed. Mr Haiveta also says that the scheme was raised with the Prime Minister in a meeting with Mr McCowan. He fixes the time of the meeting as somewhat earlier than the Prime Minister says, and also states that he had mentioned the idea more than a week before the meeting.

4.27 In any event, between Mr Haiveta and Mr McCowan there were plans to purchase CRA's interest in the mine by mid January 1997. Mr McCowan

came to Papua New Guinea for that purpose on about the 17th January. Before his departure from Port Moresby on about 28th January 1997, Mr McCowan discussed the prospect of the State acquiring CRA's shareholding in Bougainville Copper Limited with Moseley

Moramoro,
Managing Director of CRA Minerals (PNG) and with CRA's solicitor in
Port Moresby. Mr McCowan was able to report in early February 1997,
that Mr Moramoro "confirmed that CRA would consider seriously an offer
made for its stake".

4.28 In the course of inspecting certain documents in Hong Kong the
Commission found numerous drafts prepared by Mr McCowan of a letter
from Jardine Fleming to CRA of 27th February 1997. The letter, which
post-dates the first media reports of PNG's engagement of Sandline, denies
that Jardine Fleming had any involvement in negotiations with Sandline or
with the transfer of the Sandline payment from PNG. So far as Rupert
McCowan is concerned these denials are false. The existence of the draft
letters however does support CRA's statement that they were not aware, at
least from any meetings concerning the purchase of their shares in BCL,
that the State had engaged mercenaries to recapture the mine.

4.29 Mr Haiveta said in evidence before the Commission that he arranged
in mid January to travel to Hong Kong on 13th February 1997, to meet
with Mr McCowan to discuss the CRA buy-out. He travelled to Hong
Kong via Cairns in the company of Mr Ijape on 12th and 13th February.
Mr Spicer took the same flights and was booked into the same hotel in
Hong Kong. Mr Buckingham and Mr Grunberg arrived in Hong Kong a
day or two earlier and were staying at the same hotel, the Peninsula. Both
Mr Haiveta and Mr Spicer gave evidence that this was coincidental and it
was not planned that Mr Haiveta should meet the Sandline representatives
in Hong Kong. For his part, Mr Haiveta said that no meeting between
himself and Mr Grunberg or Mr Buckingham took place.

4.30 There are several inconsistencies between the versions given by Mr
Spicer and Mr Haiveta of what happened in Hong Kong. As has been said,
both versions deny any plan for a meeting between the Sandline

interests
and Mr Haiveta. However, the alleged coincidences are too much to accept.

Furthermore the Commission has had the benefit of access in Hong Kong
to certain documents from Rupert McCowan. They include the following
fax documents:

3rd Feb to Michael Grunberg. Fax: 44 171 351 1122
Subject: BCL No of pages: 4

As discussed, I am attaching a note on the BCL project in advance of our
meetings next week. Please could you copy the note to Tony and Tim. I
have sent the same note to Chris Haiveta.

06/10/97 12:23:50

We look forward to seeing you in Hong Kong.

Regards,
Rupert McCowan.

4.31 The references are obviously to Tony Buckingham and Tim Spicer.
Attached to this fax is a three page "Briefing Paper" prepared by Jardine
Fleming dated 5th February regarding Bougainville Copper Limited. The
briefing paper sets out BCL's history, and deals with subjects under
headings such as the Resource, the Shareholding, Current Capitalisation,
the Proposal (namely the "return" of the mine to the PNG Government by
an offer for all the shares in BCL or by acquiring the mining assets). The
briefing also mentions a first meeting with Moseley Moramoro who is said
to have confirmed (as mentioned above) that "CRA would consider
seriously an offer made for its stake." The other subjects dealt with include
Consideration and Next Steps including: "Confirm that adequate funding is
available for the project (bring in partner if appropriate)". The discrepancy
between the date on the fax message and on the briefing paper

indicates
that the fax was not sent until at least 5th February 1997.

4.32 There is also a fax, dated 5th February 1997, from Rupert McCowan
to Mr Haiveta stating:

Regarding the BCL project I am attaching a note which we have prepared
by way of briefing for our meetings next week Tony and Michael have
confirmed that they will come to HK on 13th–15th Feb so I am attaching a
draft itinerary for your own travel.
I will call you on your return to confirm.

4.33 It should be stated that the author of these documents has not been
examined on oath in regard to their contents. He was invited to give
evidence before the Commission of Inquiry, or to give whatever assistance
he could, but no assistance was received from Mr McCowan. At the same
time it should be said that Mr Haiveta, who was appraised of the contents
of the above documents, did not seek to give evidence to explain their
contents, to deny receipt of the fax directed to him or to explain the
apparent inconsistency between the documents and his previous evidence.
N.B. An affidavit was received by fax from Mr McCowan on the 24th May
1997 after the completion of evidence and as this report was being printed.
Mr McCowan raises many matters and principally denies his involvement
with Sandline International. This material has not been examined in the
course of the hearing and can be given little weight. None of that material
would cause the Commission to alter any of the findings which have now
been made.

4.34 The evidence shows that a plan existed, of which all relevant parties
were aware, for Mr Haiveta on behalf of the State to meet with the Sandline

interests in Hong Kong between 13th and 15th February 1997. I find that the evidence of Mr Spicer and Mr Haiveta that the various persons were coincidentally in Hong Kong staying in the same hotel is untrue. The intermediary once again was Rupert McCowan. The purpose of the !meetings was to discuss the acquisition of CRA's shares in Bougainville Kopper Limited. It seems likely that discussion included the prospect of Sandline or a company associated with its principals obtaining an interest in the mine and Sandline providing on-going security services at the mine, that is, the same matters which Mr Buckingham and Mr Spicer had raised in earlier faxes.

4.35 It also seems likely that consideration was being given to the same interests providing finance for the CRA buy-out. This was plainly a matter that needed to be addressed if the proposal was to go anywhere. It is curious that the manner of financing the acquisition had not been settled by the time the matter came before the National Executive Council in mid March 1997. In his fax of 1st August 1996, Mr Buckingham specifically mentioned "institutions" which then had large sums of money ready to invest in Papua New Guinea mining resources. The buy-out of CRA's interest would make such an investment, in Mr Buckingham's terms, relatively "straightforward."

4.36 After the meetings in Hong Kong Mr Spicer returned to London. Mr Haiveta and Mr Ijape returned to Papua New Guinea via Singapore. Mr 'Buckingham and Mr Grunberg, according to Mr Spicer, were intending to talk about mining operations with some Australian colleageus.

4.37 Evidence was given, first by the Secretary of the Finance Department Mr Loko and then by Mr Haiveta, of Mr Haiveta requesting and receiving in Hong Kong a fax from the Department of Finance containing details of BCL share prices. Precisely why this information was sought in this manner was not made clear. Furthermore Mr Haiveta's evidence of then "shredding" this document in his hotel room is not particularly satisfactory He says he considered the document contained confidential information, but overall his description of how he dealt with it, and why, leaves a good deal of doubt.

4.38 On Friday 14th and Monday 17th February 1997, there was relatively heavy dealing in Bougainville Copper shares on the Sydney stock exchange. The volume of shares which changed hands was not unprecedented but significantly the demand was such as to push up the price in one day (the 14th) from 43 cents to 62 cents, an increase of more than 40%. The Commission has not been able to identify the person or persons who were behind the run on BCL shares.

4.39 At the time of these dealings in Bougainville Copper shares the State's 'engagement of Sandline had not been exposed to the media. No reason, 'other than knowledge of the State's plan to recapture the Panguna mine, has been suggested for the demand for BCL shares. There were relatively few people who knew about Project Contravene, and amongst those who knew fewer still who would have had the financial resources to buy large parcels of shares. In these circumstances it stretches credibility to think that the demand for shares on 14th and 17th February was unconnected with the

meetings in Hong Kong. However, there is insufficient evidence to make a positive finding as to the person or persons involved in those share dealings.

4.40 The Commission is aware and has inquired of an on-going investigation into this matter in Hong Kong and Australia, and there is no evidence to date of any insider trading or any impropriety committed by any Papua New Guinea person or official.

4.41 This is not an inquiry into the purchase of Bougainville Copper Limited shares by the Government. That is not within the terms of reference. It would only be relevant to the extent that the evidence disclosed that the purchase of the Bougainville Copper Limited shares was an arrangement made in the context of the Sandline contract or was some other collateral term associated with the contract.

4.42 In relation of C.R.A./R.T.Z. it should be said that their only involvement in all of the matters raised in this inquiry is that they were approached to sell their shareholding in Bougainville Copper Limited, to which they said that they took no position in the matter but that it was an offer which would be considered. There is nothing to say that they had any involvement with Mr Spicer (or anyone else) and with his statement that "we form a joint venture with your government, ourselves and RTZ to reopen and operate the Bougainville mine once recovered. It may be that RTZ may be prepared to fund some of the costs of military operations to recover the mine."

4.43 On the 5th March 1997, the Deputy Prime Minister made a policy submission to the N.E.C. to adopt the strategy of buying out all of the C.R.A. shares. The acquisition of the mine by the Government was inter alia, for the restoration of Bougainville and to allow the landowners to acquire some of the shares and thereby obtain an interest in the

mine.

4.44 Despite what has been said about the actions of Mr Haiveta, it has not been established that the State accepted any offer made by Sandline or a company associated with its principles in obtaining an interest in the Panguna mine and in providing on-going security services at the mine, or that those same interests provide finance for the C.R.A. buy out.

06/10/97 12:23:50

Outcome of Commission of Enquiry
CHAPTER 5
FINANCIAL ARRANGEMENTS

5.1 The Prime Minister said that after his discussion with Mr Spicer on 8th January 1997, but before the NEC decision on 15th January, he spoke to Mr Haiveta "to make sure we would have the money to do this contract." In several meetings he was assured by Mr Haiveta, and he thought the Secretary for Finance, that the money could be secured through a special arrangement with the Central Bank. He understood that if necessary a "package" could be structured "in such a way that in the event the Panguna mine (was) revived, it would be repaid as a loan."

5.2 Mr Haiveta, he said, assured him this could be done. The Prime Minister was also assured by Mr Haiveta that the Sandline contract would not be funded through cuts to recurrent budget. Sir Julius said that if he had been told that the contract was to be funded through budget cuts he would have been hesitant about entering into it.

5.3 In fact the Sandline contract was funded through cuts to recurrent budget

allocations. At the time he gave his assurances to the Prime Minister, Mr Haiveta and his Department officers had not done anything about obtaining the view of the Central Bank on the financing arrangements they had in mind.

5.4 On 15th January 1997, the day the NEC decided to engage Sandline, Mr Haiveta wrote to the Acting Secretary of the Department of Finance, Mr Loko. The letter directed Mr Loko to reallocate the sum of K50 million (approximately US$36 million) out of recurrent expenditure for (the) Bougainville initiative. The letter went on to say that Mr Haiveta was not able to disclose the details of the expenditure "for purposes of National engagement of Sandline."

5.5 Mr Loko was concerned that monies were to be taken out of the recurrent budget. In particular he was aware that Papua New Guinea had arrangements with the IMF to maintain indicative expenditure targets for the first quarter to March 1997. Nothing was done at that stage to carry out Mr Haiveta's direction. Instead a meeting was arranged with Central Bank.

5.6 On 20th January 1997, the Deputy Prime Minister, Mr Loko and the Acting Secretary of the Prime Minister's Department (Mr Eka) met with Mr Koiari Torata the Governor of the Central Bank. Various options for funding the contract were discussed. However no firm decision was made.
On 21st January 1997, the same persons attended another meeting with the Governor of the Central Bank. In addition the second meeting was attended by the Commander. The Governor advised that Central Bank reserves

could not be used to fund the project. As an alternative, cuts in the development and recurrent expenditure were considered. Another method considered was as an export credit facility which would have required the co-operation of Sandline and its suppliers and was not really an option. Indeed when Mr Loko subsequently raised it with Mr Spicer it was dismissed out of hand and Mr Loko was told that the manner of payment under the Sandline contract (which to that stage had not been signed) was non-negotiable.

5.7 On 21st January 1997, after the second meeting at the Central Bank Mr Loko wrote to Mr Haiveta highlighting his concerns about the manner of financing the project. He said in part:

"1. The cost of funding the project has a number of implications because it has not been provisioned for in the 1997 Budget.
2. These implications include where the funds will be sourced, the immediate effect on the preliminary discussions on the proposals to negotiate the second loan from the World Bank (IBRD) and conditions 'thereof, and the 1997 Budget and other aspects pertaining to accountability and legality."

5.8 What Mr Loko had in mind when he spoke of "aspects pertaining to?legality" were the provisions of the Public Finance (Management) Act. He understood that the Act required that where a Government contract involved an amount as great as K50 million there were tender procedures which had to be followed. In fact Mr Haiveta then opted for another manner altogether of financing the Sandline contract, a

means that had
been raised with the Governor of the Central Bank but had been dismissed.
In a letter of 23rd January Mr Haiveta said:

Mr dear Chairman,

FINANCING OF COSTS RELATING TO THE GOVERNMENT'S BOUGAINVILLE INITIATIVES.

In order for the Government to implement its plans relating to
Bougainville, I have decided to nominate Roadco as the vehicle by which
the Government's program of implementation will be coordinated and
financed.

To this effect, I have directed the Bank of PNG to transfer K33.6 million
out of the sale proceeds from Oregon Minerals Limited to Roadco's
account for this purpose.

It should be noted that Roadco has been nominated because this
expenditure has not been budgeted in the 1997 Budget; and any financing
out of the 1997 National Budget would only create technical complications

in the implementation of the Budget as well as conditions relating to the
IMF/World Bank loans.

A subsidiary ledger should be created to specifically account for all monies
received and expenditures incurred for this specific assignment.

For your immediate action.
Yours sincerely,
C. S. Haiveta, MP
Deputy Prime Minister & Minister for Finance

5.4 The letter was addressed to Mr Loko as Chairman of North Fly Highway
Development Company Pty Ltd ("Roadco"), a company wholly owned by
the State. I will refer later to the reason for choosing Roadco as the vehicle
by which the Sandline money would be paid. For now I will confine

myself
to the manner of financing the transaction.

5.5 The "proceeds from Oregon Minerals Limited" was a reference to the
proceeds which flowed to the State from the public float of a company
which held a good part of the State's mineral interests. The use of these
monies, held at the Central Bank, was liable to prove politically
controversial. Secondly, and to people such as Mr Loko more importantly,
Papua New Guinea had an agreement with IMF and the World Bank that
the Oregon monies should remain in a suspense account, and certainly
should not be used without their agreement.

5.6 The point was made in no uncertain terms in a letter of 30th January
1997, from an advisor to the Department of Finance, Jim Lamont. Mr
Lamont wrote that he:

"shares the Governor's concern that the removal of the K34 million of
Oregon funds from the Central Bank is a blatant breach of the Minister's
written commitments on Oregon with World Bank and the IMF and if found
would lead to an embarrassing blow up with both institutions."

5.12 Mr Loko said that after receiving Mr Haiveta's "directive" of the 23rd
January he wrote to the Governor of the Central Bank on 24th January
instructing to transfer out of the float proceeds of Oregon an amount of
K33.6 million to the Waigani public account in order to finance the
Sandline contract. He also wrote a minute to the Public Accounts Division
containing an instruction to process a cheque for the same amount with the
intention that it be paid to Roadco. Mr Loko's minute said in part:
"As a result of the ministerial directive, I am instructing you to process this
payment without the appropriate approval as soon as possible."
5.13 Loko thought that the payment should not have been processed
without the appropriate approval, that is, without following the procedures

of the Public Finance (Management) Act. He said he felt bound to follow Mr Haiveta's directive even though he questioned the legality of what he was doing.

15.14 Mr Loko remained uneasy with the manner of funding the Sandline contract. He discussed it with his Deputy Secretary of the Department of Finance Isaac Lupari. They then discussed the matter again with Mr Haiveta. On 30th January 1997, Mr Lupari saw the Governor of the Central Bank. The purpose of his visit was to discuss alternative methods of financing the Sandline contract. The Governor once again expressed the view that the funding could not come from the Oregon monies. Mr Lupari returned to the Department of Finance and once again discussed the matter with Mr Loko who prevailed upon the Minister.

5.15 The Minister's decision to use the Oregon monies to fund the Sandline contract was finally reversed. Instead it was decided to fund the contract through cuts in recurrent budgetary expenditure. In other words, it was finally decided that the State's liability under the Sandline contract was to be met from the very source that the Prime Minister had been told six weeks earlier would not be used.

15.16 In the first instance, however, the immediate need for funds to pay Sandline was met through a temporary advance from the Central Bank The Department of Finance then had the task of identifying cuts in expenditure of goods and services from the Departments of National Government and from Government agencies. The cuts are identified in a memorandum to the Budgets Division of Finance from Mr Loko of 6th May 1997.

5.17 Once it was decided how the contract was to be funded there remained

only the matter of implementing the decision. Ordinarily a Government contract for the supply of goods or services for a sum exceeding K500,000 would require the approval of the Government Tenders Board under the Public Finances (Management) Act 1995 (as amended). Section 40 of the Act provides relevantly that tenders shall be invited and contracts let for the purchase of property or stores or the supply of works and services the estimated cost of which exceeds K500,000. There is an exception to this requirement contained in sub-section 40 (3) (c) which applies:

"where, in individual transactions involving amounts not exceeding K500, 000 the Minister in his discretion considers that there is an emergency or it is not expedient or proper to call public tenders and, prior to the goods or services being provided, by certificate in writing narrates these circumstances and waives the provisions of this section."

5.18 On 30th January 1997, the Minister for Finance was briefed by his

Departmental Secretary on a draft certificate waiving the provisions of section 40 of the Public Finances (Management) The fact that the Sandline contract involved a consideration far exceeding K500,000 (nearly ten times that figure) was dealt with by the extraordinary device of deeming the contract to contain one hundred parcels each of half a million kina. Thus the certificate which the Minister was given and signed purported to contain one hundred waivers under sub-section 40 (3) (c) of the Act.

5.19 Mr Loko admits to holding some reservations at the time concerning the legality of this device. He says he discussed it with his Deputy Vele Iamo and with the Minister. Reliance is said to have been placed on oral advice

given by the State Solicitor Zachary Gelu. Mr Gelu steadfastly defended the above interpretation of the Public Finances (Management) Act.

5.20 It was decided that the Sandline money should be channelled through a company wholly owned by the State, North Fly Highway Development Company Pty Ltd known as Roadco. Its officers were public servants. Initially Roadco had been used to finance the construction of roads for use by Ok Tedi Mining Ltd. The company received royalties from Ok Tedi for use of the roads. About three years ago Roadco exchanged its rights to Ifuture royalties from Ok Tedi for a lump sum payment. Since then the company had been virtually inactive.

15.21 In late February 1997, Mr Burt, an accountant and partner in Coopers & Lybrand's office in Port Moresby, was asked by Mr Haiveta to prepare a loan agreement between the State and Roadco. Mr Burt prepared the agreement according to his instructions and, on about 3rd March 1997, faxed it to Vele Iamo in the Department of Finance. Mr Burt said he was not comfortable about drawing the agreement as he was not a lawyer and he suggested at the time that legal advice should be obtained. The draft agreement was amended, apparently in the offices of the Department of Finance, and then "approved" by the State Solicitor. I will return later to the evidence concerning that approval.

5.22 The Roadco loan agreement, in its final form, stated that the State had advanced to Roadco a sum of US$36 million by way of loan. The agreement provided:

?the sum of US$36, 000, 000 will be treated as an interest free loan from the Lender in order for the Borrower to eventually acquire shares in the Company (defined as Bougainville Copper Limited) once the Panguna

mine is restarted. In exchange thereof, the Borrower will act as the vehicle by which the Lender will coordinate and or finance its Bougainville initiatives. All expenditure incurred under this agreement will be treated as sunk cost in the books of account of the Borrower and will have the first charge on all proceeds from the Panguna mine presently operated by the Company.

5.23 The agreement provided that the loan was repayable on demand provided that no demand would be made, and no interest would be charged, "before the first anniversary of the reopening of the copper mine at Panguna established by Bougainville Copper Limited."

Outcome of Commission of Enquiry
CHAPTER 6
THE BONA FIDE INTERESTED PARTIES

6.1 By S.8 of the COMMISSIONS OF INQUIRY ACT a person who satisfies the Commission that he has a bona fide interest in the subject matter of an inquiry may attend the inquiry and may be represented by counsel. The Commission was satisfied that the following persons had such an interest:

(A) BRIGADIER/GENERAL SINGIROK, M.B.E.
(B) MR. CHRIS HAIVETA, M.P.
(C) MR. MATHIAS IJAPE, M.P.
(D) SIR JULIUS CHAN, G.C.M.G., K.B.E., M.P.
(E) MR. TIMOTHY SPICER, O.B.E.
(F) THE INDEPENDENT STATE OF PAPUA NEW GUINEA

Leave was also granted to Counsel for the Jardine Fleming Group of Companies (referred to collectively as "Jardine Fleming") to present submissions.

(A) BRIGADIER GENERAL SINGIROK

6.2 The allegations made by Brigadier General Singirok (also referred to as the Commander) in what he described as an "Address to the Nation" and in his advice to the troops (both on the 17th March 1997) and an earlier address on the 11th March 1997 to Members of the Special Forces Unit, include a challenge to the credibility of the Government and to the whole Sandline contract. In particular:

• That the motive of the Government in hiring Sandline was to re-open the Panguna Mine and was corrupt.

• That it was 'professionally and ethically wrong to hire foreign

mercenaries to mercilessly destroy our country", and that it undermined the;
P.N.G.D.F.

• That the Prime Minister and Deputy Prime Minister had fraudulently
transferred millions of kina to a Hong Kong bank to engage a mercenary
organisation from the U.K. and South Africa and that there was widespread,
corruption and bribery amongst the leaders of Papua New Guinea.

• That "senior Government Ministers had gained massive commissions over
the funds transferred and more dealings with Sandline International and
other mineral projects."

• That an exorbitant price was paid for the military equipment which was ex'

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Soviet stock, and that this money could have been used to re-equip the
P.N.G.D.F. and the contract did not cater for the long term transfer of
technology.

• That a major military operation on Bougainville with the use of an outside
force would set progress backwards.

• That he "would not allow our politicians to sell this country to foreigners
,for economic gain at the expense of the lives of Papua New Guineans and
to undermine our security forces."

• That Sandline had "infiltrated to our highest decision making bodies" and
had direct access to the Prime Minister, Minister for Finance and the
Defence Minister.

• That the arsenal was inhumane and "totally destructive against human
lives, the environment and not relative to the threat on the ground."

• That "I am now also calling for those individuals and organisations who have been unjustly treated by this Government to come forward openly and expose the actions of dishonest leaders so we can retain our country's integrity and name for the sake of all Papua New Guineans."

• "Lastly I call on the Governor General and the Chief Justice to appoint a caretaker Government or a Transitional Ruling Council to ensure the continued running of the country's affairs and set up and Independent Commission of Inquiry to investigate this Government's dealing with Sandline International."

6.3 Brigadier General Singirok in his evidence has maintained that whilst he was involved in the engagement of Sandline International he did so because he was obeying orders and that if he had not done so he would have lost his job, although he opposed the operation "in his heart." His counsel maintains that he has persistently said that the contract was for an illegal and unconstitutional purpose.

6.4 He was instrumental in organising what was called Operation RAUSIM' KWIK, whose object was to get rid of Sandline International and its personnel from the country. This ultimately succeeded following the detention by elements of the P.N.G.D.F. of Colonel Spicer and other personnel.

6.5 The evidence shows (and is not disputed) that Brigadier General Singirok was involved in the dealings with Sandline from the beginning. In Easter 1996 he travelled to Cairns accompanied by the Defence Minister Mr Ijape and Department of Defence Secretary Mr Melegepa. They constitute the Papua New Guinea Defence Council. Brigadier General

Singirok as Commander of the P.N.G.D.F. was the Chief Military Advisor to the Defence Council and the Government. There they met Colonel Spicer, who was accompanied by Mr. Buckingham. Mr. Spicer says he explained his organisation and its relationship with Executive Outcomes (E.O.) The Defence Council explained its requirements, especially the need for helicopters as well as budgetary requirements and it was agreed that there would be another meeting in London with Brigadier General Singirok.

6.6 In April 1996 Mr. Spicer handed his proposal to Brigadier General Singirok in London. Mr. Spicer said that the indications he got from Brigadier General Singirok were that he was pleased with the proposal and he said that it was what he was expecting and that he would take it back to Papua New Guinea to discuss it and that a copy should go to the Defence Minister. The Commander said that he briefed the Minister on his return "that the offer looked good", although he raised doubts about the ability to fund it. There seems some inconsistency in the Commander's evidence when he said that he went to London at the direction of the Defence Minister to follow up the proposal of E.O. and then said that he was not keen to see Mr. Spicer in London. The proposal really related to helicopter support for a counter insurgency operation which would be procured and operated by Mr. Spicer's group on behalf of the Government of Papua New Guinea.

6.7 Throughout all negotiations the situation remained the same in that Sandline personnel would be under the control of the Commander of the P.N.G.D.F. in conjunction with the P.N.G.D.F.

6.8 The equipment listed in the Sandline contract was essentially listed in the April 1996 proposal.

6.9 On Mr. Spicer's evidence no-one on behalf of the Papua New Guinea Government ever asked for any justification of the costing of the equipment. The pricing schedule was the basis for that in the Sandline contract signed some nine months later and the Government was thus in a position to evaluate the prices if they wished to do so.

6.10 These early contacts with Sandline lay dormant because the Prime Minister said No. A need however was identified to acquire more helicopters that were unrestricted; ie: which could be converted to attack and not restricted to unarmed transports (N.E.C. decision 9th September 1996 Policy Submission 179/96 Recommendation 2).

6.11 The Sandline negotiations were revived in September/October 1996 when the Deputy Prime Minister was contacted by Mr. Spicer. This led to an invitation from the Deputy Prime Minister to Mr. Spicer to visit Papua New Guinea in November 1996. At this time the long list of peace initiatives (listed in Chapter 2) had failed and the situation in Bougainville

had deteriorated badly in the latter half of 1996, with increased rebel activity. Sandline was contracted to provide a consultancy report on possible action. The Commander considered the idea of obtaining a report to be a good idea. It was completed and presented in very late December 1996/January 1997. The Commander agreed with the military options proposed in the report as suggested by Sandline.

6.12 At the time when Mr. Spicer was preparing the report with Mr. Buckingham he took the report to the cabinet room. The Commander appears to have been upset and annoyed that Mr. Spicer was there without his knowledge.

6.13 The Prime Minister met Mr. Spicer on the 7th January. Having been

assured as to the military likelihood of success and the capacity of Papua New Guinea to finance the package the Prime Minister allowed a submission to go forward to the National Executive Council. On the 15th January 1997 an N.E.C. meeting was held in the morning attended by some 25 Ministers. The N.E.C. directed that because of the sensitive and classified nature of the project that the matter should be handled by the National Security Council. On the 15th January 1997 a National Security Council meeting was held and a submission was tabled dated 15th January supporting the engagement of Sandline (Meeting No. 1/97). The submission was prepared by the Commander.

6.14 The N.S.C. on 15th January 1997 resolved to engage Sandline International. The decisions reached are in conformity with the policy submission dated 15th January 1997.

6.15 I agree with the submission made on behalf of the State (which is not disputed) that:

The policy submission dated 15th January 1997 which was presented for consideration by the National Executive Council spoke very much in favour of the engagement of Sandline international. Importantly, this submission was prepared by Brigadier/General Singirok and had his support. Brigadier/General Singirok admits that he personally did not have any reservations about the option recommended in the proposal. Brigadier/General Singirok prepared the submission the night before the N.E.C. meeting and gave it to Mr. S. Raphael. Brigadier/General Singirok admits that he never expressed to the Minister for Defence any reservations at all about what was contained in the submission.

6.16 Brigadier General Singirok does not dispute that his policy submission' included:

(a) To seek approval from National Executive and National Security Council to officially engage Sandline International with the P.N.G.D.F. and

the Special Forces Unit.

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(b) To seek approval to conduct pre-emptive strikes on selected targets in Bougainville.

(c) To seek approval for the funding of Sandline International of U.S. $36 million for the project including 50% down payment for the services.

(d) To seek approval for foreigners to be engaged in consultancy work including training and technical support.

(e) To approve as part of the Defence Force, as indicated in the White Paper on defence, the development of new acquisition of high tech capabilities through Sandline International.

(f) That it was a requirement to carry out counter insurgency operations, deep in enemy territory and that there would be a combination of strategic electronic warfare capability and helicopter force comprising of both attack and support helicopters which would generate massive combat power. The strike package was to include two M 24 attack helicopters. The cost of engaging Sandline was detailed as well as the benefits he saw to the engagement of Sandline.

6.17 Brigadier General Singirok was part of a four man team which negotiated the contract with Sandline on behalf of the State. They included the State Minister Mr Gelu, the Secretary for the Department of Defence Mr, James Melegepa and Mr. Vele Iamo, Acting Deputy Secretary of the Department of Finance.

6.18 The negotiating team suggested that the Commander send a letter

directly to the representatives of Sandline in respect of any matters in relation to the contract that he wanted addressed. He did so by letter dated 29th January 1996 addressed to Mr. Spicer and Mr. Grunberg in which he expressed concern at the use of two additional MIL 17 helicopters in his inventory due to their operational costs and because he had already arranged the purchase of two BELL 212 helicopters in Mount Hagen. He did not wish to have three different types of helicopters in his inventory.

This letter was responded to by Sandline on the 30th January 1997 and the Commander appears to have accepted that response and the difference of opinion over the choice of helicopters seems to have been resolved. He did express some concern about the three month term of the contract but that also appeared to be resolved as far as the Commander was concerned.

6.19 The only other dissent expressed was by the negotiating team in a brief to the Secretary of N.E.C. on the 30th January 1997 that they were not

satisfied with the contract and recommended that it be re-negotiated to justify the level of payment to be made. There was some criticism of Sandline in the terms "we are aware that militarily they are very effective in their assignments and are usually very insensitive about the consequences of their actions on host governments and the people. There is usually little room for negotiations in their contracts." This statement reflected the earlier concern which had been raised by Mr. Levi. The briefing note advised that some attempt be made to secure further negotiation with Sandline and it recommended that "the proposed arrangement as per N.E. C. decision No. 1/97 is not

implementable unless
and until these concerns are addressed substantially." The brief was signed
by the negotiating team including the Commander.

6.20 On the same day however (30th January 1997) the Commander wrote
to
Mr. Vele Iamo, Deputy Secretary, Department of Defence as follows
(EXHIBIT H2):

"My Dear Deputy Secretary,

CONTRACT BETWEEN THE STATE OF PAPUA NEW GUINEA AND;
SANDLINE INTERNATIONAL.

. In reference to the draft review, you are aware of the same issues we have
raised with Sandline representatives but they are obviously not prepared to
negotiate or accommodate.

. Otherwise for these issues, the Secretary for Defence and the Commander
are happy with the contents of the proposed contract.

. Please facilitate signing arrangements for the Deputy Prime Minister on
behalf of the Independent State of Papua New Guinea.

Signed,
Brigadier/General Singirok."

6.21 The contract was signed on the 31st January 1997.

6.22 The Commander has said that he was pressured into signing the above'
letter of the 30th January in which he indicated that apart from some
concerns raised, he and the Secretary for Defence were happy with the
contents of the proposed contract. On the evidence of Mr. Melegepa the
Defence Secretary the letter was prepared by the Commander and there was
no pressure placed on him. In these circumstances where the Commander
was an active proponent of the engagement of Sandline, the evidence of
Mr. Melegepa is more convincing.

6.23 The Commander never dissented from the engagement of Sandline apart from the joint letter of the 30th January and the reservations expressed therein and in another letter of the same date said that he was happy with the contents of the proposed contract. In his policy submission of the 15th January he was enthusiastic about the benefits of the engagement of Sandline. There has been no suggestion by the Commander throughout the whole period of the engagement of Sandline and in the negotiations thereto that:

• Sandline should not be engaged on humanitarian grounds.
• That the equipment was too expensive or out-dated.
• That Sandline were not reputable.

All the members of the negotiating team have given some evidence that the Commander never complained to them about any of these matters. On his own evidence when being questioned about the Sandline option he said:

Q. "What I am asking you is this, did you personally have any reservations about the option yourself?
A: No.
Q: None at all?
A: No, and I will tell you why.
Q: Yes?
A: If I did I would be sacked.
Q: But what I am asking you though, is that did you personally, even though you might not have expressed it, have any reservations?
A: No.

6.24 There can be no doubt that the Commander, knowing that the State was engaging foreigners for payment to provide military assistance, was a keen and informed proponent. He cannot avoid responsibility for engaging Sandline. In particular:

• He advised Mr. Loko that the equipment was sophisticated and of the

latest technology and that it would give the P.N.G.D.F. the fire power to deal effectively with the B.R.A. and would ensure the surrender of the B.R.A. and the peace process would be enhanced. He was enthusiastic about the project and expressed no reservation on humanitarian grounds.

• He reported to the Minister of Defence that he was pleased that the project "looked good militarily."
• He advised Mr. Spicer that the report was "very much in line with their own thinking."
• He expressed the view to Mr. Levi and others that the Government had

taken a responsible step in engaging Sandline (N.S.A.C. meeting of the 6th March 1997).

• He advised the State Solicitor on 24th January that the contract and proposed engagement of Sandline were "good" and that it would assist a lot in solving the Bougainville crisis and that the Government and Defence Force needed assistance and he appeared excited about the project.

6.25 The evidence is overwhelming that the Commander played a major role in ensuring that the State entered into the contract with Sandline and that he was a keen and enthusiastic supporter of the concept. It would hardly be logical for a Commander who had decried the lack of financial and logistical support to the P.N.G.D.F. to be objecting to the expenditure of U.S. $36 million for equipment and other assistance to the P.N.G.D.F. The Commander was hardly a passive party doing what he was told to do. The extent of his active role can be seen in his own input and suggestions such as in his daily report dated 26th September 1996 that:

"The only option is to re-open Panguna Mine, perhaps with C.R.A. discreetly funding security Force operations."

Further he was:

• Instrumental in signing end user certificates both before and after the contract was signed, to enable the equipment to be brought into Papua New Guinea.

• Actively engaged in seeking duty free clearance for all articles imported under the project and for customs and immigration exemptions.

6.26 The Commander maintains that he could not oppose the engagement of Sandline. He has on the one hand, through his counsel, condemned public servants such as the State Solicitor for not standing up to politicians whose conduct is questionable, but on the other hand he explains his own behaviour in not opposing (and indeed supporting) what he says was a criminal, unconstitutional and immoral transaction on the basis that if he had spoken up he would have been dismissed.

This is hardly credible. The Commander is not a timid man who is unused to speaking his own mind, and his record shows that he is not a man who ever lacked courage. He rose to the position of Commander through the ranks after a distinguished career as a soldier. He had had several tours of duty in Bougainville where he distinguished himself for bravery and where he earned the respect of all of those who served with him such that he was the popular choice of his men to become Commander.

6.27 The explanation for the Commander's change of heart or his motivation in condemning the engagement of Sandline may be relevant to the truth or otherwise of the allegations he has made. The evidence discloses that he

became increasingly irritated and then resentful and finally

hostile by what
he saw as Sandline personnel, in particular Mr. Spicer, usurping his
authority as Commander. There was an early incident in about December
1996 when he became annoyed at the fact that Mr. Spicer was presenting a
proposal to cabinet without his knowledge and a later incident when Mr.
Spicer had ordered a P.N.G.D.F. plane to fly to Wewak.

• The Commander in his own words said that he was being marginalised
and "left out of the equation."

• He believed that Mr. Spicer had an office near the Prime Minister and that
the Sandline Commander would not be under the command and control of
the P.N.G.D.F. Commander.

• He believed that the Minister for Defence was seeing him less than usual
and that he was beginning to get his instructions and directions from Mr.
Spicer.

• He received a letter dated 20th January 1997 from Mr. Eka, the then
Acting Secretary of the Department of the Prime Minister, which said, inter
alia;

"Secondly, the Prime Minister, having been made aware of the existence of
the P.N.G.D.F. Rapid Reaction Force, has directed that this unit be
formalised, strengthened and commanded by Police. For administrative
convenience he suggested that it be brought under the Department of
Prime Minister and NE. C. I am aware of previous Government direction
on the establishment of a Protective Security Unit within this Department
to respond to threats against V.LP's.

I intend to put this matter on the N.S.A.C. agenda for discussion on the
practicality of the concept. I have written to the Attorney-General seeking
his advice on the legal and or constitutional implications (if any) on the

intention of the Prime Minister.

In the meantime, while I await responses from the Attorney-General, I would appreciate very much if you could provide your initial thoughts on the same. I have written to the Commissioner for Police requesting the same. Please forward your comments to me as soon as possible.

Yours sincerely,
Sgd
PETER M EKA,
ACTING SECRETARY

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The Commander did not respond to this letter and he continued to support the Sandline contract. The letter is inviting discussion on enhancing the Rapid Forces Unit and inviting his comments on the matter. The Commander says that this amounted to the formation of a "National Guard" or a "Palace Guard" under the control of the Prime Minister's Department and is further evidence of his growing feelings that he was being supplanted and possibly that the P.N.G.D.F. was being diversified.

6.28 The Commander may well have had other reasons or motivations and been influenced by others. He appears to have become emboldened after the engagement of Sandline was leaked to the Press. But in these circumstances where he had been a willing participant in the engagement of Sandline it must place grave doubt on all his claims that the Sandline contract was criminal, unconstitutional and immoral involving bribery, corruption, fraud and the payment of secret commissions and that it was inhumane etc.

6.29 The Commander has admitted in evidence that he had no evidence of corruption but only a suspicion of corruption. He has not produced any evidence of corruption in the Inquiry.

6.30 The Commander's statement to his troops that "The issue with Sandline

has got us all by surprise" was clearly not true. He could not honestly suggest he was taken by surprise. His further statement to the troops that in April 1996 he reported to the Government that Sandline was not the choice as the troops they would be using were Africans or Afrikanas" was not true, and inconsistent with his own testimony that he had no idea these people were going to come 'from the continent of Africa" until the first three South Africans appeared in January 1997.

There are other inconsistencies in his evidence and he refused to answer some questions and was evasive in others and ultimately he left the Commission and refused to answer any more questions which is a matter which goes to his credit.

6.31 He claims that he now makes that the Sandline contract amounted to the raising of an illegal army and the claims of unconstitutionality seem to be ex post facto rationalisations or justifications of the action he took in challenging the Government. There is no evidence in fact of raising an illegal army.

6.32 The Constitutional issues which have been raised are not within the terms of reference of this Commission. This is not an inquiry which is determining the rights of parties. It is an inquiry into the facts surrounding the engagement of Sandline International, to discover the facts and report on the facts. No question of interpretation of any constitutional provision arises within the scope of this inquiry.

6.33 As to whether the actions of the Commander and of elements of the P.N.G.D.F. in challenging the Government were right or wrong, and as to whether this amounted to insurrection or mutiny etc., and as to whether the Commander's actions have ultimately compromised the security of

his
country; these are all matters which are outside the terms of reference of
this Inquiry.

(B) MR. CHRIS HAIVETA

6.33 Mr Haiveta is the Deputy Prime Minister and the Minister for Finance
in the Chan Government. He is a physically imposing man with a
commensurately strong personality. Mr Haiveta's involvement in the
Sandline saga commenced in October 1996 when he met Mr Spicer in
London. It is fair to say that the Sandline contract would not have been
formed without the intervention of Mr Haiveta, who took an active interest
in engaging Sandline.

6.34 On his return from London he says he informed the Prime Minister, in
the course of his report concerning the Oregon Road Show, of his meeting
with Spicer in London. He does not recall the details of this briefing. Nor
does he recall any detail of the Prime Minister's reaction to this part of his
report. In England he had invited Mr Spicer to visit Papua New Guinea to
discuss his proposal for "Project Contravene. "Mr Haiveta was plainly
interested in the proposal.

6.35 In Port Moresby, in November 1996, Mr Haiveta met with several
senior public servants and with the Commander for lunch at Seoul House.
The purpose of this meeting, at least in part, was for Mr Haiveta to get
some idea of the forthcoming funds which the government could expect to
receive from bodies such as MRDC and might be available for this project.
In addition, Mr Haiveta wished to get the Commander's view on what had
been mentioned to him by Mr Spicer in London.

6.36 When Mr Spicer and Mr Buckingham visited Papua New Guinea in
early December 1996 they met with Mr Haiveta, Mr Ijape and Secretary Mr
Melegepa amongst others. It seems to have been Mr Haiveta's idea to have
Sandline at that stage provide a detailed report. Mr Haiveta saw

this as an
essential step before the engagement of Sandline could be seriously
considered. He left it to Mr Melegepa to negotiate the terms, particularly
the price that should be paid, for the report.

6.37 When Mr Spicer returned to Papua New Guinea in late January 1997,
he provided copies of his report to Mr Haiveta. Mr Haiveta said that he

passed on one copy to the Prime Minister. It seems from that stage the
principal contact between Sandline and the State was Mr Haiveta. With the
support of the Minister for Defence, the Minister for Finance and the Prime
Minister, the engagement of Sandline was approved by the National
Executive Council. Thereafter Mr Haiveta set about arranging for payment
of the first instalment of US$18 million.

6.38 About the same time, mid-January 1997, Mr Haiveta, according to his
evidence, came up with the idea that the State should acquire all of CRA's
shares in Bougainville Copper Limited. To assist him with this plan, Mr
Haiveta asked Mr McCowan of Jardine Fleming Securities Limited, to
travel from Hong Kong to Port Moresby. Mr McCowan arrived in Port
Moresby on about 18th January 1997. Mr Haiveta said that he informed the
Prime Minister of his plan about a week before this. He also says that he
and Mr McCowan met with the Prime Minister to discuss the buy-out. The
Prime Minister says that he first heard of this plan when he met with Mr
McCowan and Mr Haiveta, and fixes the date of that meeting as several
weeks later. However, as Mr McCowan was, it seems, last in the country
between 18th and 28th January 1997, Mr Haiveta's recollection of the date
of the meeting is more accurate.

6.39 Mr Haiveta had set about implementing the decision of the National
Executive Council to accept Sandline's Project Contravene

proposal. His
principal concern was to see that Sandline was paid the first instalment of
US$18 million. Once the source of this funding was settled, he set about
having the money remitted to Sandline's bank account in Hong Kong. The
first instruction to effect the transfer was on 23rd January 1997 when Mr
Haiveta told the Acting Deputy Secretary of the Finance Department, Vele
Iamo, that he wanted the money transferred that day if possible.

6.40 On the following day, 24th January 1997, Mr Haiveta personally
attended at the Papua New Guinea Banking Corporation. He (and others)
stayed there until 8.30pm at night trying to effect the transfer. In the end,
when the money could not be transferred because of a lack of
documentation and other deficiencies as seen by the Central Bank and the
PNGBC, several letters drafted by Mr McCowan, and addressed to
Sandline, were signed. One of these letters was signed by Mr Haiveta,
whereby he purported to guarantee, on behalf of the Independent State of
Papua New Guinea, the payment of US$18 million to Sandline by a
State-owned company, Roadco, on 27th January 1997.

6.41 It is difficult to reconcile Mr Haiveta's conduct on 24th January 1997
with any orthodox approach to a commercial transaction. He was intent on
paying US$18 million to Sandline International, and in particular, having
that money transferred to Hong Kong. However, there existed no

contractual obligation on the part of the State (or Roadco) to pay this or any
sum. No contract existed between the State and Sanadline and, according to
Mr Haiveta, he had not to that stage even sighted a draft contract. It seems
he had been told by the Sandline representatives that the payment was
required to ensure that certain military equipment which Sandline had
identified for Project Contravene, should not go to a third

party. If this is
the true reason why Mr Haiveta was, at that stage, so anxious to pay US$18
million to Sandline International, then that indicates commercial naivety on
his part. Furthermore, when the payments could not be made on 24th
January 1997, Mr Haiveta authorised the provision of a kina cheque and
letters of guarantee, to a supplier who at that stage had no legal rights or
obligations to anything.

6.42 On Monday 27th January 1997 Mr Haiveta instructed Mr Iamo to
meet with the State Solicitor, Zachary Gelu, Secretary Melegepa and the
Commander to consider the draft Sandline contract with a view to
"improving" its terms in favour of the State. Mr Iamo was told to obtain a
copy of the draft contract from the Commander. This tends to support Mr
Haiveta's evidence that he did not have the draft contract at that stage. It
has to be said that it is an odd approach to attempt to perform a "contract"
by paying a substantial part of the contract price, and only then to try to
negotiate its terms. It is not surprising that Sandline, through Mr Grunberg,
was unwilling to negotiate on the substantive terms of the draft contract.
After all, at the time the negotiations were commenced, it was plain that Mr
Haiveta, who outwardly represented the State, was committed to
performance of the contract. Mr Gelu's threat to Mr Grunberg that he would:
advise the State against entering into the contract must have seemed quite
hollow.

6.43 Mr Haiveta told Mr Iamo to speak with Mr McCowan regarding the
draft contract. He also directed that a meeting be held between the
members of the negotiating team, Mr McCowan and himself, at Mr
McCowan's room at the Islander Hotel. Mr Haiveta obviously placed
considerable reliance upon Mr McCowan. As it happens, Mr Iamo and Mr
Gelu met with Mr McCowan as arranged, but the other parties did not
arrive at the meeting. It is curious that a foreigner, Mr

McCowan, who had
been engaged for his expertise in commerce and banking, should become
involved in negotiating a military contract involving the State. Mr Haiveta,
in his evidence, admitted that it would be wrong to engage Mr McCowan in
such contract negotiations. However, that appears to have been exactly
what was contemplated and directed by Mr Haiveta himself.

6.44 On 30th January 1997 the State's negotiating team, namely the
Commander, Mr Gelu, Mr Melegepa and Mr Iamo, co-signed a letter
expressing inter alia their concerns about the engagement of Sandline and
in particular the terms of the draft contract. In fact, the letter concluded by

advising the State against entering into the contract. This letter was
delivered to Mr Haiveta on the evening of 30th January 1997, by Mr Iamo
and Mr Melegepa.

6.45 Due to an administrative error, two or three paragraphs of the letter
were omitted from the signed copy which was delivered to Mr Haiveta.
However, both Mr Haiveta and Mr Iamo say that the contents of the letter
in full were brought to his attention at that time. Those contents should
have rung alarm bells for anyone who was looking out for the interests of
the State.

6.46 The letter stated that the organisation with which the State was dealing
had at best a questionable reputation. The contract negotiating committee
expressed serious concerns about the terms of the contract including, for
example, the price of US$36 million for a three month engagement.
Finally, the committee advised against the State entering into the contract
on its current terms.

6.47 Mr Haiveta did not communicate the contents of the letter of 30th January 1997 to any other person. Although he listened to what was said, and understood the contents of the letter, he seems to have brushed it aside. He says that he favoured a contract whereby Sandline was engaged for a total of 12 months for the same contract price of US$36 million. However, he did nothing towards altering the terms of the draft contract to include this or any other amended term. Instead, the next day, 31st January 1997, he signed the contract on behalf of the Independent State of Papua New Guinea without amendment. His signature was witnessed by Mr Iamo.

6.48 On 31st January 1997, approval for the transfer of the first instalment of US$18million was finally obtained. Mr Haiveta took a personal lead in obtaining the approval. His personal involvement in so many aspects of the transaction, including obtaining foreign exchange approval, is apparently typical of the manner in which Mr Haiveta performs his portfolio duties. In this instance, his presence at the Central Bank on 31st January 1997 (and his earlier presence at the PNGBC) probably brought considerable pressure to bear upon the officials of those institutions. However, the Governor of the Central Bank said that his decision to approve the transaction was not influenced by such pressure. Overall, the Commission concludes that Mr Haiveta placed a great deal of pressure upon public servants and bank officers, either directly or indirectly, to achieve his purposes. The actions of Mr Gelu and Mr Iamo in backdating documents may be indicative of this pressure.

6.49 On 12th February 1997 Mr Haiveta travelled from Port Moresby to Cairns. On 13th February he travelled from Cairns to Hong Kong. He was accompanied on these flights by the Minister for Defence, Mr Ijape. He said in evidence that the purpose of his trip was to meet with Mr McCowan

of Jardine Fleming concerning the acquisition of CRA's shares in Bougainville Copper Limited. Mr Spicer travelled on the same flights and stayed in the same hotel in Cairns as Mr Haiveta. All three stayed in the same hotel in Hong Kong, the Peninsula. A Mr Nick Violaris also travelled on the same flight from Cairns to Hong Kong, and stayed at the Peninsula.

6.50 Two further Sandline representatives, Mr Buckingham and Mr Grunberg, also travelled to Hong Kong around the same time, arriving on the 12th or 13th of February. They also stayed at the Peninsula.

6.51 Mr Spicer initally contended that his travel to Hong Kong on the same flight as Mr Haiveta and Mr Ijape was purely coincidental. He seemed to say, initially, that he was unaware that either of them was travelling to Hong Kong at the same time as he was. When faced with the further fact that they were all apparently booked to stay at the same hotel in Hong Kong, he agreed that some pre-planning or co-ordination was involved. He also accepted that there had been some arrangement for Mr Haiveta to meet; with Mr Grunberg and Mr Buckingham in Hong Kong. He said that Mr Haiveta had lunch with Mr Buckingham, Mr Grunberg and himself on 14th February 1997. At one point in his evidence he said that he thought that the four of them had lunch together on the 14th. At another part of his evidence, he was more certain this had occurred.

6.52 Mr Ijape said that he had been requested, on short notice,

by Mr
Haiveta to accompany him to Hong Kong. He gave clear and fairly convincing evidence that on their arrival in Hong Kong on the evening of
13th February 1997 he and Mr Haiveta had dined at the Peninsula Hotel
with Mr Buckingham, Mr Grunberg, Mr Spicer and Mr McCowan. He was
asked by his counsel (who also represented Mr Haiveta and the State)
whether Mr Haiveta might have been absent from the dinner. His answer
was a definite "he was there."

6.53 Mr Haiveta denied any plan to meet with any Sandline representative
in Hong Kong. He said that he had no idea that Mr Grunberg or Mr
Buckingham would be in Hong Kong, much less staying at the hotel at
which he was accommodated. He said that he only saw Mr Buckingham,
and perhaps Mr Grunberg, in the hotel foyer on the 14th of February 1997.
There was virtually no conversation between them, and this meeting in the
foyer was the extent of his contact with either of them. He said that the fact
that Mr Spicer was travelling to Hong Kong on the same flights and staying,
at the same hotel were also coincidences.

6.54 The Commission has had the benefit of inspecting certain of Mr
McCowan's documents. This inspection took place after the oral evidence

was completed. The nature and effect of the documents which were inspected, and notes describing the nature and contents of those documents,
were provided inter alia to counsel for Mr Haiveta. His counsel addressed
on those documents but did not seek to have Mr Haiveta recalled to give
evidence. The documents inspected, which include faxes from Mr McCowan directed to Mr Grunberg and Mr Haiveta, and dated between 3rd

and 5th february 1997, indicate that there was indeed a planned meeting in Hong Kong between 13th and 15th February 1997 involving Mr Haiveta and the Sandline interests. The Commission recognises that neither the originals nor the photocopies of these documents have been placed before the Commission. Furthermore, the author of the documents has not been questioned before the Commission. However, even taking all these matters into account, the documents, together with the aforementioned conflicting evidence, and the Commission's assessment of Mr Haiveta as a witness, lead the Commission to the conclusion that Mr Haiveta's evidence concerning his contact with Sandline interests in Hong Kong is untrue. As he conceded in his evidence, these are recent events, and not something which could have been simply forgotten.

6.55 The Commission concludes that the meeting in Hong Kong involving Mr Haiveta and the Sandline interests was concerned inter alia with the State's proposal to purchase CRA's interest in Bougainville Copper Limited. It is not clear what role Mr Buckingham or any other Sandline interest was considering. In view of the faxed letter written by Mr Buckingham on 1st August 1997 to Mr Ijape, it may be that he was considering financing the buy-out in part or in whole. This is a possibility, given that the State may not have had the financial capacity to simply purchase CRA's shares in Bougainville Copper Limited, and Mr Buckingham apparently had access to significant funds.

6.56 Bougainville Copper Limited is, of course, a public company. It is listed on the Australian Stock Exchange. Its main (perhaps its only) asset is the rich Panguna copper mine. The mine has not operated for nine years because of rebel activity on Bougainville. As a consequence, the price of Bougainville Copper Limited shares has been depressed. In January and early February 1997 they were trading between about 40c and 48c.

6.57 On 14th February 1997, there was an increased demand for

shares in Bougainville Copper Limited. The volume of trading was relatively high, although not extraordinarily high. What is significant, however, is that the demand for shares on that day was such that the closing price on the previous day, 43c, was driven up more than 40%, to 62c at close of business on Friday 14th February 1997. On 17th February the demand for Bougainville Copper Limited shares was still strong, the closing price being 60c per share. No reason for this demand has been offered, save for knowlege of the proposed military operation on Bougainville. Each of the

witnesses, including the Prime Minister, Mr Haiveta and Mr Ijape, who was asked about the trading in Bougainville Copper Limited shares at this time, denied any knowledge of the same.

6.58 Mr James Loko, Acting Secretary of the Department of Finance, gave evidence that Mr Haiveta had contacted him from Hong Kong in mid-February 1997 requesting a briefing on Bougainville share prices. He said that a briefing was faxed to Mr Haiveta at his hotel. This must have been on Friday 14th February 1997. Mr Haiveta, who gave evidence subsequent to Mr Loko's evidence, said that he had been provided with such a briefing. He did not recall whether he had asked for the briefing when he was in Cairns or in Hong Kong. He said that he did not retain the fax. He said he "shredded it" (his words) in his hotel room in Hong Kong. The reason he gave for destroying this document was that he was concerned it would fall into the wrong hands and that it contained confidential information. His evidence concerning his actions in destroying the fax, and his motivation for doing so, were unsatisfactory. The Commission gained a clear impression that Mr Haiveta was seeking to

conceal what truly happened in respect of this part of his visit to Hong Kong, and in respect of other aspects of that visit.

6.59 Unfortunately, the Commission has been unable to ascertain precisely who was buying Bougainville Copper Limited shares on 14th and 17th February 1997. However, relatively few people knew of Project Contravene at that stage (the story did not break in the media until about a week later). Fewer still would have had the financial means to deal in the number of shares which were traded on those dates. It would be incredulous to believe that the dealings on the 14th and 17th February 19971 were unconnected with the meetings in Hong Kong between 13th and 15th February 1997; that is, to find another coincidence. The Commission strongly suspects that one or more of the persons, or interests closely connected with such person or persons, who attended in Hong Kong, were behind those dealings in Bougainville Copper Limited shares.

6.60 Suspicion hangs over Mr Haiveta in respect of a number of matters. No satisfactory reason is given as to his eagerness to remit the first instalment of US$18million to Hong Kong, in circumstances in which the Sandline contract had not been signed, and he had not even sighted a draft contract. The Commission has already expressed a view that Mr Haiveta's evidence denying any arrangement to meet with Sandline representatives in Hong Kong in mid-February 1997 is untrue. His story of shredding the fax dealing with Bougainville Copper Limited shares is not accepted at face value.

6.61 There is yet another disturbing aspect to Mr Haiveta's evidence. The

Commission has had the advantage of inspecting, amongst Mr

McCowan's documents, drafts of Mr Haiveta's statements later provided to the Commission. Those drafts have been edited by Mr McCowan. The most significant changes made by Mr McCowan are, in effect, to remove himself from events. For example, in Mr Haiveta's draft statement, he has referred to Mr McCowan as being present when he first attended at Mr Spicer's office at Plaza 107 Limited in October 1996. Mr McCowan has removed this reference from Mr Haiveta's statement. Mr Haiveta in turn has presented the amended statement to the Commission. This type of behaviour is hardly indicative of someone intending to tell the whole truth.

For these reasons, and others which have been mentioned in other parts of this report, the Commission remains suspicious of Mr Haiveta's actions and motivations and, in parts, rejects his evidence as untruthful.

(C) MR. MATHIAS IJAPE

6.62 Mr. Ijape as the Minister for Defence was a member of the Defence Council together with the Commander and Mr. Melegepa, the Secretary for Defence. The engagement of Sandline International was an initiative of the Defence Council. The role which Mr. Ijape played in the engagement of Sandline has already been documented in Chapters 3 and 4. He developed the concept within his Department as an initiative of the Defence Council through to the stage of a Cabinet submission, and following Cabinet approval it was implemented by the Commander and others.Following Cabinet approval he played no part either in the negotiations for the contract or with the subsequent implementation of the operational plan.

There is one allegation made by the Commander against Mr. Ijape which I am satisfied has not been proven. This is dealt with in Chapter 7.

6.63 There is no evidence of any personal corruption or

impropriety on the
part of Mr. Ijape.

(D) SIR JULIUS CHAN

6.64 The Prime Minister played the least role of all the bona fide parties in this inquiry in the engagement of Sandline International. His evidence which is corroborated by other witnesses is as follows:

• He was advised by the Minister for Defence in March 1996 that he had been in contact with a private military company in London who could provide assistance to the Government, both in training and supply of military equipment. There is evidence that he had received a number of such proposals but had not taken them seriously and had dismissed them.

• He received Mr Spicer's fax of the 16th July 1996 and passed it to the

Secretary of the Prime Minister's Department.

• On the 19th August 1996 he received a memo from the Secretary recommending against the engagement of Plaza 107 and he wrote "Reject" on the memo.

• He had no further correspondence in the matter until 7th January 1996 when the Minister for Defence introduced him to Mr Spicer. His evidence is that he only saw Mr Ijape in his office. On the 8th January 1997 he again saw the Minister for Defence and Mr Spicer. A report was presented on Sandline International and the Prime Minister requested Mr Spicer and the Minister to prepare a summary. He says the issues that he raised which were discussed were:

(i) Whether Mr Spicer was well versed with the terrain in Bougainville, survey and intelligence.

(ii) Could the equipment focus on the rebel leaders

(iii) He would reject any suggestions of arming foreign consultants

to kill Papua New Guinea citizens.
(iv) Sandline to operate as advisors and back room operators, ie: flying aircraft and monitoring
(v) The rebels to be captured alive but in the event of attack, it is necessary that the rebels be identified and if miscalculated, the damage on innocent people to be minimal.
(vi) " was assured of all the technical capacity and equipment to focus, identify, pinpoint rebels and capture or damage and in the event of possible miscalculation, casualties will be within acceptable range, ie: experience acceptable to most countries engaged in this typeof operation."
(vii) "I emphasised that the best victory I wanted in spite of all these gadgets will be one that can be achieved without a shot being fired. My main concern at all times was to contain damage and casualties."

• He was not aware of the consultancy report in December 1996.

• At this time the Commander was absent from the country.

• He had a series of meetings with the Deputy Prime Minister and sometimes together with the Defence Minister.

• He said that his main concerns were:

(i) "In one meeting with the Secretary for Finance, the Minister for Finance and the Defence Minister I was assured by the Deputy Prime Minister that finance will come from outside the budget."

(ii) Finance would be sought from the Central Bank on special arrangement to be later packaged as a loan repayable once the Panguna

mine is revived so that cost to this operation would not

affect countrywide
reforms and delivery of services.

(iii) Cash would be available from dividends to be paid by statutory
authorities up to K70 million (K30 million above revenue projections).
N.B. Bv February consolidated revenue was running K25 million above
target and it is my view that this could reach well over K100 million for
1997. Being satisfied that finance was available he then allowed for the
N.E.C. submission to come before Cabinet for consideration at a scheduled
meeting dated 15th January 1997. NE. C. subsequently directed that
because of the sensitive and classified nature of the project this should be
handled by the National Security Council (N.S.C.) which had the quorum
to deal with the matter immediately after full Cabinet on 15th January
1997.

• On the 26th February 1997 the Deputy Prime Minister, Mr Rupert
McCowan (Jardine), Mr James Loko and Mr Zachary Gelu discussed
possible purchase of B.C.L. shares. This was announced as recommended
by the Deputy Prime Minister because of suspected leakage already to the
media.

6.65 There is no evidence that the Prime Minister responded to the letter
and faxes from Mr Spicer and Mr Buckingham expressing an interest in
obtaining a part ownership of the mine resource at Panguna or investing in
mineral resources in the country or in them having a role in the operation of
the mine. The evidence is that he did not take that seriously and that it was
not discussed with Mr Spicer.

6.66 The evidence shows that the Prime Minister had not given
consideration to the State acquiring C.R.A.'s interest in Bougainville
Copper Limited prior to the signing of the Sandline contract.

6.67 The evidence discloses that the Prime Minister had no direct
involvement in the financial arrangements for the

implementation for the
Sandline contract. He did not play an active role in its implementation apart
from giving it his approval.

6.68 The evidence shows that the Prime Minister, as had successive Prime
Ministers, been burdened by the complex problems and onerous
responsibilities of the Bougainville situation. He was described as a person
at the end of his tether. He had made numerous attempts at finding a
peaceful solution (detailed in Chapter 2). At the end of 1996 after the
failure of the latest peace initiatives and after the cease fire had been lifted
there was an increase in rebel activity. There had been a massacre at Kangu
beach where 10 soldiers were killed and 5 were kidnapped. Another 3
soldiers were kidnapped elsewhere and later murdered. In October 1996 they
Premier Theodore Miriung was assassinated. There was a further escalation

of the fighting and of loss of life. The evidence shows that it was these
considerations which led to the Prime Minister deciding that drastic action
had to be taken and led to his giving approval to the engagement of
Sandline.

6.69 Whether the political decision to engage Sandline was right or wrong
or wise or unwise is not within the terms of reference of this Inquiry.

6.70 There is no evidence of any personal corruption or impropriety on
behalf
of Sir Julius Chan.

(E) MR TIMOTHY SPICER

6.71 Mr Spicer's involvement with the engagement of Sandline has already
been extensively documented throughout this report and

particularly in
Chapters 3 and 4.

(F) THE INDEPENDENT STATE OF NEW GUINEA

6.72 The Commission is satisfied that this has been an open inquiry. The
State has waived privilege on a large number of documents and
consequently the Commission has had wide access to documents such as
Cabinet minutes which otherwise might not have been available.

In the Commission's view the evidence has disclosed a number of matters
which would be of concern to the State. They are:

There was insufficient inquiry into the background and identification of
Sandline International and to the objectives of Sandline in relation to the
Panguna mine, which might have conflicted with the State's military
objectives.

• There was no Government security in place or any other guarantee of
performance of the Sandline contract including delivery of goods.

• There seems to be a general acceptance at the political level and amongst
public servants that some requirements of the law, for example, the
requirements of the Public Finances (Management) Act, can be waived,
and documents back dated.

• The conduct of the Minister for Finance in attempting to make the first
instalment payment of US$18 million without a contract in place.

• The practice of politicians being personally involved with parties
contracting with the State.

A submission was made on behalf of the Jardine Fleming Group of Companies that their involvement was to be in relation to the State's proposed purchase of C.R.A.'s shares in Bougainville Copper Limited and that Jardine Fleming was never formally engaged and the project did not proceed. They submit that there is no evidence to suggest that any of the Jardine Fleming Group of Companies were engaged by the State or Roadco to assist in the Sandline transaction and they had no such involvement.

They submit that Mr McCowan was personally assisting Mr Haiveta to achieve his objective of arranging the financing of the Sandline transaction and that Mr McCowan was acting outside the scope of his employment with Jardine Fleming as they had never been engaged for that purpose.

There seems no doubt that Mr Haiveta believed he was dealing with Jardine Fleming. In the absence of evidence of Mr McCowan's contractual arrangements or terms of employment, I cannot say whether he was acting within or outside the scope of his employment with Jardine Fleming.

06/10/97

CHAPTER 7
OTHER ARRANGEMENTS SURROUNDING SANDLINE INTERNATIONAL

7.1 The terms of reference require the Commission to inquire into any other arrangements with Sandline International outside of the contractual arrangements.

7.2 There are various allegations of "other arrangements"made by the Commander, which have already been detailed, in which the Commander alleged various forms of corruption by numerous persons, but these have little weight because of the Commander's own evidence that he was

one of
the principal proponents in the engagement of Sandline and that he had no
evidence of any corruption but only a suspicion thereof. He could not
produce any such evidence in the inquiry.

7.3 There is an allegation that the equipment, the subject of the contract,
was supplied “from Eastern Block nations (ex Soviet stock) which are now
either obsolete or lack the demand, thus were sold for very little to
Sandline. Sandline has now sold them to the national government for
exorbitant prices allowing the potential for sizeable percentage of
commissions." It is a surprising allegation for the Commander to make, for
during 1996 when he was engaged in promoting the contract he was the
Chief Military Adviser to the Government and the person most responsible
for seeing that the P.N.G.D.F. was obtaining the right equipment at a
proper price. Further, he had himself been attempting to obtain the same
equipment, such as the Mi-17 helicopter, from Germany, and
acknowledged the necessity for having the Mi-24 attack helicopters which
he now seems to condemn as inhumane.

7.4 A large amount of equipment has been delivered, the majority of which
is held in Australia at Tindal Air Force Base. There is other equipment
including planes which are already in Port Moresby, and some which is
said to be "currently in shipment." In relation to the equipment held in
Australia, a Delegation of senior Government officials visited Tindal Air
Force Base on the 10th April 1997. Their brief, from the Acting Prime
Minister, directed them to carry out an investigation into the status of the
equipment in Australia. In the course of the inquiry I held that I would give
little weight to the report for the reason that the P.N.G. Delegation was
given limited access to the equipment and was refused access to log books
and technical manuals. The Delegation did not have a full inventory and

could only conduct a limited or cursory examination. They did observe four helicopters, two transport and two attack, which were described as being in good to very good condition. The report does say that two helicopters are different to those described in the contract but also says that

it was "impossible for the delegation to establish or confirm the type of helicopters stored in Tindal."

In these circumstances, where the Delegation had only a limited opportunity to assess the status of the equipment and no proper inventory, I find I can place little weight on the report. The Delegation was not able to obtain a valuation.

7.5 Valuations of the equipment listed in the contract vary from K28 million (by Sandline) to various estimates of around K18 million down to K8 or K9 million. In relation to the helicopters it is said that they can be obtained much cheaper, for example in the U.S.A. But the valuation of military equipment is hardly an exact science. The attack helicopters for example could not be purchased in the U.S.A. or Australia or in some other countries as there was an embargo on their use in P.N.G. Therefore their access for P.N.G. is limited, which must affect the price which has to be paid. The contract provided for the helicopters to be serviceable for up to 50 hours flying time per machine per month with spares to be provided. They were described as factory reconditioned and as being in good to very good condition. They were to be operated and maintained by Sandline personnel. What is known is that a large amount of equipment has been supplied or is said to be in shipment. The Commander did not have any evidence to support his statement that the equipment had

been sold to
Sandline for very little. He did not inspect the equipment.

7.6 In mid-1996 the Government issued a Defence White Paper and in
December 1996 a submission was made by the Defence Minister and
Deputy Prime Minister to which the Commander contributed, on the
subject of Defence capacity building. A need was identified to acquire
more helicopters that could be acquired without any restrictions. The
failure of the High Speed II Operation in mid-1996 had emphasised the
requirement for attack helicopters. The Commander and a group of
Government representatives had been considering acquiring Mi-17
helicopters from Germany which were surplus after the reunification of
Germany. The Federal Republic of Germany have stated that they did not
negotiate a K21 million loan or any other loan with the Commander as he
has said, or any other representative of the Government of P.N.G. as was
alleged, but that the visit of representatives of the P.N.G.D.F. to Germany
in December 1996 served the purpose to inspect and to determine
equipment to be supplied as part of an aid agreement. The indicative cost of
these Mi-17 helicopters under the arms building program was K3 million.
The evidence discloses that this was not new equipment as the Commander
attempted to assert. Under the terms of the Sandline contract, two Mi-17
helicopters were being supplied for about $U.S 3 million. This would seem
to be some evidence that helicopters being supplied by Sandline which
were factory reconditioned were not over valued. The Bell helicopters that
were to be purchased under the Defence procurement plan for $U.S 1.6 and

7.7 were transport helicopters with half the capacity of the Mi- 1 7 though the Commander said they were much more expensive to operate). That again is some evidence that the value of the Sandline helicopters were not sold for exorbitant prices.

The evidence of the Defence Secretary was that the military experts would take a submission to the Defence Council or the Defence procurement Board listing the type of helicopters that were available, what prices they were available for, and suggesting or recommending which of the various models would fit into the requirements of the P.N.G.D.F. inventory and recommend that they be purchased at those prices. They would advise the Commander, and no complaint was made by the Commander prior to the 17th March 1997 that the equipment the subject of the Sandline contract was too expensive or was purchased at exorbitant prices.

7.8 On all of the available evidence it cannot be established that the equipment the subject of the Sandline contract was sold to the Government for such exorbitant prices that suggested the potential for sizeable commissions.

7.9 There are allegations raised in the course of the inquiry concerning misuse or mismanagement of monies by the Commander, namely that monies left over from the K10 million allocated to Operation High Speed II was spent on luxuries for the Commander's house. This issue was raised, it was said, as a matter which went to credit. This issue is hardly a matter within the terms of reference and at most a peripheral issue. In Annexure "N" to his statement, Sir Julius Chan said "it is not the Commander's responsibility to manage the Defence Force Finances. The Secretary has to answer for the mishap." There is insufficient evidence to say that money has been misused. It may be that money held over after the completion of High Speed II may be used as part of the ordinary Defence Force allocation. There is insufficient evidence to show that the

Commander was
personally involved in the expenditure or knew that it was coming out of
the High Speed II allocation.

7.10 There is an allegation made by the Commander that Mr Ijape, the
Minister for Defence, said words to him to the effect "Bro, you can be a
rich man if you engage this group." This is the only allegation which has
been made against the Defence Minister. The Commander initially said this'
conversation took place on the 19th February 1996 at the Minister's office
in Parliament House when he and the Minister were discussing the opening
of the Bougainville mine and what "this company was able to do in Africa
and how these companies were operating, and operating other rich mining
organisations." The Commander could not point to any entry in his diary
relating to this statement but was adamant that it was made on the 19th

February 1996. When asked to identify "This group" in February 1996 he
said "Plaza 107." This cannot be correct because there was no contact
between the Minister and Mr Spicer and Plaza 107 until March 1996. In
cross-examination the Commander did not dispute this. When further
pressed on the date and by reference to his diary the Commander amended
the date to the 22nd February 1996, although he had not made a note of it.
Mr Ijape denied that he made the statement. The words themselves could
have more than one meaning; and there is no suggestion from the words
themselves that Mr Ijape had done anything improper at that stage,
although if they were said they could indicate an intent to act in a certain
way.
But given the propensity of the Commander to accuse people without
evidence, and given that the statement cannot be factually accurate in that

Mr Ijape had not had contact with Plaza 107 at this time, and given the fact that the Commander has amended the date on which it was said, I prefer the evidence of Mr Ijape that he did not say this. There are no other allegations made against Mr Ijape.

7.11 In the course of the Inquiry, Counsel for the Commander withdrew from the Inquiry citing the reason of non-payment of legal costs. His counsel has however made submissions at the end of the hearing. It is suggested that the Commander has been disadvantaged accordingly and that the Inquiry will consequently be seen as a "whitewash". I think that there is a misconception as to the nature of this Inquiry. The Commander, albeit the accuser, is only one of several bona fide witnesses in an Inquiry to establish the facts and the truth surrounding the engagement of Sandline. It is not an Inquiry to decide the rights of parties or an adjudication of a contest between the Commander and those he has accused. Neither is it an Inquiry to justify or condemn the actions of the Commander. I do not think the Commander has been disadvantaged by the withdrawal of his Counsel. He was represented by senior counsel when he gave his evidence and during his cross-examination. Counsel withdrew at the time the three State Ministers were to give their evidence but as the Commander did not have any evidence of impropriety or corruption against them there were few matters relevant to him thereafter upon which he could cross-examine and one wonders what it was that had to be whitewashed. I do not think the Commander was disadvantaged in the Inquiry.

7.12 Despite the Commander's lack of evidence to support his allegations the Commission has made further inquiries within Papua New Guinea and overseas into the issue of corruption such as secret payments and commissions etc, and in relation to other matters such as insider share trading. The Commission has been assisted by overseas agencies.

In relation to the $US18 million which was paid to the Sandline account in Hong Kong, it is known that various amounts have been withdrawn in payment, as far as can be ascertained to date, for the acquisition of military

equipment. An amount of $US 500,000 was withdrawn by Mr Spicer, and $US 400,000 of that amount was brought into Papua New Guinea by Mr Spicer in relation to the execution of the contract. It is known that $US 400,000 was paid to Mr Buckingham. There is no evidence to date of commissions having been paid to anyone and no evidence of any monies having been paid to date to the Commander, Mr Haiveta, Mr Ijape, Sir Julius Chan or any company or person associated with them. As has already been mentioned, the Commission has inquired in Hong Kong and in Australia in relation to the trading in Bougainville Copper Limited shares, and the Commission is aware of an on-going inquiry into this matter. There has been no evidence to date of any insider trading or any impropriety committed by any Papua New Guinea person or official.

7.13 The Commission has been critical of the conduct of Mr Haiveta but there is insufficient evidence upon which a finding of personal corruption could be made against him.

7.14 There is no credible evidence to date of "other arrangements" surrounding the engagement of Sandline International and there is no credible evidence upon which a finding of personal corruption or impropriety could be made against Sir Julius Chan, Mr Mathias Ijape, Brigadier General Singirok or against any public official of the State of Papua New Guinea.

4. CAVEAT

This report is based on information made available at the time. It has based assumptions on that information, which may, or may not have been complete.

AIMS

5 . The aims of this report is to examine the military problem in Bougainville and provide military options for the resolution of the crisis.

BACKGROUND

6. The crisis in Bougainville is now entering its ninth year. The problem began over a dispute between Government and landowners regarding revenue from the Panguna Copper Mine, but has since developed into a revolutionary crisis relating to the secession of Bougainville from PNG to form an independent island, or possibly union with the Solomon Islands which support the Bougainville Revolutionary Army (BRA).

7. The two key issues are the defeat of the BRA and the re-opening of the mine.

IMPACT OF THE CRISIS ON PNG

8. The crisis has had a significant impact on PNG as follows:-

a. The crisis has cost the Government, in terms of expenditure and lost revenue from the mine, approximately US$1 billion. (The Panguna mine employed 4000 people and provided 17% of the country's revenue). The last attempt to defeat the BRA - Operation High Speed II - cost K 10 million, and had limited success.

b. In addition to the financial cost, there has been considerable human cost

in
terms of military and civilian lives lost.

c. The morale of the armed forces has been affected by their seeming
inability to
defeat a small, poorly armed, revolutionary army. This inability to resolve
the conflict has also had a significant impact on the standing of the
Government of PNG, both nationally and internationally. It would be a

very significant victory for whichever government was able to resolve this
crisis.

d. The view of the international community. The international standing of
the
Independent State of PNG has been significantly affected by the continuing
crisis. This is exacerbated by newspaper articles such as the selection at
Annex D.

e. The seemingly insecure environment in PNG - a combination of
Bougainville
and law and order problems elsewhere - is discouraging a significant
amount
of foreign investment, that would otherwise be flowing into the country
creating jobs, prosperity and additional revenue for the Government.

GOVERNMENT POLICY

19. The current stated government policy towards Bougainville is
encapsulated in
the "three R's" - Reconstitution, Rehabilitation and Restructuring.

10. This is a political statement which does not seem to take into account
the
implementation of this policy from a position of military strength. Nor does

This policy translate well into a military mission statement.

11. Examples of successful military counter insurgency operations have two key ingredients:-

a. A joint civil/military policy which is totally integrated from top to bottom.

b. The implementation of this policy from a position of military strength.

12. The key ingredient in the Bougainville problem that is missing at present is a seamless statement of Government policy both civil and military that runs from the strategic to the tactical and is encapsulated in a military directive to the Bougainville force commander, in which he is told to create the conditions by way of a military operation, whereby the Government can defeat the rebels in order to implement the policy of Reconstitution, Rehabilitation and Restructuring.

13. Allied to this, is a fundamental weakness of the structure of the chain of command. There is no overall Bougainville military commander, nor does

there appear to be an overall theatre intelligence coordinator at the operational level of command.

14. A suggested Joint Civil military structure for the Bougainville theatre is' at Annex C. It should be stressed that this structure should have been implemented at the beginning of the insurgency. It is not too late to introduce it, but in the short time frame envisaged for the resolution of the problem, it will perhaps have more relevance for post campaign

redevelopment and security than the actual defeat of the BRA.

REGIONAL ATTITUDES

15. PNG is potentially one of the world's richest countries per capita. If its mineral wealth (oil, gold, copper, timber, etc.) is fully realised it could give the country the economic power to threaten Australia and dwarf all other economies in the region. If this wealth was combined with a well trained, effective and combat experienced military, then the country could become a very significant regional power.

16. It is possible, therefore that there is a deliberate policy on the part of Australia and New Zealand to prolong the Bougainville problem, either by omission or commission. Examples to support this are:-

a. Lack of direct Australian military assistance in Bougainville.

b . Caveat of financial/hardware support not to be used in Bouganville - e.g. helicopters.

c. Lack of political impetus to assist Government of PNG with resolving the issue, except through negotiations/peaceful means, which is not practical at this stage.

d. Prolonging the campaign drains the PNG economy, therefore slowing down economic development.

e. Allowing the BRA to have representative offices in Sydney.

f. Numbers of pro BRA/anti PNG articles in the Australian/New Zealand press.

g. Little pressure on the Solomon Islands to stop active support for the BRA.

h. It is also interesting to note that the UK has not taken a particular role in trying to bring about the resolution of this conflict particularly as all

"players" are commonwealth countries, ie. PNG, Solomon Islands, Australia, New Zealand.

PUBLIC RELATIONS/INTERNAL/EXTERNAL

17. In all military operations, but in counter insurgency particularly, public relations (PR) is a critical element of Government policy.

18. It is felt that the Government of PNG is not winning the PR battle with regard to Bougainville. This is evidenced by the number of "anti" press articles that appear without any effective or pro-active counter from Government sources. (see Annex D for examples).

19. A recent example concern the alleged mortaring of a church in Bougainville. This story was reported in local papers, Australian and NZ papers, and in European/American papers, including "The Times" of London. These sort of articles concerning an emotive/controversial issue are potentially very damaging to the Government's image at home/abroad, in view of the fact that Government statements were reactive rather than pro-active. A better way of handling this would have been to:-

a. Issue a pre-emptive statement to say that an incident had taken place involving certain casualties.

b. Follow it with regular updates stating the government/ military position which should have been either:

1) The target was legitimate in that the building was being used by enemy forces - or that local forces were indiscriminately using the church/civilians/children as a shield for military purposes.

2) If the incident took place and was a mistake, then a statement to the effect that Government forces believed they were engaging a legitimate target, but made a mistake - these sort of things happen in war etc. or it was a genuine accident.

20. What should definitely not happen is that when articles appear - instigated by the enemy - there are only short unexplained denials from the defence forces - it looks very bad.

TIMEFRAME

21. The Bouganville crisis has been going on for 8 years, and is about to enter the ninth. The cost in human and financial terms is massive, as is the impact on

the standing of the country and successive governments, and the effect on foreign investment.

22. The kudos in political terms for whichever government resolves the crisis ie. defeats the BRA, reopens the Panguna mine and begins the longer term process of reconciliation in Bougainville, is immense. It is the stated intention of this government to resolve the crisis before the next general election. Therefore the time frame is critical. Key timings are as follows:-

a. Election: June 1997
b. Last Parliament: April 1997
c. Date by which problem to be resolved: 1 April 1997
d. Time frame for military option: Jan to April 1997

23. IT IS CRITICAL THAT THE WAR COUNCIL MAKE A DECISION AS TO THE MILITARY OPTION THEY WISH TO ADOPT BY NO LATER THAN 12 JANUARY 1997. TIUS ALSO MEANS A DECISION ON THE ALLOCATION OF FUNDS. IF THIS DECISION IS NOT MADE BY

THAT DATE THE OPTIONS FOR A MILITARY SOLUTION
DECREASE.

ENEMY/FRIENDLY FORCES

24. There are a number of key issues that relate to strengths and weaknesses of both enemy and friendly forces, that are critical to the speedy solution to this campaign. These will be addressed in detail in part two, but can be summarised as follows:-

a. Military psychological position on both sides.
b. Tactics and deployment.

c. Operational Framework.
d. Command structure.
e. External support
f. Electronic warfare

SUMMARY

25. Part I of this project report has dealt with the general situation. The key points from this can be summarised as follows:-

a. The impact of this crisis has had a significant negative political, economic and military impact on the country both domestically and internationally.
b. The cost both financial and human has been immense.
c. The policies of successive governments have not coordinated civil and military campaigns in Bougainville.
d. There may be a wider dimension to the conflict than has not been appreciated hitherto ie. not only external support from the Solomon Islands but possibly a prolonging of the conflict as a deliberate policy by Australia/NZ in Order to slow down PNG's economic potential.
e. There is an imperative on this government to resolve the crisis before the election in June. Therefore time is of the essence.
f. There are a number of key military issues that need addressing before the conflict can be brought to an end.
g. The Panguna mine is central to the resolution of this problem.

26. Part 2 of the report will address the military solution in detail.

APPENDIX E
LIST OF PERSONS WHO APPEARED BEFORE THE COMMISSION

1. Mr Timothy Spicer;
2. Brigadier General Singirok;
3. Mr Sao Gabi;
4. Mr Zacchary Gelu;
5. Mr James Forrester;
6. Mr Rupa Mulina;
7. Mr Christopher Burt;
8. Mr Koiari Tarata;
9. Mr James Loko;
10. Mr Isaac Lupari;
11. Mr David Sode;
12. Mr Vele Tam°,
13. Mr Nao Badu;
14. The Rt. Hon Sir Julius Chan GCMG, KBE, MP;
15. The Honourable Chris Haiveta;
16. The Honourable Mathias Ijape;
17. Mr James Melegepa;
18. Mr Noel Levi CBE;
19. Mr Peter Eka.

APPENDIX A
THE SANDLINE CONTRACT AGREEMENT FOR THE PROVISION OF MILITARY ASSISTANCE DATED THIS 31 DAY OF JANUARY 1997 BETWEEN THE INDEPENDENT STATE OF PAPUA NEW GUINEA AND SANDLINE INTERNATIONAL.

This Agreement is made this day 31 of January 1997 between the Independent State of Papua New Guinea (the state) of the one part and
Sandline International (sandline), whose UK representative office is 535
Kings Road, London SW10 OSZ, of the other part.
WHEREAS..

Sandline is a company specialising in rendering military and security services of an operational, training and support nature, particularly in situations of internal conflict and only for and on behalf of recognised governments, in accord with international doctrines and in conformance with the Geneva Convention.

The State, engulfed in a state of conflict with the illegal and unrecognised Bougainville Revolutionary Army (BRA), requires such external military expertise to support its Armed Forces in the protection of its Sovereign territory and regain control over important national assets, specifically the Panguna mine. In particular, Sandline is contracted to provide personnel and related services and equipment to:

- Train the State's Special Forces Unit (SFU) in tactical skills specific to this objective;
- Gather intelligence to support effective deployment and operations;
- Conduct offensive operations in Bougainville in conjunction with PNG defence forces to render the BRA militarily ineffective and repossess the Panguna mine; and
- Provide follow-up operational support, to be further specified and agreed between the parties and is subject to separate service provision levels and fee negotiations.

IT IS THEREFORE AGREED AS FOLLOWS:

The State hereby agrees to contract and utilise and employ the services of Sandline to provide all required and necessary services as are more particularly described hereafter.

1. Duration and Continuation.

The duration of this contract shall be effective from the date of receipt of the initial payment; (as defined in paragraph 5.2 below, for a maximum initial period of 3 calendar months, the initial contract period) or

achievement of the primary objective, being the rendering of the BRA militarily ineffective, whichever is the earlier. The State shall have the

option of reviewing this agreement either in part or in whole for further
periods as may be required.

11.2 Notice of renewal, termination or proposed variation of this agreement
is to be served on Sandline in writing by the State at least 45 days before
the expiry of the current period. Non-communication by the State shall be
regarded by Sandline as automatic renewal of the relevant parts of this
agreement for a further three month period on the same terms and this
precedent shall continue to apply thereafter.

2. Service Provision

2.1 Sandline shall provide the following manpower, equipment and services:

(a) A 16 man Command, Admin and Training Team (CATT) to deploy in PNG and establish home bases at Jackson Airport and the Jungle Training
Centre at Wewak within one week of commencement of this agreement, which is deemed to be the day on which the initial payment relating thereto
in accordance with paragraph 5.2 below is deposited free and clear in
Sandline's nominated bank account. The role of the CATT is to (i) establish
links with PNG defence forces, (ii) develop the requisite logistics and
communications infrastructure, (iii) secure and prepare facilities for the
arrival of the contracted equipment, including air assets, (iv) initiate
intelligence gathering operation, and (v) commences SFU training.

(b) Further Special Forces personnel which will deploy to PNG within ten
days of the arrival of the CATT, together with helicopter and fixed wing
aircrew and engineers, intelligence and equipment operatives, mission
operators, ground tech and medical support personnel. This force will
absorb the CATT as part of its numbers, therefore bringing the total Strike
Force head count to 70. This Strike Force shall be responsible for achieving
the primary objective as specified in paragraph 1.1 of this agreement and
the full complement will remain in country for the initial contract

period as
defined in the said paragraph.

Note: At no time will Sandline personnel enter the sovereign territory of
another nation nor will they breach the laws and rules of engagement relating to armed conflict. Once the operation has been successfully concluded, Sandline personnel will be available to assist with the ongoing
training, skills enhancement and equipping of the PNG defence forces.

(c) Weapons, ammunition and equipment, including helicopters and aircraft,
(serviceable for up to 50 hours flying time per machine per month), and
electronic warfare equipment and communications systems, all as specified

or equivalent to the items listed in Schedule 1. Upon termination of a
contractual relationship between the State and Sandline and once all payments have been received and Sandline has withdrawn from theatre any
remaining stock of equipment shall be handed over and become the property of the State. Selected Sandline personnel will remain in country
to maintain and supplement such equipment subject to a separate agreement
relating thereto.
Note: Delivery into theatre of the contracted equipment shall be via air into
Jackson Airport or such other facility as may be considered appropriate. The
equipment will be delivered in full working order, in accordance with
manufacturers' specifications. After its delivery, any equipment lost,
damaged or destroyed during Sandline's deployment shall be immediately
replaced at the cost of the State.

(d) Personal kit, including US pattern jungle fatigues, boots and webbing,
for Sandline personnel.

(e) All international transport arrangements for the shipment in/out of
equipment and deployment in country of Sandline personnel but not for the
movement of such equipment and personnel within the country if this needs
to be achieved by way of commercial service providers.

(f) The provision of medical personnel to treat any Sandline casualties and their evacuation if necessary.

(g) A Project Coordinator, who, together with the Strike Force Commander and his Senior Intelligence Officer, shall maintain liaison with and provide strategic and operational briefings and advice to the Prime Minister, Defence Minister, NEC, NSC, the commander of the PNG defence forces and his delegated officers as may from time-to-time be required or requested.

2.2 Sandline shall ensure the enrolment of all personnel involved in this contract as Special Constables and that they carry appropriate ID cards in order to legally undertake their assigned roles.

3. Responsibilities of Sandline

3.1 Sandline will train the SFU in tactical skills specific to the objective, such as live fire contact, ambush techniques and raiding drills, gather intelligence to support effective deployment and plan, direct, participate in and conduct such ground, air and sea operations which are required to achieve the primary objective.

3.2 Both parties hereto recognise and agree that the force capability to respond to all emergency and hostile situations will be constrained by the manpower and equipment level provided within the terms of this agreement. The achievement of the primary objective cannot be deemed to be a performance measure for the sake of this agreement if it can be demonstrated that for valid reasons it cannot be achieved within the given timescales and with the level of contracted resources provided.

3.3 Sandline shall supply all the personnel and maintain all services and equipment as specified in paragraph 2.1 above to the appropriate

standards
of proficiency and operational levels as is generally expected from a high
calibre, professional armed force.

3.4 Sandline shall further provide a project coordinator to act as the liaison
officer between the company's management and the nominated
representatives of the State. This individual will convene and attend regular
meetings at such venues as he may be so directed.

3.5 Sandline shall be responsible for any expense resulting from the loss or
injury of any of its personnel for the duration of the agreement unless same
is caused by the negligence of the State, its personnel or agents in which
case all such costs will be fairly claimed against the State by Sandline and
promptly paid for the benefit of the persons involved.

3.6 Sandline will ensure that the contents of this agreement shall remain
strictly confidential and will not be disclosed to any third party. Sandline
will not acknowledge the existence of this contract prior to the State issuing
notifications in accordance with paragraph 4.11 below and will not take
credit for any successful action unless this is mutually agreed by the
parties. Furthermore, Sandline and its personnel are well versed in the
requirement to maintain absolute secrecy with regard to all aspects of its
activities in order to guard against compromising operations and will apply
the necessary safeguards.

4. Responsibilities of the State

4.1 Immediately on signing this agreement the State automatically grants to
Sandline and its personnel all approvals, permissions, authorisations,
licences and permits to carry arms, conduct its operations and meet its
contractual obligations without hindrance, including issuing instructions to

PNG defence forces personnel to cooperate fully with Sandline commanders and their nominated representatives. All officers and personnel of Sandline assigned to this contract shall be enrolled as Special Constable, but hold military ranks commensurate with-those they hold within the Sandline command structure and shall be entitled to give orders to junior ranks as may be necessary for the execution of their duties and

responsibilities.

4.2 The State will ensure that full cooperation is provided from within its organisation and that of the PNG defence forces. The Commanders of the PNG defence forces and Sandline shall form a joint liaison and planning team for the duration of this agreement. The operational deployment of Sandline personnel and equipment is to be jointly determined by the Commander, PNG defence forces and Sandline's Commander, taking account of their assessment of the risk and value thereof.

4.3 The State recognises that Sandline's Commanders will have such powers as are required to efficiently and effectively undertake their given roles, including but not limited to the powers to engage and fight hostile forces, repel attacks therefore, arrest any prisoners suspected of undertaking or conspiring to undertake a harmful act, secure Sovereign assets and territory, defend the general population from any threat, and proactively protect their own and State Forces from any form of aggression or threat.

The State agrees to indemnify Sandline for the legitimate actions of the company's and its associated personnel as specified herein and to assume any claims brought against the company arising out of this agreement.

4.4 The State shall pay or shall cause to be paid the fees and expenses relating to this agreement as set out in paragraph 5.1 below. Such fees and expenses to be paid as further specified in paragraph 5.2, without deduction

of any taxes, charges or fees, and eligible to be freely exported from PNG.
All payments to be made in US dollars.

4.5 The State shall cause all importation of equipment and the provision of services to be free to Sandline (and any of its sister or associated companies as notified to the authorities) of any local, regional or national taxes, withholding taxes, duties fees, surcharges, storage charges and clearance expenses howsoever levied and shall allow such equipment to be processed through Customs without delay. Further, all Sandline personnel will be furnished with the necessary multiple entry visas without passport camps and authorisations to enter and leave the country free from hindrance at any time and shall be exempt from tax of any form on their remuneration from Sandline.

4.6 The State will promptly supply at no cost to Sandline and its sister and associated companies all End User Certificates and related documentation to facilitate the legitimate procurement and export of the specified equipment from countries of origin.

4.7 The State will provide suitable accommodation for all Sandline personnel together with all related amenities, support staff to undertake

roles such as messengers and household duties, secure hangerage and storage facilities for equipment, qualified tradesmen and workmen to clear and prepare operating sites, all aviation and ground equipment fuel and lubricant needs, such vehicles and personnel carriers as reasonably specified for the field and for staff use, foodstuffs and combat rations, fresh drinking water, and sanitary and other relevant services and ancillary equipment as Sandline may specify from time-to-time to

undertake its activities without hindrance.

4.8 If any service, resource or equipment to be supplied by the State in accordance with paragraph 4.7 above is not forthcoming then Sandline will have the right to submit an additional invoice for the procurement and supply thereof and may curtail or reduce operations affected by its non-availability until payment has been made and the said equipment is in position.

4.9 The State agrees and undertakes that during the period of this agreement and for a period of 12 months following the date of its expiration, it will not directly or indirectly offer employment to or employ any of the personnel provided hereunder or otherwise in the employ of Sandline and its associates.Any such employment will be construed as a continuation of the contract for the employees concerned and Sandline shall be entitled to be paid accordingly on a pro-rata basis.

4.10 The State and the PNG defence forces will ensure that information relating to planned operations, deployments and associated activities is restricted to only those personnel who have an essential need to be briefed in. Appropriate steps will be taken to prevent press reporting, both nationally and internationally, or any form of security breach or passage of information which may potentially threaten operational effectiveness and/or risk the lives of the persons involved. Sandline's commanders have the right to curtail any or all planned operations which they determine are compromised as a result of a failure in security.

4.11 If deemed necessary due to external interest, the State shall be responsible for notifying and updating the international Community, including the United Nations and representatives of other governments, at

the appropriate time of the nature of this contract and the underlying intent
to protect and keep safe from harm Papua New Guinea's Sovereign
territory, its population, mineral assets and investing community. The
content and timing of all such formal communications will be discussed
and agreed with Sandline before release.

5. Fees and Payments

5.1 Sandline's inclusive fee for the provision of the personnel and services
as specified in paragraph 2.1 above and also in Schedule 1 attached for the

initial contract period is USD36,000,000 (thirty-six million US Dollars).

5.2 Payments terms are as follows: All payments to be by way of cash
funds, either in the form of electronic bank transfers or certified banker's
cheques;

On contract signing 50% of the overall fee, totalling USD18,000,000 is
immediately due and is deemed the "initial payment".

Within 30 days of deploying the CATT, the balance of USD18,000,000.

5.3 This contract is deemed to be enacted once the initial payment is
received in full with value into such bank account as Sandline may
nominate therefore. Payments are recognised as being received when they
are credited as cleared funds in our account and payment receipt relies on
this definition.

5.4 All fees for services rendered shall be paid in advance of the period to
which they relate. Sandline reserves the right to withdraw from theatre in
the event of non-payment of fees for any renewal of the original contract

period.

15.5 The financial impact of variations, additions or changes to the personnel provision and equipment supply specified herein will be agreed between the parties and any incremental payment will be made to Sandline before such change is deemed to take effect. There is no facility for rebate or refund in the event of a required reduction or early termination of service' delivery within a given contracted period.

6. Applicable Law

6.1 In the event of any dispute of difference arising out of or in relation to this agreement the parties shall in the first instance make an effort to resolve it amicably, taking account of the sensitive nature of this arrangement.

6.2 The aggrieved party shall notify the other by sending a notice of dispute in writing and, where amicable settlement is not possible within 30 day thereafter, refer the matter to arbitration in conformity with the UNCITRAL rules applying hereto.

6.3 This agreement shall be construed and governed in accordance with the Law of England and the language of communication between the parties shall be English.

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Amendments and Supplements.

7.1 This agreement may only be altered, modified or amended by the parties hereto provided that such alteration, modification or amendment is in writing and signed by both parties.

7.2 Schedule 1 ("Oyster" Costings) forms part of this agreement.

IN WITNESS, WHEREOF the parties hereto have set their hands on the day and year first written above.

(For the Independent State of Papua New Guinea: Chris Haiveta, M.P.)
(Witness: Vele Iamo, Acting Deputy Secretary)

(For Sandline International: Tim Spicer, O.B.E.)
(Witness: J.N. Van Den Bergh, Consultant)

Schedule 1 Oyster Costing

Serial Item Quantity Cost Totals

Helicopter/EW package
1.1 Mi-24 helicopter 2 8.200
1.2 Mi-17 helicopter 2 3,000
1.3 Mi-24 ordnance below 2,500
1.4 Mi-17 ordnance n/a 400
1.5 Night vision equipment 18 610
1.6 Mi-24 aircrew 6 680
1 7 Mi-17 aircrew 6 860
1.8 Surveillance platform (SP) 1 2,400
1.9 On-board systems 1 4,850
1.10 SP aircrew 4 280
1.11 Ground System 1 600
1.12 Mission Operators 5 480
1.13 Ground Staff 6 270
1.14 Air recce aircraft 1 inc
1.15 EW trainers inc 120
1.16 SP trainers inc 120
1.17 Project co-ordinator I inc
1.18 Personnel eqipment 30 250
1.19 Personnel movement pack 250
1.20 Insurances for personnel inc inc
1.21 Logistics support client client
1.22 Asset positioning 4 1,200
1.23 Spares - helicopters pack 1,500
1.24 Spares - SP pack 600 29,170

Special Forces Team
2.1 Manpower (40 plus doctors) 42 4,500
2.2 Equipment below 2,500
2.3 Positioning pack 100 7,100

Communications Equipment
3.1 HF radio system 1 + 15 400

3.2 Hardened tactical radio system I + 16 500

06/10/97

3.3 Satellite comms units 15 200 1,100

Contract Totals 37,370

Package price reduction -1,370

Contract Fee to Client 36,000

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SECRET PROJECT "CONTRAVENE" A MILITARY SUPPORT PACKAGE FOR THE GOVERNMENT OF PAPUA NEW GUINEA

1 Introduction

1.1 We have been asked to make a proposal for Military Assistance by the Government of Papua New Guinea (PNG) based on requirements discussed with the Defence Council.

1.2 The proposal covers two specific areas: Electronic warfare (EW) and Helicopter support.

2 Concept

2.1 There is a military requirement to carry out a specific counter insurgency operation within a short time frame. This operation is highly sensitive, and needs to be carried out with a precision that will completely disable the enemy command structure with the minimum collateral damage in order to make it acceptable to the Government and people of PNG and to world opinion.

2.2 To achieve this, the military imperative is the ability to gather

high-grade, specific intelligence about the location, capacity and intentions of the enemy force, particularly their C3I assets, and match that intelligence with a strike capability, the key ingredients of which are:

a) firepower
b) mobility
c) precision
d) speed
e) surprise.

2.3 The combination of a strategic EW capability and a helicopter force comprising both attack and support helicopters can generate a massive increase in Combat Power out of all proportion to the cost, and gives the Commander the capacity to carry out his operation in a timely, effective and politically acceptable way.

2.4 In addition, the assets concerned can be used for other strategic operations and greatly enhance the capacity of the Armed Forces of PNG.

3 Surveillance Package

3.1 The proposed package provides a discreet, state of the art capability, consisting of the following elements:

a) Platform: The systems can be air (fixed/rotary) ground or sea mounted. In this case we recommend that it be mounted in a fixed wing air platform, given the nature of the terrain and overall strategic requirements of the Government.

b) EW Package: This consists of the sensors and processors that gather pinpoint intelligence. It has VHF, HF, UHF, intercept, DF, voice and statistical analysis capabilities as well as the ability to track

beacons/transmitters.

c) Night Vision Equipment: The crew will use late generation night vision goggles and the aircraft cockpit will be modified for their effective use.

d) Ground Intelligence Handling: This consists of computer system to process store and retrieve the operational intelligence gathered and an imagery interpretation and enhancement package.

e) Aircrew: We would provide a crew for continuous operations. The crew is highly experienced and are capable of flying at night using NVGs – this, together with the civilian type of aircraft enhances surprise and security.

f) Mission Operators: Personnel required to run the on board systems.

g) Ground Staff: Personnel to operate the ground intelligence processing systems and the technicians to support the aircraft and on board systems.

h) Trainers: Implicit in this proposal is the requirement to train PNG personnel to take over and operate this package in due course. This would require dedicated personnel.

4 Strike Package

4.1 To operate in conjunction with the surveillance package, there is a requirement to procure and operate an effective strike force. This will consist of:

a) Two of Mi-24 attack helicopters.

b) Two of Mi-17 support helicopters for logistics, troop movement, and air

assault. The Mi-17 can also be fitted with a limited range of weaponry.

c) The crew will use late generation night vision goggles; the helicopter cockpits will be modified for their effective use.

d) Aircrew - combat experience pilots with night operating capabilities.

e) Support staff for ground support.

f) Trainers - again if there is a training requirement for PNG personnel, this will require dedicated personnel. This is an additional option that can be discussed.

4.2 Logistic support - fuel, accommodation, food and medical support for all personnel provided by PNG.

5 Command and Control

5.1 We would procure and operate this package on behalf of the Government of PNG. The assets would become the property of the Government and the personnel would be tasked under the full command of Commander of PNG forces.

5.2 In addition we would provide a project coordinator to work directly for the Commander and act as supervisor for our personnel, adviser on the use of equipment and liaison officer between the Defence Council and our senior management.

6 Security

6.1 It is understood that security is vital to the project. Other than mission operators and the project coordinator, only four key personnel within our organisation will be aware of the details of the project.

7 Timing and Costs

7.1 The objective is for the full package and all personnel to be in theatre by 15 May 1996, but this will be dependent on the date we receive

your
order confirmation as we require four clear weeks from receipt of your
instruction to proceed and payment of the initial sum. Note: the
surveillance aircraft might be able to deploy in less than four weeks.

7.2 We will notify you of firm delivery dates as they become known to us.
We cannot be responsible for delays caused by matters outside our control,
for example, the issue to us by PNG of EUCs for the equipment,
administrative and approval procedures in the source countries, or the

chartering of heavy lift aiicraft to position the assets.

7.3 The total cost of the proposal is US$32.7m, however we are prepared to
quote a fixed price of US$30m, including the provision of all personnel,
management support and appropriate training resource for up to one year.
A detailed breakdown of equipment, personnel and costs is provided in
section 9 below.

7.4 The above cost is payable by electronic funds transfer to our bank in
the following stages: (a) on confirmation of order 50%, and (b) on delivery
of the assets to theatre 50%. Upon receipt of your decision to proceed we
will immediately provide our banking information to you.

8 Summary

8.1 We will provide the Government of PNG a surveillance and strike
package to enable the Commander to carry out precise effective operations
with very little collateral damage, thus satisfying the political imperative.
In addition, the package has many other national uses, not limited to the
scope of the initial operation, eg national intelligence gathering, marine
surveillance, fisheries protection.

8.2 We will operate the package for a minimum contract period of

one
year. In addition, we will train PNG personnel to take over the operation of
the equipment.

8.3 The equipment becomes the property of the PNG government and the
personnel are under full command of the Commander for the contract
period. We will appoint a project coordinator.

8.4 Subject to matters outside our control, we can be in operational position,
within four weeks of receipt of order confirmation.

8.5 The sensitivity and security of this project is accepted and understood.
9 Detailed Analysis of Costs
Serial Item Remarks Cost $000
1 Mi-24 (two) Equipped for night ops w/basic weapon load gun/ rockets
8,200
2 Mi-17 (two) Equipped for support operations, inc night ops. Winch fitted
if required 3,000
3 Ordnance for Mi-24 Based on 25 sorties per aircraft 1,500
4 Ordnance for Mi-17 As above - recommended 400
5 Night vision equip't 18 sets NVG goggles & necessary cockpit
modifications 610
6 Mi-24 aircrew 12 crew (inc rotation and dislocation). Includes gunners
1,720
7 Mi-17 aircrew 15 crew (inc rotation and dislocation). Includes gunners

2,170
8 Surveillance Platform Jet aircraft; pressurised environment 2,400
9 On-board System Full computerised EW suite 4,850
10 Aircrew 6 SP flight crew (inc rotation & dislocation) 720
11 Ground System Computerised download and data analysis 600
12 Mission Operators 10 personnel (est) for on-board SP and for ground
data analysis system (inc rotation) 1,200
13 Ground staff For both elements of package, including engineers and
armourers 680
14 Trainers for EW Two senior trainers 300
15 Trainers for SP As above 300

16 Project Co-Ordinator Senior manager included
17 Personnel equipment Personal kit, weapons, survival and SAR (sea and
jungle) equipment) 250
18 Personnel rotation International travel requirements 500
19 Insurances Personnel only (assets at client risk and replacement) included
20 Logistics support Fuel, offices, accommodation, vehicles, food, services
(eg tels, local travel) supplied by client
21 Asset positioning Heavy lift for helicopters and ordnance; ferry flight
for surveillance platform 1,200
22 Spares - helicopters Estimate based on experience (inc engines and
rotors). Additional spares client risk 1,500
23 Spares - surveillance platform and kit As above 600

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APPENDIX C
TERMS OF REFERENCE FOR CONSULTANCY AGREEMENT
BETWEEN THE INDEPENDENT STATE OF PAPUA NEW GUINEA
AND SANDLINE INTERNATIONAL

BACKGROUND

1. THE GOVERNMENT OF PAPUA NEW GUINEA IS DESIROUS OF A COMPETENT CONSULTANCY SERVICE TO ANALYSE AND PROVIDE ADVICE REGARDING CURRENT DEFENCE REQUIREMENTS.

AIM

2. THE AIM OF THIS DOCUMENT IS TO DEFINE THE TERMS OF REFERENCE FOR A CONSULTANCY AGREEMENT BETWEEN SANDLINE INTERNATIONAL (SANDLINE) & THE GOVERNMENT OF PAPUA NEW GUINEA (PNG).

SCOPE

3. SANDLINE WILL UNDERTAKE A CONSULTANCY FOR THE PNG MINISTRY OF DEFENCE, FOR A PERIOD OF ONE (1) CALENDAR MONTH COMMENCING FRIDAY 6 DECEMBER 1996, AND FINISHING ON 6 JANUARY 1997.

PURPOSE

4. THE PURPOSE OF THE CONSULTANCY IS TO EXAMINE ALL THE OPTIONS FOR THE RESOLUTION OF THE CURRENT DEFENCE PROBLEM, WRITE A PAPER DETAILING THE OPTIONS AND MAKE A PRESENTATION TO THE GOVERNMENT DURING THE WEEK BEGINNING 6 JANUARY 1997.

5. EACH OPTION WILL BE EXAMINED IN DETAIL, COVERING:

A. PNG CAPABILITY/CAPABILITY GAP.
B. POLITICAL IMPACT.
C. PR IMPLICATIONS.
D. EQUIPMENT/TECHNICAL REQUIREMENTS
E. TIMINGS.
F. COSTS.
G. ADVANTAGES/DISADVANTAGES.
H. OUTLINE PLAN.

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CONFIDENTIALITY
6. IN ORDER TO COMPLETE THE STUDY PROPERLY AND PROVIDE THE GOVERNMENT WITH REALISTIC OPTIONS, SANDLINE WILL NEED ACCESS TO ALL NECESSARY INFORMATION, INCLUDING INTELLIGENCE DATA, AIR PHOTOGRAPHY, AND MAPPING.

7. AS A RESULT OF THIS, SANDLINE UNDERTAKES TO MAINTAIN THE SECRECY AND CONFIDENTIALITY OF:

. THE PROJECT ITSELF.
. ANY INFORMATION RECEIVED FROM THE GOVERNMENT OF PNG.
. ANY CAPABILITFES/FUTURE PLANS OF THE DEFENCE FORCES OF PNG.

8. KNOWLEDGE OF THIS PROJECT WILL BE RESTRICTED ON BOTH SIDES AS FOLLOWS:

A. PNG: PRIME MINISTER, DEPUTY PRIME MINISTER, DEFENCE MINISTER, SECRETARY FOR DEFENCE, COMMANDER, CHIEF OF STAFF AND CHIEF OF OPERATIONS.
B. SANDLINE: CHIEF EXECUTIVE (TONY BUCKINGHAM), OPERATIONS DIRECTOR (TIM SPICER), FINANCIAL DIRECTOR (MICHAEL GRUNBERG).

MECHANICS

9. SANDLINES OPERATIONS DIRECTOR WILL REMAIN IN PNG 'UNTIL DISCUSSION AND GROUND RECCES ARE COMPLETE. HE

WILL THEN RETURN TO UK TO COMPLETE THE WRITTEN PAPER. HE WILL RETURN TO PNG ON THE 6 JANUARY 1997, IN ORDER TO DISCUSS THE PAPER WITH PNG OFFICIALS (AS PER PARA 8). THEREAFTER THE OPTIONS WILL BE PRESENTED TO THE NATIONAL SECURITY COUNCIL FOR CONSIDERATION.

FEES

10. THE FEES FOR THIS CONSULTANCY ARE: US$250,000 PAYABLE AS FOLLOWS:

A. US$150,000 ON TUESDAY 10 DECEMBER 1996.
B. US$100,000 ON MONDAY 6 JANUARY 1997.

11. THE FEES ARE TO BE PAID BY BANKERS DRAFT, OR ELECTRONIC TRANSFER TO: SANDLINE HOLDINGS LIMITED ACCOUNT NUMBER 600774426 HONG KONG SHANGHAI BANK, I QUEENS ROAD, CENTRAL, HONG KONG.

SIGNED ON BEHALF
OF THE INDEPENDENT STATE OF PNG

JAMES M MELEGEPA
SECRETARY FOR DEFENCE

SIGNED ON BEHALF OF
SANDLINE INTERNATIONAL

TS SPICER OBE
OPERATIONS DIRECTOR

DATED THE 9TH OF DECEMBER 1996

APPENDIX D
PROJECT CONTRAVENE Part 1

Reference A: Meetings with Minister of Defence/Commander/Secretary Cairns/London April 1996

Reference B: Proposal dated 20th April 1996

Reference C: Meeting with Deputy Prime Minister in London October 1996

Reference D: Consultancy agreement dated 9th December 1996

Reference E: Lieutenant Colonel (Ret'd) T.S. Spicer OBE visit to PNG 2-13 December 1996

INTRODUCTION

1 . Project Contravene is the report commissioned by the Government of the Independent State of Papua New Guinea (PNG) to examine the military options for the resolution of the Bougainville problem.
1

2. The Government commissioned Sandline to prepare this report under the terms of Reference C, and after considerable discussions in the period April-December 1996 (Ref. A/B/C). Sandline International provide a discreet military consultancy service to governments. A company profile is at Annex A.

3. This report was compiled by Lieutenant Colonel (Ret'd) T.S. Spicer OBE, after his visit to PNG at the request of the Government During this visit the following were consulted:

a. Deputy Prime Minister - The Hon. Chris Haiveta MT
b. Defence Minister - The Hon. Mathias Ijape MP
c. Commander PNG Defence Forces - Brigadier General Jerry Singirok MBE
d. Secretary for Defence - Mr. James Melegepa
e. Officer Commanding SFU - Major Gilbert Toropo
f. Intelligence Officer SFU - Lieutenant Siale Diro.

In addition to discussions, a two day reconnaissance to the

operational
theatre in
Bougainville took place. A summary of Tim Spicer's CV is at Annex B.

the enemy and allow friendly forces to gain the upper hand.
c. Surprise.
d . Speed.
e. Mobility - this implies a helicopter force.
f. Firepower.
g. Security - this implies using SFU / and or external specialists.

3. Tasks
The tasks that the military commander has to undertake in order to bring
about the defeat of the BRA are:-

a. Confirm locations of: Francis Ona, Morris Tisaripi, Sam Karona, Ismael
Toroama, Radio Free Bougainville transmitter, Enemy landing/resupply sites on coast.
b. Attack and destroy locations above - kill or capture key commanders
(preferable capture at least one to put on trial).
c. Isolate BRA from Solomon islands support
d. Develop "hearts and minds" campaign simultaneously with military action - maximum use of resistance fighters.
e. Concentrate friendly forces for offensive operations - do not use in
defensive role.
f. Train up and deploy SFU as part of coordinated military civil and psy
ops, op plan.
g. Retake and hold Panguna mine - this is the key element to the problem
the cause of it, the symbol of it and probably the end of the conflict.

4. Changes in the Tactical Situation
Currently there are none. Since the failure of OP HIGH SPEED 11 the campaign has stagnated. A very significant change in the situation could be
brought about as follows:-

a. Change of command structure and employment of friendly-forces.
b. Deployment of SFU (once brought up to Special Force standards).
c. Deployment of technological assets to generate an increase of combat

power - of which the air situation is key.
d. Employ EW assets.

FACTORS

5. Enemy Forces

a. The enemy are concentrated in four areas:-
* In an area north of Manetai Mission - this is thought not to be particularly
significant to winning the campaign but will have to be addressed in subsequent
operations. It will not be considered any further in this paper.

* Enclave on the west coast known as the Kongara area, Unabato, Roremang,
Korourira Mission. This area contains the largest concentration of enemy. It
is significant because the key military commanders are within the area, and
also this area is used for sea communications with the Solomon Islands.

* The Panguna Mine area. This is key - it is the location of Francis Ona,
close
to it is the Radio Free Bougainville transmitter. It is also vital ground as it
is the psychological centre of gravity of the campaign as well as the main
physical asset

* The Buin area - south coast. Isolated pockets of enemy - significant
because
of the close proximity of the Solomon Islands.

b . The enemy organisation is well known to Friendly Forces and is based
on
regional and village factions. The quality of training, experience, weapons
and equipment vary. Key points are:-

Enemy strengths. In total, up to 1000 but the hard core fighters probably
number 200 - 300.

They are difficult to distinguish - from local population - no uniforms and
do
not always carry weapons.

Armed with a mix of small arms. No significant heavy weapons or air defence
weapons.

c. Enemy logistic support is either internal ie: from villages/local population and
self sufficiency or from the Solomon Islands. The Solomon Islands provide
medical supplies, weapons and ammunition and are the conduit to the outside world.

4. Local population – mixed feelings about the BRA. Some are strong supporters
due to the cult status of Francis Ona, others are fed up with the war and are
looking for a return to normality. There is potential to work on the

waiverers. The Resistance fighters should be made use of in this respect.

e. Strengths / Weaknesses. The enemy strengths are as follows:-
Difficult to pin down and identify.
Difficult to distinguish from local "innocent population.
Internal lines of communication.
External support close at hand.
Tying down friendly forces in static locations.
Good intelligence system.

Their weaknesses are:
Easily fragmented and destroyed.
Destruction of commanders would seriously affect ability to fight.
Technological inferior.
Air power would render them virtually incapable of operating.

6. GROUND
The ground is extremely arduous for military operations. Thick, mountainous jungle, few roads, but numerous tracks which the enemy is
able to ambush at will. Isolated villages are vulnerable to attach. Enemy
command centres tend to be in impenetrable places.

Vital ground is the Panguna mine. It is Francis Om's base, the centre of
gravity of the campaign and the key economic asset for the island (and
possibly the whole country). The mine covers a vast area, and is therefore
difficult to dominate (although it would be perfectly possible to

seize and
hold it. It is equally difficult for the enemy to hold it against an effective
military assault. Access to the mine is via a paved road approximately
20-25 kms long. Ibis road is vulnerable to blocking/ambush.

The nature of the terrain (including the mine) make mobility and stealth
key factors. In the development of military options a combination of
covert, stealthy patrolling (ie. Special Forces operations) preferably at night
combined with rapid movement of forces will be critical. Helicopters, both
troop lift and attack will be vital.

7. WEATHER

Weather is an all important factor in the campaign because:-

Impact of heat / humidity on duration of ops.
Cloud cover impact on air operations. Cloud cover usually in place from
late morning until night. Therefore night flying on NVG is very important.

However night/early morning operations suit Special Forces operations.

8 . FRIENDLY FORCES

a. Currently friendly forces consist of are reinforced infantry Battalion,
Engineers, Police units local indigenous forces - the Resistance Fighters
and a small boat unit.
b . The infantry battalion is deployed in such a way that it is split up
amongst a number of locations in primarily a security (or defensive role).
This does not able the CO to concentrate his force to mount Battalion level
offensive operations.
c. The small boat units task is to support the Battalion and to interdict the
sea routes to the Solomon islands. None of the small boats seen were armed
or equipped for this. This must be changed in order to maximise effect.
d . The police units were not visited and the author is unable to comment.
e. Engineers are involved with supporting the Battalion and on civil

support projects.
f. There is only one helicopter available - a leased unarmed civilian MI -
17. The aircraft has a civilian crew (security vulnerability) and is constantly
employed on logistic support for the Battalion. It is not available for
offensive operations.
g. There is no fixed wing air support.
h . There is no theatre command structure acting as a campaign command
and coordination headquarters or acting as an interface between the tactical
level and the strategic. The commanding officer has to deal direct with
Defence Headquarters.
i. There are a number of additional friendly forces capability groups:-
Secure communications between Bougainville + Port Moresby.
Night vision.
Electronic warfare.

j. The SFU are not used in the campaign. They should be, but are not yet
ready for extended SF operations - see Annex E.
k. The armed vehicles deployed have very limited use.
l. The base at Loloho needs to be developed and made secure.

9 . SECURITY

In this operation security will be paramount. Friendly force intention
must be kept secret from:-
The enemy.
The local population.
External governments (This includes Australian advisors).
The media.

b. Therefore operational preparation must have a thorough deception plan,
to include the following elements:-

Upgrading and mission preparation of SFO - off island.
Preparation of infantry Battalion under guise of normal activity.
Purchase and arrival of additional air assets under strict conditions of
secrecy.
Basing of air assets off island until ops commence or effective cover story
for their deployment.
Strict need to know procedure enforced. Cover story prepared including
public statement if leaks occur.

c. It is perfectly possible to effect a military solution within the time frame
and with total security, by not changing the pattern of activity on Bougainville but this would involve using a combination of external forces
+ SFU together with high tech air and EW assets.

10. LOGISTICS / COST

a. If the government wishes to resolve this crisis within the stated time frame,
it must be prepared to provide the logistic support to national forces
and to provide them with additional capabilities.

b . The logistical bill will involve fuel, ammunition, rations and additional
weapons equipment and troops for the duration of the operation January –
end March 1997.

c . The government must be prepared to allocate funds for whichever option is chosen. In broad terms – it is estimated that this campaign could
be resolved ie. the neutralisation of the BRA and the recapture of the mine f
or approximately US$35 million. However, subsequent operations to hold
the mine to allow the operators to get it working, to mop-up the remains of
the BRA and to follow up with civil reconstruction would cost more. These
subsequent costs would be paid by the Panguna mine operators and other
foreign investors.

1. POLITICAL IMPLICATIONS

The government must consider the following:-

The situation regarding the security force hostages held by the BRA. This
point will not be discussed further in this paper but will be discussed as a
separate issue with the Defence Minister.
The necessity to make a quick decision and allocate funds.
The preparation of an effective internal and external PR apparatus.
Notification of friendly governments of success of campaign.
Future relations with the Solomon Islands.

Early discussion with Panguna mine owners and other foreign

investors.
An effective reconstruction/reconciliation civil package including negotiations with landowners, immediately following the military campaign.
Prepare a plan to deal with the environmental impact of reopening the
Panguna mine.
The regional position of strength that the government will be in because it
has effectively resolved the crisis and has increased its military capability
within the region in terms of quality, experience, structure and equipment
of its armed forces.

ASSESSMENT OF TASKS

12. Whichever option is adopted there are a number of key military tasks
which must be done, and require a certain number of troops to do them:-

13. These are as follows.

a. Conduct covert intelligence gathering operations: SFU - Squadron Strength of 80 men + 20 Admin support.
b . Conduct normal pattern of patrolling / defensive operations: 1 reinforced infantry battalion.
c. Guard friendly villages / provide scouts/trackers: Resistance force of up
to 600 men.
d . Interdict BRA maritime supply routes: small boat unit.
Transport mil forces: minimum two large troop lift helicopter.
Provide EW/ELIW: I fixed wing aircraft.
Provide police support/assist with village protection: Mobile police unit
up to 300 men?
Provide engineers support to military operations: 1 engineer squadron.
Provide fire support: 1 battery of light artillery or 2 attack helicopters.

OPTIONS

14. There are 4 options open to the Government of PNG.

15. OPTION 1

To maintain the military status quo and negotiate a political settlement with
the BRA leadership.

a. Advantages

• Minimise military spending on campaign.
• Good for some elements of public opinion.
• No external criticism - keeps Australia + other regional powers happy.

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b. Disadvantages

• Negotiating from a position of weakness.
• May have to give away sovereign territory.
• Loss of revenue - Panguna mine unlikely to reopen.
• Unpopular with some elements of public opinion.
• Unpopular with military - loss of morale etc.
• Loss of government prestige - known as the government who gave away
Bouganville.

c. PNG capability / capability gap:
Not really relevant to this option as things would not change militarily.

d . Political impact:
Negotiations would take some time - the government would have to face the
election and could lose before settlement concluded.

e. PR Impact:
Hard to gauge but on balance probably negative - no one likes what appears to be capitulation after an extended military campaign in which
hundreds of lives have been lost.

f. Cost:
Very little incremental cost in the short term except cost of continuing
current level of military activity during negotiation. Subsequently, there
will be the cost of any "deal" with the BRA, and the continued loss of
mining revenue.

16. OPTION 2

To continue to pursue a military solution (in order to allow a political
 settlement) by means of an overt military campaign but using a revitalised command structure:-

a. Advantages

Continues to pursue military option, if successful allows government to
impose a solution from a position of strength.
Improves military structure and effectiveness.
Additional costs kept to minimum.
No significant impact on Australia etc.

b. Disadvantages
Not possible in time frame before elections.

May not succeed at all due to PNG military capability caps. SFU not yet
fully trained as Special Forces
c. Increased capabilities required
Set up theatre command headquarters (the operational Level) to interface
between Command in Poin (strategic level) and the ground commanders
(the technical level). This should be inBUKA and coordinate all
military/civil actions. It should be commanded by at least a full Colonel
who should also have a senior intelligence coordinator from the NIO to
assist him, together with a full staff.
Increased helicopter lift capacity to a minimum of 2 x M1-17 which are
military aircraft. Maintain fixed wing military aircraft in support (1 x
CASA).
Increased maritime interdiction capability by upgrading and arming small
boat unit speed boats and landing craft.
Consider deploying SFU to assist.

d. Technical requirements

SF training
Night vision equipment
Secure communications
Air capability including NVG
Weapons, ancillaries and communications for boats

e. Political Impact

This option would not help win elections, as it probably not possible to achieve in short term.

f. PR Implications

Could attract criticism of "more of the same" in a climate where people are
thoroughly fed up with the crisis and continuing military

initiatives.

g. Cost

The estimated cost of this option would be in the region of US$20 million.

17. OPTION 3

Conduct a high speed covert military operation to conclude the crisis in the
required time frame.

a. Advantages
Quick resolution to the crisis

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Drastically improves Government standing nationally and internationally
Application of combination of technology and Special Force techniques to
produce Surprise/Shock action - minimises casualties on both sides.
Increases morale and standing of armed forces.
Military seem to be capable of effective action, thus giving confidence
to foreign investors.
Precise and surgical application of combat power, not only minimises collateral damage but discourages potential enemies such as Solomon Islands.
Cost effective.
Good PR - to solve the problem quickly with minimal casualties. Maximises
chance of capturing ringleaders.
May create conditions for hostage rescue.

b. Disadvantages

Initial outlay of expense.
To make this option work some technical assistance will have to be given to PNG armed forces. They are currently unable to carry be given
to PG armed forces. They are currently unable to carry
out this option: See below.

PNG Capability / Capability Gap
Currently PNG forces are not able to do this on their own. They need to improve their capability as follows:-

Raise training standards of SFU
Acquire gunships / troop lift helicopters
Acquire night vision capability including NVG.
Acquire EW/ELINT equipment / platform.
Be able to command and coordinate these assets in an effective way.

d Political Impact

This will be excellent. It will demonstrate the Government to be effective, tough but clear thinking is the requirement to minimise casualties. It will certainly improve the chances of election victory. It
will impress international opinion and warn potential enemies to be wary
of taking on PNG and the armed forces. However these operations must be handled very carefully if they are not to backfire.

e. PR Impact

Again this will be very significant. This option must have an effective
PR element throughout and afterwards, if the government is to maximise

the effect and minimise counter PR by the BRA/Solomon Islands. A government spokesman must be trained and briefed from the outset.

f. Cost
The initial layout for this option will be expensive. However the benefits
are:

Longer term financial gain - investment and mining revenue.
Repayment of some costs from mine owners is possible.
Acquisition of significant force multipliers for government and armed
forces.
Stability attracts future investment which in turn increases government
revenue.
International financial support would be more forthcoming.
It is estimated that the cost of this option would be something in the region
of US$30 million.

18. OPTION 4

A variation of Option 3. A "coup de main" operation to seize the Panguna
mine without taking on any other BRA targets. This option would get straight to the centre of gravity of the problem.

a. Advantages

The quickest way to bring crisis to a close. The main advantage is speed.
Would have the greatest element of Shock/Surprise.

Would be attractive to the mine owners.
Would be attractive to the international community.
If successful would be an outstanding achievement for PNG forces
Strong psychological blow to BRA.

b. Disadvantages

High risk - High Gain. The initial assault would not be too difficult but
holding onto the mine and supply in forces positioned there might be tricky.
Same costs as Option 3 in order to make it work.
Might not necessarily lead to opening of mine in the short term.

c . Political/PR Impact
As per Option 3 - better if it works bad it fails or is not sustainable.

d. PNG Capability Gap

Same as Option 3, but in addition, an infantry Battalion would need to be
flown into support the Coup de Mains as the ground holding force. They would
need to fight hard to retain the mine if the enemy did not fragment as a result.
In addition, follow up operations would be necessary to ensure the defeat of
the BRA. Logistic support would be complex.

e. Cost
Approximately the same as Option 3.

RECOMMENDATIONS

19. After consideration of the options, the recommended course of action is
a combination of Option 3 and 4 as follows:-

a. Given the time frame major changes in the command and friendly force
deployment are not likely to have much effect and might give away the
Governments intentions. However the Infantry Battalion should concentrate in the Loloho base area to prepare for ops. Village and KP
protection should be handed over to Police/Resistance fighters (if they are
trusted). The Battalion should become more of an effective strike forces,
deploying on company / Battalion operations by helicopter boat.

b. The Resistance fighters should be formalised into an indigenous force
unit to defend villages. A small group of highly trusted individuals should
be selected for specialist training to work with SFU. They should be taken
off island (see below).

c. The SFU should be taken away from Goldie and moved to a more suitable isolated location (away from Australian advisors). They should be
given a one month special forces training course followed by a mission
preparation package.

d. Simultaneously the government should buy a number of helicopters –
2 gunships and a minimum of 2 M 1– 17 military transport helicopters.
Together with a radio DF/intercept, thermal imaging, electronic intelligence package, and night vision equipment.

e. This equipment to be brought to PNG as covertly as possible, assembled and prepared and then moved to a suitable operating base, (as
yet to be identified). Possibilities are:–

Lolaho
Buka
Trobian Islands
Nissan
Murua/Woodl ark

New Bretain

f. Operations are then structured as follows:–

Phase 1: Train up SFU and small detachment of resistance e fighters. Move technical equipment to theatre.

Phase 2: Mission preparation and intelligence gathering (ie 'fixing' the enemy). Interdiction of sea routes to Solomon Islands. Jamming
of Solomon's broadcasts.

Phase 3: Striking against five key targets:
Francis Ona, Radio Free Bougainville, J Kaburi, Sam Karona, Morris Tsiaripi, Ismail Toronau

Phase 4: Force Operations: Infantry Battalion, Engineers SFYU and helicopter force to seize and hold Panguna mine.

Phase 5: Mopping up of enemy.

Subsequent
operations: Reconstruction etc. Opening of mine.

20. An outline time frame is:-

a. 10 January 97: Latest decision point to Government
b. Phase 1: 10 Jan - 10 Feb 97
c. Phase 2: 10 Feb - 28 Feb 97
d. Phase 3/4: March 97
e. Phase 5: End March - April 97
f. Subsequent ops: April 97 onwards.

CONCLUSION

21. It is imperative that this Government concludes the nine year crisis in
Bougainville as soon as possible. The cost in lives and revenue is astronomical.

22. If this Government can achieve a significant result before the election
in June, it will be able to demonstrate to the people of PNG and the world
that it is
strong, effective and magnanimous.

23. The benefits to PG will be very significant, including an increase in
foreign
investment and therefore revenue.

24. Much time has been lost and the time frame is tight, but given the right
training and equipment this operation can be concluded in the time frame.

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ANNEX A
SANDLINE INTERNATIONAL

1. Sandline International is a military consulting business. Its mission is to

provide the best possible military services across a very wide spectrum.

2 . Sandline policy is to only work with internationally recognised governments or legitimate international organisations such as UN, IMF, EU etc. The Company is careful to vet all requests for military assistance very thoroughly to ensure that the company does not become involved with:-

- Terrorist organisations
- Rebel factions
- Drug Cartels
- International organised crime
- Illegal arms trading
- Nuclear proliferation

CAPABILITIES

3. The company can cover the full spectrum of military assistance to governments as follows:-

- Ordinary consultancy
- Training
  Procurement
- Integration of warring factions
- Conduct of military operations

Consultancy
We can act purely as consultants in that we will come in and be briefed on a problem - analyse it, produce a paper with a number of options covering threat, budget, structure etc be paid for our services and leave. Equally we can take things a stage further and implement the preferred option.

5. Training

Sandline can train indigenous personnel in almost all military fields from basic to advanced training. However our preferred areas are:-

- C3 training
- Special Forces training - including naval/air
- Intelligence + security training

- Advanced military skills
- Training of strike forces
- Counter terrorism
- EOD training
- VIP protection
- Pilot training (fixed wing/rotary)
- EW training
- Medical/logistics

6. Procurement

Sandline can procure equipment for clients where it relates to a specific project or training programme. However large scale procurement is not core business.

7 . Integration of Warring Factions

Our experience has shown us that this is becoming a critical factor in conflict resolution and post conflict reconstruction, particular in Africa. Our operators have experience from Zimbabwe, RSA, Uganda, Angola, Sierra Leone and Bosnia. We feel that our impartiality, reputation, experience and military effectiveness make us unique in this field.

8 . Military Operations

We are the only commercial military consultancy company that is prepared to conduct military operations on behalf of our client governments. We can either operate as formed bodies of men or provide cadres to indigenous units (or both). Our preference is to create a parallel organisation which simultaneously carries out training of our local forces, and at the same time';
provide a reaction force comprised of our own forces to back local military!
operations. This can be any size according to requirement, but is typically approximately 150 men with their own helicopters both lift and gunship.
The parameters of these operations must be carefully

worked out and our guidelines include:-

- Force comes under direct command of national MOD and is directed and commanded at the highest level.
- Force commander has his CP close to the National Forces commander.
  The Forces is integrated into national planning at the operational level (but is a very significant force multiplier at the tactical level).
  Force adheres to all international Laws of Armed conflict.
- Force operates under standard military law, together with local law. Force personnel also respect customs - religious, tribal etc of client state.
- When not engaged in training or operations, force is deployed on humanitarian/hearts and minds tasks.

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9 . Air Capability

Our air support company is IBIS air. It supports all group operations. IBIS own and operate the following aircraft:-

- 2 x Boeing 727 - Strategic lift cargo + pax
- 2 x MI-17 - Support to mil ops in Sierra Leone
- 1 x Cessna - C31 aircraft supporting mil ops in Sierra Leone
- 1 x Westwind - Group executive jet + casevac aircraft
- 1 x Westwind - Group executive jet + casevac aircraft
- 1 x King Air - Liaison
- 2 x MI-8 - Support in Angola
- 4 x HS 748 - Medium lift. 3 in Malta, I in Kenya
  2 x L39 - Mil support to Angolan Government
- 1 x MI-24 - Owned by SL government but directed/
- operated by IBIS personnel

10. Maritime Capability

Alba Marine provide the group's maritime support. The company operate one former Royal Navy gunboat and a number of small high speed launches. Currently all assets are deployed in Sierra Leone. Alba specialise in:

- Coastal + riverine support to military operations.
- Maritime surveillance
  Anti piracy/drug smuggling/illegal diamond smuggling
- Fisheries/oil rig protection
- Naval training

11. Communications/Logistics

The group runs its own communications both secure/insecure at the strategic, operational + tactical levels. AH group activities/ deployments are sustained logistically from within our own resources. Medical support is provided by our medical company, Stuartmill. In addition, Stuartmill runs a stand-alone commercial company building hospitals and providing medical services throughout Africa. Its work is sometimes linked to another joint venture company call Aquanova which specialises in the provision of water supply + purification in difficult areas.

12. Capability Example

During the recent crises in Burundi, Sandline was asked how quickly a realistic military force could be assembled and deployed. In outline we would have been able to do the following:-

- Deploy a recce team within 36 hours.
- Deploy a full company group in 4 days.
- Deploy a Battalion sized group (500 men) together with associated air support (helicopters/light aircraft + strategic lift) within 10 days.
  - This Battalion would have been self supporting having its own comms, medical, support weapons, logistics and water purification.

EXPERIENCE LEVEL

13. All our operators + supporting staff are the best available. They are all highly professional, have achieved significant results within their own

armed forces, all have considerable combat experience, but are tuned to the nuances and political sensitivities pertaining in the world today.

14. Operators are usually drawn from British, US, South African, Angolan, Ethiopian, Namibian and European armed forces. They have operated overtly throughout Africa and more covertly and unattributably in the Far East and elsewhere.

SUMMARY

15. Sandline International is unique in its field. It has rivals but they cannot, or wish not to deploy the full range of capabilities.

16. The company can provide expert military support to Governments. We feel that this is the most professional available in the private sector.

17. Our operations are completely self-contained, highly disciplined and very sensitive to client confidentiality and local sensitivities. We do not always concentrate on the direct application of military forces but are more concerned with a more subtle/oblique approach. We are also fully capable of humanitarian operations and are very keen on training local forces and the transfer of skills to enable client governments to become self supporting.

ANNEX B
[LIEUTENANT COLONEL (RETIRED) T S SPICER OBE

Lieutenant Colonel Spicer spent 19 years in the British Army. His career was highlighted by considerable operational experience and extensive Study of the Military Art. His career pattern has enabled him to become an expert on military matters, in particular:

Planning, preparation and commanding of military operations (single service and joint) at all levels – tactical, operational and strategic.
Jungle warfare
Counter insurgency and counter terrorism
Intelligence and security operations/planning
Special Forces operations
Air operations – rotary and fixed wing
Maritime and amphibious operations
National defence planning

1974 – 1975. Served in 21SAS. Attended Royal Military Academy Sandhurst 1976, winning the Sword of Honour. Commissioned into Scots Guards.

1976 –1977 Platoon Commander: 2 Operational tours in Northern Ireland.
Service in Brunei.

1979 – 1981 Promoted Captain : Instructor at NCOs Battle School.

1982 Operations Officer, including Falklands War.

1983 Chief Instructor Advanced Battle Training Courses.

1984 Service in the Middle East. Promoted Major.

1985 Army Staff Course – Staff College, Camberley

1986 – 1987 Company Commander, Northern Ireland

1988 – 1989 Brigade Major 11th Armoured Brigade (Germany). Responsible forall Intelligence/Operations and training of the Brigade. Promoted Lieutenant Colonel.

1990 Instructor at Army Staff College, Camberley.

1990 – 1991 Joint Planning Group – Operation Desert Storm (Gulf War)

1991 MA to General Sir Peter De La Billiers.

1991 – 1992 Staff Office Director Special Forces (Responsible for Special Forces Doctrine development).

1992 – 1993 Commanding Officer – commanded 2 Battalions on operations.
Awarded OBE.

1994 Chief Instructor Commanding Officers training course.

1994 MA/Spokesman for General Sir Michael Rose Sarajevo, Bosnia

1995 Foreign and Colonial. Middle East Director.

1996 Sandline – deployment in 34 countries – defence and security matters
at highest level including operational experience in Africa, Middle East and
Far East.

ANNEX C

J1
J2
J3
J4
J5

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ANNEX E
SFU TRAINING STATUS

Current Situation

1. The SFU have been formed for 1 year and are still conducting selection/training. Their strength is a total of 62 of which 22 are adminlsupport and 40 men are operators.

2 . The soldiers in the SFU are all experienced in Jungle Operations in Bouganville. They have subsequently undergone a basic selection course. After passing selection they undertook a further 3 week

training course and
20 of them have carried out a US sponsored reconnaissance course.

3 . Subjects covered in their training to date are:-

a. fitness/navigation
b . patrolling
c . rappelling
d . small boat operations
e. basic weapon training

Half have covered in addition:-

f. tracking
g. patrol orders
h. close target reece (CTR)
i. surveillance
j . raiding

4. Their structure is based on the fire man patrol:-

a. Commander
b. 21C
c. Signaller
d. Medic
e. Scout

5. They are equipped with SR88/M16A - 2/.Mag 38 and grenade launches.

COMMENT
6. Whilst SFU have evolved quickly and effectively, they are not yet at
international Special Force standard. This is an issue to be resolved
separately. A standard SF training programme is attached.

7. Obviously this cannot be achieved in the timeframe available for
operations. However, they still need some concentrated training before
deployment to conduct SF type covert ops in Bougainville.

8. In addition, their numbers need to be increased.

RECOMMENDATION

9. The unit moves to an isolated training location and is put through an

intensive
four week course covering the following subjects:-

a. Live firing contract and raiding drills.
b . CTR skills.
C. Helicopter ops.
d. Night operations
e. Ambushing
f. Medical training.

10. They will also need the following equipment enhancements--

a. Night vision.
b . Patrol radios - secure.
c. AK47/74 7.62 assault rifle - the 5.56 round is not effective in Jungle for
small patrols.
d. Some ancilliaries such as chest webbing/jungle boots etc.
5.56 round is not effective in Jungle for small patrols.

SANDLINE
INTERNATIONAL
SPECIAL FORCES TRAINING

SF 'WARM-UP' TRAINING PERIOD

1. URBAN ENVIRONMENT

a. Dimensions
i. Intellectual clearance
ii. Verbal capabilities
iii. Sensorial aptitude
iv. Taking of risks
v. Interpersonal relations

vi. Emotional adultness
vii. Visual spatialness
viii. Acrophobia
ix. Claustrophobia
x . Hydrophobia
xi. Handling of aggression

b . Exercises

i. Urban obstacle course
ii. Rope climbing
iii. Wall climbing
iv. Balance exercises

v. Swimming
vi. Ladder climbing
vii. Lettra exercises

2. RURAL ENVIRONMENT

a. Dimensions

i. Adaptability
ii. Team work
iii. Handling of equipment
iv. Flexibility
v. Self confidence
vi. Self-assertion
vii. Responsibility
viii. Endurance
ix. Administrative capability
x . Loyalty

b. Exercises

i. Routes marches
ii. Team exercises
iii. Individual exercises
iv. Leadership

3. PHYSICAL TESTS

a. Perseverance
b. Strength

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c. Speed

4. Interrogation

5. Duration - 1 week

BASIC SPECIAL FORCES TRAINING CYCLE

6 . Minimum students 50 - Instructors 10

7 . Special Forces Individual Course

a. Duration - 5 weeks

b . Contents:

i . Weapon training

ii. Fieldcraft
iii. Basic medical
iv. Basic signals
v. Map reading/navigation
vi. Personal/team equipment

8 . Basic Static Line Parachute Course

a. Duration - 4 weeks

b . Contents: Ground and jump training

i. Aircraft drills
ii. Exit drills
iii. Descending drills
iv. Landing drills
v. Emergency drills
vi. Equipment drills
vii. Practical jumps (9-12)

9. Air Orientation

a. Duration - 2 weeks
b Contents:

i. Drop zone's for static line and free fall

ii. Control of descendings
iii. Absailing and repelling
iv. Fast roping
v . Progressive parachute jumps
vi. Parachute grouping drills
vii. Aircraft recognition

10. Water Orientation

a. Duration - 2 weeks

b. Contents:

i. Basic snorkelling
ii. H2O related medical
iii. Inflatable boats
iv. Kayaks
v . Movement and formations
vi. Swimming
vii. Beach landings
viii. Preparation/Maintenance of equipment
ix. Waterjumps

x . Basic sea/fresh water survival

11. Bushcraft, Tracking and Survival

a. Duration - 3 weeks

b . Contents:

i. Survival introduction
ii. Obtaining and conserving water
iii. Shelters
iv. Navigation
v. Reptiles, animals and birds
vi. Fire making
vii Snares and traps
viii Fishing methods
ix. Hunting & Slaughter
xii Tracking and anti-tracking
xiii Cache's

12. Basic Demolitions

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a. Duration - 3 weeks

b . Contents:

i. Safety rules
ii. Explosives and appliances
iii. Theory of explosives
iv. Shaped charges
v. Mine awareness
vi. Booby traps
vii. Cutting charges
viii. Improvised explosives

13. Minor Tactics

a. Duration - 8 weeks

b. Contents:

i. Personal/team equipment
ii. Patrolling
iii. Hides

iv. Individual combat skins
v. Quick attacks
vi. Combat procedures
vii. Cache's
viii. Road movement
ix. Vehicle operations
x . Ambushes
xi. Reconnaissance
xii. Cooperation with resistance movements
xiii. In/Exfiltration
xiv. Target penetration
xv. Raids
xvi. Mine laying
xvii. Breaking out of encirclement
xviii. Escape and evasion
xix. Urban orientation

14. The total duration of the Basic Special Forces Training cycle is 28 weeks. If selection is required add 2 weeks.

15. Depending on the client an operational phase of two weeks can be included to do a final evaluation. This places the students in a controlled operational environment with all the associated risks and pressure.

16. Once the students are finished with the operational phase and leave their commanders can decide which advanced, seaborne or specialist courses should be done.

ADVANCED COURSES

	Duration in Weeks	Minimum Students	Instructors
17. Urban	6	15	3
18. Signals	4	10	2
19. Medical	6	10	2
20. Demolitions	8	10	2
21. Bushcraft, Tracking, & Survival	4	10	2

SEABORNE COURSES

	Duration in Weeks	Minimum Students	Instructors

22. Coxswain 4 10 2
23. Seabome Operations 8 10 3
24. Under Water Demolitions 4 8 2
25. Surface Swimming 5 10 2
26. Diving Part 1 8 4 2
27. Diving Part 2 19 4 2
28. Diving Instructors 19 4 1
29. Diving Supervisors 4 4 1

AIRBORNE COURSES
Duration Minimum Instructors
in Weeks Students

30. Advanced Accelerated Free Fall 4 10 2
31. High Altitude Low Opening 3 10 2
32. High Altitude Ifigh Opening 3 10 2
33. Advanced Military Tandem 3 5 1
34. Helibome Operations 4 20 3
35. Air Assault Operations 5 20 2
36. Pathfinder 8 10 2
37. Forward Air Control 4 10 2
38. Parachute Instructor 6 10 2

39. Parachute Despatcher 3 10 2
40. Helicopter Despatcher 2 10 2

SPECIALIST COURSES

Duration Minimum Instructors
in Weeks Students

41. Camera Handling 1 10 1
42. Basic Photography 4 10 2
43. Advanced Photography 3 10 2
44. Mountaineering 3 10 2
45. Vehicle Operations 6 20 3
46. Reconnaissance 6 10 5
47. Sniper 6 10 2
48. Team Leader 9 10 2
49. Hostage Release 4 15 3
50. Executive Protection 6 10 2
51. Guerrilla Warfare 6 20 3
52. Special Operations 6 10 3