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PAPUA NEW GUINEA TRADE POLICY FRAMEWORK

Prepared by

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Abbreviations

ACP	African, Caribbean, and Pacific Group of States (ACP Group)
ASYCUDA	Automated System for Customs Data
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
CARICOM	Caribbean Community
CN	Combined Nomenclature
DNPRD	Department of National Planning and Rural Development
DTI	Department of Trade and Industry
EBA	Everything But Arms
EPAs	Economic Partnership Agreements
EU	European Union
EVSL	early voluntary sectoral liberalization initiatives (APEC)
FICs	Forum Island countries
FTA	Free Trade Area
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade (WTO)
GDP	gross domestic product
GSP	Generalized System of Preferences
HS	Harmonized Commodity Description and Coding System
IATF	Inter-Agency Task Force
IMF	International Monetary Fund
IPR	intellectual property rights
LDCs	least developed countries
MFN	most favoured nation
MSG	Melanesian Spearhead Group
MTDS	Medium Term Development Strategy
PIC	Pacific island country
PICTA	Pacific Island Countries Trade Agreement
PACER	Pacific Agreement on Closer Economic Relations
PATCRA	PNG-Australia Trade and Commercial Relations Agreement
PNG	Papua New Guinea
RCA	revealed comparative advantage
RTAs	regional trade agreements
S&D	Special and differential treatment
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAR	Special Administrative Region
SFR	Socialist Federal Republic
SICs	smaller island countries
SMEs	small and medium-sized enterprises
SITC	Standard International Trade Classification
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	sanitary and phytosanitary measures
STABEX	System for the Stabilization of Export Earnings
SYSMIN	System for the Promotion of Mineral Production and Exports
TBT	technical barriers to trade
TRIPS	trade-related aspects of intellectual property rights (WTO)
UNCTAD	United Nations Conference on Trade and Development
VAT	value-added tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

INTRODUCTION

In July 2002, a new Government was formed in Papua New Guinea (PNG) following national elections. The Prime Minister in his address to the first sitting of the new Parliament stressed that PNG must focus on utilizing international trade as an engine of economic revival, growth and industrial transformation.[1] This vision is captured in the Policy Statement of the Coalition Government by Prime Minister Mr. Michael Somare to the Parliament on 20 August 2002 on "Recovery and Development". The broad objectives are stability, unity and empowerment, and a key aspect will be an "export-driven economic recovery strategy". The export drive will focus mainly on the agriculture, fisheries and forestry sectors, supported by the mining, petroleum, gas and services sectors with an emphasis on value-added production and exports. The Government aims, in these key sectors, to "embark on an aggressive market-driven trade and investment policy." The export drive will go hand in hand with a new foreign policy stance based on "Selective Engagement" in which PNG would not only Look North (to Japan, China, and South and South-East Asia) and Work the Pacific (Australia, New Zealand and the Pacific) but also selectively pursue bilateral and multilateral arrangements both within the region and globally. It is within and in pursuance of this objective that the trade policy regime of PNG is being elaborated.

BACKGROUND

The need for a coherent trade policy framework for PNG was identified by the Department of Trade and Industry (DTI) in 1997, following the country's entry into the World Trade Organization (WTO) and its participation in the first WTO Ministerial Conference in December 1996. DTI, with assistance from UNCTAD, developed a comprehensive programme of technical cooperation for building endogenous capacities for trade policy formulation, negotiation and implementation. A key component of this programme was the formulation of a trade policy framework. Mobilization of funding for the programme encountered difficulties and delayed its launch. In 2002, DTI extracted the trade policy framework component from the capacity-building programme and approached the Forum Secretariat for support of this crucial activity. The Forum Secretariat in turn approached UNCTAD, which, being involved in the inception of the larger capacity-building programme, agreed to provide financial and technical support for the activity jointly with the Forum Secretariat.

In response to a request from DTI, a fact-finding mission to PNG was undertaken by an UNCTAD official[2] from 23 September to 4 October 2002. The mission was undertaken to Port Moresby (capital city) and Lae (major trading city) to carry out consultations with key Government departments and the private sector on the need and priorities for a trade policy framework for increasing the contribution of international trade in order to create job opportunities and economic growth through, *inter alia*, downstream processing and value addition in commodities, manufactures and services. Two officers[3] from DTI assisted the UNCTAD official in the interviews conducted in Port Moresby, and one officer also

[1] Policy Statement by Rt. Hon Sir Michael Somare, GCMC CH., 20 August 2002.

[2] Mr. Bonapas Onguglo, Economic Affairs Officer, Division for International Trade in Goods, Services and Commodities.

[3] Mr. Elliot Tabua and Mr. John Taru.

participated in the mission to Lae. These consultations formed the basis for the preparation of this report.

The stakeholders consulted during the field mission included: Department of Trade and Industry (DTI); the Department of Education; the Internal Revenue Commission; the National Fisheries Authority; the Department of Finance, Treasury and National Planning and Rural Developmen; Independent Consumer and Competition Commission; the PNG Forestry Authority; the National Research Institute; the Investment Promotion Authority; Intellectual Property Office and Securities Commission; the Tourism Promotion Authority; the Ministry of Trade and Industry; the Department of Agriculture and Livestock; the Department of Mining; the Department of Foreign Affairs; the National Agricultural Research Institute; Kokonas Indastri Koporesen – Lae Branch; the Coffee Industry Corporation – Lae Office; the Department of Social Welfare and Development; the Bank of PNG; the Department of Prime Minister; National Executive Council; the United Nations Development Programme; the PNG Manufacturers Council; the PNG Chamber of Commerce and Industry; the Lae Chamber of Commerce and Industry; and Ramu Sugar Pty Ltd.

THE NEED FOR A TRADE POLICY

A coherent trade policy framework is needed because of the fact that, upon attaining political independence in 1975, PNG inherited from the colonial administration a system of government that did not have such a framework for the country. Since then, successive Governments have not considered elaborating a coherent framework of rules and regulations to govern and guide the administration and conduct of domestic and international trade. This is not to say that such rules, regulations and practices do not exist; however, these have been drafted and enacted over time without a clear vision or sense of direction as to how PNG can use trade as an engine of economic growth and development.

The lack of a vision and coherent trade policy has resulted in the development of *ad hoc* and often conflicting rules, regulations and practices affecting trade, and in an even greater disconnect between trade policy framework and other key economic (tariff, investment, industrial), sectoral (manufacturing, agriculture, forestry, fisheries, minerals) and social policy issues. This in turn translates into poor coordination between DTI and other economic ministries, with the result that the implementation of trade and other economic and social policies also lacks coordination and is given only minimal consideration in the Government and in wider country development plans.

This lack of vision, poor coordination and isolated policy implementation have minimized the impact of trade policy and its contribution to economic growth and development. In addition, Government support for a particular policy has tended to last only the term of that particular Government, instead of being maintained over a sustained period so it can generate results. For example, follow-up to the dual-track objectives of the "Look North and Work the Pacific Plan" has been weak for the reasons explained above.

Moreover, the lack of a coherent vision means that PNG tends to react rather then being proactive in its participation in international trade treaties. It tends to follow the lead and advice of other countries without properly considering the impact of its participation and without preparation that would enable it to derive maximum benefits and minimize adverse effects. Its participation in WTO and Asia-Pacific Economic Cooperation (APEC) seems to follow this pattern. The participation in WTO is particularly weak owing primarily to the lack of a PNG permanent mission to the United Nations and the WTO in Geneva (Switzerland).

The continued lack of a coherent trade policy framework is no longer sustainable for PNG for a number of reasons. First and foremost, the Government recognizes the critical importance of international trade in achieving the development objectives of the country. As was mentioned previously, the Government has emphasized an “export-driven economic recovery strategy” in its **Policy Statement on “Recovery and Development”**. This sets the basis on which a coherent trade policy framework needs to be elaborated in order to mainstream trade into national development policies and plans and vice versa, and to guide the implementation of an export-driven economic recovery strategy.

Second, and very importantly, the country is facing a severe **economic crisis** (combined with a fiscal crisis) and requires immediate, short- and medium-term policies and strategies to re-ignite and lay a foundation for sustained economic growth and transformation. Here trade has an important role to play, and this role can be maximized if it is developed within a coherent development framework with links to other economic and social policies. The extent of the economic malaise is seen in the following indicators:

(i) A decline in per capita income from $1,068 to $759 between 1990 and 1999;
(ii) A decline in gross domestic product (GDP) in absolute dollar terms and in terms of annual growth;
(iii) An annual decline of 6% in the value of exports and imports, despite a positive trade balance since 1995;
(iv) A floating exchange rate that has witnessed a major depreciation of the PNG kina against the Australian and US dollars to about 20 cents in September 2002;
(v) An inflation rate of 10 to 15% (mostly imported inflation);
(vi) New investment inflows that peaked in 1995 at some $455 million, then declined drastically to $29 million in 1997, and have since recovered slightly but appear unstable;
(vii) A fiscal crisis in 2002 that necessitated the formulation of a reduced supplementary national budget in August with significant cuts imposed on all Government services. Fiscal revenue has declined because of lower economic activities, particularly declining mineral revenue, and less revenue from tariffs owing to major liberalization as part of an overall reform package agreed on with the International Monetary Fund (IMF) and the World Bank. At the same time, the Government has to meet large fixed expenditures including the public service, the restoration and rehabilitation of Bougainville, the re-establishment of Kokopo as the government centre for East New Britain (following the destruction of Rabaul by a volcano eruption), and responses to several other natural disasters that have required the diversion of funding from the budget.
(viii) Increasing debt and debt servicing obligations; and
(ix) The declining purchasing power of employees (i.e. consumers) as wages have remained fixed while the cost of living has increased tremendously with inflation and the rising costs of imported products.

Third, the **international trading system** is changing and PNG needs to become a proactive participant in the ongoing changes so as to protect and promote its commercial interests and thus maximize the contribution of external trade. In trade negotiations, no country is too small to make an impact; however, a country does not make an impact if it does not participate in the negotiations. Although negotiation strength depends largely on a country's market power, this does not preclude economically weaker countries from influencing negotiated agreements through the use of coalitions, analytical knowledge, negotiation skills and consistent active participation implying physical presence (representation) in cities such as Brussels, Geneva, Canberra and Suva. Proactive participation by PNG will be important in the following trade negotiations:

(i) The Doha work programme under the WTO, which started in January 2002 and is scheduled to be completed by December 2004 and adopted as a single package of agreements in January 2005. The Doha agenda is expected to lead to further liberalization of international trade, which, while increasing opportunities for trade, also increases competition and can limit policy measures that countries can use to promote trade. Thus PNG has to monitor and participate in the negotiations, including in coalitions with other countries with similar interests, in order to negotiate rules and disciplines that will not unnecessarily hinder PNG's ability to use trade policy to promote trade and economic growth.

(ii) The African, Caribbean and Pacific (ACP) Group of States and EU negotiations under the framework of the Cotonou Partnership Agreement on new WTO-compatible trading arrangements, primarily reciprocal economic partnership agreements (EPAs). These will be negotiated between willing ACP States and the European Union between September 2002 and December 2007, with the final agreements coming into effect in January 2008 (or earlier).

(iii) The implementation of the APEC trade and investment liberalization programme that PNG has accepted. PNG and other developing economies in APEC have agreed to voluntarily achieve the APEC goals of trade and investment liberalization by 2020.

(iv) The implementation of the Pacific Island Countries Trade Agreement (PICTA) over the next 10 years to liberalize trade with other Pacific Island countries that are members of the Pacific Islands Forum, and to create a free trade area in goods and other selected sectors, including government procurement.

(v) The likely start of negotiations with Australia and New Zealand on the one hand and PNG and other Pacific Island countries on the other, namely the PICTA members, on the formation of a free trade agreement under the Pacific Agreement on Closer Economic Relations (PACER).

(vi) The continued implementation, deepening and utilization of trade liberalization agreements under the Melanesian Spearhead Group (MSG), the PNG-Fiji Trade Agreement, the PNG-Australia Trade and Commercial Relations Agreement (PATCRA) and the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) have to be reviewed to assess their commercial value and benefits to PNG, as well as their continued utility against the backdrop of further WTO liberalization, PICTA/PACER and APEC.

Fourth, the economic malaise is compounded by growing **social/health problems** that deserve remedial attention as an integral part of an economic revival strategy. Economic and social problems are interrelated and should be treated as such in any trade policy framework.

Three of the most important social problems facing PNG are very high population growth; HIV/AIDS; and law and order problems in major cities and along the Okuk (highlands) highway (i.e. in centres of economic activity). These social ills have a bearing on the revival of economic growth through trade.

While it may be argued that higher population growth generates a bigger domestic market, for this to be effective (i.e. for the growing population to be equipped with disposable income via employment and other economic activities), the GDP growth rate has to stay ahead of population growth, which in turn implies that trade growth (contribution to GDP growth) has to be sustained at high rates over a longer period. In the current situation, this seems highly unlikely, and thus population control should be a priority economic objective.

The high and fast-growing incidence of HIV/AIDS among economically active members of the population means that the affected will gradually leave the workforce, become hospitalized and depend on Government (and family) support. Thus, even if population growth can be expected, if the HIV/AIDS pandemic is not effectively controlled it may reduce the percentage of the population that can contribute effectively to economic activities. Thus, controlling and reducing HIV/AIDS is another key element of a strategy for sustained trade expansion and economic growth.

The law and order problems in major cities (Port Moresby, Lae, Mount Hagen) and along the Okuk (Highlands) Highway increase Government involvement (and costs) in combating criminal activities and private-sector costs in promoting businesses and protecting employees. This adds to the costs of doing business in PNG and undermines the competitiveness of PNG products. It is thus a key economic issue to be addressed not only in terms of effective policing but also in terms of generating economic activities that create job or self-employment opportunities for youths and others who fall out of the school system and/or graduate with higher education certificates.

SCHEDULE OF WORK

The following course of action has been proposed as a run-up to the preparation of the trade policy and its adoption as a policy document. The time frame may change depending on commitments faced by UNCTAD and the Government. Also, some of the proposed activities, such as the regional workshops, depend on the mobilization of additional funds.

(1) The draft of the Trade Policy Framework will be prepared by UNCTAD and submitted to DTI (and the Forum Secretariat) for comments. Following comments, the draft will be revised by UNCTAD and submitted to DTI (and the Forum Secretariat). This revised draft will be circulated by DTI to the IATF (Inter-Agency Task Force) for review. A copy will be provided to the Minister of Trade and Industry. An informational copy could be provided by the Minister to the Cabinet or Parliament Committee on economic issues.

(2) A revised draft will be utilized in a national consultative workshop and possibly regional consultations in the four regions (Momase, Highlands, Southern, New Guinea Islands).

(3) A new revised draft of the trade policy will be prepared by UNCTAD and DTI on the basis of the national consultations. The third draft will be provided to the Minister of Trade and Industry for clearance, as well as to the IATF and Forum Secretariat. An informational copy could be provided by the Minister to the Cabinet or Parliament Committee on economic issues.

(4) DTI will prepare a trade act to accompany the final draft of the trade policy framework. The policy framework and trade act will be submitted to the Minister of Trade and Industry for transmittal to the Cabinet and the Parliamentary Economic Committee for endorsement, and subsequently to the National Parliament for approval and legislation as appropriate. The Parliament would consider the proposed policy framework and trade act possibly at the same time as the budget for 2004.

ORGANIZATION OF THE REPORT

The report is organized as follows: Chapter I reviews the state of PNG's economic and trade performance with a view to capturing the major directions of reform. Chapter II reviews the trade policy settings and environment for PNG, particularly in terms of domestic policies and external market access conditions. Chapter III seeks to identify an agenda for trade policy reform for PNG and the key policy objectives and institutions for determining, formulating and implementing PNG's trade policy. Chapter IV concludes the report with preliminary recommendations regarding domestic supply-side policies, including supply capacity building, as well as improved market access conditions for PNG exports to the country's major markets.

Chapter I
PARTICIPATION OF PAPUA NEW GUINEA IN INTERNATIONAL TRADE

PNG is a small economy whose GDP and trade account for 0.03 and 0.01% of the world total. Apart from its absolute smallness, PNG has yet to exploit its full potential in trade expansion and income generation, as its share in the world totals for trade and GDP is far smaller than that of population of 0.4% of the world total. Despite its small share in world trade, trade plays an important role in PNG's economy because it is relatively open to international trade, and because PNG has export potential on variety of products as an essential component of its economic diversification and development strategy. This section reviews the state of PNG's economy and trade performance.

1.1. OVERVIEW

PNG is the largest and most populous island nation in the South Pacific. It has a land area of 463,000 square kilometres and 4.7 million inhabitants, 83% of whom reside in rural areas. The land area and population respectively account for 88% and 70% of the total for Pacific Island countries[4] (see Table 1). In 1999, PNG's GDP stood at $3.6 billion and the value of merchandise trade (exports and imports) at $3.3 billion. In these terms, PNG is a dominant economic player in the Pacific region, representing respectively 53% and 63% of the region's total GDP and merchandise trade.

However, in global terms PNG is a small economy. Its population accounted for 0.38% of the world total in 1999, and in terms of trade and national income the country is far smaller. The value of PNG's merchandise trade, like services exports and imports, accounted for 0.03% of the world total, and its GDP represents 0.01% of the world total. This implies that PNG's trade in terms of merchandise exports and imports is yet to exploit its full potential, and this is all the more true of the PNG economy as a whole.

While PNG's share in world trade is small, trade plays a pivotal role for the country, as its economy is highly dependent on external trade. In 1999, the merchandise exports and imports of PNG accounted for about 50% and 30% of GDP. Comparison with the corresponding average figures for Pacific Island countries (PICs) (40% for exports and 37% for imports) and developing countries as a whole (32% for exports and 30% for imports) reveals the PNG economy's apparently relatively strong export basis and lower reliance on imports.

Another measurement of the importance of trade to an economy is trade per capita. Merchandise exports per capita for PNG are higher ($436) than the averages for PICs ($402) and developing countries ($426). On the other hand, PNG's total merchandise trade per capita (which includes imports) of $702 is lower than the PIC average ($776) and that of developing countries ($823), which also indicates that the PNG economy relies less on imports than do the PICs and other developing countries.

[4] UNCTAD (2002b).

Table 1: Population, GDP, and trade in goods and services (1999) by country

	Population (1 000) (1)	GDP (2)	GDP per capita (US$)	Merchandise exports (2000) (3)	Merchandise imports (2000) (4)	Goods balance (6)=(3)-(4)	Service exports (7)	Service imports (8)	Service balance (10)=(7)-(8)	Trade balance (14) =(6)+(10)	Share of services in total exports	Goods exports as share of GDP	Total exports as share of GDP
PNG	**4 702**	**3 571**	**759**	**2 050**	**1 252.3**	**797.7**	**248**	**728**	**-480**	**317.7**	**10.8%**	**57.4%**	**64.4%**
Share in world	0.08%	0.01%	(14.7%)'	0.03%	0.02%	_	0.02%	0.05%	_	_	_	_	_
Share in PIC	70.0%	52.8%	(34.1%)'	75.8%	49.9%	_	25.9%	58.5%	_	_	_	_	_
Memo													
Cook Islands	19	87	4 521	7	70	-63	_	_	_	_	_	8.0%	_
Fiji	806	1 655	2 053	447	737	-290	505	364	141	-149	53.0%	27.0%	57.5%
Kiribati	82	60	732	8	29	-21	_	_	_	_	_	13.3%	_
Marshall Islands	62	_	_	_	_	_	_	_	_	_	_	_	_
F. S. Micronesia	116	219	1 881	_	_	_	_	_	_	_	_	_	_
Nauru	11	32	2 830	36.1	31	5.1	_	_	_	_	_	112.8%	_
Niue	2	_	_	_	_	_	_	_	_	_	-	_	_
Palau	19	129	6 822	_	_	_	_	_	_	_	_	_	_
Samoa	177	221	1 250	14.2	105.6	-91.4	47	19	28	-63.4	76.8%	6.4%	27.7%
Solomon Islands	430	347	806	100	145	-45	51	86	-35	-80	33.8%	28.8%	43.5%
Tonga	98	176	1 793	17	60	-43	_	_	-	_	_	9.7%	_
Tuvalu	11	22	1 931	_	0	_	_	_	_	_	_	_	_
Vanuatu	186	247	1 327	25	80	-55	106	48	58	3	80.9%	10.1%	53.0%
PIC Total (*Avg.*)	6 721	6 766	*2 225*	2 704.3	2 509.9	194.4	957	1 245	-288	28.3	26.6%	40.0%	*54.1%*
World	5 978 401	30 831 385	5 157	6 326 525	6 505 276	-178 751	1 427 632	1 382 941	44 691	-134 060	18.4%	20.5%	25.2%
Developed countries	889 464	23 741 531	26 692	4 041 970	4 379 185	-337 215	1 033 042	961 534	71 508	-265 707	20.4%	17.0%	21.4%
Developing countries	4 770 692	6 324 355	1 326	2 032 086	1 893 967	138 119	346 827	374 045	-27 218	110 901	14.6%	32.1%	37.6%

Source: UNCTAD (2002a).

Note: Millions of US dollars in 1999 unless otherwise specified.

In terms of income per capita, PNG is among the poorest economies of the region, with only Kiribati having less income per capita in 1999. During the 1990s, per capita income grew slowly in PNG until the mid-1990s, when the expansion of the mining sector led to rapid economic growth (see Table 2). Overall GDP expanded rapidly during 1990–1995 at an average annual average of 9.4% owing mainly to the resource boom triggered by gold and oil production.[5] Per capita income grew at an average rate of 6.9% during the same period, and 5.3% in 1996, recording the highest income value of $1,191 in that year. However, income per capita declined substantially in the late 1990s at an average annual rate of -2.4% between 1995 and 2000. Since population growth rate was constant during 1995 and 1999 at around 2.2%, the deteriorating per capita income was accounted for by the substantial deterioration in the overall performance of PNG’s economy.

PNG’s economy contracted during that period following the economic and fiscal crisis of 1994, and subsequent external shocks including cyclone, drought, and sharp drop in world prices for key commodities. PNG recorded on average negative growth rates during 1995 and 1999 at -0.2% (see Table 2).

Table 2: Population, GDP, FDI, official flows and trade, 1970–2000

	Value (millions of dollars)									
Indicator	**1970**	**1980**	**1990**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**1995–2000**
Population (1000)	_	_	4 017	4 301	4 399	4 499	4 600	4 702	4 809	
Annual change (%)	_	_	_	_	2.3	2.3	2.2	2.2	2.3	2.3
GDP	_	_	4 292	4 929	5 242	4 746	3 720	3 571	3 818	
Annual change (%)	_	_	1.9	9.4	7.7	-3.9	-3.8	3.2	0.3	-0.2
Of which (%):										
Agriculture	37.2	33.1	29	28.7	28.4	31.3	30.9	29.6	25.9	
Industry	22.1	26.8	30.4	36.9	39.2	34.1	35.9	46.1	43.6	
(Manufacturing)	5.5	9.5	9	8.4	8.8	9.2	9.2	8.3	9.1	
Services	40.7	40	40.6	34.4	32.4	34.5	33.2	24.4	30.5	
GDP per capita (US$)	_	_	1 068	1 078	1 191	1 098	832	763	794	
Annual change (%)	_	_	-0.3	6.9	5.3	-6	-5.9	0.9	-2.0	-2.4
FDI										
Inflow	130	76	155	455	111	29	110	296	200	
Annual change (%)		-4.2	10.4	38.7	-75.6	-73.9	279.3	169.1	-32.4	-15.2
Inward stock	_	748	1 582	1 667	1 929	1 505	1 614	1 911	2 111	
Annual change (%)	_	_	11.1	1.1	15.7	-22.0	7.2	18.4	10.5	4.8
Outflow	_	16	0	0	_	_	0	0	0	
Outward stock	_	11	7	7	7	7	8	8	8	
Total official inflows (ODA, OOF)	165	348	474	365	344	366	347	179	357	
Annual change (%)		11.1	3.6	-4.6	-5.8	6.4	-5.2	-48.4	99.4	-0.4
Trade										
Exports (goods)	104	1 031	1 178	2 654	2 529	2 163	1 775	1 877	2 050	
Annual change		24.0	4.9	19.1	-4.7	-14.5	-17.9	5.7	9.2	-6.6
Imports (goods)	*302*	*1 176*	*1193*	*1 452*	*1 741*	*1 697*	*1232*	*1 188*	*1 252*	
Annual change		*13.8*	*1.3*	*1.9*	*19.9*	*-2.5*	*-27.4*	*-3.6*	*5.4*	*-6.1*
Balance (goods)	-198	-145	-15	1 202	788	466	543	689	798	

[5] WTO (1999).

Exports (services)	_	36	198	321	432	397	318	248	_	
Annual change			45.0	12.4	34.6	-8.1	-19.9	-22.0	_	-6.3
Imports (services)	_	*271*	*393*	*642*	*779*	*924*	*794*	*728*	_	
Annual change			*4.5*	*12.7*	*21.3*	*18.6*	*-14.1*	*-8.3*	_	*3.2*
Balance (services)	_	*-235*	*-195*	*-321*	*-347*	*-527*	*-476*	*-480*	_	
Total balance	_	*-380*	*-210*	*881*	*441*	*-61*	*67*	*209*	_	
Exports of goods and service as a % of GDP	_	_	_	60.4	56.5	53.9	56.3	59.5	_	
Composition of exports in goods (%):										
All food items	_	32.7	17.7	10.1	_	_	32.3	15.4	_	
Agricultural raw materials	_	8.0	7.8	16.7	_	_	3.3	2.3	_	
Fuels	_	0.0	0.1	30.6	_	_	15.8	28.8	_	
Ores and metals	_	49.8	47.4	19.8	_	_	44.4	51.3	_	
Manufactured goods	_	2.2	7.3	2.9	_	_	3.1	2.2	_	
Composition of exports in services (%):										
Transport	_	33.8	10.8	10.8	7.8	5.5	3.6	4.3	_	
Travel	_	28.3	11.6	7.8	3.1	2	4.7	2.4	_	
Financial	_	1	0.5	1.2	3.1	3.9	2.2	3.8	_	
Other business	_	20.7	73.5	80.2	85.9	88.6	89.4	89.5	_	
Government service	_	16.2	3.7	_	_	_	_	_	_	
Int'l reserves: No. Of months of import	_	4.2	3.5	2	4.1	3	1.9	2	2.9	

Source: UNCTAD (2002a).

PNG's economy is dualistic in nature: the prosperous mining sector contrasts with the rest of the economy, which is essentially based on subsistence and some limited manufacturing. The mining sector is the main contributor to the GDP. This sector ("Other industry" including mining and petroleum) accounted for 37.8% of GDP (1999), while employing a far smaller proportion of the population (3% in 1990).[6] It accounted for over three-fourths of merchandise exports (2000). Agriculture, which consists mainly of production of the traditional agriculture export crops coffee, copra and cocoa, accounted for 29.6% of GDP and 23% of employment in 1990. Services and manufacturing respectively accounted for 24.4% and 8.3% of GDP (62% and 12% of employment respectively in 1990).

The mining sector in PNG is characterized by foreign ownership and capital intensiveness, and it exports its entire output. The sector accounts for most private investment. In 1997, mining and petroleum represented around 80% of foreign ownership in PNG.

In 2001, foreign direct investment (FDI) inflows stood at $179 million and inward FDI stock reached a record high of $2.2 billion.[7] In 2000, FDI inflow amounted to $130 million, contributing to 23.1% of gross fixed capital formation. FDI stock in 2000 of $2.1 billion accounted for 53.5% of GDP. Strongly associated with the evolution of the mining sector, inward FDI flows increased rapidly between 1980 and 1990 at an annual average rate of 10.4%. During the first half of 1990s, they grew at an even faster pace of 38.7%. FDI stock reached its peak at $1.9 billion in 1996. It then experienced negative growth during the late 1990s, contracting at an average pace of -11.2% annually. In 1997, two-thirds of foreign

[6] *Ibid.*

[7] UNCTAD (2002a).

ownership in PNG was reportedly by Australian investors, followed by those from the Bahamas, the United Kingdom, Malaysia and the United States.[8]

1.2. TRADE PERFORMANCE

In 2000, the value of merchandise exports from PNG stood at $2 billion and that of imports at $1.3 billion, or 57% and 35% of GDP respectively, which resulted in $798 million of merchandise trade surplus. The value of merchandise exports and imports represented respectively 0.03% and 0.02% of world merchandise exports and imports.

In 1999, the most recent year for which data for trade in both goods and services are available, the value of merchandise trade was $1.9 billion for exports and $1.2 billion for imports, or 53% and 33% of GDP respectively, recording $689 million of merchandise trade surplus representing 19% of GDP. Trade in service in 1999 accounted for some 12% of total exports and 38% of total imports. The value of exports of services was $248 million and that of imports $728 million, which resulted in a service trade deficit of $480 million. The value of service exports and imports amounted respectively to 0.02% and 0.05% of world service exports and imports.

In total, exports of goods and services amounted to $2.1 billion and imports $1.9 billion, or 60% and 54% of GDP in 1999. The overall trade balance was thus positive at $209 million, representing 5.8% of GDP, or 11% of total imports.

Since 1995, the pattern of PNG's trade balance has been that merchandise trade records surpluses that partly or wholly offset the service trade deficit. PNG recorded total trade surpluses during 1995-1999 period, except in the year 1997.

PNG's major export commodities include crude oil, gold, copper, logs, coffee, cocoa, palm oil and fish and shellfish products. The major export markets are Australia, Japan, the European Union and ASEAN countries. There is little export to other Pacific Island countries.

Imports comprise a wider range of products than do exports, but the sources of imports are more concentrated in imports than those of exports. Australia, ASEAN countries and Japan constitute the major import sources for PNG.

1.3. MERCHANDISE TRADE

1.3.1. Trends

PNG government policies after independence in 1975 centred on import substitution, with "domestication policies" aimed promoting home industries, including greater processing of natural resources, particularly logs and fish. Between 1980 and 1990, merchandise exports continued to grow at a slower but robust annual rate of 4.9%. During this period, the merchandise trade balance tended to record deficits (see Chart 1).

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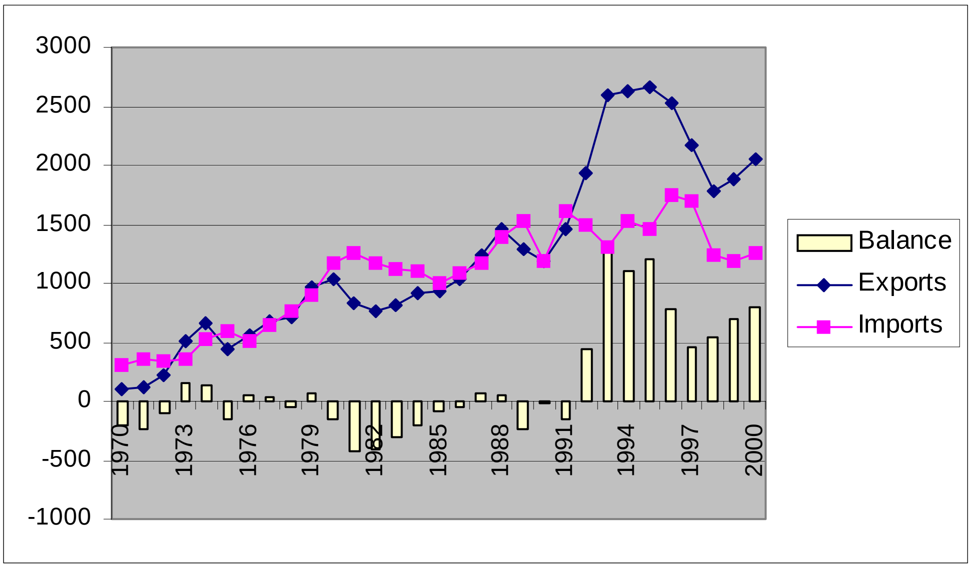
[8] WTO, *op. cit*..

Chart 1: Evolution of merchandise trade, 1970–2000 ($ million)

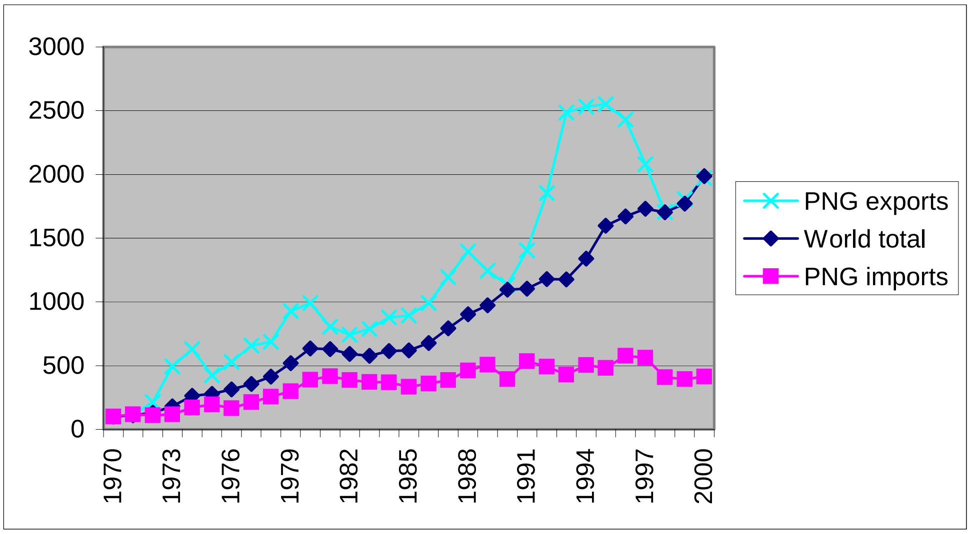


Throughout the majority of the period since 1970, PNG's merchandise exports grew faster than world total trade while imports grew more slowly than the world total (see Chart 2). While the value of PNG merchandise exports increased by a factor of 20 by the year 2000, imports increased only by a factor of 5. PNG merchandise exports (see Table 2) expanded during 1970–1980 (24%), 1980–1990 (4.9%) and 1990–1995 (19.1%), and then declined between 1995 and 2000 (annually by 6%).

The share of PNG in world exports has experienced cyclical rises and declines ranging between 0.03% and 0.09% during the past 30 years. The pattern of evolution in world share was not one of constant decline, as is often the case with low-income developing countries. PNG's share of exports experienced increased rapidly in the early 1970s, remained stable at a relatively higher level of 0.05% during the 1980s, and again grew substantially in the early 1990s. The late 1990s witnessed negative export growth at an annual average rate of -6.6%, which resulted in the world share's being reduced to 0.03%. The recurrent expansion of PNG merchandise exports has been sustained by the mining sector, specifically gold and petroleum. The rapid expansion of exports, together with consistently lower imports, has contributed to the positive trade balance since the mid-1990s.

Merchandise exports contracted in 1990 and 1991 following deteriorated macro-economic conditions after 1989 as a result of the Bougainville crisis, which led to the long-term closure of the Panguna mine (which had contributed to one third of total exports), as well as sharp drops in the world prices of key commodities. In the early 1990s, economic growth was attained mainly owing to a resource boom led by the Porgera gold mine and the commencement of oil production from the Kutubu oilfield. Real GDP growth rate averaged 9.4% during 1990–1995, and merchandise exports expanded rapidly at an average rate of 19.1%. Merchandise exports began to consistently exceed imports by a substantial amount from 1993 onward, a trend that was continuing as of 2000, and PNG recorded a record merchandise trade surplus of $1.2 billion in 1995.

Chart 2: Evolution of merchandise trade, 1970–2000 (1970 = 100)



An economic and financial crisis occurred in 1994 as a result of the expansion in the government's fiscal deficit during the boom years of early 1990s. The crisis led to the adoption of a floating exchange rate. In 1995, a structural adjustment programme was initiated on agreement with the IMF and the World Bank. A slight improvement was recorded in 1995–1996, when the economy grew at 7.7%, before macro-economic conditions deteriorated further as a result of external shocks, including cyclone damage to the copra and cocoa crop in 1997, and harsh drought that affected agricultural and mineral production. International copper, gold and oil prices have declined significantly. World timber prices also slumped following the Asian economic crises. PNG's GDP contracted by 3.9 in 1997 and 3.8% in 1998, when the economy suffered from rising inflation (20%), dwindling external reserves (covering only 1.9 months of imports) and a fiscal deficit. After peaking in 1995, merchandise exports similarly contracted by 4.7% in 1996, 14.5% in 1997 and a further 17.9% in 1998. The merchandise trade surplus correspondingly slumped by two-thirds from $1.2 billion in 1995 to $466 million.

In 1998, the kina was devalued by around 40%. Despite the high inflation rate of 20%, it contributed to increased competitiveness of PNG exports. Merchandise exports expanded in 1999 by 5.7% and by 9.2% in 2000. The pace of recovery was not, however, sufficient for the country to regain the level of exports achieved in 1995 ($2.7 billion). The value of merchandise exports in 2000 stood at $2 billion, and the merchandise trade surplus improved to record $798 million in 2000.

1.3.2. Commodity patterns

Table 3: Top 10 traded products (HS 4-digit), 2000

EXPORT	US$ thousand	Share in total
2616 Precious metal ores and concentrates	1 019 587	42.4%
2709 Petroleum oils, oils from bituminous minerals, crude	692 139	28.8%
2603 Copper ores and concentrates	214 445	8.9%
0901 Coffee, coffee husks and skins and coffee substitutes	146 413	6.1%
1511 Palm oil and its fractions, not chemically modified	143 427	6.0%
4403 Wood in the rough or roughly squared	43 670	1.8%
0305 Fish, cured, smoked, fish meal for human consumption	14 769	0.6%
1801 Cocoa beans, whole or broken, raw or roasted	12 376	0.5%
8901 Passenger and goods transport ships, boats	10 863	0.5%
8802 Aircraft, spacecraft, satellites	10 338	0.4%
IMPORT		
2710 Oils petroleum, bituminous, distillates, except crude	224 329	21.7%
8704 Motor vehicles for the transport of goods	51 498	5.0%
1006 Rice	46 347	4.5%
8703 Motor vehicles for transport of persons, except buses	35 689	3.4%
0204 Meat of sheep or goats, fresh, chilled or frozen	24 903	2.4%
8702 Public-transport type passenger motor vehicles	19 998	1.9%
8431 Parts for use with lifting, moving machinery	19 220	1.9%
8905 Special-purpose ships, vessels n.e.s.	16 887	1.6%
4011 New pneumatic tyres, of rubber	16 704	1.6%
7310 Tank, cask, box, container, iron/steel, capacity <300	13 563	1.3%

Source: COMTRADE.

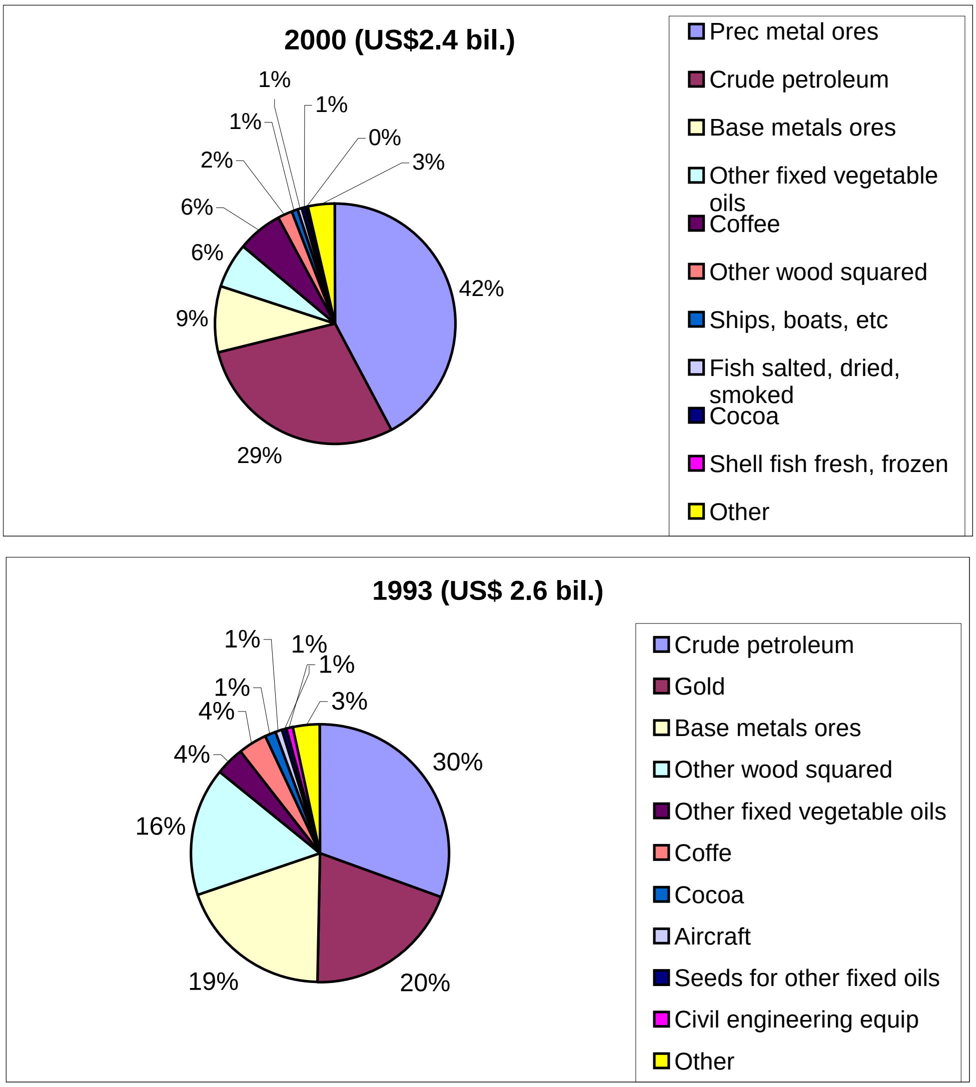
(a) Exports

PNG's export commodity is heavily concentrated (see Table 3). Over 95% of exports consist of primary commodities of minerals including crude oil, gold and coppers, as well as logs and palm oil. Other export commodities include coffee, cocoa and copra as well as fish exports (which have become significant in recent years).

In 2000, the top three export commodities (HS 4-digit) (gold, petroleum, copper) accounted for 80% of total merchandise exports. The top five products (including coffee and palm oil) accounted for more than 90% of PNG's merchandise exports. Gold (precious metal ores and concentrates) was the single most important export commodity for PNG in 2000, accounting for 42.4% of its total exports, followed by crude petroleum (28.8%), copper (8.9%), coffee (6.1%) and palm oil (6%). Other export commodities included logs (wood in the rough or roughly squared) (1.8%), fish (cured, smoked fish meal or human consumption) (0.6%), cocoa beans (0.5%), passenger and goods transport ships and boats (0.5%) and aircraft (0.4%).

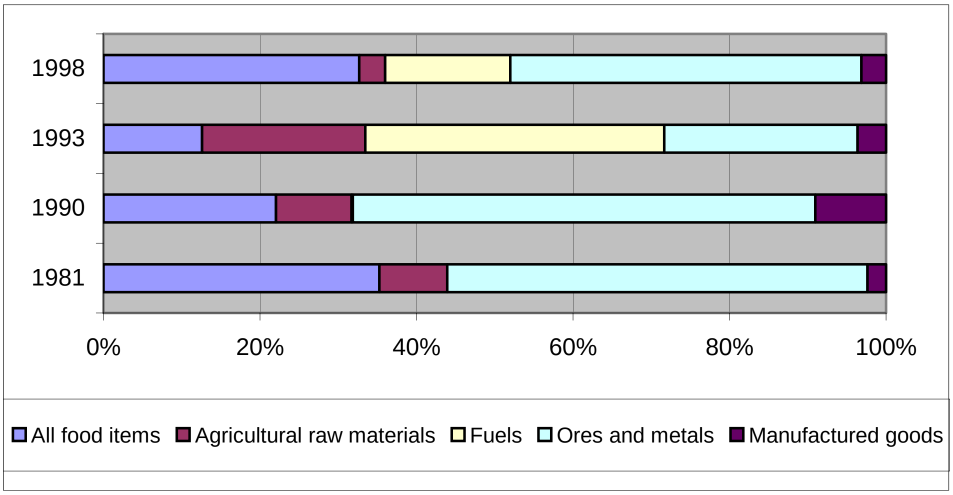
The main change in export composition from 1993 to 2000 in the SITC 3-digit product category was a doubling in the share of precious metal ores – gold (from 20% to 42%) (see chart 3). While crude petroleum exports remained fairly constant (30% to 29%), the share of base metal ores (copper) dropped by half (19% to 9%), and that of "other wood squared" dropped drastically from 16% to 2% (presumably as a reflection of lower world prices for those commodities). As to the traditional agricultural commodities, the share of coffee increased substantially from 4% to 6% while that of cocoa declined significantly from 4% to 1% during the period.

Chart 3: Commodity composition of PNG exports, 1993 and 2000 (SITC 3-digit)



Historically, the commodity composition of PNG exports has been dominated by ores and metals (see chart 4). In 1981, they accounted for over 50% of total exports. The export value of ores and metals started to increase rapidly in 1986, and in 1988 it reached a record high of over $800 million. As a result, their share in total exports increased further in 1990 so that they represented about 60% of total exports. However, after peaking in 1989, the export value of ores and metals declined substantially in the early 1990s. The pattern of commodity composition of PNG's exports changed significantly in 1993, when crude petroleum started to replace ores and metals as the most important export commodity. In 1993, fuel exports accounted for nearly 40% of total exports, at $800 million exceeding those of ores and metals (over $500 million or 20% of the total). In 1998, exports of ores and metals resumed their prominence at 44% (as noted above) compared to 16% for fuels.

Chart 4: Evolution of composition of merchandise exports by commodity group

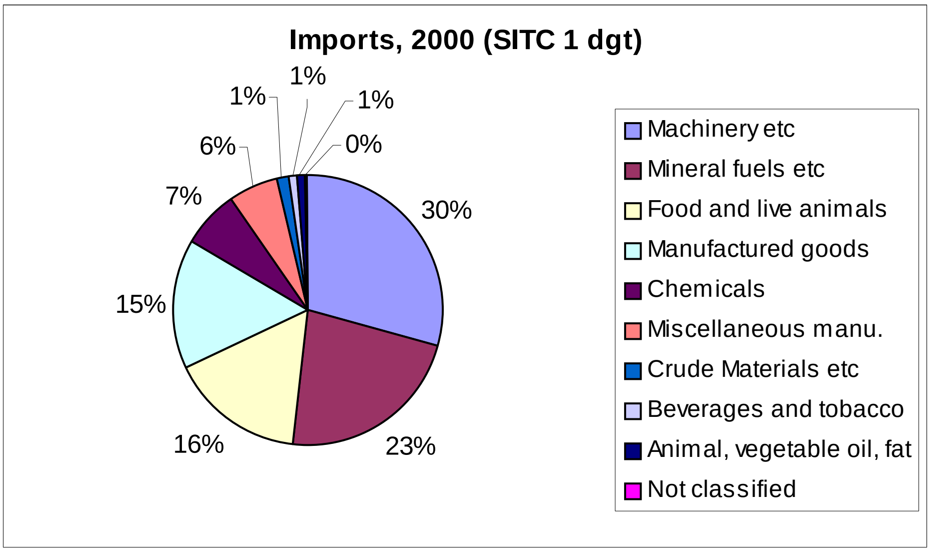


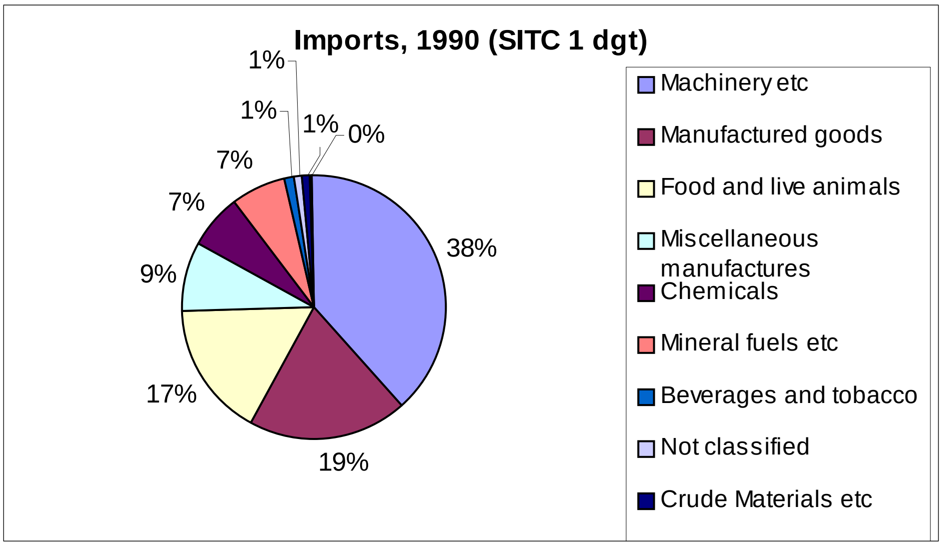
Another feature of historical evolution in the commodity composition of merchandise exports of PNG has been stagnant manufacturing exports. They accounted for 3.1% of total exports in 1998 and showed little sign of improvement in comparison with previous years since 1993.

(b) Imports

In 2000, PNG's imports were dominated by manufactured goods, including machinery and transport equipment, "other manufactured goods" such as textiles and clothing, and chemical products, as well as miscellaneous manufactured goods (see chart 5 and table 3). Machinery and transport equipment accounted for 30% of total imports, followed by other manufactured goods (15%), chemicals (7%) and miscellaneous manufactures (6%). The major change from 1990 to 2000 is the decline in the share of "machinery" from 38% to 30% and the increase in the share of "manufactured goods" from 19% to 15%.

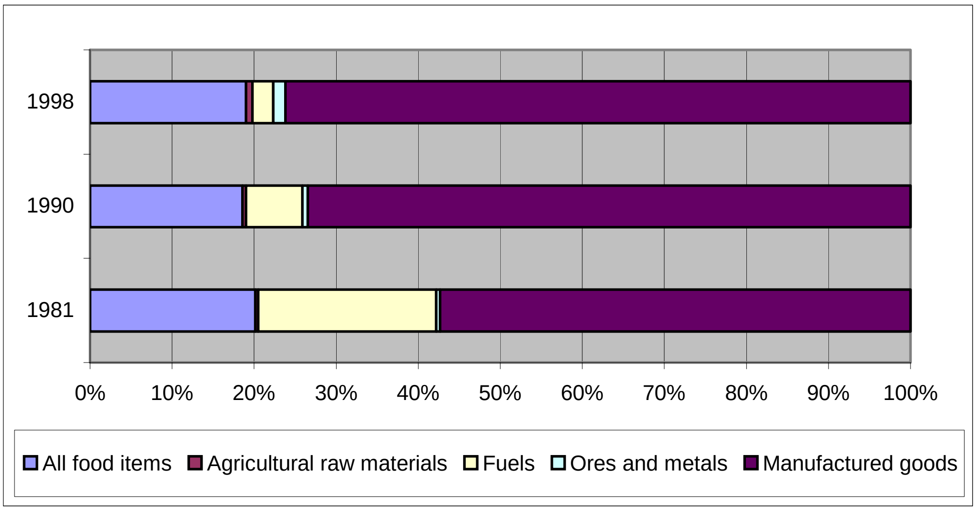
Chart 5: Commodity composition of merchandise imports, 1999 and 2000 (SITC 1-digit)





In 1998, over 70% of imports were accounted for by manufactures (see chart 6). Their share has increased progressively since 1981, when it was below 60%. Manufactured goods were followed by all food items at around 20%; fuels, ores and metals; and agricultural raw materials. During the past 20 years or so, the major evolution has been the steadily increasing share of manufactures in total imports, and the corresponding declining share of fuels. The share of "all food items" remained constant at around 20% over the same period.

Chart 6: Evolution of merchandise imports by commodity group, 1981, 1990 and 1998



At the lower level of disaggregation, the composition of PNG's imports shows a lesser degree of concentration than is the case for exports, with a wider range of products than exports. At the HS 2-digit level, in 2000 the top five imported products accounted for some 51% of total imports as compared to 95% in the case of exports. The largest share was recorded by mineral fuels, oils and distillation products (22.2%), followed by vehicles (11.8%); nuclear reactors, boilers and machinery (11.3%); cereals (6%); and articles of iron and steel (4.3%).

At the individual product level (HS 4-digit) in 2000, major import commodities included oil petroleum (21.7%), motor vehicles for transport of goods (5%), rice (4.5%), motor vehicles for transport of persons, except buses (3.4%), meat of sheep or goats (2.4%) and public-transport-type passenger motor vehicles.

(c) Revealed comparative advantage (RCA)

The revealed comparative advantage (RCA) measures the ratio of specialization for exports in a given commodity relative to the world average (calculated as the ratio of the share of a given commodity in the country's total exports over the same share for the world as a whole). The table in Annex 1 summarizes the values of PNG's exports and imports by HS chapter and calculates the RCA for each product category. The value of "RCA 2" greater than unity (1) thus signifies that the country is more specialized in the exports of that sector than the world average, exporting the commodity more intensively than the average world trader. The RCA shows that PNG may have comparative advantage in the following mineral and primary commodities, as well as processed food items: HS26 ores (gold, copper) (RCA125.91); HS09 coffee, tea, mate and spices (coffee, cocoa) (29.69); HS15 animal, vegetable fats and oils (palm oils) (17.86); HS27 mineral fuels (crude petroleum) (3.01); HS03 fish (2.44); and HS44 wood and articles of wood (logs) (2.03).

The RCA index of 125.6 for ores (HS26), along with their dominant share in total exports (51.3%), confirms PNG's heavy reliance on the production and export of mineral ores. However, the RCA does not necessarily correspond to the share of exports, as it shows a country's export performance relative to the world average. The RCA for crude petroleum, for instance, is small (3.0), although positive, as compared to its share of 28.8% in total exports. By contrast, coffee and palm oils enjoy a higher RCA of 26.69 and 17.86 respectively as compared to their share in the country's total exports of 6.2% and 6.4% respectively, indicating their relatively high degree of comparative advantage, thus specialization, compared to the world average.

1.3.3. Direction of trade

PNG's merchandise trade remains heavily concentrated on a small number of partners, especially those in Oceania and Asia. The top three export markets, Australia, the European Union and Japan, account for about three-quarters of PNG exports (72%).[9] Their share was significantly higher previously, representing almost 80% in 1990 and 90% in 1980. On the import side, the extent of concentration is more pronounced. Australia is predominant with its share of 55%. In 1999, together with ASEAN (21%) and Japan (6%), the top three exporters accounted for 82% of PNG imports. The degree of concentration has been increasing principally owing to the rise in Australia's share as a single most important import source. Its share rose from 41% in 1980 to 48% in 1990 and 55% in 1999.

(a) Exports

In terms of regional distribution of export markets, the share of the Asia-Pacific region has increased significantly in the past two decades as exports to developing countries in the region, notably Korea, China and ASEAN, have increased significantly, while those to developed countries in Asia and Oceania, namely Australia and Japan, have remained fairly constant (see Table 4). The overall share of Asia and Oceania as an export destination rose from 52% in 1980 to 74% in 1999. The increase mirrored the growth in the share of

[9] IMF, Direction of Trade Statistics.

developing countries in the region from 5% in 1980 to 21% in 1999. During the same period, the share of developed countries in the region remained within the range of 52 to 55%.

In 1999, Australia was the single most important export market for PNG, representing more than one-third of total exports (36.6%), followed by Japan (16.2%), Germany (9.2%), the Republic of Korea (6.6%) and the United States (6.3%). If the European Union and ASEAN are each considered as a group, the European Union is ranked second (19%) and ASEAN fourth (10%).

Table 4: PNG's export markets, 1999, 1990 and 1980 ($ million)

	1999			**1990**			**1980**		
Rank	Total	2 008			1 257			1 132	
1	Australia	734	36.6%	Japan	351	27.9%	Japan	422	37.3%
2	Japan	325	16.2%	Australia	329	26.2%	Germany	282	24.9%
3	Germany	185	9.2%	Germany	201	16.0%	Australia	162	14.3%
4	Korea, Rep. of	132	6.6%	Korea, Rep. of	125	9.9%	United States	53	4.9%
5	United States	127	6.3%	Philippines	54	4.3%	Spain	48	4.2%
6	China	78	3.9%	United Kingdom	54	4.3%	United Kingdom	44	3.9%
7	Indonesia	70	3.5%	Finland	36	2.9%	Netherlands	32	2.8%
8	United Kingdom	70	3.5%	United States	30	2.4%	China	19	1.7%
9	Philippines	53	2.6%	Singapore	18	1.4%	American Samoa	16	1.4%
10	Netherlands	49	2.4%	New Zealand	12	1.0.%	Korea, Rep. of	9	0.8%
11	Thailand	45	2.2%	Netherlands	8	0.6%	Belgium-Luxembourg	7	0.6%
12	Italy	39	1.9%	Switzerland	7	0.6%	New Zealand	6	0.5%
13	Belgium	21	1.1%	India	5	0.4%	Singapore	6	0.5%
14	Malaysia	17	0.9%	Canada	4	0.3%	Hong Kong (China)	5	0.4%
15	Singapore	11	0.6%	Indonesia	4	0.3%	Other countries	5	0.4%
16	Canada	9	0.5%	Hong Kong (China)	3	0.2%	Philippines	5	0.4%
17	Spain	8	0.4%	France	3	0.2%	France	4	0.4%
18	Hong Kong (China)	5	0.3%	Solomon Islands	3	0.2%	Guam	2	0.2%
19	New Zealand	5	0.3%	Belgium-Luxembourg	2	0.2%	Solomon Islands	2	0.2%
20	Poland	5	0.3%	China	2	0.2%	Canada	1	0.1%
21	Greece	3	0.2%	South Africa	2	0.2%	Italy	1	0.1%
22	Solomon Islands	3	0.2%	Fiji	1	0.1%	Portugal	1	0.1%
23	India	2	0.1%	Malaysia	1	0.1%	**Memo**		
24	Mauritius	2	0.1%	Middle East	1	0.1%	European Union	417	36.8%
25	New Caledonia	2	0.1%	Thailand	1	0.1%	ASEAN	11	1.0%
26	Austria	1	0.1%	**Memo**			FICs	2	0.5%
27	Bangladesh	1	0.1%	European Union	305	24.3%			
28	Denmark	1	0.1%	ASEAN	78	6.2%			
29	Fiji	1	0.1%	FICs	4	1.1%			
30	France	1	0.1%						
31	Portugal	1	0.1%						
32	Vanuatu	1	0.1%						
33	Venezuela	1	0.1%						
	Memo								
	European Union	381	19.0%						
	ASEAN	196	9.8%						
	FICs	5	0.7%						

Source: I*MF Direction of Trade.*

Over the past two decades, the share of exports to ***Australia*** has increased continuously (see also Annex 3), from 14% in 1980 to 26% in 1990 and 37% in 1999. It became the single largest export market for PNG in 1999, with export value amounting to $734 million, up from $329 million in 1990 and $162 million in 1980. PNG's exports to Australia are dominated by the two major mineral commodities, crude petroleum and gold, which together accounted for about 90 percent of total PNG exports to Australia in 2001. Other export products included copper (4.73%), coffee (1.37%), wood (0.68%), silver (0.49%) and shellfish (0.36%). During the period 1992–2001, the value of gold exports to Australia declined continuously, while exports of crude petroleum experienced a sharp drop in 1996 and 1997 before regaining their peak level of $600 million in 1995.

While Australia's share in PNG's exports has increased steadily over the last two decades, the regional distribution of exports has seen a corresponding decline in the share of the European Union and Japan**,** two dominant export destinations in 1980. In particular, Japan was the single most important market for PNG in 1980 and 1990 with export values of $422 million and $351 million respectively, compared to $185 million in 2000. Its share declined from 37% in 1980 to 29% in 1990, then further to 16% in 1999, so that Japan became the third export market after Australia and the European Union. In 1999, PNG's exports to Japan were dominated by three traditional mineral and forestry products – copper (39.25%), logs (wood in the rough n.e.s.) (29.98%) and gold (16.11%). Other export products included logs (wood in the rough) (3.64%), copra (3.58%), shrimps and prawns (1.95%), wood in chips or particles (1.11%), coffee (1.11%), tuna (0.82%) and wood in the rough of beech (0.53%). During the 1990s, PNG exports to Japan of copper and wood were more predominant. Both commodities saw their export value decline sharply in the mid-1990s, partly reflecting a decrease in commodity prices after the Asian financial crisis. In contrast, the export value of gold increased noticeably in the late 1990s.

In 1999, the ***European Union*** as a group was the second largest export market for PNG. Exports of $381 million accounted for 19% of PNG's total exports. Still, the European Union's share was significantly greater in 1980 at 37% ($417 million) and in 1990 at 24% ($305 million). Among the EU countries, some 50% of PNG's exports go to Germany, and another one-fifth to the United Kingdom. ***Germany*** was the third single largest export market for PNG in 1999, with an export value of $132 million, or 9.2% of total PNG exports. The substantial decline in Germany's share from 24.9% in 1980 to 16% in 1990 and 9.2% in 1999 contributed substantially to the declining share of the European Union as a whole. Exports to the United Kingdom, with a value of $70 million, accounted for 3.5% of total PNG exports in 1999, placing it eighth in the ranking of export markets. The figure represents a slight decline since 1980 (3.9%) and 1990 (4.5%). Other export markets for PNG within the European Union include the Netherlands ($49 million, or 2.4% of the total), Italy ($39 million, or 1.9%), Belgium (21 million, or 1%), Spain ($8 million, or 0.8%), Greece ($3 million, or 0.3%), and Austria, Denmark, France and Portugal (respectively $1 million, or 0.05%).

PNG's exports to the European Union are accounted for by traditional mineral and agricultural commodities, namely palm oil (30.72%), coffee (26.67%), copper (14.62%), coconut (6.92%), copra (6.87%), cocoa (2.74%), canned tuna (1.34%), tea (1.11%) and rubbers (0.56%). In the case of Germany, copper and coffee have been the major exported products. Exports of these commodities declined significantly in the late 1990s. PNG exports to the United Kingdom have been predominantly in palm oil. The exports boomed in the mid-1990s before declining towards the late 1990s to the pre-boom level of around $70 million.

The Republic of Korea was the fourth largest single export market for PNG, and the most important export market for PNG among developing countries, with its export value standing at $132 million, or 6.6% of the total in 1999. While Korea's share declined from that of 1990 (9.9%), its rising share in PNG exports has been significant, as it accounted for only 0.8% in 1980. Copper and logs (other wood roughly squared) dominated PNG exports to Korea, representing respectively 68.89% and 28.57% of total PNG exports to Korea, while exports of crude petroleum occurred in the early 1990s. Other exported commodities include wood (shaped, rail sleepers) (1.11%), coffee (0.61%), palm oil (0.29%), veneers/plywood (0.25%) and canned fish (0.2%). The export value of copper and logs commodities (particularly the latter) declined significantly in the late 1990s, reflecting the Asian financial crisis and declining commodity prices, thereby contributing significantly to Korea's reduced share in PNG's export market.

The ***United States*** was the fifth largest export market for PNG, although it played a less significant role in comparison with its market size. It imported $127 million worth of goods from PNG in 1999, which accounted for 6% of PNG exports. The United States was the fourth largest importer for PNG in 1980 (4.7%) and the eighth largest in 1990 (2.4%). Exports to the United States in 2001 consisted mainly of coffee (38.82%), cocoa (31.3%) and canned fish (20.24%). Tea exports amounted to 3.3%. In the 1990s, crude petroleum had dominated PNG exports to the United States. Sugar was also traded under quota.

China was the sixth single largest export market for PNG in 1999. Export value amounted to $78 million, representing 3.9% of total PNG merchandise exports. China's share has risen significantly since 1980 (1.7%) and 1990 (0.2%). Timber (81.51%) and crude petroleum (15.37%) are the two dominant commodities exported to China and together account for 97% of total PNG exports to China. Between 1998 and 2001, the value of timber exports to China quadrupled, in part offsetting declining crude petroleum exports.

The rise in the share of ***ASEAN*** economies since 1980 has also been remarkable. In 1999, ASEAN as a group was the fourth export market for PNG after Australia, the European Union and Japan. It accounted for some 10% of PNG total exports, at a value of $196 million. The share of ASEAN in the total PNG exports has grown significantly since 1980 (1%) and 1990 (6%). Among ASEAN members, Indonesia was the single largest export market for PNG and also the seventh largest export market, accounting for 3.5% ($70 million) of total PNG exports, compared with 0.3% in 1990. The Philippines**,** ranked ninth, imported $53 million from PNG in 1999, or 2.6% of the total, compared to 4.3% in 1990 and 0.4% in 1980. Other ASEAN economies importing from PNG included Thailand (ranked eleventh with $45 million or 2.2%), Malaysia (fourteenth with $17 million or 0.8%) and Singapore (fifteenth with $11 million or 0.5%).

In 2001, PNG's exports to Thailand composed largely of two items, crude petroleum (49.42%) and fish (chilled, frozen) (48.72%). Exports to the Philippines are predominantly in copper (93.15%), while in the mid-1990s wood exports were more important. Cocoa (65.42%) and wood (21.12%) are the two major export commodities to Indonesia; since 1998 their value has gone from quasi non-inexistent to significant. Singapore imports mainly cocoa (65.04%) and crude vegetable (12.24%) from PNG.

The ***Pacific Forum countries*** (Solomon Islands, Fiji and Vanuatu) as a group imported $5 million worth of PNG products in 1999, or 0.2% of total PNG exports. Only Solomon Islands ($3 million; 0.2%) appeared among PNG export markets in 1980 and 1990 (0.2%), while Fiji appeared in the 1990 list of export markets with a share of 0.1%. The composition of export commodities to Fiji shows a pattern different from that of other PNG major export markets, with some manufacturing and non-traditional agricultural products being among the exported commodities. Among the top exported commodities are civil engineering equipment (31.4%), lorries (special motor vehicles) (21.14%), coffee (9.26%), cereal preparations (6.05%), other machinery for specific industries (5.38%), non-alcoholic beverages (4.59%) and canned fish (3.34%).

(b) Imports

PNG's imports are increasingly sourced from Australia, which accounted for 54.5% of imports in 1999, compared to 47.4% in 1990 and 40.9% in 1980 (see Table 5). Australia has been the single most important exporter to PNG throughout these years. In 1999 it was followed by Singapore (13.1%), Japan (5.7%), New Zealand (5.25%) and Malaysia (3.7%) as major suppliers (see also Annex 2).

Table 5: PNG import sources, 1980, 1990 and 1999 ($ million)

	1999			1990			1980		
Rank	Total	1 228			1 299			1 013	
1	Australia	669	54.5%	Australia	616	47.4%	Australia	414	40.9%
2	Singapore	161	13.1%	Japan	175	13.5%	Japan	183	18.1%
3	Japan	70	5.7%	United States	127	9.8%	Singapore	155	15.3%
4	New Zealand	52	4.2%	Singapore	112	8.6%	United States	66	6.5%
5	Malaysia	45	3.7%	New Zealand	44	3.4%	United Kingdom	43	4.2%
6	United States	45	3.7%	United Kingdom	31	2.4%	New Zealand	41	4.1%
7	China: Mainland	32	2.6%	China	27	2.1%	Hong Kong (China)	23	2.3%
8	Indonesia	32	2.6%	Canada	25	1.9%	Germany	14	1.4%
9	Thailand	22	1.8%	Hong Kong (SAR of China)	22	1.7%	Netherlands	13	1.3%
10	Hong Kong (SAR of China)	17	1.4%	Germany	18	1.4%	Other countries	12	1.2%
11	Korea, Rep. of	15	1.2%	Indonesia	13	1.0%	China	12	1.2%
12	United Kingdom	13	1.1%	France	13	1.0%	Canada	5	0.5%
13	Germany	8	0.7%	Korea, Rep. of	12	0.9%	Brazil	5	0.5%
14	Sudan	8	0.7%	Malaysia	10	0.8%	Malaysia	4	0.4%
15	Philippines	4	0.3%	Italy	10	0.8%	Belgium-Luxembourg	3	0.3%
16	Denmark	3	0.2%	Thailand	9	0.7%	Philippines	3	0.3%
17	Fiji	3	0.2%	Netherlands	5	0.4%	Sweden	3	0.3%
18	France	3	0.2%	Chile	5	0.4%	France	2	0.2%
19	Ireland	3	0.2%	Denmark	4	0.3%	Italy	2	0.2%
20	Netherlands	3	0.2%	Philippines	3	0.2%	Switzerland	2	0.2%
21	Canada	2	0.2%	Sweden	3	0.2%	Thailand	1	0.1%
22	India	2	0.2%	Belgium-Luxembourg	2	0.2%	Korea, Rep. of	1	0.1%
23	Italy	2	0.2%	Sudan	2	0.2%	Denmark	1	0.1%
24	Bangladesh	1	0.1%	Yugoslavia, SFR	1	0.1%	India	1	0.1%
25	Belgium	1	0.1%	Fiji	1	0.1%	Bangladesh	1	0.1%
26	Brazil	1	0.1%	Ireland	1	0.1%	Malawi	1	0.1%
27	Chile	1	0.1%	India	1	0.1%	Hungary	1	0.1%
28	Israel	1	0.1%	Bangladesh	1	0.1%	Peru	1	0.1%
29	Malawi	1	0.1%	Brazil	1	0.1%	**Memo**		

30	Middle East	1	0.1%	Malawi	1	0.1%	European Union	81	8.0%
31	Korea, PDR	1	0.1%	Middle East	1	0.1%	ASEAN	163	16.1%
32	Norway	1	0.1%	Norway	1	0.1%	FICs	0	0.0%
33	Russia	1	0.1%	Finland	1	0.1%			
34	South Africa	1	0.1%	Switzerland	1	0.1%			
35	Spain	1	0.1%	**Memo**					
36	Sri Lanka	1	0.1%	European Union	88	6.8%			
37	Sweden	1	0.1%	ASEAN	147	11.3%			
	Memo			FICs	1	0.1%			
	European Union	38	3.1%						
	ASEAN	264	21.5%						
	FICs	3	0.2%						

Source: *IMF Direction of Trade.*

The value of imports from ***Australia*** in 1999 stood at $669 million, up from $616 million in 1990 and $414 million in 1980. The bulk of this value represented mineral and agricultural products in raw and processed form, including (SITC 3-digit 2000): petroleum products, refined (36.4%); rice (7.6%); meat (4.4%); mechanical handling equipment (2.9%); and metal tanks and boxes (2.6%).

The ASEAN countries, including Singapore, Malaysia, Indonesia, Thailand and the Philippines, together represented the second largest source of imports for PNG in 1999. They accounted for 21% of total imports, or $264 million, compared to 11% in 1990 and 15% in 1980. Singapore had the largest share, ranking as the second single most important import source for PNG, with 5.7% of total imports, or $161 million. However, Singapore’s share declined from 8.6% in 1990 and 15.3% in 1980. Imports from Singapore in 2000 included ships, boats (6.1%); fertilizers, manufactured (5.8%); iron, steel tubes and pipes, etc. (4.7%); fixed vegetable oils, soft (4.1%); and petroleum products, refined (3.2%). Malaysia increased its share in 1999 to become the fourth single largest import source for PNG with its exports of $45 million representing 3.7% of the total, compared to 0.8% in 1990 and 0.4% in 1980. Indonesia (eighth) and Thailand (ninth) exported $32 million and $22 million respectively to PNG in 1999. Their respective shares were 2.6% and 1.8%, compared to 1% in 1990 for Indonesia and 0.7% for Thailand. The Philippines exported $4 million, or 0.3% of the total, in 1999, compared to 0.2% in 1990 and 0.3% in 1980.

The share of ***Japan,*** the third single largest import source of PNG after Australia and Singapore, was 5.7% in 1999, a sharp decrease from 1990 (13.5%) and 1980 (18.1%), when Japan was the second largest import source for PNG. Its 1999 value amounted to $70 million. Imports from Japan in 2000 included lorries, special motor vehicles (33.3.%); passenger motor vehicles, excluding buses (24.4%); road motor vehicles (15.1%); rubber tyres and tubes (7.8%); and civil engineering equipment (4.9%).

New Zealand was the fourth largest import source for PNG, accounting for 4.2% of total PNG imports ($52 million), compared to 3.4% in 1990 and 4% in 1980.

The ***United States*** ranked sixth, exporting $45 million or 3.7% of total imports. Its share declined from 1990 (9.8%) and 1980 (6.5%). In 2000, its exports to PNG included fish, fresh, chilled or frozen (11.4%); ships and boats (7.2%); wheat, etc., unmilled (5.4%); metal tanks, boxes, etc. (5%); and cereals (3.7%).

The ***European Union*** as a group ranked fifth among PNG's import sources in 1999. However, its share remained small in comparison with its share in PNG exports – at 4%, or $38 million, down from 6.8% in 1990 and 8% in 1980. The largest share was accounted for by the United Kingdom (1.1%), followed by Germany (0.7%), Denmark (0.2%), France (0.2%), Ireland (0.2%), the Netherlands (0.2%), Belgium (0.1%), Spain (0.1%) and Sweden (0.1%).

China, Hong Kong (China) and ***the Republic of Korea*** respectively accounted for 2.6%, 1.4% and 1.2% of PNG's total imports in 1999. China's share was up from 2.1% in 1990 and 1.2% in 1980, while that of Hong Kong (China) was down from 1.7% in 1990 and 2.3% in 1980. Korea's share rose in comparison with 1990 (0.9%) and 1980 (0.1%).

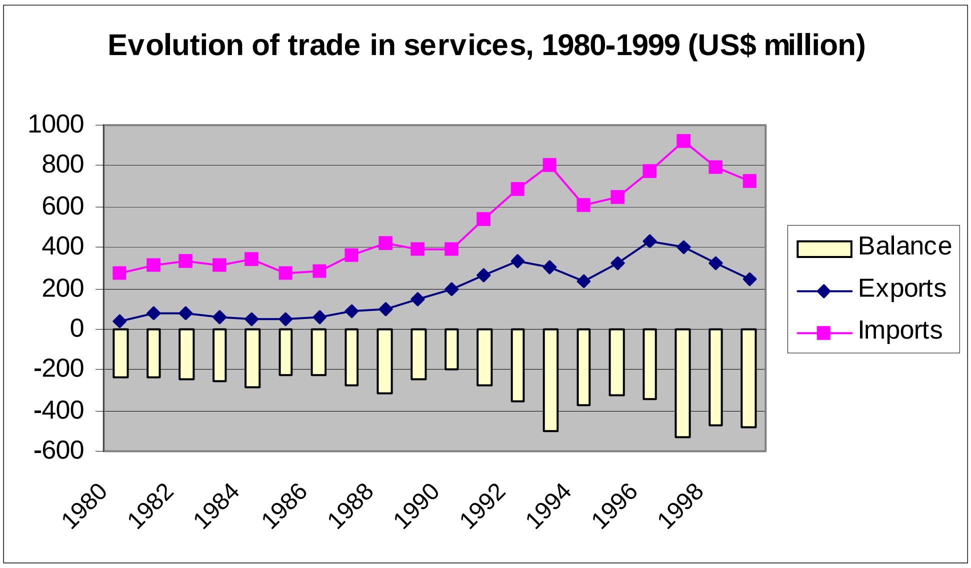
Among Pacific Island Forum Countries (FICs), only Fiji exported to PNG in 1999. It exported to PNG $3 million worth of goods accounting for 0.2% of the total, compared to 0.1% in 1990.

1.4. TRADE IN SERVICES

The service sector was the single most important contributor to GDP until 1995. The sector's share in GDP remained constant at around 40% in 1970, 1980 and 1990. In 1995 its share dropped to 34.4% while that of industry, including manufactures, increased to 36.9%. Throughout the late 1990s, services accounted for around 33% of GDP and remained the second most important contributor to GDP after industry, except in 1997. In 1999, the services sector reportedly contributed to 24.4% of GDP. Within the sector, community and social services accounted for 15% of GDP in 1997, followed by commerce with 10%, construction with 6% and transport with 5% (WTO 1999).

Despite the importance of services in national income generation, trade in services is under-developed in PNG. Services exports account for a relatively small share of total exports (goods and services) – about 10% in 1999. This figure is lower than that of other Pacific Island countries for which data are available and lower than figures for other developing countries, which indicates PNG's specialization in the production and export of goods. In 1999, PNG exported $248 million and imported $728 million, or 7.4% and 20.5% of PNG's GDP respectively. PNG's share in world service trade remained insignificant at around 0.02%. The service trade balance was consistently deficitary from 1980 to 1999. The degree of deficit was greater in the 1990s than in the 1980s. In 1999, the service trade deficit amounted to $480 million, which represented a slight improvement since 1997, when the deficit recorded was the highest ever: $527 million. Throughout the 1990s, the deficit level worsened in comparison with that of the 1980s. This coincides with the beginning of the production of petroleum exports. About two thirds of this deficit is reported to be associated with the mineral sector.

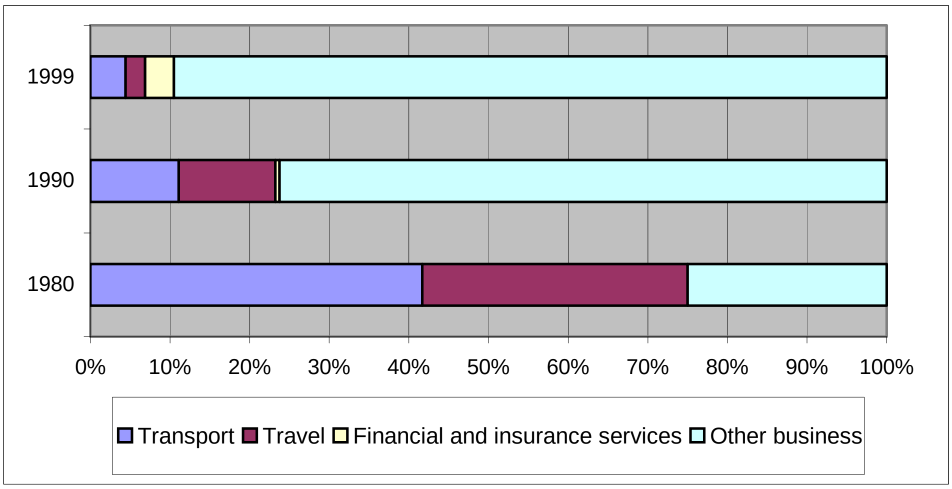
Chart 7: Evolution of trade in services, 1980–1999 ($ million)



(a) Exports

Over the past two decades (1980–1999), the value of service exports increased by a factor of 7 and imports by a factor of 3. In particular, rapid growth occurred in the late 1980s, largely outpacing world growth in services trade before slowing down markedly from 1996 until 1999. In general, the faster growth of service exports than imports reflects the fact that service accounted for a smaller value for exports than for imports at the beginning of 1980. The value of services imports consistently exceeded that of services exports during the past 20 years, and the country continued to register a service trade deficit. This deficit increased sharply from 1991 and 1995 to peak in 1993 and 1997. In 1997 the service trade deficit recorded its worst level: $527 million.

Chart 8: Evolution of service exports by sector, 1980, 1990 and 1999

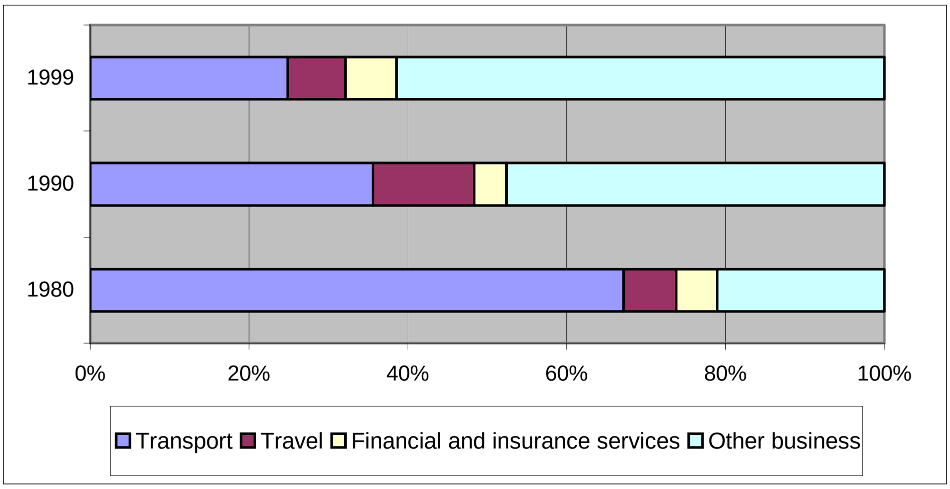


Reflecting the preponderance of services imports, the share of services in PNG's total trade is greater for imports than for exports. The share of services in total trade has been increasing for both imports and exports, but faster for imports. In 1980, services trade accounted for about 18% of imports and 3% of exports. By 1999, its share increased to 38% for imports and 12% for exports. In short, trade in services is assuming an increasingly important role in PNG's economy.

The sectoral composition of PNG's services exports has changed significantly during the past 20 years. In 1980, the major export sector was "transport" followed by "travel" while "financial and insurance" services was quasi-non-existent. Since the mid-1980s, the value of exports in "other business", which includes professional services, has increased rapidly from $9 million a peak in 1996 of $371 million. In 1999, "other business" accounted for nearly 90% of total services exports. By 1999, exports of "financial and insurance services" became the third important export sector after "other business" and "transport".

(b) Imports

Chart 9: Evolution of service imports by sector, 1980, 1990 and 1999



PNG imports a significant amount of professional and financial services. In 1999, "other business" accounted for more than 60% of total service imports. "Transport" accounted for around 25% of total imports, followed by "travel" and "financial and insurance" services. The evolution of services imports during the last 20 years has been marked, with a consistent increase in the value and share of "other business". The value of "other business", starting at below $100 million in 1980, begun to increase drastically in 1990 to reach $600 million in 1993, and continued to increase until 1999 after the share dropped in 1993 and 1994. While the value of imports in the "other service" remained static, its share in total service imports increased almost threefold by 1999.

Chapter II
PAPUA NEW GUINEA'S TRADE POLICY SETTINGS AND ENVIRONMENT

The lack of a coherent institutional and policy framework on trade policy raises the need for a new approach to trade policy, based on the Government's Recovery and Development Plan. Such a lack of vision, objective, coherence and coordination in trade policy formulation and implementation has been documented. The WTO Trade Policy Review of PNG, for instance, noted that "PNG's trade policy have been conducted on a largely ad hoc basis", and that "no clear trade policies were set, and poor coordination of trade policies existed between responsible departments, especially between Foreign Affairs and Trade" (WTO 1999). It concluded that "trade policy formulation was therefore fragmented and often lacked coherence". This recognition is shared by the DTI (2002) report, which states that "Papua New Guinea has not had a comprehensive trade policy since becoming a sovereign nation" and that "international trade and domestic trade have actually been carried out on an ad hoc, uncoordinated and incoherent manner such that Papua New Guinea's performance in trade has been below expected levels". The Recovery and Development Plan can help address this problem by developing a trade policy and integrating this policy into wider national development policies, plans and objectives, while ensuring that national development plans in turn mainstream policies for export-led growth. This chapter reviews the existing trade policy settings and environment and how they affect the mainstreaming of trade into development strategies.

2.1 INSTITUTIONAL FRAMEWORK

The principal ministries responsible for international trade and economic policies are the Prime Minister's Department, Foreign Affairs, Trade and Industry, Treasury, Agriculture, Mineral Resources, Petroleum and Energy, Lands, and Employment and Youth. The Department of National Planning and Rural Development is very important owing to its responsibility for medium-term development planning and aid coordination. Other relevant departments include Public Enterprises and Environment and Conservation. Several statutory sectoral authorities are also relevant to trade policy formulation and implementation, including the PNG Forest Authority and the PNG Fisheries Authority. Trade in services involves line agencies including the Departments of Transport, Works and Civil Aviation, Communications, and Health and Education.

The lead institution in trade policy formulation and implementation and in trade negotiations is the Department of Trade and Industry, under the ministerial jurisdiction of the Ministry of Trade and Industry. A clearer definition of the leading role of the Department of Trade and Industry would facilitate better coordination of multi-faceted trade policy instruments and implementations. This is particularly the case with the determination, administration and collection of customs and import duties. The responsibility currently falls to the Internal Revenue Commission under the authority of the Ministry of Treasury and Planning.

The Internal Revenue Commission was established in 1992 and is in charge of collecting excise and trade taxes, both imports and exports, as well as determining tariff rates upon requests from industry through the Council of Manufactures and/or the Department of Commerce and Industry. The Government, through the Internal Revenue Commission (and in consultation with relevant ministries), on approval by the Minister for Treasury and Planning, may authorize, on a case-by-case basis, exemptions, remissions and concessions on trade and excise taxes.

It has been suggested that, in order to facilitate better coordination between the Ministries, trade policy and promotion be complemented by trade facilitation measures.

The private sector maintains a working relationship with the Government, mainly through the PNG Manufactures' Council, which consults regularly with Government departments and statutory bodies. Other private associations include the Business Council of PNG, the Chamber of Commerce, and the Chamber of Mines and Petroleum.

The national Government holds treaty-making power under the Constitution. International treaties and conventions are not directly applicable in PNG without being transformed into domestic legislation. Thus national enforcement of WTO or other international trade agreements depends on the existence of relevant domestic legislation. The main trade-related laws in PNG include the Customs Act, the Exports Act, the Commercial Advertisement Act, the Foreign Exchange Control Act, the Land Act 1996 and the National Institute of Standards and Industry Technology Act.

International trade agreements and arrangements to which PNG is party include the WTO (9 June 1996), the Cotonou Partnership Agreement with the European Union (previously the Fourth Lomé Convention), Asia-Pacific Economic Cooperation (APEC) (1994), the South Pacific Regional Trade and Economic Agreement (SPARTECA), the South Pacific Forum, the Melanesian Spearhead Group (MSG), PICTA-PACER, the Australia-PNG Trade and Commercial Relations Agreement (PATCRA) and the PNG/Fiji Trade Agreement. PNG is also a beneficiary country of the Generalized System of Preferences (GSP) schemes provided by major developed countries and economies in transition (see section 3.3).

2.2 DOMESTIC TRADE POLICIES AND INSTRUMENTS

A key PNG trade policy objective has been the "domestication" of value-adding processing activities involving primary agricultural and mineral products. Another pillar of trade policy has been the promotion of manufacturing, including food-processing activities. The PNG economy and government revenue are sensitive to commodity prices, in particular for logs, fish, gold, copper and petroleum, as PNG is a largely agrarian and resource-based economy dependent on production of primary commodities. The share of agricultural production in GDP is particularly significant if subsistence farming is taken into account.

Trade taxes, import duties and export taxes have been major trade policy instruments. Relatively high tariff protection has been granted to canned mackerel, sugar and plywood. The tariff structure, which provides higher protection for agriculture, forestry and fishing (averaging 25% as of 1999), provides less assistance to traditional agricultural crops, including coffee, cocoa, copra and oil palm, all of which are traded at world prices. The manufacturing sector is subject to relatively low average rates of 8%, but key manufacturing, such as certain food and timber products, enjoys significantly higher protection.

The service sectors, primarily community and social services, commerce and construction, represent a significant portion of GDP at some 40%. Government assistance has been provided to service suppliers through restriction to market access and granting of monopolistic status to state-owned enterprises including electricity, air services, telecommunications (until 2002) and coastal shipping. This may have contributed to increased utilities costs and exacerbated the high-cost nature of the PNG economy.

Different sets of policy instruments are applied differently in each sector of the economy, providing the main characteristic of PNG's trade policy. Table 6 summarizes sectoral features in the application of trade and trade-related policies.

Table 6: Sectoral features of PNG's trade policies (in goods)

	Import measures	**Export measures**	**Internal measures**	**Production and marketing feature**
Coffee, tea and spices	40% (1999) 25% (2006)		Development of alternative crops	70% by smallholder; private marketing (Coffee Industry Corporation)
Cereals (rice)	High tariffs on cereals and animal feeds Duty-free (rice)		Subsidies of 7.5% c.i.f. for 3 years to importers; establishment of central processing locations for rice processing	Small quantities by smallholders; monopoly
Oil palm and cocoa products	30% (palm oil, copra oil and palm kernel oil)		50% participation in 2 joint ventures; Oil Palm Industry Corporation for extension and research support	1/3 by smallholders; 2/3 by joint venture with Government and foreign investors; private marketing
Forestry and logging	18% (forestry); 30% (logging products)	Export ban; export taxes (domestic processing)	License; domestic processors preferred in allocation of logging permit; price control on log and timber products by PNG Forest Authority	Royalty payable to landowners
Fishing	36% (0–40%)	Export permit for processed products (domestic processing)	Access license with DWFN (with port requirement) (with preference to locally based vessels)	Offshore/inshore fishing; under-exploited
Mining and quarrying	Duty free		Government participation in joint venture; Higher corporate taxes; requirement to establish community facility	"Enclave" large-scale foreign-owned joint ventures with governments; royalty payable to landowners
Food processing	25% (0–82%)		Price controls on flour, rice, dairy products and canned fish	Capital-intensive; relies on imported inputs destined for domestic markets

2.2.1. Import duties and other measures applying to imports

(a) Import duties

PNG's main trade policy instruments have been trade taxes, namely import duties and export taxes. However, PNG recently adopted an open trade regime in terms of border protection. Previously, both import and export taxes constituted a significant source of government revenue, accounting for more than 25% of total tax revenue in 1998. The tax reform programme introduced in July 1999 has significantly reduced the Government's reliance on trade taxes as a source of tax revenue. The share of import and export taxes in total Government tax revenue declined from 18.7% in 1999 to 7.5% in 2001 (see Table 7). It will shrink further in 2006 when the tariff reform programme is fully implemented. The programme consists of across-the-board import duty cuts and the introduction of a 10% value-added tax (VAT) on goods and services. According to the reform programme, simple average most-favoured-nation applied rates will be reduced from 20% to 5% in 2006 – a far cry from the non-weighted average tariff rate of 32% in 1995.

Since 1996, 99% of PNG tariff lines have been *ad valorem*, while specific duties apply to eggs, poultry offal, beer concentrate, tobacco and matches, and alternate duties to bottled water, beer, spirits and certain alcoholic beverages and tobacco products. During the Uruguay Round PNG bound its entire tariff schedule with agricultural products at a general rate of 45% to be implemented by 2004, and other products at 40%. A small number of products are bound at lower rates of 11%, 20% and 30%, or higher rates of 55%, 75% and 100%, applicable mainly to selected agricultural products (e.g. nuts, vegetable oils and sugar).

Table 7: PNG's sources of tax revenue, 1999–2001

	1999		2000		2001	
	K$ million	Share (%)	K$ million	Share (%)	K$ million	Share (%)
Tax receipts						
Personal tax	524.4	27.3%	544.0	23.5%	598.8	26.1%
Company tax	505.1	26.3%	692.0	29.9%	686.5	29.9%
Other direct tax	168.5	8.8%	233.6	10.1%	223.3	9.7%
Import duties	**281.5**	**14.7%**	**88.9**	**3.8%**	**73.8**	**3.2%**
Excise duties	208.5	10.9%	294.3	12.7%	294.7	12.8%
Export tax	**78.9**	**4.1%**	**133.9**	**5.8%**	**98.1**	**4.3%**
Value-added tax	146.0	7.6%	218.1	9.4%	198.3	8.6%
Other indirect tax	7.8	0.4%	110.1	4.8%	120.8	5.3%
Total tax receipts	1 920.7	100.0%	2 314.9	100.0%	2 294.3	100.0%

Source*: Bank of Papua New Guinea Bulletin,* quoted in Scollay (2002).

The tariff reduction programme was introduced under the structural adjustment programme in July 1999 as a package of tax reforms, including the introduction of VAT, and consisted of a phased tariff reduction to be implemented over eight years until 2006. The programme provided for six tariff rate bands, which were immediately reduced to four by eliminating "basic" and "inputs" duty rates for raw materials and capital goods. Other tariff bands include an "intermediate rate", "protective rates" and "prohibitive" rates (see Table 8).

Table 8: Tariff reduction programme, July 1999 to 2006
(per cent)

Tariff category	Pre-1 July 1999[a]	1 July 1999 – 30 Dec. 2000	1 Jan. 2001 – 31 Dec. 2002	1 Jan. 2003 – 31 Dec. 2005	1 Jan. 2006
Free	0	0	0	0	0
Input rate	5	0	0	0	0
Basic rate	11	0	0	0	0
Intermediate rate	40	30	25	20	15
Protective rate	55	40	35	30	25
Prohibitive rate	75–125	55	50	45	40

[a] Excludes a temporary tariff surcharge of 1.5%, which was abolished on 1 July 1999.
Source: Government of Papua New Guinea (quoted in WTO 1999).

Upon immediate substantial cuts of 5% to 70% in 1999, each band of tariffs is being reduced by 5% in each stage, so that final rates for intermediate, protective and prohibitive rates are respectively 15%, 25% and 40%.

Initially the tax reform was designed and estimated to be revenue neutral, as tariff reduction would be offset by additional revenue from the VAT and the excise tax. However, experience since 1999 indicates that tariff reduction has negatively impacted government revenue, owing mainly to tax collection and administration problems (DTI 2002). The relatively rapid pace of tariff reduction, together with the corresponding decrease in tariff revenue, has been a key cause of the Government’s difficult fiscal position. A review of the programme has been suggested so that some tariff rates can be increased within the limit of the WTO bound rates of 40%-45%, which would be subject to reduction commitments under the ongoing negotiations on agriculture and non-agricultural market access under the Doha Work Programme.

The WTO Trade Policy Review noted that the new tariff structure had increased the share of duty-free lines from 3% to 77%. Some 15% of tariff lines maintain tariff protection of 25% and 40% for products produced domestically. Special higher protection has been granted to some products, including alcoholic beverages, sugar, tinned mackerel, plywood and tobacco products, because of the Government’s contractual obligations, and they are not subject to the general tariff reduction programme.

Table 9: Tariff structure, 1999 and 2006
(per cent and percentage points)

ISIC categories	Unweighted tariff average		
	Before 1 July 1999	**1 July 1999 – 31 Dec. 1999**	**1 Jan. 2006**
Agriculture, hunting, forestry and fishing	37.8	24.6	15.8
Mining and quarrying	13.4	0.0	0.0
Manufacturing	19.5	8.0	4.7
Total	**20.4**	**8.8**	**5.3**
By stage of processing			
- unprocessed	30.0	16.2	10.3
- semi-processed	13.3	2.9	1.6
- fully processed	22.3	10.4	6.3

***Source**:* WTO (1999), Table III.3.

As for the effective rate of protection, the immediate elimination in 1999 of input and basic duties could be seen as attenuating the decrease in the effective rate of protection of final manufacturing products as a result of reducing tariff rates for final manufacturing products. The tariff reform has also involved the immediate removal of relatively high tariffs (40%–55%) on some products, although some tariff lines were reclassified as agricultural and manufacturing goods so they could continue to receive existing protection. Further, the escalating tariff structure reform would range from 0% to 40% in 2006; this is designed to encourage downstream processing. Nonetheless, the average tariff structure is de-escalating, as was shown in Table 9. The average tariff rate for unprocessed products will be 10.3% in 2006, while respective rates for semi-processed and fully processed products will be 1.6% and 6.3%. In practice, this indicates that the tariff reform structure tends to discourage downstream processing of unprocessed products while encouraging the processing of semi-processed products, which somewhat works against the Government's overall objective of promoting downstream processing and domestic value addition for resource-based products.

The Government announced in 1999 that all import duty exemptions would be removed. Previously several schemes had existed for tariff concessions (i.e. tariff exemptions) covering specific infrastructure projects or ones that were organization specific or use specific, such as cannery and specialized mining equipment. Decisions regarding more general projects were made on a case-by-case basis by the Internal Revenue Commission (e.g. permitting duty-free imports of capital equipment for new manufactures). Specialized mining and petroleum capital equipment not easily available in PNG was exempted from duty for temporary importation for approved use. Imports of aircraft and parts by a PNG-registered company with a PNG airline operator's license were also duty free. Shipping companies could import all ships duty free. Almost all import duty exemptions were removed in April 1999.

(b) Other levies and charges

The tax reform of 1999 placed greater reliance on excise taxes for revenue raising. Excise taxes, applied on both domestic and imported goods and services, have been extended mainly from alcoholic beverages, most fuels, and manufactured tobacco products to cover designated luxury goods, including motor vehicles. Except alcoholic beverages and tobacco products, all excisable products are duty free, subject to relatively high excise taxes (e.g. 60% for new passenger cars).

(c) Non-tariff measures

Other non-tariff measures applied to imports include quarantine regulations and bans on fruit, vegetables and animal and related products. A small number of products are subject to prohibition or licensing for health and safety reasons.

2.2.2. Export taxes and other measures applying to exports

While most PNG exports of agricultural and resource-based products are licensed and free from quantitative and price controls, logs and fish are subject to harvesting limits for sustainable management purposes.

(a) Export taxes

Export taxes are charged on a range of products: 5% taxes apply for exports of sea cucumbers, mineral ores and concentrates, and crocodile skins, and 15% for rattan (unprocessed). Higher progressive rates apply to round logs. Exports of sandalwood are subject to a flat rate of 15%. Export taxes, the bulk of which come from logs, represent around 4% of government tax revenue in 2001 as compared to 3% from import duties (see Table 7 above). Export taxes on unprocessed logs are seen as a means of capturing resource rents and promoting and encouraging downstream value added.

Export taxes on fish and forestry products, in particular, have been designed to promote downstream processing of these resources with a view to the development of forestry and fish industries in PNG. The WTO Trade Policy Report has been critical of such policies, which tax unprocessed activity, thereby risking creating economically inefficient downstream industries reliant on continued government support. Export taxes are seen as compounding the anti-export bias inherent in the country’s tariff and other economic policies that contribute to the high-cost nature of the economy, as well as undermining conservation of fishery and forestry resources by reducing domestic prices for unprocessed products. Some observers have contested such a view, arguing that the policy of granting exemptions from export taxes to downstream processors has caused only negligible distortion in production (Grynberg b).

(b) Export subsidies (including duty drawbacks and tax concessions)

While export subsidies per se are not provided by PNG, two income tax concessions have had the effect of promoting exports, which reduces tax payments on export profits. First, export income is exempt from tax for the first three years of export. For the next four years, income growth above the average income level for the previous three years is also exempt from tax. The scheme applies to firms producing new manufactured products. Second, a double deduction for income tax applies to expenditure on export market development costs, which covers goods fully manufactured in PNG or with local labour costs exceeding 10% of the product price. Unprocessed primary commodities and services are not eligible.

The lack of an effective duty drawback system in PNG has been seen as compounding the anti-export bias of import protection policies. However, the 1999 tariff reform eliminated virtually all tariffs on inputs and thus removed the need for a duty drawback system.

All exports except logs are zero-rated for VAT purposes. VAT is thus not levied on exports.

2.2.3. Internal measures

(a) Taxation

Indirect taxation. The introduction of a 10% single-rate VAT on all goods and services with limited exemption (e.g. health and education services) was a major component of the 1999 tax reform. VAT revenue is used to fund the tariff reductions and the removal of provincial sales taxes.

As was noted above, all exports are zero-rated for VAT purposes, except for logs. Logs are exempt from VAT whether or not they are exported, but they are not entitled to tax credits for VAT paid on inputs.

Direct taxation. Mining and petroleum companies are subject to higher income taxes than other sectors. Large resident mining, petroleum and gas ventures are subject to company tax rates of 35%, 50% and 30% respectively, compared with a non-mining company's 25%. A dividend withholding tax of 17% applies to company dividends from mining (not petroleum) firms. A special additional profits tax of 35% for mining and 27% for petroleum applies to income exceeding designated rates of return. The tax rate on smaller-scale mining projects was reduced from 35% to 25% in 1995.

Royalty. A base royalty rate of 2% is payable for mining and petroleum projects of the value of production to landowners. Royalty rates for logging companies are specific rates linked to the export price of logs.

Financial assistance has been provided to industries through a range of tax concessions and incentives, either by reducing tax payments overall or by deferring tax payments (e.g. through accelerated depreciation arrangements).

(b) Direct assistance

Direct assistance has been provided through input and transport subsidies, assistance to research and development, and concessional loans and credit.

Input and transport subsidies. Most agricultural inputs, including fertilizers, chemicals, seeds and breeding stocks, do not receive subsidies. Several government subsidies exist for coffee pulpers, cocoa fermenting vats, farm tools and sundry other equipment used by smallholders with a view to compensating for low commodity prices and improving product quality. Freight subsidies to compensate for high transportation costs are provided for cash and high-value crops such as cardamom and vanilla that are marketed from remote areas. A freight subsidy for breeding stock transported into remote regions is designed to promote genetic improvements. Transport subsidies also apply to seedlings and fertilizers used by smallholders for oil palm cultivation.

Research and development assistance. Limited direct funding for agricultural research and development is provided by the Government. The Department of Agriculture and Live Stock funds agricultural research, mostly on the four major export crops (coffee, copra, cocoa and palm oil). Government funding has been provided to the National Agricultural Research Institute, the Cocoa and Copra Research Institute, the Coffee Research Institute, and the Forest Research Institute.

Concessional loans. The PNG government has provided concessional loans for agricultural credit through Government-owned banks.

(c) Other trade-related measures (standards, testing and certification, FDI, IPR, government procurement, competition policy)

The WTO Trade Policy Report noted the following features of PNG's key trade-related policies:

- PNG does not have well-developed procedures for setting technical standards. PNG is developing arrangements for national accreditation and certification of bodies to conduct conformity testing, but no accredited testing institution currently exists.

- Under the Regulations of the Investment Promotion Act of 1992, investment in many business activities is reserved for PNG citizens and national enterprises, including small-scale agricultural activities, coastal fishing, real estate, equipment rental services, small hotels and restaurants, coastal and land transportation, and motor vehicle repair, as well as a range of wholesale and retail services.

- As of 1999, PNG had little intellectual property rights (IPR) legislation (except the Trademarks Act of 1980 and the Copyright Act of 1978). There is little or no enforcement of IPR, and there are no provisions in the Customs Act for the seizure of imported IPR-infringed goods.

- PNG has a liberal and decentralized public sector procurement system for goods and services. Preference is provided to domestic companies below the ceiling of K$500,000.

- As of 1999, no national competition policy or specific competition legislation existed in PNG except the Consumer Protection Act and the Price Control Act. Price controls are applicable to a range of goods and services, mainly key agricultural products, including flour, rice, dairy products and canned fish, as well as utility services, shipping freight rates, and internal air fares. The Government is also heavily involved in the marketing and pricing of traditional exportable key cash crops, although marketing boards have been replaced by private corporations, with the notable exception of the Copra Marketing Board. Coffee, cocoa and oil palm are marketed privately. Price schemes, including price stabilization schemes, have been in place for copra since 1946, cocoa since 1964, coffee since 1966, and oil palm since 1983. They are mainly self-financing but have included public financing since the depressed commodity prices of the late 1980s.

2.3 MARKET ACCESS CONDITIONS FOR EXPORTS

PNG is a member of regional integration and multilateral trade agreements, including the Pacific Forum, SPARTECA, the Melanesian Spearhead Group (MSG), PATCRA, the PNG-Fiji Trade Agreement, PICTA/PACER, the ACP Group of States, APEC and WTO. It is also a beneficiary of the GSP offered by 27 developed countries and economies in transition. Accordingly, PNG exports to its major export markets are eligible for preferential treatment, including PATCRA/SPARTECA for Australia, GSP for Japan, the Cotonou Partnership Agreement (previously the Fourth Lomé Convention) for Germany and other EU member States, the GSP for the United States, and PICTA for the FICs. Of the top five markets in 1999, the Republic of Korea is the only one with which PNG trades on a most-favoured-nation (MFN) basis.

However, as is discussed below, MFN market access conditions are increasingly important for PNG, as the bulk of its exported products in fact receive MFN treatment, either because most exported items already receive duty-free treatment on an MFN basis or, where positive rates are applied, because such products are often excluded from preferential treatment. As for the other increasingly important developing-country markets in Asia (China, Hong Kong (China) and the ASEAN countries), PNG exports enter these markets on an MFN basis.

Table 10. Market access for PNG's non-agricultural exports, 2001

		Number of tariff lines (HS 6-digit)	Percentage of total number	Exported value in correspondent lines ($000)	Percentage of total exports
	Total	278		1405152,8	
	NON-PREFERENTIAL ACCESS	**222,2**	**80%**	1384469,2	**99%**
	MFN rates				
(A)	of which 0%	137,5	62%	1041929,6	75%
	0-5 %	50,7	23%	272016,0	20%
	5-10%	18,6	8%	7393,8	1%
	10-20%	4,9	2%	1916,8	0%
	20-35%	3,9	2%	1575,8	0%
	>35%	4,0	2%	34379,0	2%
	Non ad-valorem tariff	2,6	1%	25258,3	2%
	PREFERENTIAL ACCESS	**55,8**	**20%**	20683,6	**1%**
(B)	ACP	29,3	52%	7569,1	37%
(C)	SPARTECA (0%)	1,5	3%	766,2	4%
	SPARTECA (10%)	0,7	1%	62,4	0%
	Other GSP				0%
(D)	of which 0%	8,1	15%	10145,7	49%
	0-5 %	11,1	20%	1933,0	9%
	5-10%	5,1	9%	207,2	1%
	Overall duty free GSP (B+C+D)		69,7%		89,4%
	Overall Market Access				
(A+B+C+D)	DUTY FREE	176,4	**63%**	1060410,6	**75%**
	0-5 %	61,7	**22%**	273949,0	**19%**
	5-10%	24,4	**9%**	7663,4	**1%**
	10-20%	4,9	**2%**	1916,8	**0%**

	Number of tariff lines (HS 6-digit)	Percentage of total number	Exported value in correspondent lines ($000)	Percentage of total exports
>20%	7,9	**3%**	35954,8	**3%**
Non ad-valorem tariff	2,6	**1%**	25258,3	**2%**
Quantitative restrictions	26	9,3%	9980,1	**1%**
Products facing technical regulations, standards, sanitary measures.	110	39,6%		

Note: Decimals for tariff lines refer to further disaggregation at the HS 8-digit level.
Source: WTO document TN/MA/W/39, 2 July 2003. Data are based on TRAINS and COMTRADE.

Table 10 shows the extent to which MFN market access conditions apply to PNG exports of non-agricultural products. On a tariff line basis, some 80% of total 278 tariff lines at the HS 6-digit level are traded on an MFN basis and some 20% on a preferential basis. Duty-free market access is provided with regard to 62% of the former and 69.7% of the latter. Overall, duty-free treatment represents some 63% of total tariff lines. Thus, preferential market access conditions cover only 20% of total tariff items. In value terms, the tendency is more pronounced: 99% of PNG exports operate on an MFN basis and preferential market access represents only 1%, which indicates that PNG exports are concentrated on products that face lower tariff barriers on an MFN basis. Some 75% of total PNG exports (as compared to 63% tariff lines) of non-agricultural products receive duty-free treatment, which may mean that tariff barriers have impeded diversification of PNG exports in sectors facing positive duty rates.

Market access for PNG products, in particular primary and processed agricultural, fishery and forestry products, is increasingly determined by the application by importing countries of technical, sanitary and phytosanitary and environmental standards and regulations. The view has been expressed that stringent quarantine and product standards have limited market entry for PNG products.

2.3.1 Australia

Almost all PNG products enter the Australian market duty-free either on an MFN basis or under SPARTECA or PATCRA, which respectively provide duty-free access to FICs generally or PNG specifically. Some 40% of total exports received duty-free treatment in the Australian market in 2001, while some 60% (consisting mainly of crude petroleum) were dutiable. The simple average duty rate applicable to PNG exports of 422 tariff-line items was 4.33%. However, this does not reflect actual trade. The average rate weighted with trade value was 0.05%, indicating the concentration of PNG exports in duty-free items. This can be observed in the treatment of all top 10 products exported to Australia, where all items receive duty-free treatment, with the notable exception of crude petroleum, which is subject to specific duty rates, and of tropical timber (see Table 11). Since most PNG exports already enter duty free on an MFN basis, the preference margin in most cases is zero. Of the top 10 products, only tropical timber enjoys a slight preference margin of 1% (or a 20% reduction from MFN rate) under the general GSP scheme (i.e. together with other GSP-beneficiary developing countries). Thus it would appear that the incidence of preferences specific to PNG or FICs is of minor importance to PNG.

Table 11: Australia's top 10 imports from PNG and applicable duty rates, 2001

HS1996	Description	Value (1000US$)	Share	MFN rate (Avg: Simple /weighted)	GSP rate	PNG/LDC rate
Total	422 lines (HS 8-digit)	6 378 146	100.0%	(4.33/ 0.05)		
270900	Petroleum oils and oils obtained from bituminous minerals, crude.	377 322	59.2%	(0)		
27090010				0	0	
27090081				$0.07854/L	$0.07854/ L	$0.07854/L
27090089				$0.39643/L	$0.39643/ L	$0.39643/L
710812	Non-monetary gold in unwrought forms	196 894	30.9%	0		
740620	Powders, copper, of lameller structure and flakes	30 146	4.7%	0		
90111	Coffee, not roasted not decaffeinated	8 497	1.3%	0		
710691	Other, unwrought (silver)	3 124	0.5%	0		
440729	Wood sawn or chips lengthwise, sliced or peeled: Of tropica timber specified	2 213	0.3%	(2.5)		
44072910				5	4	
44072990				0		
710813	Gold in other in semi-manufactured forms, non-monetary	2 134	0.3%	0		
90240	Other black tea (fermented) and other partly fermented tea	1 863	0.3%	0		
760200	Waste and scrap, aluminium	1 625	0.3%	0		
30611	Frozen rock lobster and other sea crawfish	1 529	0.2%	0		
			98.0%			
Source: TRAINS						

(a) South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA)

SPARTECA is a non-reciprocal trade agreement under which Australia and New Zealand grant duty-free and unrestricted or preferential market access for virtually all products originating from the FICs. SPARTECA was signed by most FICs at the Forum's eleventh meeting in Kiribati on 14 July 1980, and it came into effect for most FICs on 1 January 1981. Its objectives include accelerating FICs' development through expansion and diversification of their exports to Australia and New Zealand. The current list of FIC signatories to SPARTECA includes the 14 FICs.[10] The agreement includes provisions for general economic, commercial and technical cooperation, safeguard provisions relating to anti-dumping and countervailing measures, and suspension of obligations and provisions for general exceptions, as well as for impact on fiscal revenue. The agreement also provides for special treatment of and assistance to the Smaller Island Countries (SICs), namely the Cook Islands, Kiribati, Nauru, Niue, Tonga, Tuvalu and Samoa.

[10] 14 FICs include PNG, Fiji, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, F.S. Micronesia, Marshall Islands, Palau, Cook Islands, Niue and Nauru.

Since 1 July 1986, FIC exporters have been eligible for free and unrestricted access to the Australian market except for textiles, clothing and footwear and sugar. Australia removed the limitation on textile, clothing and footwear products as from 1 March 1993 and on sugar as from 1 July 1997 when it eliminated its sugar tariffs.

New Zealand provides duty-free and unrestricted access to all products originating in the FICs.

SPARTECA specifies rules of origin to qualify for the duty-free and unrestricted or preferential access benefits. These rules require the last process of manufacture to be carried out in the country claiming the preference, and for products to have at least 50% local content deriving from that country. Inputs from FICs, Australia and New Zealand are also counted as local content (cumulation) up to 25% of the required 50% minimum value added requirement. The use of SPARTECA varies among the beneficiaries, with Fiji being a major user.[11]

(b) PNG-Australia Trade and Commercial Relations Agreement (PATCRA)

PATCRA was established after PNG became independent in 1975. The agreement provides duty-free access to Austrlia for all PNG exports, with some exceptions. The excluded goods comprise certain sugar, beverages, tobacco and mineral fuels (Schedules A and B). For PNG, all products from Australia are excluded from the liberalization programme (Schedules C and D). Thus preferences are unilateral in favour of PNG.

(c) PACER

The Pacific Agreement on Closer Economic Relations (PACER) originates in a decision taken at the 1997 Forum Economic Ministers Meeting (FEMM), which was subsequently endorsed by the Forum Heads of Government in 1999 and agreed in August 2001 with the adoption of the final legal text of an Umbrella Agreement between the FICs and Australia and New Zealand. PACER provides a framework for cooperation among the 16 Pacific Island Forum countries in trade facilitation, financial and technical assistance. It would also comprise of as a subsidiary agreement, that is, the FICs-only free trade agreement, namely PICTA. PACER provides that a free trade agreement will be negotiated between the FICs and Australia and New Zealand at an undetermined future date. Since PNG exports already receive duty-free preferential treatment in Australian and New Zealand markets, the major issues in the possible PACER free trade agreement are improved market access and entry conditions for PNG exports in terms of non-tariff measures and cooperation in other trade-related measures (e.g. competition, investment, development finance) and PNG's opening of its own market to Australian and New Zealand imports (see also section 2.3.11 below).

[11] A solid assessment of SPARTECA is provided by Roman Grynberg and Matthew, "A Review of the History and Performance of the SPARTECA Trade Agreement".

2.3.2 The European Union

Under the ACP-EU Cotonou Partnership Agreement, PNG, like other ACP States, receives duty-free treatment for all industrial products and a number of agricultural products. Among the top 10 exported products, all PNG products enter the EU market duty free (see Table 12). As the European Union maintains non-zero MFN import duties (in some cases high ones), preferential treatment under the scheme can be significant for PNG. This is the case for crude palm oils, coconut oils and notably canned tuna. Since the European Union grants different degrees of preferences to the various groups of developing countries, PNG exports also enjoy a competitive edge vis-à-vis other non-LDC (least developed country), non-ACP developing countries. The existing preference margin, however, is declining for PNG and other ACP States as the European Union lowers its MFN duties (as is occurring in other countries); expands its network of sophisticated reciprocal free trade agreements with countries in Central and Eastern Europe, the Mediterranean basin and other regions; improves existing GSP schemes to provide additional preference margins under the so-called "positive incentive" scheme to promote labour and environmental standards and combat narcotic drugs production; and provides duty-free and quota-free market access to LDCs under the Everything But Arms (EBA) initiative.

Table 12: Top 10 PNG export commodities to the European Union and applicable duty rates, 2000

HS 1996	Description	Value (US$1000)	Share	MFN rate	GSP	CPA/LDC
Total		272 795	100.0%			
15111090	Palm oil - Crude oil, other	83 795	30.7%	3.8	1.3	0
9011100	Coffee not roasted	72 745	26.6%	0		
26030000	Copper ores and concentrates	39 870	14.6%	0		
15131199	Coconut (copra) oil and its fractions, other	18 878	6.9%	6.4	2.2	0
12030000	Copra	18 746	6.8%	0		
15132190	Palm kernel or babassu oil and fractions thereof; crude oil, other	12 230	4.4%	6.4	2.2	0
18010000	Cocoa beans, whole or broken, raw or roasted	7 471	2.7%	0		
16041411	Fish, whole or in pieces - but not minced: - tunas, skippacks and bonito	3 643	1.3%	24	_	0
9024000	Other black tea (fermented) and other partly fermented tea	3 036	1.1%	0		
40012900	Natural rubber in other forms; other	1 516	0.5%	0		
			96.0%			
Source: TRAINS						
Note: Duty rates are based on 2001.						

The Cotonou Partnership Agreement was signed on 23 June 2000 in Cotonou, Benin, replacing the Fourth Lomé Convention, which expired on 29 February 2000 after being in existence for 10 years. The Cotonou Agreement aims to change and improve ACP-EU cooperation in social, political and economic areas to bring about poverty reduction in the ACP States. One of the objectives as regards trade has been to convert the previous non-reciprocal preferential system into a new WTO-compatible regime. Thus, the Cotonou Agreement provides built-in negotiations for the new WTO–compatible reciprocal trading arrangements (economic partnership agreements) during a preparatory period until 31 December 2007 (Article 36). During the preparatory period, the system of non-reciprocal preferences continues to operate.[12] This means that all industrial products and most agricultural products will enter the European Union duty free, as was the case under the Lomé Convention.

Under the Cotonou Partnership Agreement, improvements have been, made with coverage for previously excluded agricultural products: new tariff lines have been added to the list of agricultural products eligible for preferential treatment, increasing the number of tariff lines by 32%, from 1,669 under the Lomé Convention to 2,209 under the Cotonou Agreement. The share of tariff lines with zero tariffs among all agricultural products benefiting from preferences has grown from around one half under Lomé to about two thirds under the Cotonou Agreement (Tangermann 2000). Under the Lomé Convention, all industrial products under chapters 25 to 97 of the Combined Nomenclature (CN) were exempted from customs duties; 80% of agricultural products under chapters 1 to 24 of the CN are totally liberalized. Thus, around 92% of products originating in ACP States enter the European Union free of duty. The special protocols for sugar and beef under the Lomé Convention also remain in force, while the rum protocol has expired, and the banana protocol was not renewed, but a separate regime is being implemented to establish a tariff-only system by 2005. The sugar protocol has an independent status, but, as with other protocols, its effectiveness is being affected by the gradual process of multilateral liberalization, including under the WTO Agreement on Agriculture.[13]

2.3.3 Japan

PNG is a beneficiary of Japan's GSP scheme, so its exports enter the Japanese market on a preferential basis in general. In terms of preference, however, as is the case with Australia, the margin of preference is zero for most exported products, as they are already duty free on an MFN basis. Among the top 10 traded products, all PNG exports are traded on an MFN basis, and all products except fish and shellfish face a MFN duty rate of zero. Certain fish and shellfish products, namely shrimp and tuna, are excluded from the Japanese GSP scheme, and PNG exports carry MFN duty rates of 1% and 3.5% respectively.

[12] For purposes of maintaining the non-reciprocal preferences during this preparatory period, another WTO waiver from WTO MFN obligations under GATT Article I.1 (and quota allocation under GATT Article XIII with regard to bananas) was needed and granted in November 2001. WTO document WT/MIN(01)/15 and 16, 15 November 2001. The waiver was seen as critical to validating the Cotonou Agreement including the preferential treatment of agricultural products. See discussion by Isikeli Mataitoga, "Priority Issues for Trade in Agriculture under the Cotonou Agreement and the Review Negotiations under Article 20 of the WTO Agreement on Agriculture: A Pacific Perspective" (Paper prepared for UNCTAD in November 2000).

[13] For an assessment of the Sugar Protocol and links with the liberalization under the WTO Agreement on Agriculture, see for example Michael S. Matsebula, "ACP-EU Sugar Arrangements: Their Nature, Importance and Prospects" (Paper prepared for UNCTAD in November 2000).

Table 13: Top 10 PNG export commodities to Japan and applicable duty rates, 1999 (thousands US$)					
HS 1996	Description	Value	Share	MFN Rate	GSP rate
		362452			
260300000	Copper ores and concentrates	142272	39.2%	0	
440399390	Wood in the rough, n.e.s.	108658	29.9%	0	
710812000	Non-monetary gold in unwrought forms	58377	16.1%	0	
440349600	Wood in the rough, or tropical wood specified in Subheading Note 1 to this chapter	13207	3.6%	0	
120300000	Copra	12988	3.5%	0	
30613000	Shrimps and prawns, frozen	7053	1.9%	1	_
440122000	Wood in chips or particles n.e.s	5615	1.5%	0	
90111000	Coffee, not roasted not decaffeinated	4019	1.1%	0	
30232000	Albacore or longfinned tunas,	2964	0.8%	3.5	_
440399290	Wood in the rough, of beech	1937	0.5%	0	
			98.5%		
Source: TRAINS					
Note: Duty rate based on 2001. GSP coverage/rates of 030613000 and 440399290 are based on 2000 data.					

The Japanese GSP scheme provides 164 beneficiary countries preferential treatment for all industrial products, including forestry and mining products, with some exceptions (based on a negative list), and for selected agricultural and fishery products (based on a positive list).[14] The most recent legislation has extended the scheme for another 10 years, until March 2011. Under the Japanese GSP scheme, industrial products are in principle free of duty and quantitative limitations except for 81 products that receive a 100–20% reduction of the MFN rate (to result in 0, 20, 40, 60 and 80% of the original MFN rates) and are subject to a ceiling. The remaining industrial products are not subject to a ceiling but may be subject to an escape clause. Selected agricultural and fishery products are subject to varying reductions in MFN rates if covered at all and subject to the escape clause. A ceiling does not apply to agricultural products. In the Japanese scheme valid until 2001, some 440 HS headings received duty-free treatment and 66 HS headings received rates equivalent to a 50% reduction of the MFN rate. A beneficiary country may be excluded from the Japanese GSP scheme with regard to a particular product if the country is recognized as a high-income country in the *World Bank Atlas;* if the country's exports to Japan exceed 25% of the market share; or if the country's exports are worth more than ¥1 billion.

Rules of origin, apart from "wholly obtained", are based on a change in tariff heading criteria at HS 4-digit subject to "sufficient working or processing" in the origin-claiming country. Cumulation is allowed for goods produced in two or more countries in Southeast Asia.

2.3.4 United States

PNG is a beneficiary of the US GSP scheme. Accordingly, its exports receive preferential duty treatment. Indeed, all of the top 10 products exported to the United States enter the market on a duty-free basis except preserved fish, most of which is excluded from the GSP scheme. Prepared and preserved fish face an average rate of 10.73% (see Table 14). As with

[14] UNCTAD (2002c), WTO (2001).

other preferential schemes, the preference margin is very small, as most PNG exported products receive duty-free treatment on an MFN basis or are excluded from GSP scheme where dutiable (e.g. fish).

Table 14: Top 10 US imports from PNG and applicable duty rates, 2001

HS1996	Description	Value (1000US$)	Share	MFN rate (Avg EAR – simple/weighted)	GSP rate
Total	50 lines	42397	100.0%	(1.76/2.24)	
90111	Coffee, not roasted not decaffeinated	15969	37.7%	0	
180100	Cocoa beans, whole or broken, raw or roasted	13644	32.2%	0	
160414	Prepared or preserved fish: tunas, skippacks and bonito	8822	20.8%	*(10.73)	*_
90240	Other black tea (fermented) and other partly fermented tea	1439	3.4%	0	
90112	Coffee, not roasted, decaffeinated	955	2.3%	0	
30611	Rock lobster and other sea crawfish, cooked in shell or uncooked, dried, salted or in brine or frozen	371	0.9%	0	
90500	Vanilla beans	365	0.9%	0	
880330	Parts of airplanes and helicopters, n.e.s	251	0.6%	0	
970600	Antique of an age, exceeding one hundred years	150	0.4%	0	
121190	Plants or parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy: other	74	0.2%	0	
			99.2%		

Source: TRAINS

Note: *Simple average rate of effectively applied rates which includes 7 lines, one of which is included in the US GSP scheme, thus receives zero duty.

The US GSP scheme provides some 140 beneficiary countries preferential treatment for about 5,000 products. All products covered by the US GSP scheme are granted duty-free status; thus there are no non-zero GSP rates.[15] There are some ceilings in force that limit the quantity importable under the scheme, beyond which MFN rates apply. The US GSP scheme covers predominantly manufactured and semi-manufactured products, with only 14% of agricultural products in total GSP imports in 1997. Certain items are prohibited by law from receiving GSP treatment, including most textiles and apparel, watches, footwear, handbags, luggage, flat goods, work gloves and other leather wearing apparel. Other articles deemed “sensitive” cannot be included either, such as steel, glass and electronics.

The product coverage was extended specifically for LDCs in 1997 to cover additional 1,783 products, and for 35 sub-Saharan African countries in May 2000 under the African Growth and Opportunity Act (AGOA) to cover additional 1,835 tariff lines and certain textiles and apparel products upon fulfilment of specific origin and visa requirements.

Some conditions are attached to eligibility for the US GSP scheme. GSP benefits presumes normal trade relations and not being subject to embargos; may be reduced or terminated on the ground of protecting workers’ rights; and may be excluded partially or totally because of income levels. Countries that are classified as “high income” by the World Bank – Hong Kong (China), the Republic of Korea, Singapore, Taiwan Province of China – have been graduated from the scheme. “Competitive needs limitations” based on market share or certain

[15] UNCTAD (2000d), WTO (2001).

threshold import values may be applied to prevent the extension of preferential treatment to countries that are considered competitive in a given product.

The rules of origin are based on the value added criteria of 35%, and cumulation is allowed within the GSP-eligible regional associations, including ASEAN (excluding Singapore and Brunei), CARICOM (Caribbean Community), SADC (Southern African Development Community) and WAEMU (West African Economic and Monetary Union). PICTA/PACER is yet to be included.

2.3.5 Korea

Since Korea maintains no preferential scheme for developing countries except for LDCs, PNG's exports to Korea, which amounted to $86 million in 2001, are traded on an MFN basis. Duties ranging from 1% to 20% are levied on PNG exports (see Table 15). Major commodities including copper, woods, coffee and palm oils face a duty rate of 1% to 3%. The highest duty rate of 20% is charged on other crustaceans and molluscs. Tariff escalation appears to exist on wood products.

Table 15: Korea's top 10 imports from PNG and applicable duty rates, 1999

HS 1996	Description	Value (1000US$)	Share	MFN rate (Avg: simple/weighted)
Total	48 lines	144963	100.0%	(5.55/1.33)
260300	Copper ores and concentrates	96043	66.3%	1
440399	Wood in the rough, of beech	45057	31.1%	[1.83]
90111	Coffee, not roasted not decaffeinated	2314	1.6%	2
440320	Wood in the rough (other, coniferous)	399	0.3%	2
230650	Oil cake and other solid residues, whether or not ground or in the form of pellets: Of coconut or copra	366	0.3%	5
160590	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved: other	201	0.1%	20
440349	Wood in the rough, or tropical wood specified	192	0.1%	1
960190	Worked ivory, bone, tortoise-shell	160	0.1%	8
440729	Wood sawn or chips lengthwise, sliced or peeled: Of tropical wood specified in subheading note 1 of this chapter: other	67	0.0%	5
440726	Wood sawn or chips lengthwise, sliced or peeled: Of tropical wood specified in subheading note 1 of this chapter: white Lauren etc.	45	0.0%	5
			99.9%	

Source: TRAINS

2.3.6 China

Since China does not maintain any preferential scheme, PNG's exports are traded on an MFN basis. There are no duty-free tariff lines where PNG export takes place, and all exports face positive duty rates (see Table 16). These duties rage from 2% to 12%. PNG's major export product to China, crude petroleum, faces an unknown specific duty rate. The remaining Chinese imports are almost entirely composed of woods and wood products that face positive rates ranging from 2% to 9%. The simple average rate of 4.57%, which is greater than the weighted average, suggests a relative concentration of PNG exports in the lower tariff category. Tariff escalation appears to exist on wood products.

Table 16: China's top 10 imports from PNG, 2001

HS 1996	Description	Value (1000US$)	Share	MFN rate (Avg: simple/weighted)
Total	22 lines	200728	100.0%	(4.57/2.03)
270900	Petroleum oils and oils obtained from bituminous minerals, crude.	98216	48.9%	N.A. (SD)
440399	Wood in the rough, n.e.s.	90456	45.1%	2
440349	Wood in the rough, or tropical wood specified	7551	3.8%	2
440341	Wood in the rough: Dark red Meranti, light red Meranti and Meranti bakau	2210	1.1%	2
440392	Wood in the rough: of beach, Fagus spp.	1505	0.7%	2
440890	Veneer sheets and sheets for plywood (other)	369	0.2%	[7]
440799	Wood sawn or chips lengthwise, sliced or peeled: Other, of Camphoorwood, of Paulownia	197	0.1%	[5]
440724	Wood sawn or chips lengthwise, sliced or peeled: Virola, Mahogany etc.	113	0.1%	3
440729	Wood sawn or chips lengthwise, sliced or peeled: Teak, other	57	0.0%	[6]
440725	Wood sawn or chips lengthwise, sliced or peeled: Dark red Meranti, light red Meranti and Meranti bakau	38	0.0%	3
			100.0%	

Source: TRAINS.

2.3.7 Thailand

PNG's exports to Thailand face MFN duty rates ranging from 0% to 60% (see Table 17). Thailand maintains relatively high duty rates on fishery products (60%) and agricultural raw materials (30%–35%). In 2000, 99% of PNG exports in value terms and 93% of total tariff lines were dutiable. The simple average rate faced by PNG exports was 13.93%, while the trade-weighted average was 53.29%, suggesting that PNG exports concentrate on products with relatively high duty rates, like fish. Tariff barriers constitute significant market access barriers for PNG in Thailand. In 2001, crude petroleum exports recorded stood at some $34,873,000 (COMTRADE, SITC 3-digit), a value equivalent to fish exports (see Annex 3 (iv)). Crude petroleum is given duty-free treatment.

Table 17: Thailand's top 10 imports from PNG, 2000				
HS 1996	Description	Value (1000US$)	Share	MFN rate (avg: simple/weighted)
Total	80 lines	30885	100.0%	(13.93/53.29)
30343	Fish, frozen: Skipjack or stripe-bellied bonits	17333	56.1%	60
30342	Fish, frozen: Yellowfin tunas	4216	13.7%	60
30341	Fish, frozen: Albacore or longfinned tunas	3987	12.9%	60
180100	Cocoa beans, whole or broken, raw or roasted	3584	11.6%	30
440399	Wood in the rough, of beech	1531	5.0%	1
120710	Other oil seeds: Palm nuts and kernels	63	0.2%	35
848180	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks etc.	54	0.2%	5
410729	Leather of other animals: Other	30	0.1%	5
60290	Other live plants - mushroom spawns: other	22	0.1%	60
410320	Other raw hides and skins: of reptiles	20	0.1%	0
			99.9%	

Source: TRAINS.

2.3.8. The Philippines

PNG's exports to the Philippines consist mainly of wood, copper and cocoa beans and are also governed by MFN market access conditions (see Table 18). Some 44% of PNG exports enter duty free, and applicable duties are in the range of 0% to 15%. The major exported products are charged relatively lower rates of 0% to 5%, which are reflected in the lower weighted average rate of 1.86% (as compared to the simple average rate of 4.53%).

Table 18: Top 10 Philippines imports from PNG, 2001				
HS 1996	Description	Value (1000US$)	Share	MFN rate (Avg: simple/ weighted)
Total	15 lines	21201.15	100.0%	(4.53/1.86)
440399	Wood in the rough, of beech	8982.633	42.4%	0
260300	Copper ores and concentrates	7948.64	37.5%	3
180100	Cocoa beans, whole or broken, raw or roasted	2187.505	10.3%	3
30343	Fish, frozen: Skipjack or stripe-bellied bonits	1353.18	6.4%	5
30374	Fish, frozen: Mackerel	342.996	1.6%	5
120999	Seeds, fruit, spores, of a kind used for sowing: Other	174.157	0.8%	0
230120	Flours, meals and pellets, of fish or crustaceans	94.731	0.4%	0
540239	Synthetic filament yarns: other	37.059	0.2%	5
853910	Electric filament or discharge lamps: sealed beam lamp units	24.932	0.1%	3
140120	Vegetable materials of a kind used primarily for plaiting: Rattans	22.444	0.1%	3
			99.8%	

Source: TRAINS.

2.3.9. Indonesia

PNG's exports to Indonesia are traded on an MFN basis, with 10% receiving duty-free treatment, and face duty rates ranging from 0% to 40% (see Table 19). The major export commodities include cocoa and wood products, which respectively face 5% and an average of 1.88%. Higher tariffs apply for manufactured products, including motor vehicles.

Table 19: Indonesia's top 10 imports from PNG, 2000

HS 1996	Description	Value (US$1000)	Share	MFN rate (avg: simple/ weighted)
Total	87 lines	7441	100.0%	(3.79/3.92)
180100	Cocoa beans, whole or broken, raw or roasted	4326	58.1%	5
440729	Wood sawn or chips lengthwise, sliced or peeled: Teak, other	1656	22.3%	[1.88]
440920	Wood continuously shaped: non-coniferous	533	7.2%	0
120710	Other oil seeds: Palm nuts and kernels	294	4.0%	5
90240	Other black tea (fermented) and other partly fermented tea	290	3.9%	5
890400	Tugs and pusher craft	128	1.7%	0
890110	Cruise ships, excursion boats and similar vessels	55	0.7%	0
870423	Motor vehicles for transport of goods	44	0.6%	[17.5]
390210	Polymers of propylene or of other olefins	35	0.5%	[15]
			99.0%	

Source: TRAINS

2.3.10. Singapore

Singapore has no tariffs, and all PNG exports enter Singapore duty free on an MFN basis (see Table 20). Major commodities exported include cocoa and crude vegetables.

Table 20: Singapore's top 10 imports from PNG, 2001

HS 1996		Value (US$1000)	Share	MFN rate (avg: simple/weighted)
Total	115 lines	21979	100.0%	(0/0)
180100	Cocoa beans, whole or broken, raw or roasted	14313	65.1%	0
121190	Plants or parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy: other	2488	11.3%	0
710812	Gold: other unwrought forms	796	3.6%	0
30799	Molluscs, whether in shell or not: Other	785	3.6%	0
710691	Silver: other, unwrought	635	2.9%	0
410320	Other raw hides and skins, of reptiles	402	1.8%	0
440729	Wood sawn or chipped lengthwise, Other	372	1.7%	0
50800	Coral and similar materials	366	1.7%	0
440920	Wood continuously shaped: non-coniferous	326	1.5%	0
120999	Vegetable seeds: other	205	0.9%	0
			94.1%	

Source: TRAINS

2.3.11. Fiji

PNG's exports to Fiji were valued at $2 million in 2001 and included civil engineering equipment and lorries (see Table 21). PNG's exports to Fiji, a Forum Island country, are governed by preferential trade arrangements that PNG has concluded with Fiji bilaterally or regionally. These include the PNG-Fiji trade agreement, the MSG Trade Agreement and PICTA.

Table 21: Fiji's imports from PNG, 2001

SITC Rev.2	Value (1000US$)	Share
All commodities	2398	
723 Civil engineering equip, etc	753	31.40%
782 Lorries, spec motor vehicle n.e.s.	507	21.14%
071 Coffee and substitutes	222	9.26%
048 Cereal etc preparations	145	6.05%
728 Other machinery for spec industries	129	5.38%
111 Non alcoholic beverages n.e.s.	110	4.59%
037 Fish etc prepared, preserved n.e.s.	80	3.34%
075 Spices	58	2.42%
554 Soap, cleansing, etc preps	55	2.29%
074 Tea and mate	52	2.17%
		88.03%

Source: COMTRADE.
Note: Tariff data not available.

(a) PNG-Fiji Trade Agreement

The agreement was concluded by the two countries in August 1996. (Both countries are also members of the MSG; see below.) The agreement covers 45 agricultural and manufacturing products, including chilled and frozen mackerel; certain dairy products, including cheese; fruit such as pineapples; tea and other beverages; spices such as chilli; cement; wood and wood articles; and clothing. Negotiations are ongoing to expand the product coverage. Eligible Fijian goods enter PNG at zero tariff but are levied a 10% value-added tax (VAT). Most eligible agricultural products from Fiji are subjected to quarantine approval.

(b) Melanesian Spearhead Group (MSG) Trade Agreement

The MSG was formally launched in 1988 to promote political cooperation among members. In 1993, the MSG Trade Agreement was concluded among the founding members. It initially covered duty-free entry of only three commodities, one from each member: tea from PNG, beef from Vanuatu and canned tuna from the Solomon Islands. Revenue collected on eligible imports is not to exceed that from similar goods if produced domestically. Safeguard provisions allow any member to suspend obligations should imports increase so as to cause serious damage to existing industries. Also, parties may abrogate their obligations should they decide to develop new industries. There are other clauses that allow parties to rescind obligations, including restrictions for balance-of-payments and anti-circumvention reasons.

Members are committed in principle to extending the coverage to ensure that duties and other trade restrictions are eliminated between the parties. In 1995, the coverage of eligible products was extended to 140 tariff lines, and an agreement was reached in 1997 to expand the list to 150 items. Eligible products now include edible fruit and nuts, coffee, coconut milk powder, jams, cement and certain wooden furniture. Fiji, which joined the group at a later stage, has not automatically been given the same preferences as other members and has had to negotiate them on a bilateral basis.

(c) Pacific Agreement on Closer Economic Relations (PACER)/Pacific Island Countries Trade Agreement (PICTA)

The Pacific Island Countries Trade Agreement (PICTA) is a free trade agreement among the 14 FICs formed as a subsidiary agreement of PACER in August 2001. It will be gradually established over a 10-year transitional period starting in January 2002, although non-tariff trade barriers such as quotas have to be eliminated immediately. It covers only trade in goods. Negotiation of the free trade agreement will encompass liberalization schedules, negative lists of products excluded from liberalization, and rules of origin under PICTA (based on 40% local content criteria). The negative list of sensitive products is to be subjected to gradual liberalization to provide those industries with a “breathing space” for adjustment necessary to compete effectively with regional suppliers after the phase-in period. Alcohol and tobacco products will be exempted from PICTA for two years, after which a decision must be taken on whether to integrate these two sectors into PICTA. Otherwise, all other products will circulate freely within the region. PICTA is to include some safeguard measures. Its does not affect the rights and obligations of FICs under existing arrangements such as the MSG, but PICTA’s operationalization can be expected to lead to its superseding the MSG trade agreement and other bilateral trade agreements.

Chapter III
TOWARDS A TRADE POLICY FRAMEWORK

When PNG attained political independence in 1975, it inherited from the colonial administration a system of government that did not have a framework for a coherent trade policy for the country: Since then, successive governments have not considered elaborating a coherent framework of rules and regulations to govern and guide the administration and conduct of domestic and international trade. Various policy statements and guidelines have been drafted and enacted over time without a clear vision or sense of direction as to how the country can use trade as an engine of economic growth and development. This chapter seeks to identify key institutional and policy bottlenecks and suggests a broad direction for reform in terms of trade policy institution building, domestic trade policy and international trade negotiations. These suggestions aim to promote the Government's Recovery and Development Plan of using trade to stimulate export-led growth.

3.1 TRADE POLICY OBJECTIVES, INSTITUTIONS AND STRATEGIES

The major issue in PNG's trade policy making is the lack of holistic and long-term vision and objectives. Such a lack of vision and coherent trade policy has resulted in the development – in an *ad hoc* and often conflicting manner – of rules, regulations and practices affecting trade, and an even greater disconnect between the trade policy framework and other key economic (tariff, investment, industrial), sectoral (manufacturing, agriculture, forestry, fisheries, minerals) and social policy issues. This in turn translates into poor coordination between DTI and other economic ministries, with the result that the implementation of trade and other economic and social policies also lacks coordination and is given only minimal consideration within the Government and in wider country development plans.

The result of this lack of vision, poor coordination and isolated policy implementation has been a trade policy that has only minimal impact and does not contribute sufficiently to economic growth and development. In addition, government support for particular policies has tended to last only the term of the particular government in office, rather than being maintained over a sustained period in order to generate results. For example, an attempt was made with the Look North and Work the Pacific Plan. However, follow-up to this dual-track objective has been weak for the reasons explained above.

Moreover, the lack of a coherent vision implies that PNG tends to react rather than being proactive in its participation in international trade treaties. It tends to follow the lead and advice of other countries without proper consideration of the impact of its participation, and without adequate preparation so as to derive maximum benefits and minimize adverse effects. Its participation in WTO and APEC seems to follow this pattern. PNG's participation in WTO is particularly weak owing primarily to the lack of a permanent mission to the United Nations and WTO in Geneva (Switzerland).

In the light of past experiences, trade policy formulation needs to take a holistic approach so that PNG's structural constraints (including high unemployment, poor infrastructure, and a fragmented domestic market) are addressed along with specific trade issues. At the same time, account needs to be taken of the sustainable development concept so that future generations will be able to enjoy resources that can be preserved if they are managed properly and sustainably.

3.1.1. Trade policy objectives: Setting a vision

There is a need for a clear vision and goal to which the Government and the private sector as well as other stakeholders can commit themselves over the medium term.

Guiding PNG towards maximizing its potential in trade, commerce and industry for greater integration with the world economy. Enabling better and more effective utilization of trade as an engine of economic revival, growth and industrial transformation, with particular emphasis on job creation and poverty reduction. Trade is seen in terms of foreign trade (exports and imports) and domestic trade, the two being closely linked.

The elaboration of a trade policy framework will be a major achievement for the Government. To be effective, such a framework has to be visionary; that will improve its prospects of being sustained over the medium term. The policy should also be placed on a firm legal footing so that it can withstand political changes in the Government and the upper echelons of bureaucracy. While some legislation exists (the Integrity Bill on Candidates and Political Parties) that aims to bring policy continuity and stability, enabling legislation may be necessary to ensure that the trade policy adopted by the Government has a sound legal status. Legislation of a Trade Act by the national Parliament should be seriously considered.

In July 2002, a new Government was formed following national elections. The Prime Minister, in his maiden address to the first sitting of the new Parliament, stressed that PNG must focus on using international trade as an engine of economic revival, growth and industrial transformation.[16] This vision is captured in the Policy Statement of the Coalition Government by the Prime Minister, Michael Somare, to the Parliament on 20 August 2002 on "Recovery and Development". The broad objectives are stability, unity and empowerment, and a key aspect will be an "export-driven economic recovery strategy".

The export drive's main areas of focus will be the agricultural, fisheries and forestry sectors, supported by the mining, petroleum, gas and services sectors, with an emphasis on value-added production and exports. Over-reliance on enclave sectors such as mining and petroleum needs to be minimized. For instance, there need to be backward linkages from the mining sector to the agriculture sector. This will ensure that earnings from the enclave or non-renewable sector are used to develop the renewable sector, so that the population's livelihood is sustained.

The Government aims, in these key sectors, to "embark on an aggressive market-driven trade and investment policy." The export drive will go hand in hand with a new foreign policy stance based on "selective engagement" in which PNG will not only "Look North" (Japan, China, and South and South-East Asia) and "Work the Pacific" (Australia, New Zealand and the Pacific) but also selectively pursue bilateral and multilateral arrangements both within the region and globally.

[16] Policy Statement by Rt. Hon Sir Michael Somare, GCMC CH., 20 August 2002.

3.1.2 Strategies for implementing the integrated trade policy objectives

Underpinned by the empowering of Papua New Guineans to become active in economic activity linked to export expansion, and based on PNG's current competitive advantages. The main areas of focus will be agriculture, forestry and fisheries and small and medium-sized enterprises (SMEs) as well as tourism. The strategy must be credible (realistic and doable) so that it can be sustained.

The Policy Statement by the Coalition Government identified an "export-driven economic recovery strategy" as key in the economic recovery of PNG. The main areas of focus will be the agriculture, fisheries and forestry sectors, supported by the mining, petroleum, gas and services sectors. In the medium term, downstream processing activities and manufacturing enterprises both geared to replacing imports for exports. The key term in this strategy is export-led growth and industrialization with tourism.

Implementation of the policy has to be based on a realistic and doable strategy so that the policy will not be reversed or discarded. An implementation process based on three pillars (levels of intervention) could be envisaged for PNG's trade policy. The three pillars would be (1) a fast-track component of better exploiting current market opportunities; (2) a short-term component integrated into the next MTDS (Medium Term Development Strategy) for developing export-oriented industries to exploit new opportunities and existing markets; and (3) a medium-term export-based industrialization strategy. All three tracks have to be developed and launched in tandem, as they comprise integral elements of the broader trade policy regime. Track 2 is particularly important with respect to mainstreaming trade into national development policies and plans, and vice versa.

Each intervention phase should be geared towards two major policy areas of intervention: (1) supply-side production with export capacity building and competitiveness; and (2) exploitation and improvement of external market access and entry opportunities for PNG exports of goods. The former would pertain to the domestic trade policy framework as narrowly defined, and the latter to international trade negotiations under bilateral, regional and multilateral trade agreements to influence the trade policy of PNG's trading partners. Complementary to the two substantive policy dimensions is a third pillar, an independent dimension of trade policy institution building throughout all phases of intervention, which would enable integrated design, implementation, coordination and monitoring of PNG's trade policy. This conceptual framework can be represented by the following matrix.

Table 22: Matrix of implementation strategies for a PNG trade policy framework

	Supply-side policies	Market access and entry policies	Trade policy Institution building
Fast track objectives	Establish SAF;	Exploit existing market access opportunities (utilize preferences etc.)	Set up IATF; Establish trade missions;
Short-term objectives (5 years)	Support export-oriented and import-substitution industries;	Improve market access and entry for key potential products and services through regional and multilateral trade negotiations.	Capacity building programme for trade policy formulation, negotiations and implementation;
Medium-term objectives	Institute enabling policy environment for manufacturing and services.	Increase market access and entry through positive measures.	Sustainable capacity in trade policy formulation, negotiations and implementation.

The first pillar of PNG trade policy strategy would be a fast-track component whose priority would be to strengthen the production and trade performance (by finding new or expanding existing markets) of certain key export products, both traditional (agriculture, forestry, fisheries) and non-traditional (sugar, vanilla, beef, nut oils, pyrethrum) with dynamic export growth potential and which can be produced in adequate quantities and at an adequate level of quality. In the services industry, the tourism potential should be expanded and facilitated. For the fast-track priorities, a structural adjustment facility (SAF) should be created to provide funding to enable the selected export-oriented industries to (1) improve production efficiency and outputs and (2) conduct aggressive marketing and negotiations to find new markets or expand existing markets. The SAF would be the main vehicle for advancing the fast-track priorities. It would initially be funded by donor agencies, and eventually from a percentage of the revenue collected from mineral, petroleum and gas projects. Thus the non-renewable resources sector would support sustainable development of the renewable resources sector via trade growth. This measure should be accompanied by the establishment of trade missions in selected countries that are important to PNG in terms of negotiation of trade agreements and export markets for PNG products (Australia, Switzerland (Geneva), Fiji, the United States, Germany, and Thailand).

The second pillar is a short-term (five-year) plan, embedded in the MTDS 2003–2008, that supports development of existing export-oriented industries as identified in the Policy Statement of the Government, namely the agricultural (coffee, tea, palm oil), fisheries and forestry sectors, supported by the mining, petroleum, gas and services sectors. Rice is another key product linked to domestic food consumption and food security. Key services sectors include tourism and exports of skilled and semi-skilled labour. Policy measures and instruments need to support further growth in production (both quantity- and quality-wise) and competitiveness and a search for new and wider markets through active participation in trade negotiations under the WTO Doha Work Programme, the ACP-EU negotiations of Economic Partnership Agreements, the PICTA/PACER agreements and, within this framework, a rationalization with overlapping agreements such as the MSG, PNG-Fiji trade agreements, the PATCRA and SPARTECA. PNG needs increased negotiating power in order to draw commercially meaningful benefits from these agreements. The development of institutional follow-up mechanisms for national consultations, along with training of skilled trade negotiators and their participation in the various trade negotiations, will be a critical element in defending and promoting PNG's trade interests in the various trade negotiations.

At the same time, enhanced support is needed for current import substitution industries engaged in "pack-off" production, distribution and sales in PNG. These industries, despite sourcing their inputs primarily from imports, provide employment for Papua New Guineans and tax revenue. Thus, their continued operation is important.

The third pillar, launched in parallel with the fast and short-term tracks, is a medium-term track with a focus on creating an enabling policy environment for manufacturing and semi-manufacturing industries, including SMEs, gearing the economy towards involvement in downstream processing and value addition. Policy and other incentives should be provided to industries using an overwhelming percentage of local, PNG inputs (unlike the pack-off industries). The key is the development of a manufacturing base in PNG for the domestic and export markets. At the same time, the development of services, in particular tourism, has tremendous potential for growth and development and needs to be facilitated and encouraged.

3.1.3 Development framework

The trade policy cannot be conceived and implemented in a vacuum; it must be located within a wider development policy and captured in the MTDS. Economic recovery and growth are inversely related to the "social cost" borne by Government resulting from increasing unemployment, crime and health problems. To deal with these social issues, Government has to strengthen the army, policy, judges, jails, hospitals, doctors, nurses, etc. Moreover, PNG is susceptible to natural disasters that can siphon off limited development funds. Thus, any trade policy has to be integrated into a wider development strategy.

Key social issues or variables that the development of a trade policy must consider include the following:

- Control of population growth (currently 3.4%–3.5% a year), which exceeds the rate of economic growth.

- Addressing and reducing the incidence of HIV/AIDS, which is affecting a growing proportion of the economically active population.

- Developing trade facilitation nationally, linked to economic recovery and export growth. This includes, in particular, supporting transportation networks, financing facilities for SMEs, cottage industries (which provide self-employment opportunities and should thus be encouraged) and smallholders, and agricultural extension to improve production output and quality.

- In trade in services, considering the supply of manpower services at higher, middle and lower skill levels, as PNG has developed a stock of such skills.

- Establishing links with the UN five-year development framework for PNG (the UN Development Assistance Framework for 2003–2007). The priority is to mainstream trade into the strategy and to get it to support the export-led growth and industrialization strategy.

- Continuation of public-sector reform to make the sector more efficient and effective. A capacity-building programme on endogenous trade policy formulation and implementation for DTI should be funded and implemented as soon as possible, with support from the Department of National Planning and Rural Development in mobilizing required funding.

- Given the chronic unemployment problem and the escalating law and order problems, the trade policy should take into account the most affected groups of people: youth and women. While addressing the economic and business issues connected with it, the policy should also address social issues. The policy needs to contribute to the creation of employment opportunities.

3.1.4 Monitoring of progress in implementing an integrated trade policy

A monitoring mechanism should be set up to continually assess the progress in implementing the trade policy. It should be at the working level and at the high policy and ministerial levels.

Formulation of the trade policy requires the definition of an implementation and action plan to ensure that the trade policy achieves its objectives as intended through governmental actions. This means that workable strategies are needed for each sector based on the sector's strengths and weaknesses (internal) and the opportunities and threats (external).

The elaboration and implementation of a trade policy requires a monitoring mechanism to assess progress and propose remedial measures, should these be needed. An Inter-Agency Task Force (IATF) should be established at the expert level to review and clear the Draft Trade Policy Framework for wider national discussion and debate. The IATF should be chaired by the Secretary of DTI (the Deputy Secretary being alternate chair), serviced by the Trade Division of DTI, and have a membership drawn from key economic ministries, the PM's Department, Foreign Affairs, Social Affairs, private-sector representatives, academia and civil society. The private sector's involvement in the national consultation and coordination mechanism is critical, as it will enable the government to better seize economic interests of different sectors of the economy and to reflect them in trade policy and negotiations. The IATF should meet as and when required, and it should continue after the trade policy framework is adopted by the National Parliament or legislated. The IATF should also brief key stakeholders, including the Minister, Cabinet or Parliament, on the trade policy.

The Cabinet or Parliamentary Committee responsible for economic issues should be kept informed, as and when required, of progress in the trade policy framework's elaboration and implementation. This way the Cabinet and any members of Parliament involved in economic issues can provide their inputs into the drafting process and aid in continuous improvement of the policy. Furthermore, the Cabinet and Members of Parliament will be familiar with the trade policy framework or Trade Act when it is presented to Parliament for adoption, and as its implementation proceeds.

Since the process of elaborating the trade policy will take some time, DTI will ensure that the framework along with the accompanying strategy and endogenous capacity-building programme on trade are captured in its contribution to the preparation of the Medium-Term Development Strategy for 2003–2008 and are actually reflected in the strategy. As part of this process, the recommended strategy for DTI is to seek to insert the trade policy framework into the MTDS and, with the support of the Department of National Planning and Rural Development, to mobilize international support for the endogenous capacity-building programme on trade. Once a comprehensive trade policy is in place, its implementation, monitoring, continuous assessment and constant coordination with other concerned economic and social departments has to be undertaken or supervised by DTI. Thus, the capacity of DTI to function effectively must be strengthened with government support and support provided via the endogenous capacity-building programme as a key component of trade development in the next MTDS.

Given that PNG's institutional capacities in trade policy and negotiation remain limited, support may be sought from donors and international agencies focusing on institutional and human capacity building in order to enhance institutional capacity in trade analysis, trade policy formulation, trade negotiation and supply capacities. In particular, emphasis may be given to the appropriate training of government personnel in trade negotiations and for the conduct of specific trade-related training in selected tertiary institutions.

3.2. DOMESTIC TRADE POLICY, INSTITUTIONAL REFORM AND SUPPLY CAPACITY–BUILDING OBJECTIVES AND STRATEGIES

The Tabua and Taru mission report identified, through consultations with government and private-sector agencies, the issues to be addressed in future trade policy formulation.[17] The major issues are listed here.

3.2.1. Strategies

- With regard to domestic production, because of globalization and trade liberalization processes, selective domestic production should be emphasized. This means that PNG will have to identify those sectors in which it has a comparative advantage, where it can compete at the international level, and concentrate on developing these sectors to its benefit. Domestic production for the domestic market should likewise be carried out selectively so that local consumers are not seen to be subsidizing local industries and given poor-quality products at a relatively high price.

- Owing to the high volume of imports entering the country every year and the huge import bill that comes with it, the idea of cutting back on imports or even substituting a large portion of imports should be pursued. This means that domestic production of some of the goods now being imported should be seriously considered. Domestic production, however, has to be promoted with appropriate policies and strategies. Stimulation of domestic production should come from government support programmes and incentives.

- The agriculture sector was pinpointed or targeted by most of the agencies consulted because more than 80% of the population lives in rural areas; 97% of total land mass is customarily owned; much of the land is known to be fertile despite the rough physical terrain; additional employment opportunities would make rural areas attractive to young people seeking employment; and there is a need to boost domestic food production. Creating such employment opportunity in rural areas and enhancing food production addresses certain serious structural constraints in the economy.

[17] Department of Trade and Industry (2002). The structure of paragraphs is rearranged.

- The fact that PNG has abundant natural resources that have not been fully commercially exploited necessitates a trade policy that vigorously promotes downstream processing of local resources. With an underdeveloped industrial base, a policy of expanding the industrial base through downstream processing and value-added activities should be emphasized. The processed products would either be consumed domestically or exported. Obviously, manufacturing is an important component of domestic production, but the Government should also focus on improving infrastructure and citizens' skills.

3.2.2. Policy issues to be addressed and possible remedies

- The openness of the PNG economy is reflected largely by its present tariff policy. Under the tariff reform programme driven by APEC and WTO and the World Bank–imposed Structural Adjustment Programme (SAP), the trade liberalization process has been accelerated, with tariffs imposed across the board being lower than the WTO bound rates. While economic experts consider this good for the country in terms of economic efficiency, the effect on government revenue has been negative. The country's fiscal woes, which are now a serious concern for the Government, are being blamed particularly on the rapid decrease in tariffs on imported items.

    - The tariff policy needs to be reviewed, as there remains a leeway whereby the tariffs can be raised to the WTO bound rates. A proper analysis needs to be prepared by experts for consideration by the Government.

    - Ministerial determinations involving the Ministry of Finance and Treasury and the Ministry of Trade and Industry should also be reviewed. Under the current arrangements, the Ministry of Finance and Treasury is responsible for customs and tariffs, which is a function under the Internal Revenue Commission. It has been suggested that, in order to facilitate trade, there should be understanding and compromise between the two ministries in the setting and application of tariffs. Trade policy and promotion, which come under the aegis of the Ministry of Trade and Industry, would be better complemented by trade facilitation ensuring effectiveness and efficiency in the policy implementation.

- Problems associated with the country's export sector's not performing to expectations include the lack of market access owing to stringent quarantine and product standards imposed by authorities of targeted foreign markets. Under the APEC's Bogor Goals and the Osaka Action Agenda, this issue is now being addressed, as all member countries are now working to standardize and harmonize sanitary and phytosanitary measures and ease such barriers to trade as the trade liberalization process gains momentum.

- Many private-sector agencies consulted highlighted international market access as a major problem, along with the availability of information pertaining to market access. Information dissemination is also critical in facilitating trade, and therefore Government agencies as well as relevant private-sector agencies should be encouraged to exchange information and to disseminate it to interested parties for more informed decision making.

- In the fisheries sector, which has great potential, the emphasis seems to be on exporting fish caught within the country's 200-mile economic zone and extracting rent through licences from foreign fishing vessels operating within the zone and the export of bech-der-mer and other marine products. Exports of other marine resources are increasing, but perhaps PNG should also look at diversifying its fisheries exports further by exporting live fish and aquariums to other countries where the demand is said to be rising.

- While PNG has a competition policy, this is not comprehensive enough to address domestic and international trade issues affecting domestic consumers. A comprehensive competition policy is needed to complement the trade policy.

- The controversial forestry sector, which has engendered its share of media debate because of World Bank conditions on its legislation, practices and policy, has been undoubtedly a major export revenue earner for the country. Currently the main contentious issue seems to be unsustainable logging practices and other practices that are threatening to wipe out exotic tropical timber species unique to PNG and other tropical countries.

  The emphasis is now on downstream processing; certain studies carried out after the Barnett Inquiry have recommended selective processing of timber into furniture, veneer, processed timber, etc. for export and domestic use. The PNG Forest Authority, in complying with this policy, insists on certain incentives to effectively implement the policy. Incentives suggested by the PNG Forest Authority include tax breaks, guarantee of resources to investors and similar incentives.

- The impact of the VAT, coupled with the downward adjustment in tariff rates, is a growing cause for concern. With the reduction or removal of export and import taxes, the VAT was introduced to neutralize revenue. However, it now appears that the VAT is being used to tax domestically produced goods such as locally grown bananas, papaws, pineapples and the like that are sold in large supermarkets. This is seen as a disincentive for domestic production or the "non-promotion" of domestic goods.

- With trade in services between countries gaining importance at the global level, PNG should seriously consider this sector. Foreign athletes, including Papua New Guineans, now play their chosen sport in highly paid competitions in developed countries, and many highly qualified and experienced Papua New Guineans are working in developed and developing countries. While the impact is insignificant at the moment this is a growing trend that should not be ignored.

  Tourism should also be aggressively promoted. Not only can tourism create a lot of jobs and bring in foreign exchange, it is also environment-friendly. PNG's strengths as a tourist destination lie in its pristine environment, cultural diversity and biodiversity, which offer relatively more to tourists than perhaps Fiji and Vanuatu, although the latter attract a lot more tourists each year than PNG.

  The Government needs to curb lawlessness and provide incentives for tourism to be developed. Currently this sector is not being given the priority it deserves.

- Trade involving intellectual property, although relatively new, is now of significant importance. PNG is known to have some of the rarest species of fauna and flora which are unique to the country. In addition, the country's cultural diversity is remarkable. This intellectual property exclusive to the county's natural heritage needs to be safeguarded for future generations, and the country and its people should be compensated for its study, research and commercial use by others. Fortunately, there is appropriate legislation in place (such as the Copyright Act, the Intellectual Property Rights Act and the Trademarks Act) to enable PNG to protect its intellectual property.

- The Ministry of Trade and Industry was of the view that PNG's reliance on imports was much too high. This concern was echoed by the Manufacturers Council. Food imports alone for the formal sector are estimated at 65% (out of all imports). By comparison, at the international level developing countries on average import about 30% of food items, while developed economies average between 15% and 25%. Rice imports totalled about K$350 million a year, as rice is a local staple, and the ministry is now targeting rice as an imported item that needs to be produced domestically to cut back on the high import bill.

- With the decline in the plantation sectors of the coffee, cocoa and copra industries, Government support is needed to revitalize and revive these important tree crop subsectors in the country. Commodity price supports, extension services, credit access and marketing services should be provided by the Government. Cooperative societies were mentioned as the most appropriate vehicle for mobilizing resources, people, savings and other resources to revitalize the plantation sector in the agriculture sector.

- The mining sector (including petroleum) has played an important part in the economic growth of the country for the last 10 to 15 years. However, there has been too much emphasis and reliance on this enclave sector, and many experts have predicted that a decrease in mineral and petroleum resources would adversely affect the economy. With production levels declining in the sector, it is having a devastating negative impact on the fiscal regime as well as the economy as a whole. The plummeting of the kina is a case in point: low export volumes of mineral and petroleum resources mean lower foreign exchange receipts, while the volume and value of imports have continued to rise sharply.

  On the domestic front, landowner problems continue to impede further exploration, with landowner interference in the operation of existing mines and oil pipeline facilities forcing mining companies and the Government to meet their demands. Income from exploration has also declined owing to the ruggedness of the terrain, which increases exploration costs and acts as a disincentive to investors. With the decline in production and further exploration, this has also affected activities related to the mining sector (by airlines, surveyors, lawyers, etc.).

  The Mining Department, the Internal Revenue Commission and the Departments of Finance and Treasury are working closely with the World Bank to create short- and long-term solutions to the problems of declining revenue and landowner problems. In the case of the former, the Mining Department intends to engage an international tax expert on mining to look at the current situation with the sector and recommend workable remedies. In the case of the latter, the Mining Department intends to increase equity participation by landowner groups in major mining projects.

Regarding downstream processing of mineral resources, processing of gold, which is being carried out locally on a small scale, is considered viable, with gold bars and items of ornamental value being produced domestically for the local market and export. Copper smelting, meanwhile, is considered to be unviable at present.

- The Central Bank (Bank of Papua New Guinea), which is the regulator of exchange control, revealed that many regimes that it administers involving trade have been deregulated. This means that many importers and exporters go through authorized dealers for their transactions. However, the bank still maintains certain controls on large amounts and transactions involving the mining and forestry sectors. The Bank of Papua New Guinea (BPNG) is mostly involved in achieving price stability in the economy, and monetary policy is being used extensively, with the interest rate as its main policy instrument. Although the financial sector in PNG is not very active, a tight monetary policy has helped to curb inflation, but the high interest rates, which have remained stable for some time, have subdued private-sector activity. Some of the affected private-sector activities are those having to do with domestic and international trade. A very complex balancing act is needed in order to provide price stability and encourage the expansion of economic activities to boost employment levels.

- Trade facilitation at the domestic and international levels is crucial in order for trade to become more efficient. As of today, PNG as a member of APEC and WTO has harmonized some of its custom practices and procedures with international best practice such as the ASYCUDA harmonized customs procedure. However, handling bond charges in the country remain painstakingly long and costly. Moreover, complex immigration procedures have led to corrupt practices to get around the system, and the process of obtaining work permits for foreign experts continues to frustrate foreign investors. Under APEC's individual and collective action programmes and in line with the Shanghai Accord to reduce the costs of trade facilitation by 5%, efforts are underway to address this issue.

- There is a need to encourage domestic manufacturers, hotels and restaurants to use more local content in food production and preparation. This would encourage domestic food producers to increase food production. At the moment, a large portion of the country's food supply is sourced externally. Food imports alone for the formal sector in PNG are a staggering 65% of all imports. At the international level, developing economies on average import about 30% of food items, and developed economies average between 15 and 25%. PNG needs to lower its food imports from 65% to 30%; this can be realized if hotels, restaurants, food manufacturers, and the like source more of their food requirements locally.

- The issue of government subsidies to primary producers, particularly smallholders, in order to sustain production levels was mentioned during the consultations. The concern was that production of primary products like copra was declining because of low international prices. However, with the trade liberalization process and the Structural Adjustment Programme, commodity stabilization schemes have been done away with. The Government only has to facilitate trade and investment through infrastructure development and improvement, while removing impediments to trade – for example, by reducing regulator costs, which are currently too high. The

Manufacturers Council disclosed that these costs have gone up by 300% in three years, while utility and security costs have also risen sharply during the same period.

- Lack of competition in the domestic shipping industry is contributing to the high cost structure in PNG. It is claimed that it is more expensive to transport goods from Port Moresby to Rabaul than it is to transport the same goods from Singapore to London. Freight shipping costs and the lack of affordable transportation have negatively affected domestic production, with goods produced locally now costing much more than imported goods. The shipping industry needs to be closely examined and possible solutions to the cost problem identified so that more competitive shipping freight rates can be realized in the medium to long term.

3.3. MULTILATERAL, REGIONAL AND BILATERAL TRADE NEGOTIATIONS

For years to come, PNG will face an evolving international trading environment where its market access conditions and domestic policies aiming at diversification of export structures may be significantly affected. In such a context, it would be in the interest of PNG to evaluate existing market access opportunities and other policy implications arising from its membership in the WTO and regional and bilateral trade agreements, and to explore available opportunities with a view to expanding its exports while ensuring diversification of production capability and appropriate domestic policy space for development.

While preferential market access conditions have provided significant trade opportunities for some PNG traditional exports, multilateral trade disciplines and MFN market access conditions today are overwhelmingly important for PNG, as MFN liberalization in major developed-country markets continues to erode preference margins available to PNG and increases the applicability of MFN market access conditions to PNG exports, as PNG increases its exports to developing Southeast and East Asian markets, which altogether account for some 20% of total PNG exports and where MFN market access conditions prevail. Furthermore, evolving multilateral rule making would directly and indirectly affect the conduct of trade policy by PNG and its trading partners in such areas as industrial and agricultural subsidies (including fisheries subsidies); antidumping and countervailing measures; technical, sanitary and phytosanitary standards; environmental regulations; trade in services; and intellectual property rights, as well as possibly competition policy, investment policies, government procurement and trade facilitation.

Thus, ongoing and forthcoming multilateral and regional trade negotiations present both opportunities and challenges for PNG in pursuing and promoting its trade interests with a view to securing a more enabling environment for the diversification of its export structures and markets for commodities regarding which PNG has a competitive advantage.

3.3.1 EU-ACP Negotiations for EPAs under the Cotonou Agreement

A major challenge facing PNG, as a Pacific ACP State, is the ongoing negotiations with the European Union under the Cotonou Partnership Agreement that would replace the current non-reciprocal preferential trade arrangement.

The Cotonou Partnership Agreement provides a general framework and modalities for further negotiations between the European Union and ACP States with a view to devising permanent

WTO-compatible trading arrangements after the preparatory period until 2008. During that period, non-reciprocal preferences of the type provided under the previous Fourth Lomé Convention continue to apply. The new EPA would be negotiated during the preparatory period, starting in September 2002, and would take effect from 1 January 2008.[18] The EPAs will aim to progressively remove barriers to trade between the concerned ACP States and the European Union affecting trade in goods, and later in services, in line with relevant WTO provisions on reciprocal regional trade agreements then prevailing. However, these agreements shall also be as flexible as possible in establishing the duration of a sufficient transitional period, the final product coverage (taking into account sensitive sectors), and the degree of asymmetry in the timetable for dismantling tariffs (Article 37:7). Moreover, the European Union and ACP States are committed to defending the "flexibility" aspects of the EPAs in the WTO (Article 37:8).

For those ACP States that do not accept an EPA arrangement, alternative trade arrangements would be established by the European Union in consultation with them, which could include (although these are implicit in the Cotonou Agreement) enhanced preferences under the EU GSP scheme. Those ACP States that are also LDCs can benefit from the special preferences provided under the "Everything But Arms" (EBA) initiative for all LDCs.

In 2004, the European Union will assess the situation of non-LDC ACP States that, after consultations with the European Union, decide not to enter into EPAs, and will examine all possible alternatives for a trade framework that is equivalent to their existing situation and compatible with WTO provisions (Article 37:6). The most likely alternative is an enhanced GSP option. Thus the Cotonou Agreement provides a built-in agenda to elaborate, via consultations, alternative trading arrangements for those non-LDC ACP States that do not wish to enter into EPAs with the European Union. In 2006, a formal and comprehensive review of the new trading arrangements will be carried out by ACP States and the European Union, although regular reviews could be conducted in the interim period (Article 37:4). By 31 December 2007, the negotiations on EPAs should have been concluded. Thus, starting in 2002 with the launching of official negotiations, and every two years thereafter, the ACP States and the European Union will jointly review and adjust the process of negotiations on EPAs, until 1 January 2008, when the EPAs will take effect.

The first challenge for PNG pertains to the regional configuration of a possible EPA with the European Union. PNG would have to decide whether to negotiate individually or as a member of a regional group, namely the Forum Island Countries, which appears to be the favoured option. PICTA would be likely to form the regional basis on which to build an EPA with the European Union. A consideration relates to the pace and extent of liberalization among PICTA countries. Since the resulting EPA would require meeting the condition of WTO compatibility, and since GATT Article XXIV requires elimination of duties and other restrictive regulations of commerce among RTA members on "substantially all the trade", the intra-regional trade of PICTA may need to be liberalized prior to the conclusion of EPA negotiations to an extent that would allow the resulting Pacific EPA to meet the "substantially all the trade" condition. Since the final product and trade coverage of an EPA would depend in part on the degree of liberalization among PICTA countries, PICTA may be required to achieve a higher degree of liberalization than would normally be dictated by the

[18] It should be noted that as in the previous Lomé Convention, "reverse preference conditionality" applies under the Cotonou Agreement. This means that the FICs entering into reciprocal trade agreement with other developed countries, eventually with Australia and New Zealand under PACER, would be obliged to open their markets to products from the EU to the same extent. The similar provision is found in PACER Article 6.

status of all its members as developing countries, which usually would qualify them for recourse to the less stringent requirement of Enabling Clause. This concern appears to have been recognized by the Forum leaders' decision to base PICTA on the more stringent conditions of GATT Article XXIV, rather than on the Enabling Clause.

Second, PNG would need to evaluate its trade and development interests and translate them into negotiating objectives and proposals under the formal negotiations on the EPAs that began in September 2002 in coordination with other Pacific ACP States and other regions of the ACP Group of States. Given that PNG already enjoys duty-free non-preferential and preferential market access conditions vis-à-vis the European Union on the bulk of its export products, improved access to the EU market is not a major negotiating issue. The major issue, instead, would relate to market opening on the part of PNG. The impact assessment by Scollay of the Pacific EPA concludes that the possible economic effects of an EPA are likely to be small and adjustment costs minimal for Pacific ACP States, including PNG.[19] This appears to be particularly true for PNG, given that EU imports' current share in total PNG imports of about 3 percent (recently less) appears to imply lesser propensity for market penetration by EU products in the PNG market, presumably owing to high transport costs and limited purchasing power and import demand in PNG.

In terms of revenue implications, since the share of import duties in the PNG government's total tax revenue has decreased since the tariff reform programme began, and since the share of duties collected from EU imports is small, the degree of revenue loss is also likely to be limited. Table 23, quoted from the impact study by Scollay, indicates that the European Union's share in total import duties collected was 1.21% in 2001, while import duty itself accounted for 3.22% of total tax revenue. Thus, import duties collected from EU imports overall accounted for some 0.039% of total tax revenue in 2001. Yet there may be a need to carefully assess the potential impact of an increase in EU imports on PNG's domestic industries as well as fiscal revenue in light of the rapid and significant decline in import duties collected since 1999 and the effectiveness of the VAT in compensating for revenue losses.

Table 23: Imports (CIF values) and Total Revenue from Imports (Import Duty, Excise Duty and VAT): EU, Australia and New Zealand, 2001

	Imports (CIF)		Total revenue collected	
	K$	Share (%)l	K$	Share (%)
European Union	**75,132,274**	**2.0%**	**5,234,036**	**1.2%**
Australia	2,192,338,178	58.2%	245,540,792	56.9%
New Zealand	147,408,647	3.9%	17,395,719	4.0%
Other	1,352,218,574	35.9%	163,349,725	37.9%
Total	3,767,097,675	100.0%	431,520,271	100.0%

***Source**:* Data supplied by PNG Internal Revenue Commission quoted in Scollay (2002).

Third, another negotiating issue for PNG is to secure as flexible an agreement as possible in terms of market opening schedule, product coverage, rules of origin and other related rules in trade between two regions (trade in services, trade facilitation and safeguards). Flexibility is inherent in any regional trade negotiations, in particular among countries with different levels of development, and asymmetric liberalization has been widespread in RTAs between developed and developing countries. In particular, agricultural products are often treated

[19] Scollay (2002).

differently from industrial products and liberalized to a lesser degree (mostly by developed countries). PNG, in collaboration with the Pacific ACP States and other ACP States, could explore such flexibility and bargain in such a way as to ensure the market opening and access terms (for products of export interest to them) that would be most conducive to PNG's increased integration into the multilateral trading system and its sustainable development.

Technical assistance and financial facilities for coping with transition costs and stabilization of export earnings with a view to engendering more equitable sharing of benefits may deserve consideration, such as those which previously existed under the Lomé Convention (for example, STABEX and SYSMIN).

The immediate task for PNG is, during the preparatory period, to build its capacity for competitiveness and regional integration, as provided under the Cotonou Agreement (Article 37:3). PNG also needs to make effective use of the transitional non-reciprocal preferences, in particular for palm oils, coconut (copra) oils and canned tunas.

3.3.2 PACER/PICTA

The formation of PICTA among FICs and PACER including Australia and New Zealand has been influenced by the EU-ACP negotiations in the context of the Cotonou Agreement, as PICTA may form the basis for negotiating a possible EPA with the European Union.

Article 6 of PACER may pose a major challenge for PNG in the coming years, as it would be triggered by the launch of EPA negotiations with the European Union. PACER Article 6:3 (a) provides that if any Forum Island country party to PACER "commences formal negotiations for free trade arrangement which would include one or more developed non-Forum country, then that Forum Island country shall offer to undertake consultations as soon as practicable with Australia and New Zealand, whether individually or jointly, with a view to the commencement of negotiation for free trade arrangements". This amounts to a formal commitment on the part of FICs to preserve for Australia and New Zealand market access conditions no less favourable than for any other developed countries.

Unlike PICTA, a PACER-wide FTA has been estimated to be considerably welfare-improving (Forum Secretariat 2000; Scollay 2000). Since PNG exports to Australia and New Zealand already receive duty-free treatment, with some exceptions (most notably crude oil in Australia), on a preferential or non-preferential basis, the major issues in the possible PACER FTA negotiations would be, as is the case with EPA negotiations, market opening on the part of PNG. Unlike with the EPA, however, PNG's own market opening would involve significant adjustment costs and revenue losses, given that Australia and New Zealand together accounted for more than 60% of total PNG imports in 2001 and import duty collected from these imports represented some 60% of total import duty collections (see Table 23). Thus, while revenue from import duties has become less important, and while the revenue loss from dismantling of tariffs on imports from Australia and New Zealand would represent only 1.96% of total tariff revenue (not taking into account possible static trade creation and dynamic effects), the tariff revenue forgone on imports from Australia and New Zealand would statically imply a 60% loss of tariff revenue and might significantly affect the government's fiscal prospects. This means that revenue loss in the case of a PACER FTA would be 50 times higher than in the case of EPA.

This appears all the more significant against the backdrop of the government's difficult revenue position and a decrease in aid flows to developing countries in general and PNG in particular. The decline in aid is likely to have a major impact on government budgetary resources, because at the same time revenue from tariffs will decline as a result of liberalization measures under various regional trade agreements.

Thus, the development dimensions and flexibility in the design of the PACER FTA, as noted for the EPA, is more pertinent for a future PACER FTA, including in terms of products; trade coverage; transitional periods; safeguard measures; rules of origin; technical, sanitary and phytosanitary standards; environmental regulation; trade facilitation; trade in services; cooperation in trade-related areas; and resource transfer.

3.3.3 Asia Pacific Economic Cooperation (APEC)

PNG joined APEC in 1994. APEC economies are committed to the Bogor objectives of voluntarily achieving free trade and investment by 2010 in developed economies and by 2020 for developing members. PNG has committed to free trade on an MFN basis by 2020. This is potentially the most significant long-term commitment undertaken by PNG, despite its non-binding nature, as the APEC approach of "open regionalism" implies non-preferential liberalization of trade and investment from all sources on an MFN basis. Liberalization is to be comprehensive (by including agriculture and services) and non-discriminatory, based on the concept of "open regionalism". The food, chemicals and transport sectors have been proposed for the "early voluntary sectoral liberalization (EVSL) initiatives". Significantly for PNG, the forestry sector has also been proposed for accelerated tariff reduction under the EVSL initiative, and harmonization and standardization of sanitary and phytosanitary standards have been on the agenda under the Bogor Declaration and the Osaka Action Programme. Thus, APEC could be instrumental in addressing major tariff and non-tariff market access barriers in PNG's major export markets.

3.3.4. Improved GSP schemes: Japan and the United States

The GSP is a unilateral act of preference-giving countries, and beneficiary countries, including PNG, would have no formal influence on terms and conditions of GSP schemes. However, PNG may request improvements in the GSP schemes of Japan (fish and shellfish) and the United States (canned fish) through bilateral commercial channels and the domestic legislative processes of these countries (e.g. petition/public comment) in coordination with importers in both countries. For further improvement in access conditions, there is a need to explore improvements in other market entry conditions, including preferential rules of origin, technical, sanitary and phytosanitary standards, environmental regulations and other conditionalities.

Another issue is the utilization of existing preferences, which tends to be hampered by onerous administrative and documentary procedures. It has been estimated that, in 2001, dutiable imports by Quad countries from effective GSP beneficiaries amounted to $295 billion, of which $183 billion actually received preferences at a utilization rate (share of imports receiving preferences over imports eligible for preferences) of 38.9% in 2001.[20] Thus, there remains significant room for market access improvement through increased utilization of existing preferences.

[20] UNCTAD, mimeo, 2003.

3.3.5 Multilateral trade negotiations under the WTO Doha Work Programme

At the Fourth WTO Ministerial Conference held in Doha, Qatar, on 9–13 November 2001, WTO Members agreed to launch a new round of multilateral trade negotiations and established a comprehensive, broad-based work programme, including two built-in agenda negotiations mandated under the Agreement on Agriculture (Article 20) and the General Agreement on Trade in Services (Article XIX) for which negotiations had been underway, and other issues including market access on non-agricultural products, rules on anti-dumping, subsidies and countervailing measures, regional trade agreements, and trade and environment. Negotiations on these items are subject to single undertaking and to be concluded by January 2005. Four Singapore issues (investment, competition policy, transparency in government procurement and trade facilitation) could be considered for negotiations if a decision is taken at the Fifth WTO Ministerial Conference to be held in Cancun, Mexico, in September 2003, "by explicit consensus" on the modalities for negotiations. Other issues of concern to PNG and other developing countries include implementation-related issues and concerns, the review of provisions on special and differential treatment (S&D), and TRIPS and public health. While not forming part of a single undertaking, new issues of interest to developing countries will be included in the WTO work programme, including trade, debt and finance, trade and technology transfer, and small economies.

Non-preferential market access conditions, as well as multilateral trade rules and disciplines, are very important to PNG. Thus, the multilateral trade negotiations under the Doha Work Programme present major challenges and opportunities for PNG in addressing its market access and other trade policy objectives. In this respect, broad objectives for PNG would include (i) improving non-preferential market access conditions for agricultural and non-agricultural products, as well as services, while taking account of preference erosion; (ii) enhanced disciplines on trade-distorting practices by trading partners (mainly subsidies); and (iii) ensuring appropriate policy space for development as regards the conduct of PNG's own domestic trade and trade-related policies (in terms of tariff protection and other industrial policy instruments). These objectives cut across major negotiating areas and pertain respectively to negotiations on market access on non-agricultural products, agriculture, services, trade and environment, implementation issues, WTO rules, and S&D as well as new work programmes (on small economies).

PNG has participated actively in the Doha Work Programme, both individually and as part of the ACP Group of States and small economies. Table 24 summarizes relevant excerpts from the ACP Declaration on the Fifth Ministerial Conference of the WTO adopted in Brussels, Belgium, in August 2003.[21]

[21] ACP/61/082/03 [FINAL].

Box 1: ACP Declaration on the Fifth WTO Ministerial Conference: Excerpts

Special and Differential Treatment

1. We emphasise that Special and Differential Treatment (S&DT) is a core principle in the WTO and an important instrument for mainstreaming development in the multilateral trading system. In that regard it is necessary to (i) strengthen and operationalize existing S&DT provisions; (ii) introduce new effective provisions in existing disciplines; (iii) entrench mandatory and binding S&DT provisions during the present and future negotiations.

2. We call on WTO Members, particularly the developed countries, to reflect the political will necessary to meaningfully address S&DT proposals made by developing countries, so that agreement may be reached on concrete results before the fifth Ministerial Conference.

Implementation Issues

3. We note, with concern, that despite the commitment in the Doha Declaration to give the "utmost importance" to implementation-related issues, there has been little progress, and that the majority of the issues remain unresolved long past the end of 2002 deadline. We call upon all the WTO members, especially the developed countries, to demonstrate the political will to seriously and effectively address in a substantive manner all of the outstanding implementation issues before the fifth Ministerial Conference.

Agriculture

4. We express concern at the failure to meet the deadline for the establishment of modalities for further commitments in Agriculture, which represents a major setback in the negotiations. Agriculture is of critical importance to the economic development of ACP States and holds the potential to lift millions of people out of poverty. Progress in the agricultural negotiations is essential for the successful conclusion of the Doha Work Programme.

5. We note with concern that there has been little movement on key outstanding issues such as the formula to be used for reducing tariffs and special provisions for developing countries. We note that the Harbinson text on draft modalities does not adequately deal with the structural problems of the Agreement on Agriculture.

6. We reiterate the need to improve the market access for all agricultural products originating from ACP States and call for the implementation of a programme to support the enhancement of the supply capacities in the agricultural sectors of ACP States.

7. We reiterate the need to address export subsidies and domestic support in accordance with the Doha WTO Ministerial Declaration while preserving existing preferential arrangements.

8. We reiterate the need for the developed countries to eliminate export subsidies and reduce trade distorting domestic support significantly on certain products of interest to ACP countries.

9. We also request the setting up of a financial compensatory mechanism to cover the revenue losses resulting from export subsidies by developed countries.

10. We call on the developed countries to exercise restraint in applying TBT and SPS measures on products from ACP countries. Where such measures are necessary, technical assistance should be provided to enable ACP countries to overcome them.

11. We reaffirm the critical importance of food security, rural development, security of livelihood and other public policy objectives of the members of ACP Group and call upon WTO Members to take these objectives into account in the modalities to be established in Agriculture.

12. We emphasise that the new Special Safeguard Mechanism (SSM), Strategic Products (SP) and the special needs of NFIDCs are of priority interest to developing countries and reiterate the need for these to be appropriately provided for in the agriculture negotiations.

13. We urge the developed countries to provide bound duty-free and quota-free market access to all imports from LDCs. The product coverage should include agricultural products in their primary, semi-processed and processed forms. Further we reiterate that LDCs are exempt from reduction commitments, in accordance with Article 15.2 of the Agreement on Agriculture.

14. We strongly welcome as an important step forward proposals on preferences as contained in the Harbinson text and call upon WTO Members to build upon and also address the issue of erosion of preferences, including through the adoption of an appropriate formula as regards tariff reduction.

15. We wholeheartedly support the initiative by West and Central African countries in the context of the WTO, to address urgently the negative impact experienced by them and other cotton-producing Members of the ACP Group as a consequence of export and production subsidies on cotton and other trade distorting practices employed by some developed countries.

16. We call upon the Ministers at the fifth Ministerial Conference to take a decision on the rapid elimination of subsidies on cotton and adopt measures so as to compensate those countries adversely affected by these practices. We appeal to WTO members to recognise cotton as essential to the development policy of the ACP Groups' cotton producing members.

17. We recognise the urgent need to pay priority attention to the serious problem of commodity dependence, continuous declines and sharp fluctuations in the prices of commodities of export interest to ACP States. We therefore support initiatives taken within the WTO to resolve these problems.

18. We emphasise the importance of longstanding preferential arrangements for sugar to the development of ACP economies. We deeply regret the recourse to the WTO dispute settlement procedures by Australia, Brazil and Thailand against the EU sugar regime which, if upheld, would result in serious adverse effects on the livelihood of many farmers and serious political, economic and social problems in the ACP States concerned. We are therefore determined to work with other members of the WTO to establish the appropriate modalities in order to secure our vital preferential arrangements.

Services

19. We note that the gains derived from services liberalisation have accrued primarily to developed countries, due to their greater supply capacity, efficiency and competitiveness. We underscore the need for targeted measures geared at redressing the imbalances and inequities that currently exist. To that end, we reiterate the need to respect the principle of progressive liberalisation, in particular, the flexibility provided to ACP States and other developing countries to open fewer sectors, in line with their national development objectives, and the liberalisation by developed countries in sectors and modes of export interest to ACP countries, particularly through the movement of natural persons (Mode 4).

20. We stress that, due to capacity constraints, ACP States have not been able to actively take part in the current request and offer negotiations, as there are few sectors in the other countries in which the local enterprises from ACP States can meaningfully participate. In light of this, we urge other WTO Members to refrain from making excessive demands on members of the ACP Group in this regard. We further urge that due respect must be given to the right of members of the ACP Group to regulate trade in services and liberalise according to their national policy objectives.

21. We call upon the WTO membership to expeditiously finalise and adopt modalities for LDCs.

22. We highlight the importance that the ACP Group places on the operationalisation of Article IV of the General Agreement on Trade in Services, as set forth in paragraph 15 of the Guidelines and Procedures for the Negotiations on Trade in Services.

23. We ask that the requisite assistance be given, in the context of the WTO and other relevant international organisations and agencies, to carry out an assessment of the effects of previous services liberalisation and the potential effects of future liberalisation in ACP States individually and as a Group, so that our negotiating position may be more informed.

Market Access for Non-Agricultural Products

24. We are of the view that the objectives of the current negotiations on non-agricultural market access are to facilitate the development and industrialization processes in our countries and thus these negotiations must give attention to: (i) providing market access for products of export interest to ACP States; (ii) ensuring that ACP States are allowed to choose their own rate and extent of future import liberalization, so as not to cause further adverse effects on local industries; (iii) addressing the problems that ACP States will face from erosion of preferences; and (iv) addressing the need for ACP States to build their supply capacity so that they can take advantage of any increased market access opportunities. We have highlighted these issues individually and collectively in the Negotiating Group.

25. We welcome the Chairman's proposal to exempt LDCs from making reduction commitments. However, we are deeply disappointed that the draft elements of modalities proposed by the Chairman of the Negotiating Group on Market Access for Non-Agricultural products do not take these issues into account and in fact contain other provisions, including the complete elimination of tariffs in specific sectors that are likely to have serious negative consequences for ACP States. We therefore urge that the revised text on modalities take fully on board the elements proposed by the ACP States.

26. We also call for the adoption of a tariff reduction formula that should provide sufficient flexibility and scope to enable ACP States to continue to have adequate and effective levels of preferences necessary for the maintenance of their competitiveness in their export markets. Only such an approach would guarantee balance, equity and benefits for all WTO members in the outcome of the Doha Round. Moreover, any tariff reduction which will adversely impact on the revenues of ACP States should be adequately compensated.

27. We call for the operationalisation of the concept of "less than full reciprocity in reduction commitments. . ." for developing countries as expressed in the Doha Declaration. In that regard, the modalities should enable ACP States and other developing countries to decide their own rate, pace and scope of liberalisation, undertaking commitments only to the extent consistent with their individual development, financial and trade needs.

TRIPS and Public Health

28. We call attention to the fact that grave public health challenges continue to afflict many developing and least developed countries and underscore the commitment in the Declaration on the TRIPS Agreement and Public Health that "the [TRIPS] Agreement can and should be interpreted and implemented in a manner supportive of WTO's Members' right to protect public health and, in particular, to promote access to medicines for all."

29. We reaffirm that the Declaration on the TRIPS Agreement and Public Health clarifies the relationship between the TRIPS Agreement and Public Health policies and we are deeply concerned by the impasse in finding a solution to the issues identified under paragraph 6 of that Declaration. We strongly urge WTO Members to demonstrate the political will necessary to forge a sustainable, simple, predictable and legally binding multilateral solution, without restrictions and according to the manner outlined in the Declaration, before the Ministerial Conference.

Trade-Related Aspects of Intellectual Property Rights

30. We continue to urge that the review of Article 27.3(b) of the TRIPS Agreement should conclusively clarify that all living organisms including plants, animals and parts of plants and animals, including gene sequencing and biological and other natural processes for the production of plants animals and their parts should not be patented.

31. We support the position of the LDCs as set forth in the Dhaka Declaration that WTO members "shall select their own *sui generis* system for plant variety protection, including recognising traditional knowledge and the rights of farmers to use, save, re-sow, exchange or sell seeds", and the position of

the Africa Group, that Members have the right and the freedom to determine and adopt appropriate regimes in satisfying the requirement to protect plant varieties by effective *sui generis* systems and any *sui generis* system adopted should enable Members to retain their right to adopt and develop measures that encourage and promote the traditions of their farming communities and indigenous peoples in innovating and developing new plant varieties and enhancing biological diversity.

32. We reaffirm our position that WTO Members should develop mechanisms that require, as a condition for the grant of a patent, patent applications to disclose the country or area of origin of any biological resources and traditional knowledge used or involved in the invention, and to provide confirmation of compliance with all regulations in the country of origin, including prior informed consent, and access and benefit sharing arrangements. The TRIPS Agreement should be supportive of and not run counter to the objectives of the Convention on Biological Diversity. This is essential to, among other things, achieving a fair and equitable sharing of benefits.

33. We note, however, that while important, such disclosure requirements, cannot address the basic concern that patents on plants, animals, micro-organisms and their parts, as per Article 27.3(b) give patent holders exclusive rights over the use of the resources and thus, denies communities the ability to determine the conditions for their use.

Singapore Issues

34. We reaffirm that the discussion in the WTO on these issues thus far confirms that each has its own peculiar aspects and complexities and that WTO Members have not reached a common understanding on how any of these issues should be dealt with procedurally or substantively in a multilateral context. We welcome all technical assistance and capacity building measures in these areas, especially those targeted to facilitating the evaluation by ACP States of the implications of adopting multilateral frameworks in these areas on our development policies and objectives.

35. We fully recognise that most ACP States do not have the capacity to meaningfully negotiate these issues, as we grapple with the implementation of existing WTO rules and, especially, taking into account, the expanded work programme after the Doha Ministerial. Furthermore, the benefits of negotiating a multilateral framework for all the Singapore issues are not evident and this, coupled with the fact of our scarce resources and limited capacity in this area, does not provide a basis for the commencement of negotiations in these areas.

Rules

Anti-Dumping and Subsidies

36. We take note of the progress thus far in the initial phase of the negotiations in these areas as WTO Members identified the provisions of the Agreements on Implementation of Article VI of the GATT 1994 and on Subsidies and Countervailing Measures that they will seek to clarify and improve in the subsequent phase of the negotiations.

37. We reiterate the commitment contained in the Doha Declaration that the process of clarification and improvement of the disciplines under these Agreements must take into account the needs of developing and least developed Members, despite of the fact that the heavy workload and limited resources have constrained the participation of ACP States in the Negotiating Group on Rules.

38. We insist that the improved disciplines in the Agreement on Subsidies and Countervailing Measures should provide greater flexibility in the use of certain subsidies for ACP countries, including fisheries and agricultural subsidies, as subsidies are a necessary tool to further their development.

Regional Trade Agreements

39. We urge that, in the process of clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements (RTAs), WTO members should allow sufficient flexibility for developing countries, parties to RTAs. In this regard, the ACP Group requires the preservation of the Enabling Clause and the revision of Article XXIV of the GATT so as to explicitly include Special and Differential Treatment and asymmetry. Any improvement and

clarification of disciplines and procedures on RTAs should take account of differing levels of development and should address the definition of "substantially all the trade", transitional time frames and reciprocity, in a manner that responds to the needs and interests of developing countries.

Dispute Settlement

40. We support the extension of the mandate of the Special Session of the Dispute Settlement Body in order to facilitate the completion of work on the proposals for the improvement and clarification of the Dispute Settlement Understanding (DSU). This area is of particular concern to members of the ACP Group as many of the proposals relate to needed improvements of the DSU that will make the dispute settlement system more efficient, more accessible for developing countries and responsive to their needs and interests.

41. We emphasise that it is imperative that the WTO rules and the rules and procedures of the DSU regarding participation of developing country third parties in such processes be reviewed, so that their participation is guaranteed throughout and is no less effective than the parties to the dispute; indeed WTO Rules and the DSU in principle, aim at promoting the interests of all WTO Members.

Trade and Environment

42. We consider that the negotiations and on-going work at the WTO can contribute to strengthening the mutually supportive relationship between trade and environment. However, the legitimate needs of developing countries, in relation to market access for their export products and the effective use of their natural resources for the benefit of their populations, should be fully taken into account within the context of the work on the interaction between trade and the environment. In this regard, targeted capacity building and technical assistance will play a major role for developing countries and particularly for LDCs.

43. We reaffirm our position that environmental considerations should not be used as protectionist measures to thwart the export of products from developing countries.

Small Economies

44. We urge that the particular structural disadvantages and vulnerabilities of small developing economies, in particular of Small Island Developing States and land-locked countries must be taken into account in the formulation and application of multilateral trade rules as well as in the liberalisation undertakings required of these countries, in order to avoid their further loss of market share and marginalisation within the world economy.

45. We therefore emphasise the need for the WTO membership to address in a substantive and meaningful manner the particular challenges faced by small, vulnerable economies, due to their structural and inherent constraints which impede their integration into the world economy.

46. We are concerned that little progress has been made on these issues and call on the fifth Ministerial Conference to take a political decision so that solutions are found to address the trade problems of small vulnerable economies, to ensure their participation and fuller integration into the multilateral trading system.

Trade, Debt and Finance

47. We reaffirm our support for the establishment of a mechanism that will contribute to a durable solution to the problem of external indebtedness of developing and least developed members.

48. We emphasise that the relationship between trade, debt and finance is a crucial one. The ACP Group is of the view that problems arising in the trade area (such as decline in commodity prices, lack of market access opportunities, and over-rapid import liberalization) can lead to increased trade deficits which contribute to debt and financial problems. On the other hand, continued indebtedness or financial crises can hinder the ability of developing countries to trade.

49. We underscore the importance of the deliberations of the Working Group on Trade, Debt and Finance

and would like to see recommendations emerge from the Working Group as to concrete action that could be taken within and outside the WTO to assist developing countries to remedy their trade debt and finance problems. In this regard, the ACP Group is of the view that the Working Group should continue its work beyond the Ministerial Conference. In particular, we urge that Highly Indebted Poor Countries (HIPCs) be treated as if they were LDC States and be given special and differential treatment afforded to LDC States in all trading agreements and arrangements.

Trade and Transfer of Technology

50. We are disappointed that the WTO has yet to significantly contribute to technology transfer to developing countries and that some WTO rules may hinder the technology transfer process, whereas technology transfer is a necessary requirement for development.

51. We insist that the various WTO provisions pertaining to transfer of technology be operationalised with a view to making technology easily accessible to ACP countries, on a non-discriminatory basis.

52. We underscore the importance of the deliberations of the Working Group on Trade and the Transfer of Technology and would like to see recommendations emerge from the Working Group as to concrete action that could be taken in this area. In this regard, the ACP Group is of the view that the Working Group should continue its work beyond the Ministerial Conference.

Technical Cooperation and Capacity Building

53. We are appreciative of the efforts made by the WTO, UNCTAD, other international organisations, agencies and donors in organizing or financing training seminars in ACP States. We are of the view that these programmes could be improved, through a better collaboration between the ACP States and the organisers of these programmes in determining the course content and in the selection of resource persons, who should have a sound understanding of development and, as far as possible, come from developing countries.

54. We emphasise the necessity for ACP States to receive technical assistance and support in our efforts to become more active members of the WTO by developing our capacity to more effectively negotiate, monitor and implement WTO Agreements, especially in view of the heavy work load arising from the Doha Work Programme.

55. We underline that technical cooperation and capacity building must also include building supply capacity so that members of the ACP Group can take advantage of increased export opportunities and increasing the productivity of local producers so that they can better face the challenges of globalisation.

56. We are appreciative of the Integrated Framework (IF) and JITAP and request the WTO Members to enhance financial resources to these programmes.

Least Developed Countries

57. We emphasize that the integration of LDC's into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base and trade related technical assistance and capacity building and that effort from all WTO members is required to achieve the beneficial integration of the LDC's into the global economy. The members of the ACP Group reaffirm their commitment to these goals and encourage other WTO Members to do so as well, taking into account the positions and proposals contained in the Dhaka Declaration.

58. We underscore, in this regard, the importance of the Integrated Framework for Trade Related Technical Assistance and call for its strengthening through the provision of additional financial resources, in order to reinforce the supply capacity of LDCs in accordance with the results of the planned diagnostic assessment, in order to facilitate the attainment of their development objectives.

Accession

59. We are concerned with the lack of progress in the accession process for LDCs and other developing

countries to the WTO. While welcoming the adoption by the General Council of the new Guidelines on WTO Accession Procedures for LDCs, we call upon WTO Members to fully adhere and implement these guidelines, and, in that same spirit, to refrain from placing onerous demands on LDCs and other Members of the ACP Group in the accession process.

60. We urge that targeted technical assistance should be provided to acceding LDCs covering all stages of accession negotiations, on a priority basis, in view of the high costs involved in these negotiations.

Observer Status

61. We reiterate the need for the WTO to grant Permanent Observer Status to the ACP Group of States and ACP inter-governmental and regional organisations.

Coherence in Global Economic Governance

62. We call for the strengthening of cooperation and coherence among international organizations, including the WTO, UNCTAD and other agencies of the United Nations, the IMF and the World Bank, in order to contribute to better coherence in policy making relating to the global economy.

63. We request that attempts to achieve greater coherence be aimed at expanding, not narrowing, the policy space for development in developing countries. They should further promote, without cross-conditionalities or additional conditions, consistent and mutually supportive policies that will contribute to improved coordination of technical and financial assistance, reduction or cancellation of the debt burden, recognition of autonomous liberalisation and eradication of poverty.

Chapter IV
RECOMMENDATIONS

The formulation of PNG's trade policy framework has to involve all the stakeholders involved in exports and imports of goods and services, as well as other actors directly or indirectly involved in, and affected by, trade, investment and economic policy in general. The Tabua and Taru mission report also stress the need for extensive consultations and networking with and between stakeholders on the formulation of the trade policy; for institutional strengthening of the Department of Trade and Industry so as to support the elaboration, implementation and monitoring of the trade policy and for it to be accorded greater importance in the government decision-making structure; for a monitoring mechanism; and for mainstreaming of trade policy into the MTDS and in turn for the MTDS to integrate trade policy into the different key development policies and plans. The major recommendations of the report appear below.

Trade policy framework and formulation

1) Formulation of the trade policy should involve as many stakeholders as possible and members of civil society. The views and opinions of smallholders, plantation owners, private sector agencies, NGOs, women and youth groups, and public-sector agencies should be thoroughly sought. To achieve this, a survey should be carried out and a report on it produced.

2) There should be an inter-agency committee representing all key Government agencies and chaired by the Secretary, Department of Trade and Industry, to coordinate all activities relating to the implementation of the trade policy when it is adopted by the Government.

3) Inclusion of the trade policy in the MTDS is of utmost importance as the new MTDS (2003 to 2007) will be focused on the economic sector.

4) Adequate resources should be allocated to the formulation, discussion, publicizing and implementation of the trade policy in order to give it every chance of success and to ensure that it is truly representative of the people.

5) The Department of Trade and Industry should be made a key Government agency, preferably upgraded to Central Agency status to ensure that trade is given due importance and provided the support it deserves. Other countries aggressively pursuing trade promotion are known to invest a lot of resources and empower Government agencies in charge of trade to achieve the aim of making trade an engine of development.

6) Networks should be created and strengthened between private- and public-sector agencies, NGOs and other stakeholders both in the country and overseas so that information and ideas on trade are exchanged and trade negotiations are carried out more effectively, leading to better deals for the country.

7) The Government should seriously consider funding the Endogenous Trade Policy Formulation Project under the PIP which is now before the Department of National

Planning and Rural Development. Since a major component of the project, involving the formulation of a comprehensive trade policy, is now underway, it is imperative that the other components of the project such as capacity building, trade-related training in selected institutions and the trade point are funded so that the project can be implemented and trade properly facilitated.

Policy intervention and implementation strategy

1) The two pillars of trade policy are supply-side policies including production and export capacities, market access and entry into foreign markets. Trade policy institution building forms an independent area of policy intervention.

2) Implementation strategy would include a three-phase approach involving (1) fast-track objectives; (2) short-term objectives; and (3) medium-term objectives;

3) The fast-track component would address strengthening the production and trade performance of selective key export products, establishing a structural adjustment facility, and setting up trade missions in key export markets. This conforms with the Government's strategy of focusing on export-led growth based on current comparative and competitive advantage.

4) A short-term plan needs to be established to support existing export-oriented and import-substitution industries.

5) The medium-term track would focus on creating an enabling policy environment for manufacturing and semi-manufacturing industries, including SMEs, gearing the economy towards involvement in downstream and value addition.

Development framework

1) Control of high population growth (3.4–3.5% yearly), which exceeds the rate of economic growth.

2) Addressing and reducing the high incidence of HIV/AIDS, which affects a growing number of people in the economically active population.

3) Develop trade facilitation nationally, linked to economic recovery and export growth. This includes in particular transportation networks, financing facilities for SMEs, cottage industries (which provide self-employment opportunities and thus should be encouraged) and small-holder growers, and agricultural extension to improve production output and quality.

4) In trade in services, the supply of labour services at the higher-, middle- and lower-skilled levels could be examined, as PNG has developed a stock of such skills.

5) Establish links with the United Nations five-year development framework for PNG (the UN Development Assistance Framework for 2003–2007). The aim is to mainstream trade into the strategy and to get it to support the export-led growth and industrialization strategy.

6) Continuation of public-sector reform to make the sector more efficient and effective. The capacity-building programme on endogenous trade policy formulation and implementation for DTI should be funded and implemented as of 2003.

7) Given PNG's chronic unemployment coupled with escalating law and order problems, the trade policy should take into account the most affected group of people, namely youth and women. The trade policy, while addressing the economic and business issues connected with it, should also address social issues. The policy needs to contribute to creating employment opportunities for women and disadvantaged groups of society.

Monitoring

1) Formulation of the trade policy requires the definition of a proper implementation and action plan to ensure that the policy achieves its objectives as intended through government actions.

2) A monitoring mechanism needs to be set up to assess progress and propose remedial measures, should these be needed. The mechanism should take the form of an Inter-Agency Task Force (IATF) at the expert level, chaired by the Secretary of DTI, to review and clear the Draft Trade Policy Framework for wider national discussion and debate. Membership may be drawn from key economic ministries, the Prime Minister's Department, Foreign Affairs, Social Affairs, private-sector representatives, academia and civil society. The IATF would meet as and when required, and it would continue after the trade policy framework's adoption by the National Parliament or its legislation. The IATF would also brief key stakeholders including the Ministers, the Cabinet and Parliament on the trade policy.

3) The Cabinet or Parliamentary Committee responsible for economic issues should be kept informed, as and when required, of progress in the elaboration and subsequent implementation of the trade policy framework.

4) The capacity of DTI to function effectively must be strengthened with government support and support provided via the endogenous capacity-building programme as a key component of trade development in the next MTDS.

5) Linkages need to be created and strengthened between the respective government and private-sector agencies and certain sectoral experts included in future trade negotiation teams to ensure that the country is given every chance of extracting the best possible deals from any trade negotiations.

6) Capacity building and institutional strengthening to enhance PNG's trade performance through proper negotiation skills, trade facilities like a trade point, and trade-related training have been highlighted as a major area of concern. The Department of Trade and Industry is currently negotiating with the Department of National Planning and Rural Development (DNPRD) to get its support and endorsement of the Trade Policy Formulation and Negotiation Project, which is now before the DNPRD for consideration. One component of the project is to build up capacity through the appropriate training of Government personnel in trade

negotiations and for specific trade-related training to be conducted in selected tertiary institutions.

7) PNG's capacity to negotiate internationally for better deals in trade has not been at required levels. One problem highlighted by private-sector agencies has been the exclusion from high-level trade negotiations of specific sectoral experts who possess specific knowledge and information, which would be passed on to potential buyers of PNG products.

8) Enabling legislation may be necessary to ensure that the trade policy adopted by the Government is given every chance of standing the test of time and therefore being implemented for the betterment of the people.

Domestic trade and supply-side policies

1) Review of the tariff reform programme to (i) slow down liberalization (of the prohibitive, protective and intermediate tariff rates) so as to give domestic industries time to adjust to the economic liberalization process and growing competition, and (ii) increase some of the protective rates (or imposing high excise duties) covering imported items that could be produced locally (basic food items such as jam, honey; used clothing, on which duty is currently zero; used vehicles etc.). This is needed because the cost of doing business in PNG is high owing to low volumes, high infrastructure costs, high utility costs, high security costs, high expatriate wages, and increasing regulatory costs related especially to technical standards and health standards. These costs make tariff protection for industries critical in order for them to be competitive *vis-à-vis* imports. However, attention is needed to avoid *ad hoc* provision of protective rates to certain industries; there is need to assure a level playing field domestically to compete among manufacturers. The tariff policy must be transparent, stable and acceptable to the Government and industries.

2) PNG imports some 65% of its food requirements. This proportion should be gradually reduced.

3) Expedite establishment of industrial parks (as in Malahang for Momase) in three other regions to encourage development of small manufacturing enterprises that focus on the domestic and foreign markets.

4) The export processing zone concept should be revisited to see whether a zone can be located to have easy access to established facilities and export markets. Consideration should also be given to products to be produced in the zone, a possibility being clothing and apparel.

5) Promotional activities to improve the image of "made in PNG" products. This should focus on organizing production and sale of foodstuff, clothing and apparel.

6) Support NAQUIA in developing technical standards, laboratories for meeting sanitary and phytosanitary standards, and conformity with environmental and other standards, as these have become extremely important in key foreign markets.

7) Development of science and technology policies and measures to support movement towards manufacturing in simple processed manufacturers.

8) Tying of official development assistance to purchasing of locally made equipment such as furniture, papers for schools and hospitals, etc.

9) The fisheries sector is moving towards onshore processing facilities. In the short term, there is a need to access more markets (e.g. the United States and the European Union) for fish caught in PNG.

10) Forestry is moving into processing logs. A key issue is incentives – not just tax incentives (which have not been effective) but a wider package.

11) The dual wage structure should be reviewed and a single structure considered, as the current structure is a disincentive to qualified and skilled Papua New Guineans.

12) In terms of services development, there is a need to support the development of PNG tourism (culture, flora, fauna, bird watching, etc.) by aggressively selling tourism products globally and in key markets such as Japan and Germany. This also requires addressing the negative image of PNG. Tourism can be an important source of employment and wealth creation, especially for the poorer segments of society.

Multilateral, regional and bilateral trade negotiations

1) Negotiations with the European Union for an EPA would aim at improving PNG's market access conditions (preserving existing preferences for palm oil, copra and canned tuna) in terms of non-tariff measures (rules of origin, TBT/SPS standards) while ensuring sufficiently flexible policy space and market opening on the part of PNG taking into account fiscal and economic impacts.

2) Possible negotiations with Australia and New Zealand should aim at eliminating existing tariff and non-tariff barriers. Due consideration would need to be given to fiscal and adjustment costs on the part of PNG, given the importance of Australia and New Zealand as import sources.

3) Bilateral consultations could be undertaken, in particular with Japan and the United States, for possible improvement in coverage and preferences under their GSP schemes, and elements hampering full utilization of preferences.

4) The APEC framework may be useful in achieving sectoral liberalization of products of export interest to PNG, including fish and forestry products. It could be usefully exploited in addressing market entry barriers resulting from stringent quarantine and product standards under the APEC Bogor Goals and the Osaka Action Agenda for standardization and harmonization of sanitary and phytosanitary standards.

5) Given the increased and prevalent applicability of the MFN regime to PNG exports in both developed and developing countries, non-preferential market access conditions and disciplines are of paramount importance to PNG. Multilateral trade negotiations under the Doha Work Programme thus present both challenges and opportunities for the country's trade and economic interests. Three broad set of objectives could be

identified, including (1) improving market access and entry conditions in PNG’s export markets; (2) enhancing disciplines on trade-distorting practices of its trading partners; and (3) ensuring appropriate policy space for development and industrial policies.

6) Tariff peaks and escalation prevalent with regard to agriculture, fish and forestry products limit PNG’s potential for export diversification and commodity-based development. These issues need to be addressed in market access negotiations.

7) Arbitrary application of stringent technical, sanitary and phytosanitary standards and environment regulations prevents effective market entry of PNG exports.

8) Trade-distorting subsidies, in particular with regard to agriculture, have to be addressed so as to avoid injurious impacts to domestic industries and farmers.

9) PNG’s market-opening commitments regarding goods and services should take into account the specific sectoral and development needs of each segment of the economy. Market opening would need to be coordinated with domestic industrial and development policy objectives.

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Annex 1

Merchandise exports and imports by product (HS 2-digit) ($ thousand) and RCA, 2000

Product category (HS 2-digit)	Exports	Imports	Balance	Share in total exports	RCA 1*	RCA 2**
26 Ores, slag and ash	1234032	48	1233984	51.26%	1.00	118.52
09 Coffee, tea, mate and spices	149936	419	149517	6.23%	0.99	27.94
15 Animal,vegetable fats and oils, cleavage products, etc.	154635	10716	143919	6.42%	0.87	16.81
27 Mineral fuels, oils, distillation products, etc.	692197	230294	461903	28.75%	0.50	2.83
18 Cocoa and cocoa preparations	12376	547	11829	0.51%	0.92	2.69
03 Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	35787	8743	27044	1.49%	0.61	2.29
44 Wood and articles of wood, wood charcoal	52808	1292	51516	2.19%	0.95	1.91
89 Ships, boats and other floating structures	20526	22732	-2206	0.85%	-0.05	1.19
12 Oil seed, oleagic fruits, grain, seed, fruit, etc., n.e.s.	3529	1721	1808	0.15%	0.34	0.44
22 Beverages, spirits and vinegar	6005	10561	-4556	0.25%	-0.28	0.40
24 Tobacco and manufactured tobacco substitutes	3346	4010	-664	0.14%	-0.09	0.39
16 Meat, fish and seafood food preparations n.e.s.	1626	5851	-4225	0.07%	-0.57	0.25
82 Tools, implements, cutlery, etc. of base metal	2678	6673	-3995	0.11%	-0.43	0.25
88 Aircraft, spacecraft, and parts thereof	10438	1093	9345	0.43%	0.81	0.22
40 Rubber and articles thereof	2643	23993	-21350	0.11%	-0.80	0.11
25 Salt, sulphur, earth, stone, plaster, lime and cement	496	6385	-5889	0.02%	-0.86	0.07
05 Products of animal origin, n.e.s.	101	239	-138	0.00%	-0.41	0.07
41 Raw hides and skins (other than furskins) and leather	551	5	546	0.02%	0.98	0.07
19 Cereal, flour, starch, milk preparations and products	424	4135	-3711	0.02%	-0.81	0.06
02 Meat and edible meat offal	839	38013	-37174	0.03%	-0.96	0.05
84 Nuclear reactors, boilers, machinery, etc.	14706	117414	-102708	0.61%	-0.78	0.04
99 Commodities not specified according to kind	2111	3202	-1091	0.09%	-0.21	0.03
23 Residues, wastes of food industry, animal fodder	278	6428	-6150	0.01%	-0.92	0.03
21 Miscellaneous edible preparations	232	13806	-13574	0.01%	-0.97	0.03
08 Edible fruit, nuts, peel of citrus fruit, melons	193	1171	-978	0.01%	-0.72	0.02
10 Cereals	201	62998	-62797	0.01%	-0.99	0.01
76 Aluminium and articles thereof	369	17488	-17119	0.02%	-0.96	0.01
73 Articles of iron or steel	479	45064	-44585	0.02%	-0.98	0.01
71 Pearls, precious stones, metals, coins, etc.	525	72	453	0.02%	0.76	0.01
86 Railway, tramway locomotives, rolling stock, equipment	51	628	-577	0.00%	-0.85	0.01
97 Works of art, collectors pieces and antiques	33	15	18	0.00%	0.38	0.01
32 Tanning, dyeing extracts, tannins, derivs, pigments etc.	135	2764	-2629	0.01%	-0.91	0.01
94 Furniture, lighting, signs, prefabricated buildings	196	5915	-5719	0.01%	-0.94	0.01
87 Vehicles other than railway, tramway	1428	122146	-120718	0.06%	-0.98	0.01
72 Iron and steel	288	14496	-14208	0.01%	-0.96	0.01
92 Musical instruments, parts and accessories	9	1256	-1247	0.00%	-0.99	0.01
46 Manufactures of plaiting material, basketwork, etc.	2	28	-26	0.00%	-0.87	0.00
34 Soaps, lubricants, waxes, candles, modelling pastes	28	7647	-7619	0.00%	-0.99	0.00
90 Optical, photo, technical, medical, etc. apparatus	267	8005	-7738	0.01%	-0.94	0.00
33 Essential oils, perfumes, cosmetics, toiletries	32	3280	-3248	0.00%	-0.98	0.00
64 Footwear, gaiters and the like, parts thereof	39	6439	-6400	0.00%	-0.99	0.00
49 Printed books, newspapers, pictures etc.	21	13573	-13552	0.00%	-1.00	0.00
48 Paper & paperboard, articles of pulp, paper and board	88	19636	-19548	0.00%	-0.99	0.00
74 Copper and articles thereof	27	406	-379	0.00%	-0.88	0.00
85 Electrical, electronic equipment	552	39546	-38994	0.02%	-0.97	0.00
63 Other made textile articles, sets, worn clothing etc.	8	12628	-12620	0.00%	-1.00	0.00

95 Toys, games, sports requisites	15	2243	-2228	0.00%	-0.99	0.00
04 Dairy products, eggs, honey, edible animal product n.e.s.	12	8448	-8436	0.00%	-1.00	0.00
39 Plastics and articles thereof	66	22705	-22639	0.00%	-0.99	0.00
47 Pulp of wood, fibrous cellulosic material, waste etc.	6	69	-63	0.00%	-0.84	0.00
70 Glass and glassware	7	4785	-4778	0.00%	-1.00	0.00
42 Articles of leather, animal gut, harness, travel goods	4	1043	-1039	0.00%	-0.99	0.00
17 Sugars and sugar confectionery	2	2917	-2915	0.00%	-1.00	0.00
96 Miscellaneous manufactured articles	2	2823	-2821	0.00%	-1.00	0.00
28 Inorganic chemicals, precious metal compound, isotopes	5	7305	-7300	0.00%	-1.00	0.00
56 Wadding, felt, nonwovens, yarns, twine, cordage, etc	1	2091	-2090	0.00%	-1.00	0.00
35 Albuminoids, modified starches, glues, enzymes	1	1533	-1532	0.00%	-1.00	0.00
83 Miscellaneous articles of base metal	2	3898	-3896	0.00%	-1.00	0.00
59 Impregnated, coated or laminated textile fabric	1	563	-562	0.00%	-1.00	0.00
91 Clocks and watches and parts thereof	1	593	-592	0.00%	-1.00	0.00
38 Miscellaneous chemical products	3	6164	-6161	0.00%	-1.00	0.00
69 Ceramic products	1	1705	-1704	0.00%	-1.00	0.00
62 Articles of apparel, accessories, not knit or crocheted	1	6180	-6179	0.00%	-1.00	0.00
30 Pharmaceutical products	1	11363	-11362	0.00%	-1.00	0.00
29 Organic chemicals	0	4318	-4318	0.00%	-1.00	-
31 Fertilizers	0	10378	-10378	0.00%	-1.00	-
01 Live animals	0	4	-4	0.00%	-1.00	_
06 Live trees, plants, bulbs, roots, cut flowers etc.	0	0	0	0.00%	_	_
07 Edible vegetables and certain roots and tubers	0	1077	-1077	0.00%	-1.00	_
11 Milling products, malt, starches, inulin, wheat gluten	0	6775	-6775	0.00%	-1.00	_
13 Lac, gums, resins, vegetable saps and extracts n.e.s.	0	129	-129	0.00%	-1.00	_
14 Vegetable plaiting materials, vegetable products n.e.s.	0	30	-30	0.00%	-1.00	_
20 Vegetable, fruit, nut, etc. food preparations	0	5596	-5596	0.00%	-1.00	_
36 Explosives, pyrotechnics, matches, pyrophorics, etc.	0	1588	-1588	0.00%	-1.00	_
37 Photographic or cinematographic goods	0	1593	-1593	0.00%	-1.00	_
43 Furskins and artificial fur, manufactures thereof	0	0	0	0.00%	_	_
45 Cork and articles of cork	0	20	-20	0.00%	-1.00	_
50 Silk	0	13	-13	0.00%	-1.00	_
51 Wool, animal hair, horsehair yarn and fabric thereof	0	123	-123	0.00%	-1.00	_
52 Cotton	0	2995	-2995	0.00%	-1.00	_
53 Vegetable textile fibres n.e.s., paper yarn, woven fabric	0	82	-82	0.00%	-1.00	_
54 Manmade filaments	0	1625	-1625	0.00%	-1.00	_
55 Manmade staple fibres	0	1513	-1513	0.00%	-1.00	_
57 Carpets and other textile floor coverings	0	185	-185	0.00%	-1.00	_
58 Special woven or tufted fabric, lace, tapestry etc.	0	876	-876	0.00%	-1.00	_
60 Knitted or crocheted fabric	0	53	-53	0.00%	-1.00	_
61 Articles of apparel, accessories, knit or crocheted	0	2423	-2423	0.00%	-1.00	_
65 Headgear and parts thereof	0	293	-293	0.00%	-1.00	_
66 Umbrellas, walking-sticks, seat-sticks, whips, etc.	0	400	-400	0.00%	-1.00	_
67 Bird skin, feathers, artificial flowers, human hair	0	118	-118	0.00%	-1.00	_
68 Stone, plaster, cement, asbestos, mica, etc. articles	0	2479	-2479	0.00%	-1.00	_
75 Nickel and articles thereof	0	5	0	0.00%	-	_
78 Lead and articles thereof	0	14	-14	0.00%	-1.00	_
79 Zinc and articles thereof	0	226	-226	0.00%	-1.00	_
80 Tin and articles thereof	0	6	-6	0.00%	-1.00	_
81 Other base metals, cermets, articles thereof	0	59	-59	0.00%	-1.00	_
93 Arms and ammunition, parts and accessories thereof	0	188	-188	0.00%	-1.00	_
98 Confidential or unspecified commodities	0	0	0	0.00%	_	_
TOTAL	**2407402**	**1004645**	**1402757**	**100.00%**	_	_

Source: COMTRADE

Note:
* "Revealed comparative advantage", or RCA 1, is the ratio of the balance between export and import in a given sector over their sum. Value ranges between -1 and 1 where the value of 1 (-1) denotes that only exports (imports) take place in the sector. A ratio greater than 0 indicates that a country is the net exporter of that commodity, thus may have a comparative advantage in its production.
** RCA 2 is the ratio of the share of a given sector in total exports of a country over the same value calculated for world as a whole. A value greater than 1 signifies that the country is more specialized in the production of that sector than world average.

Annex 2

Top 10 traded commodities by major partners, 2000 (SITC Rev. 3, 3-dig.)

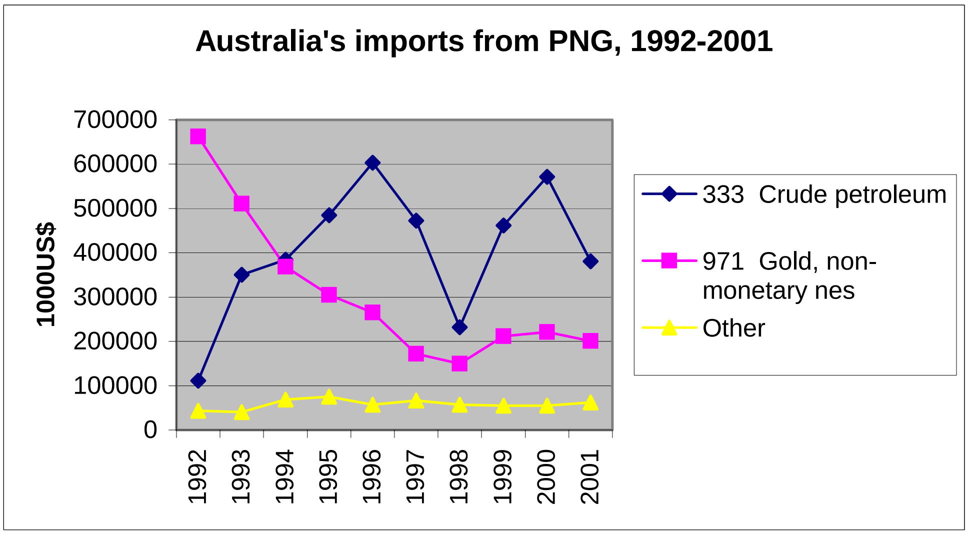
	Export commodities by destination			Import commodities by source		
RANK	Destinations/Commodities	1000 US$	Share	Sources/Commodities	1000US$	Share*
	1 AUSTRALIA			**1 AUSTRALIA**		
	All commodities	38588		All commodities	578018	**55.8%**
1	071 Coffee and substitutes	11700	30.3%	334 Petroleum products, refined	210155	36.4%
2	723 Civil engineering equip, etc	4665	12.1%	042 Rice	43859	7.6%
3	728 Oth machy for spec industries	2471	6.4%	011 Meat, fresh, chilled, frozen	25170	4.4%
4	248 Wood, shaped, rail sleepers	2254	5.8%	744 Mechanical handling equipment	16706	2.9%
5	424 Other fixed vegetable oils	2130	5.5%	692 Metal tanks, boxes, etc	14940	2.6%
6	793 Ships, boats, etc	1526	4.0%	793 Ships, boats, etc	13290	2.3%
7	074 Tea and mate	1507	3.9%	892 Printed matter	12627	2.2%
8	289 Prec metal ores, waste nes	1441	3.7%	098 Edible products, preps nes	9451	1.6%
9	744 Mechanical handling equipment	1308	3.4%	041 Wheat etc, unmilled	8266	1.4%
10	713 Intern combust piston engines	1127	2.9%	749 Non-electr machy parts, acces	6117	1.1%
	2 JAPAN			**2 JAPAN**		
	All commodities	80334		All commodities	116952	**11.3%**
1	289 Prec metal ores, waste nes	47114	58.6%	782 Lorries, spec motor vehicl nes	38949	33.3%
2	247 Other wood rough, squared	13177	16.4%	781 Passenger motor vehicles, exc bus	28592	24.4%
3	036 Shell fish fresh, frozen	8035	10.0%	783 Road motor vehicles nes	17698	15.1%
4	246 Pulpwood, chips, woodwaste	4358	5.4%	625 Rubber tyres,tubes, etc	9105	7.8%
5	034 Fish, fresh, chilled, frozen	3068	3.8%	723 Civil engineering equip, etc	5751	4.9%
6	071 Coffee and substitutes	2004	2.5%	784 Motor vehicl parts, acces nes	2184	1.9%
7	011 Meat, fresh, chilled, frozen	815	1.0%	713 Intern combust piston engines	1568	1.3%
8	072 Cocoa	631	0.8%	744 Mechanical handling equipment	1455	1.2%
9	211 Hides skins, exc furs, raw	457	0.6%	778 Electrical machinery nes	1313	1.1%
10	223 Seeds for other fixed oils	355	0.4%	749 Non-electr machy parts, acces	885	0.8%
	3 GERMANY			**3 UNITED STATES**		
	All commodities	55054		All commodities	68275	**6.6%**
1	289 Prec metal ores, waste nes	29686	53.9%	034 Fish, fresh, chilled, frozen	7788	11.4%
2	071 Coffee and substitutes	19092	34.7%	793 Ships, boats, etc	4928	7.2%
3	035 Fish salted, dried, smoked	3007	5.5%	041 Wheat etc, unmilled	3700	5.4%
4	424 Other fixed vegetable oils	1293	2.3%	692 Metal tanks, boxes, etc	3418	5.0%
5	074 Tea and mate	641	1.2%	045 Cereals nes, unmilled	2542	3.7%
6	248 Wood, shaped, rail sleepers	554	1.0%	042 Rice	2271	3.3%
7	072 Cocoa	397	0.7%	764 Telecom equip, parts, acces	2103	3.1%
8	232 Natural rubber, gums	351	0.6%	625 Rubber tyres,tubes, etc	2083	3.1%
9	246 Pulpwood, chips, woodwaste	16	0.0%	058 Fruit prsrvd, preprd	1819	2.7%
10	931 Special transactions	10	0.0%	723 Civil engineering equip, etc	1662	2.4%
	4 UNITED STATES			**4 SINGAPORE**		
	All commodities	38434		All commodities	55673	**5.4%**
1	035 Fish salted, dried, smoked	10082	26.2%	793 Ships, boats, etc	3377	6.1%
2	793 Ships, boats, etc	9345	24.3%	562 Fertilizers, manufactured	3245	5.8%
3	424 Other fixed vegetable oils	3793	9.9%	678 Iron, steel tubes, pipes, etc	2597	4.7%
4	072 Cocoa	3751	9.8%	423 Fixed vegetable oils, soft	2259	4.1%
5	289 Prec metal ores, waste nes	3140	8.2%	334 Petroleum products, refined	1789	3.2%
6	071 Coffee and substitutes	2509	6.5%	784 Motor vehicl parts, acces nes	1716	3.1%
7	695 Tools	1792	4.7%	723 Civil engineering equip, etc	1598	2.9%
8	723 Civil engineering equip, etc	1413	3.7%	749 Non-electr machy parts, acces	1540	2.8%
9	036 Shell fish fresh, frozen	663	1.7%	641 Paper and paperboard	1427	2.6%
10	792 Aircraft, etc	490	1.3%	778 Electrical machinery nes	1258	2.3%

Source: COMTRADE.
Note: Export data in the table do not contain significant value of exports, most notably, of crude petroleum, as it is classified as destined to "areas not elsewhere specified". * "Share" for "all commodities" are the share in total PNG imports.

Annex 3

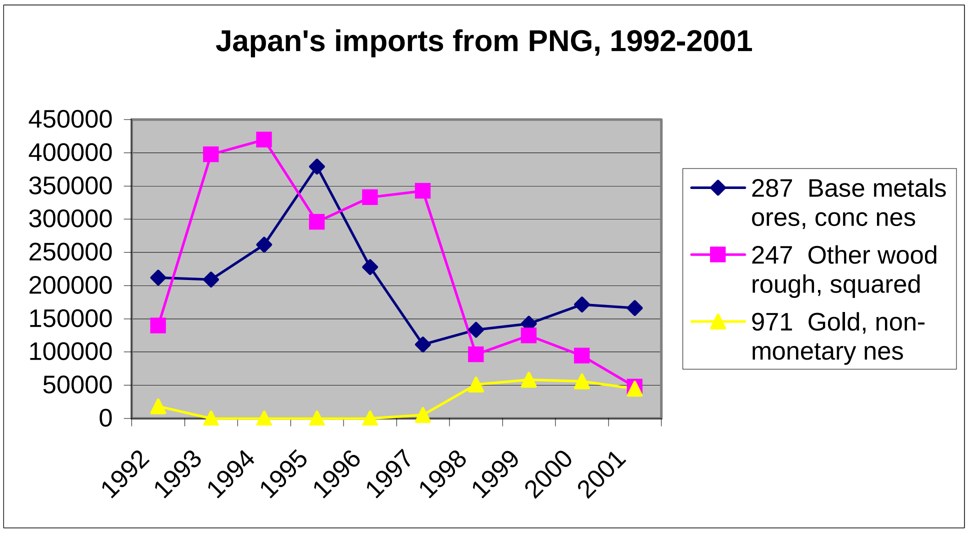
Evolution of PNG exports to selected markets: 1992-2001

(i) Australia



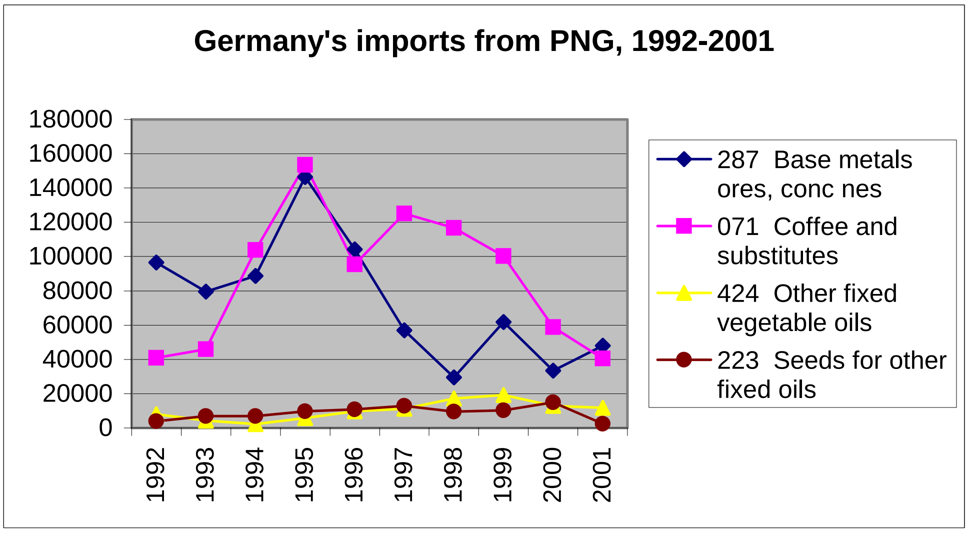
Source: COMTRADE

(ii) Japan



Source: COMTRADE.

(iii) EU



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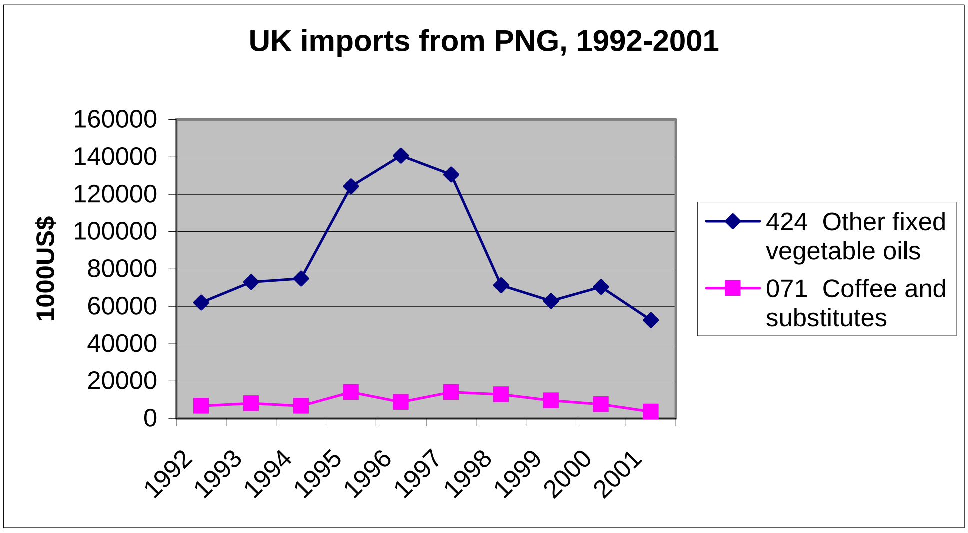
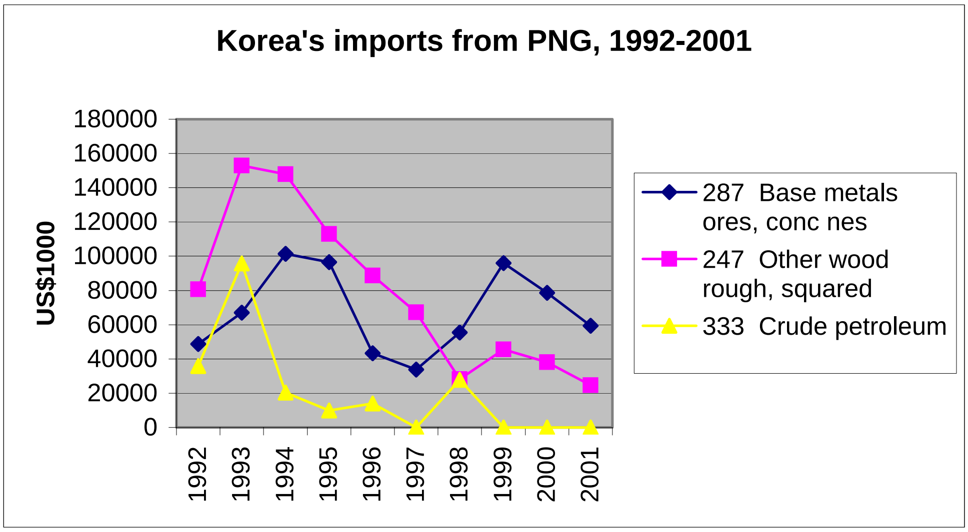


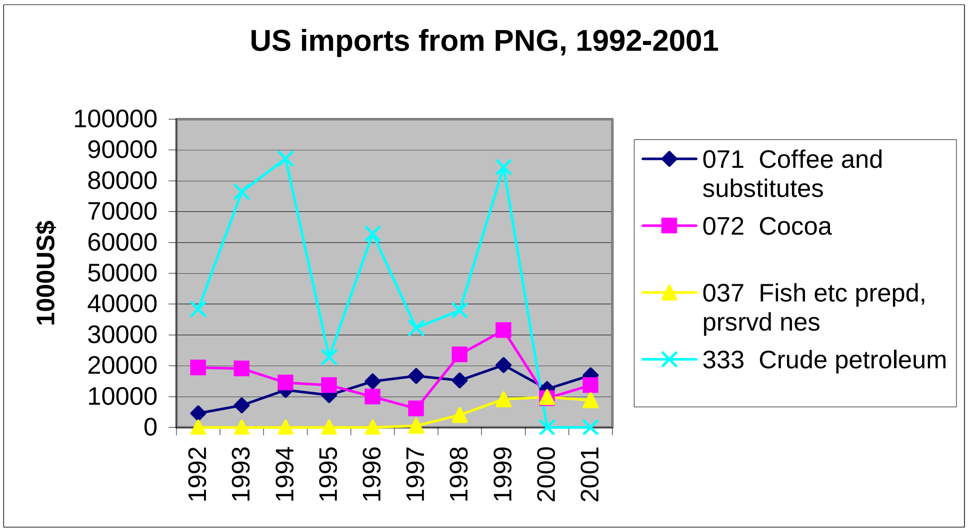
Source: COMTRADE

(iv) Korea



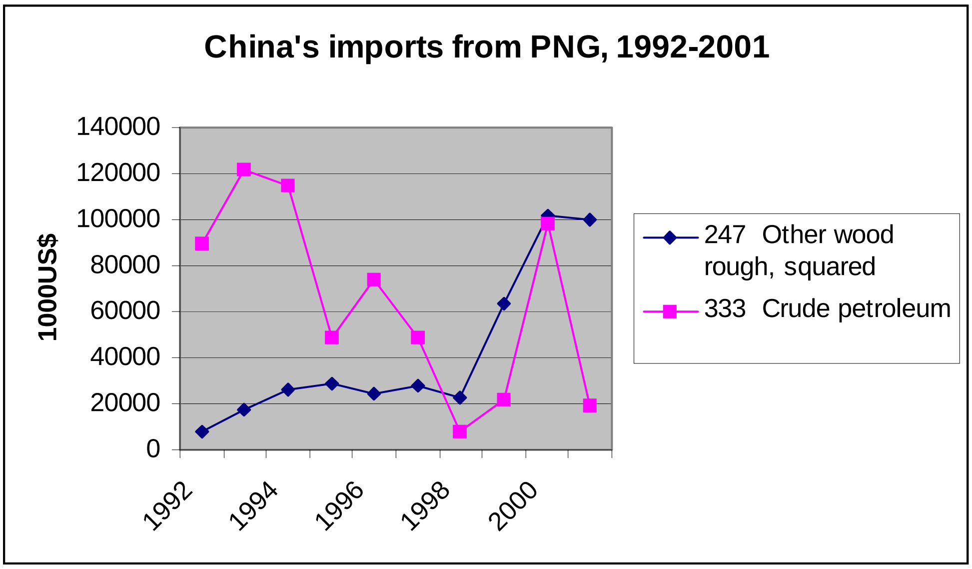
***Source*: COMTRADE**

(v) United States



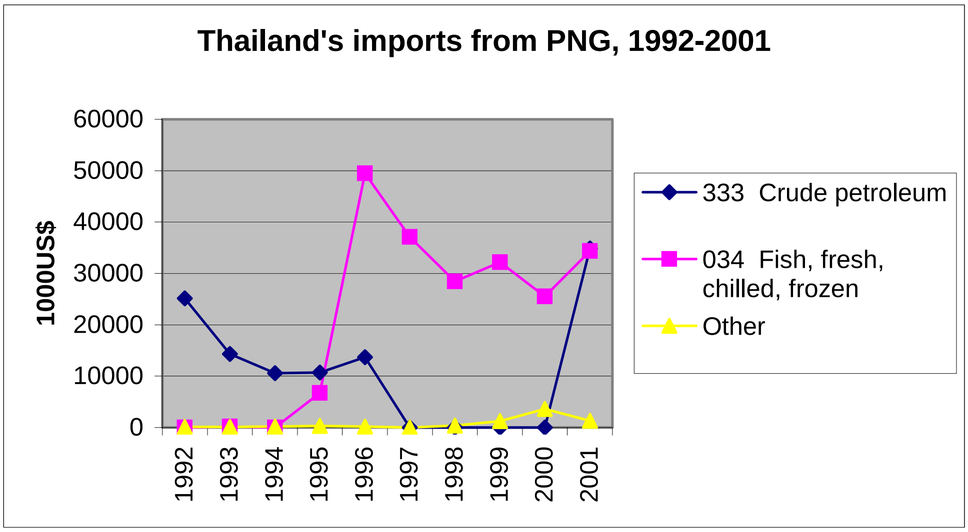
***Source*: COMTRADE**

(vi) China



Source: COMTRADE

(vii) ASEAN economies



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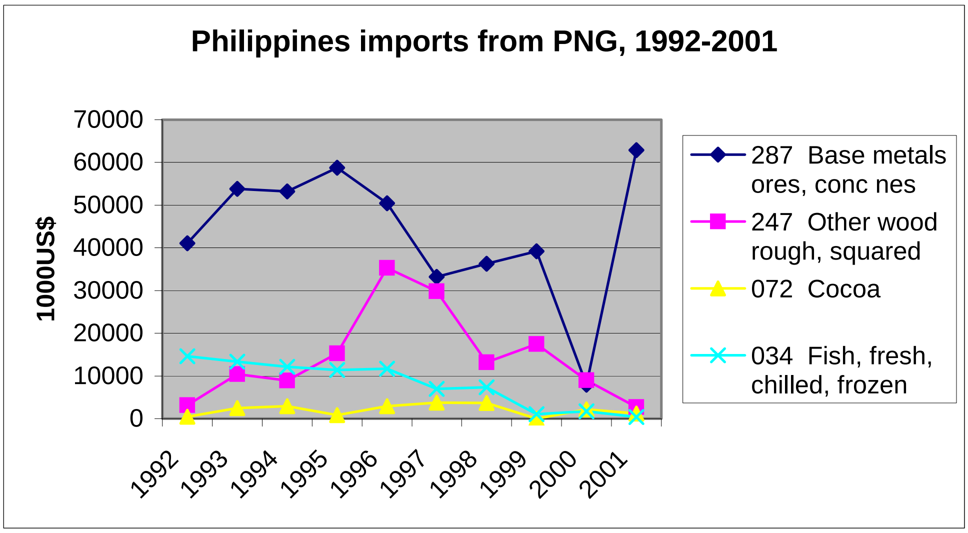

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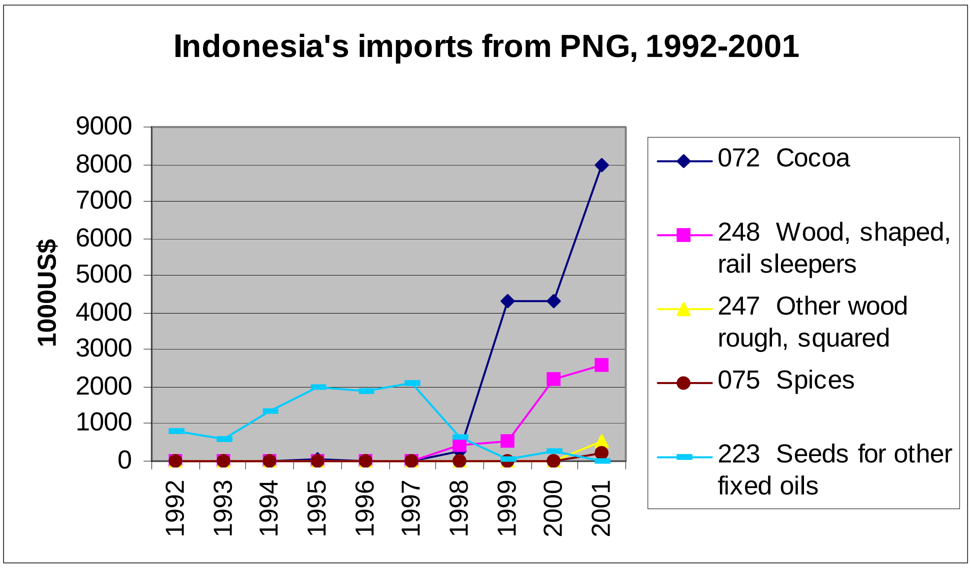

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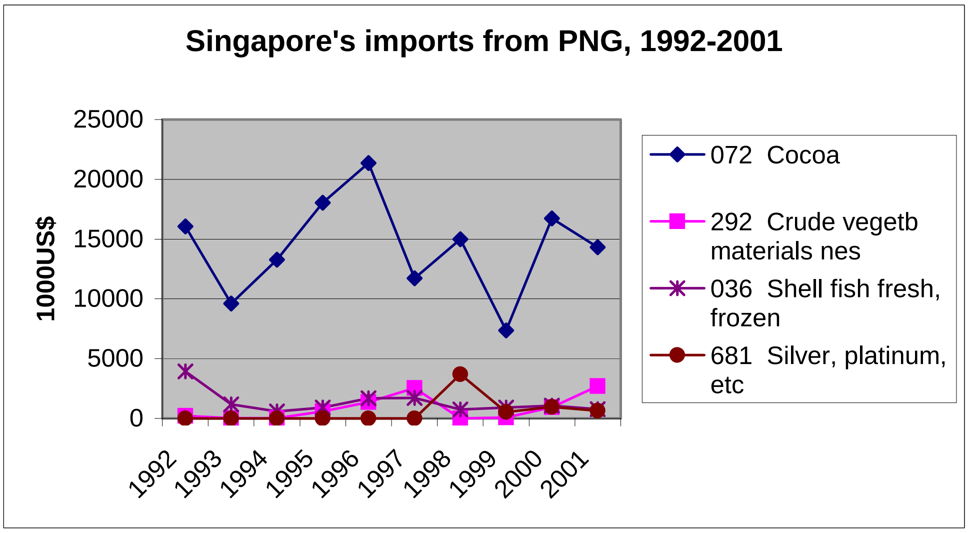

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